

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, 2024

Government of the United States Virgin Islands

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

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

We have audited, in accordance with the 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, 2024, 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, 2026. We expressed the following opinions on the financial statements opinion units based on the circumstances noted in our aforementioned report.

Opinion Unit	Type of Opinion
Governmental Activities	Disclaimer
Business-Type Activities	Disclaimer
General Fund	Qualified
Debt Service Fund	Unmodified
Capital Projects Fund	Unmodified
Matching Fund Special Purpose Securitization Corporation Debt Service Fund	Unmodified
Federal Grants Fund	Qualified
The West Indian Company Limited-Enterprise Fund	Unmodified
Unemployment Insurance-Enterprise Fund	Disclaimer
viNGN, INC.-Enterprise Fund	Unmodified
Aggregate Remaining Fund Information	Disclaimer
Aggregate Discretely Presented Component Units	Adverse

Our report includes reference to other auditors who audited the financial statements of the Virgin Islands Housing Authority (VIHA), Virgin Islands Public Broadcasting System (VIPBS), and Government Employees’ Retirement System of the of the U.S. Virgin Islands (GERS), as described in our report on the Government’s financial statements. This report does not include the results of the other auditors’ testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. We audited the financial statements of the Virgin Islands Public Finance Authority (PFA); The West Indian Company Limited (WICO); viNGN, INC. d/b/a Virgin Islands Next Generation Network (viNGN); Tobacco Settlement Financing Corporation (TSFC); Kings Alley Management, Inc. (KAMI); Lonesome Dove Petroleum Co. (LDPC); and Matching Fund Special Purpose Securitization Corporation (MFSPSC).



This report does not include the results of our testing of internal control over financial reporting or compliance and other matters for PFA, WICO, viNGN, TSFC, KAMI, LDPC, and MFSPSC which is reported on separately by us.

Report on Internal Control Over Financial Reporting

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

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

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

Finding #	Nature of Finding
2024-001	Year-End Close Process and Financial Deficit
2024-002	Revenue and Receivables
2024-003	Grants Management
2024-004	Capital Assets and Related Expenditures
2024-005	Recording of Liabilities
2024-006	Management of the Medicaid Program
2024-007	Unemployment Insurance Trust Fund
2024-008	Workers Compensation Program
2024-009	Payroll, Related Accruals, and Other Expenditures
2024-010	Bank Accounts
2024-011	Other Postemployment Benefits Obligation
2024-012	Accounting Standards Implementation
2024-013	Irregularities Related to Procurement Activities
2024-014	Procurement Regulations



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

Finding #	Nature of Finding
2024-015	Information Technology (IT) Environment

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Government’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our audit disclosed an instance of suspected fraud that is required to be reported under *Government Auditing Standards* and which is described in greater detail in Appendix A as item 2024-013. Our opinion is not modified with respect to this matter. 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
2024-016	Noncompliance with Laws and Regulations

Government of the United States Virgin Islands’ Response to Findings

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

Purpose of This Report

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

BDO USA, P.C.

June 30, 2026



Material Weaknesses in Internal Control Over Financial Reporting

Finding 2024-001: Year-End Close Process and Financial Deficit

A. Timeliness and Methodology of Close Process

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

Condition - We observed a significant delay in the year-end closing process and the preparation of the Government's year-end financial statements. In numerous instances, account reconciliations were not finalized until the audit process was already in progress, resulting in a substantial lag after the Government's fiscal year-end. As a result, detailed schedules supporting general ledger accounts did not consistently agree to the corresponding general ledger balances.

During the audit, significant post-closing adjustments were identified and provided by management. We also noted these post-closing adjustments were not recorded in the accounting system; instead, they were maintained in a manual Excel working trial balance.

Additionally, our review of the Government's draft financial statements identified inconsistencies and omissions in note disclosures, as well as classification and presentation issues for certain account balances. Specifically:

- The draft financial statements omitted the required disclosure for refundable advances in the notes.
- Tobacco Settlement Rights receivables and related unearned revenue were improperly presented in the government-wide financial statements instead of the Debt Service Fund, which required an adjustment.
- The effect of blending component units was not appropriately assessed; \$4.9 million of federal revenue and expense should have been reversed based on blending results.
- A transaction of \$18.4 million was presented as repayments of advances funded through a line of credit, rather than as a transfer between funds, which required an adjustment.

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

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



Material Weaknesses in Internal Control Over Financial Reporting

Recommendation - We recommend the Government strengthen and formalize its year-end close and financial reporting processes by implementing documented policies and procedures and by implementing and consistently following a comprehensive year-end closing calendar to ensure the timely completion of all closing activities and the preparation of the financial statements.

These policies and procedures should: (1) establish and monitor a close calendar with clearly defined due dates for account reconciliations, accruals, supporting schedules, and internal review and approval prior to audit fieldwork; (2) require timely reconciliation of all balance sheet accounts, including documented supervisory review, and ensure supporting schedules agree to the general ledger before drafting the financial statements; (3) strengthen the reconciliation review process to include tests of mechanical accuracy and tracing reconciling items to relevant source documentation, including confirmation with departments independent of Accounting, and require unreconciled differences to be identified, investigated, and resolved timely with necessary journal entries recorded to prevent recurrence; (4) record all material post-closing adjustments promptly in the accounting system, rather than maintaining adjustments solely in a manual Excel working trial balance, and retain appropriate approvals and audit trail documentation to enhance accuracy, transparency, and auditability; and (5) provide targeted training to accounting and financial reporting personnel on generally accepted accounting principles (GAAP)/Governmental Accounting Standard Board (GASB) financial reporting and classification requirements.

Views of Responsible Officials:

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

Action Plan: Under Executive Order No. 480-2017, beginning in Fiscal Year 2024, all Chief Financial Officers (CFOs) and Fiscal Leads will have increased accountability under the Department of Finance (DOF) as the lead agency. The DOF, in collaboration with the Office of Management and Budget (OMB) and the Department of Property and Procurement (DPP), will provide proper oversight and monitoring of key fiscal responsibilities. Although staffing challenges may persist, collaboration with Departments and Agencies (D&A) will be essential through setting expectations, establishing realistic goals, and providing support. The Government does not expect this finding to be resolved immediately; however, progress will be made by addressing fiscal management challenges monthly, developing effective reporting mechanisms to identify issues, implementing adequate internal controls, updating policies and procedures, and providing ongoing training.

Implementation Date: The Government expects to implement adjustments in Fiscal Year 2026, with the goal of achieving improved results in Fiscal Year 2027.

Person(s) Responsible: DOF-Commissioner's Office; Executive Assistant Commissioner, Audit Lead (under the Commissioner of Finance); Executive Assistant Commissioner (Lead for CFO Executive Order no. 480-2017 under the Commissioner of Finance), DOF Directors; Benham and Hodge, CPA (Extended Accounting Team). OMB-Director's Office; OMB Compliance Unit Lead; and Federal Manager. DPP Commissioner's Office; Fixed Asset Team; and Procurement Team. D&As - all CFOs, lead fiscal personnel, Commissioners, Directors, Managers, and Supervisors.



Material Weaknesses in Internal Control Over Financial Reporting

B. Component Units Reporting

Criteria - GAAP requires that component units be included in the Government's financial statements, either as blended or discretely presented entities, with appropriate disclosures in the footnotes. GAAP also emphasizes the need for consistent classification and reporting of component units, and mandates that all significant disclosures related to component units be incorporated within the Government's financial statements.

Condition - As of September 30, 2024, several of the Government's components did not have audited financial statements nor reported their 2024 financial transactions in the financial statements. These include Virgin Islands Port Authority, Virgin Islands Water and Power Authority, Virgin Islands Economic Development Authority, University of the Virgin Islands, Virgin Islands Waste Management Authority, Governor Juan F. Luis Hospital and Medical Center, Magens Bay Authority, Virgin Islands Housing Finance Authority, Schneider Regional Medical Center, and Virgin Islands Research and Technology Park Corporation.

Our review of the Government's draft financial statements identified inconsistencies and omissions in component unit transactions and disclosures, as well as inconsistencies in the classification and reporting of component units' account balances between the current and prior years. We noted one of the component units should have been classified as major rather than non-major in accordance with GASB guidance. We also noted that the schedule of due to and due from component units did not reconcile with the amounts presented in the financial statements.

In addition, the Government recorded \$67.3 million as revenue related to repayments of advances funded through the Series 2023 Line of Credit. Based on our review, these amounts appear to be reimbursements from several component units for payments the Government made to provide cash flow support and ease operational cash flow constraints at the component unit level. We were unable to obtain sufficient appropriate audit evidence regarding the nature of these transactions, including whether they meet the criteria for revenue recognition or should be reported as transfers, nor were we able to determine the accuracy and completeness of the amounts recorded.

Cause - The lack of audited financial statements for several component units is primarily attributable to delays in completing their audits. The inconsistencies and omissions in component unit disclosures and in the classification and reporting of component unit account balances, resulted from inadequate oversight and coordination of the financial reporting process, limited financial reporting resources, and inconsistent adherence to established accounting policies.

Effect or Potential Effect - The absence of audited financial statements for several component units, together with the inconsistencies and omissions in related disclosures and reporting, may result in the Government's financial statements not presenting an accurate or complete picture of its financial position and operations. These deficiencies may impair the reliability and transparency of financial information provided to stakeholders (including oversight bodies, investors, and the public), increase the risk of material misstatements, hinder informed decision-making, and potentially result in noncompliance with GAAP and other applicable requirements.

Recommendation - We recommend the Government take immediate steps to ensure that all component units complete their annual audits in a timely manner and provide audited financial statements for inclusion in the Government's consolidated financial report.



Material Weaknesses in Internal Control Over Financial Reporting

In addition, the Government should strengthen its oversight and coordination of the financial reporting process by establishing and enforcing clear policies and procedures for the classification, reporting, and disclosure of component unit information. The Government should also implement regular communication and targeted training with component unit personnel to promote GAAP compliance and to ensure the consistency and completeness of financial statement preparation and related footnote disclosures.

Views of Responsible Officials:

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

Action Plan: The Government will take immediate steps to ensure that all component units complete their annual audits in a timely manner and provide audited financial statements for inclusion in the Government's consolidated financial report.

Implementation Date: The Government expects to implement adjustments in Fiscal Year 2026, with the goal of achieving improved results in Fiscal Year 2027.

Person(s) Responsible: Department of Finance management, specifically, the Executive Assistant Commissioner.

C. Deficits in Unrestricted Net Position

Criteria - A sound financial position is essential for the effective day-to-day operations of the Government. In accordance with GAAP requirements, unrestricted net position should be sufficient to meet operational needs and provide a cushion for unforeseen expenditures.

Condition - Our review of the Government's financial position indicates it continues to experience significant financial challenges. The deficit in unrestricted net position is primarily attributable to recurring operating losses, substantial debt service requirements, unfunded pension and other postemployment benefits (OPEB), significant capital assets impairment related to prior-year hurricanes, and reduced tax revenues associated with broader economic challenges following the coronavirus (COVID-19) pandemic. Collectively, these factors have materially and adversely affected the Government's financial stability.

Cause - The Government continues to face significant financial challenges resulting from long-term structural deficits, increased debt service obligations, limited access to external financing, difficulties in implementing cost-saving measures, and inefficiencies in financial management practices. These factors have substantially impeded the Government's ability to stabilize its financial position and effectively address ongoing fiscal constraints.

Effect or Potential Effect - In recent years, the Government has incurred substantial operating losses, contributing to a continuing deficit in unrestricted net position. This condition has resulted in the inclusion of an emphasis-of-matter paragraph in the audit opinion. Addressing these conditions is critical for the Government to meet obligations related to debt service, pension and OPEB liabilities, and employer premium contribution requirements, and to maintain access to future bond markets. If negative results continue, the Government's overall financial position and cash flows may be further adversely affected.



Material Weaknesses in Internal Control Over Financial Reporting

Recommendation - Management has initiated actions intended to stabilize and improve the Government's financial position through a multi-faceted plan that includes legislative measures to enhance revenue, cost-reduction initiatives, and proposed increases in employee pension contributions.

We further recommend that management continue to develop and implement a comprehensive financial recovery plan to address its continuing financial challenges and improve its overall financial stability. This plan should include strategies to reduce recurring operating losses, strengthen budgetary controls, monitor and manage debt service obligations, evaluate long-term funding approaches for pension and OPEB liabilities, and identify opportunities to restore revenues and control expenditures. Management should also perform regular assessments of financial condition and cash flow projections to support timely corrective action and improve the Government's ability to maintain fiscal sustainability.

Views of Responsible Officials:

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

Action Plan: The OMB Director, in collaboration with the DOF Commissioner and with the Governor's approval, will continue to submit budgets with conservative projections, coordinate federal drawdowns to replenish Government funding, and pursue austerity measures and other mechanisms to remain within the annual budget constraints. In addition, the Government will develop a five-year financial projection that can be updated as conditions change and unforeseen needs arise.

For factors largely outside the Government's control, such as federal actions that may affect funding, the Government will document impacts as they arise, including those that could potentially undermine the plan, to demonstrate sound financial management practices.

Additionally, laws enacted by the Senate with limited collaboration from the Executive Branch, such as increases to the minimum wage, are expected to impact the Government's bottom line in Fiscal Year 2026. Such legislation, particularly if enacted without timely coordination, may also undermine the efforts of the Financial Team (OMB and DOF leadership, the Governor, and agency heads).

Finally, collaborating with the Senate to develop new revenue streams, working with revenue-generating offices to boost collections, and exploring opportunities to share costs across the departments and agencies may result in cost savings and improve the bottom line.

Implementation Date: Ongoing.

Person(s) Responsible: OMB Director and DOF Commissioner.

D. Government Insurance Fund

Criteria - The Government Insurance Fund should maintain sufficient employer premium contributions to cover claims and operational costs, thereby ensuring the Fund's financial stability. Timely and accurate actuarial reports should be prepared and reviewed annually to assess the Fund's financial position.



Material Weaknesses in Internal Control Over Financial Reporting

Condition - We noted financial strain from claims due to a mismatch between the employer premium contributions and claim costs within the Government Insurance Fund. It appears that losses since the 2008 financial crisis have exceeded the premiums collected, in addition to the operational costs associated with administering the workers' compensation portion of the Fund.

Cause - For several years, the Government has experienced sustained claims costs that exceeded premium revenues and other funding sources. Management did not adjust premium base rates sufficiently to cover claims liabilities, resulting in continued use of fund balance and accumulation of a deficit in the Government Insurance Fund. In addition, delays in obtaining and implementing actuarial recommendations have contributed to the underfunding of the liability.

Effect or Potential Effect - As a result, the Government Insurance Fund may not have sufficient resources to meet future workers' compensation obligations as they become due. This underfunding could increase reliance on general government resources to cover benefit payments, potentially delay claim settlements, and heighten fiscal pressure on the Government's overall financial position.

Recommendation - To support continued solvency, we recommend that management evaluate claims adjudication and related processes to identify opportunities to reduce costs, as an alternative to increasing potentially mandated employer contribution formulas. Management should also consider engaging an advisor to evaluate alternatives that could reduce the frequency and severity of losses.

Views of Responsible Officials:

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

Action Plan: Management will evaluate claims adjudication and related processes to identify cost-reduction opportunities, as an alternative to increase potentially mandated employer contribution formulas. Management will also consider engaging an advisor to evaluate alternatives that could minimize the severity of losses.

Implementation Date: Ongoing.

Person(s) Responsible: The management team of Department of Labor (DOL) and DOF, specifically, the Executive Assistant Commissioner of Finance.

E. Journal Entries

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

Condition - We noted that several individuals have access rights to create, approve, and post journal entries. In addition, during our review of journal entries, we selected thirteen (13) journal entries and found all were created and posted by the same user, with no evidence of review by other authorized personnel.



Material Weaknesses in Internal Control Over Financial Reporting

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

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

Recommendation - We recommend that management enhance access controls to ensure segregation of duties in the journal entry process. In addition, management should establish a formal review and approval procedure, including documented evidence of oversight by the Department of Finance, to support the integrity and accuracy of the financial records.

Views of Responsible Officials:

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

Action Plan: Management will implement enhanced access controls to ensure segregation of duties in the journal entry process. In addition, a formal review and approval procedure will be established, requiring documented evidence of oversight by the Department of Finance to ensure the integrity and accuracy of financial records.

Implementation Date: Ongoing.

Person(s) Responsible: Management Information System (MIS) Director and Accounting and Financial Reporting Director.



Material Weaknesses in Internal Control Over Financial Reporting

Finding 2024-002: Revenue and Receivables

A. Reconciliation of Subsidiary Registers

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

Condition - We noted that the Government does not reconcile its subsidiary registers with its tax receivable general ledger account balances.

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

Effect or Potential Effect - This condition could result in improper recording of revenue and receivables and may lead to a misstatement in financial statements.

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

Views of Responsible Officials:

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

Action Plan: The Government will ensure that the general ledger accounts are reconciled to the detailed records on a quarterly basis.

Implementation Date: The Government expects to implement adjustments in Fiscal Year 2026, with the goal of achieving improved results in Fiscal Year 2027.

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

B. Tax Return Processing Method

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



Material Weaknesses in Internal Control Over Financial Reporting

Condition - We noted that manual tax return data entry is reviewed on a random-sample basis, and the Bureau relies on the system's automated edit checks to identify errors. Although these automated edit checks detect many errors, they do not ensure the complete accuracy of the information entered. Accordingly, reliance primarily on automated edit checks and random-sample reviews does not fully ensure the accuracy and reliability of the data entered.

Cause - The reliance on random sampling and automated edit checks for manual data entry review may result from limited resources and a lack of comprehensive review procedures. This approach may lead to potential inaccuracies, as the system's checks do not ensure complete data accuracy. Additionally, error in recording receivables may occur due to insufficient review or weakness in internal controls over receivable process.

Effect or Potential Effect - This condition increases the risk of data omissions, typographical errors, entries posted to incorrect fields, and potential fraudulent data entry. Further, the inclusion of incorrect transactions in receivables may result in an overstatement of assets and negatively affect the accuracy of the financial statements.

Recommendation - We recommend that the Bureau consider an evaluation of its current review procedures over the tax return processing method to minimize associated risks and strengthen internal controls over data entry and the recording of receivables. In addition, implementing regular reconciliations will help ensure the accuracy of receivable balances.

Views of Responsible Officials:

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

Action Plan: The Government will ensure that the Bureau consider an evaluation of its current review procedures over the tax return processing method to minimize associated risks and strengthen its review procedures and internal controls over the recording of receivables.

Implementation Date: The Government expects to implement adjustments in Fiscal Year 2026, with the goal of achieving improved results in Fiscal Year 2027.

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

C. Real Property Tax

Criteria - Management should maintain timely, complete, and accurate real property tax records and related supporting documentation to ensure effective control over real property tax receivables and revenues and to support accurate financial reporting in accordance with applicable governmental accounting standards.

Condition - We noted the following:

- Tax billings were issued to non-taxable properties owned by the Government and its component units.

Material Weaknesses in Internal Control Over Financial Reporting

- During our testing of real property tax receivables, we sampled five (5) transactions and noted that the interest penalty was calculated incorrectly.
- During our testing of real property tax credits, we selected a sample of ten (10) items and noted that one (1) tax credit was issued without sufficient supporting documentation.

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

Effect or Potential Effect - The matters noted may result in inaccurate tax billings, unsupported tax credits, and incorrect interest calculations, which could cause misstatements in real property tax receivables, revenue, and tax credit balances. These issues may also lead to taxpayer disputes, improper collections or adjustments, revenue loss, and reduced confidence in the Government's tax administration and financial reporting processes.

Recommendation - Management should review the tax roll listing to identify properties owned by the Government and its component units and ensure that appropriate tax credits or exemptions are applied. Management should also implement enhanced controls to ensure that tax billings are issued only to taxable properties. In addition, management should review and correct the penalty interest calculation methodology to ensure that it reflects the appropriate time period. Regular internal reviews and staff training should be conducted to help prevent future discrepancies. Management should strengthen controls over the issuance of real property tax credits by requiring complete and adequate supporting documentation before approval and processing. Management should also implement a formal review process to verify that all tax credits are properly supported, authorized, and accurately recorded.

Views of Responsible Officials:

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

Action Plan: Management will review and identify the Government's and component units' properties in the tax roll listing to ensure that proper tax credits are applied. Management will also implement enhanced controls to ensure that tax billings are issued accurately only for taxable properties, that interest is calculated correctly, and that all tax credits are properly supported.

Implementation Date: Ongoing.

Person(s) Responsible: The management team of the Office of the Lieutenant Governor (LGO).

D. Allowance for Doubtful Debts

Criteria - Estimates for the allowance for doubtful accounts should be based on complete, accurate, and current accounts receivable aging reports, together with a periodic assessment of recent collection trends and other relevant account-level risk factors.



Material Weaknesses in Internal Control Over Financial Reporting

Condition - The allowance for doubtful accounts continues to be calculated using a formula established several years ago. Management's computation of the allowance places a high degree of reliance on prior years' collection rate. Management did not perform a year-end reassessment to determine whether the historical percentages remained appropriate under current receivable aging, collection patterns, and economic conditions.

Cause - Management has continued to rely on a legacy methodology and has not implemented a formal process to periodically validate and update the allowance model using current aging data, recent collection experience, and other relevant performance indicators.

Effect or Potential Effect - As a result, the allowance may not reflect the current collectability of receivables, and bad-debt expense may not be recognized in the proper period or amount. This may lead to an understatement of the allowance for doubtful accounts and accounts receivable being reported at amounts that exceed their net realizable value, which could also affect management's ability to monitor collections and cash flow.

Recommendation - We recommend that management re-evaluate the methodology used to estimate the allowance for doubtful accounts and incorporate current accounts receivable aging, recent collection and write-off trends, and other relevant receivable performance measures. Management should also establish a formal year-end review process to assess whether the assumptions and percentages used remain appropriate. A revised methodology would improve the accuracy of the allowance estimate, better align bad-debt expense with related revenue, and support more effective cash flow management.

Views of Responsible Officials:

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

Action Plan: Management will re-evaluate the methodology used to estimate the allowance for doubtful accounts and incorporate current accounts receivable aging, recent collection and write-off trends, and other relevant receivable performance measures. Management will also establish a formal year-end review process to assess whether the assumptions and percentages used remain appropriate.

Implementation Date: Ongoing.

Person(s) Responsible: DOF Executive Leadership, specifically the Director of Accounting and Financial Reporting.

E. Hotel Development Program

Criteria - The Bureau should design, implement, and maintain effective internal controls to ensure that hotel occupancy taxes and economic recovery fees reported and remitted under the Hotel Development Program are calculated, collected, and recorded in accordance with the applicable Hotel Development Agreements and related statutory requirements.



Material Weaknesses in Internal Control Over Financial Reporting

Condition - The Government had not established and implemented sufficient review controls to verify that amounts reported on hotel tax filings and related remittances were calculated in accordance with the terms of the applicable Hotel Development Agreements, including the use of the proper pledged percentages. Based on our review of one Hotel Development Agreement, we noted that the Bureau was required to collect a 7.5% hotel economic recovery fee from the participating hotel developer; however, the Bureau collected only 6.0%.

Cause - The Government did not have a formal process in place to ensure the correct agreement rates were identified and applied to hotel tax filings and remittances.

Effect or Potential Effect - Amounts due under the Program may be incorrectly calculated, collected, remitted, pledged, or restricted, increasing the risk of noncompliance with the applicable agreements and the risk of financial statement misstatement.

Recommendation - We recommend that the Government establish and implement formal review controls to verify that amounts reported on hotel tax filings and related remittances are calculated in accordance with the applicable Hotel Development Agreements, including the use of the correct pledged percentages. Such controls should include a documented review of the governing agreement terms, verification of the rates applied, and timely reconciliation of the amounts reported on filed calculations and amounts collected to the applicable contractual requirements to help ensure that all amounts due under the Program are accurately assessed and collected.

Views of Responsible Officials:

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

Action Plan: The Government will establish and implement formal review controls to verify that amounts reported on hotel tax filings and related remittances are calculated in accordance with the applicable Hotel Development Agreements, including the use of the correct pledged percentages.

Implementation Date: Ongoing.

Person(s) Responsible: Management Team of IRB.

Material Weaknesses in Internal Control Over Financial Reporting

Finding 2024-003: Grants Management

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

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

Condition - We noted that significant transactions paid to, or transferred to, various Government departments were erroneously reported as subrecipient transactions.

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

Effect or Potential Effect - Erroneously reporting significant transactions paid to, or transferred to, various Government departments as subrecipient transactions may result in misclassification of expenditures in the financial statements. Further, they may affect the allocation and monitoring of funds, hinder effective oversight, and increase the risk of audit findings and/or questioned costs.

Recommendation - Management should strengthen its review and reporting controls over transactions paid or transferred to Government departments to ensure they are properly evaluated, classified, and reported in accordance with applicable grant and financial reporting requirements. Management should also implement a review process to verify the accuracy of subrecipient classifications before submission of the related reports.

Views of Responsible Officials:

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

Action Plan: The Government is in the implementation stage of a new enterprise-wide grant management system, AmpliFund by Euna Solutions. This system directly addresses the auditor's recommendations and strengthens internal controls over the SEFA and overall grant compliance.

Key improvements from the system to include:

- **Centralized grant management:** AmpliFund provides a single platform for managing the full grant lifecycle, including pre-award, post-award, subrecipient management, and closeout. This will ensure that all grant activities are tracked, documented, and reconciled in one system.
- **Automated internal controls:** The system enforces workflow-based approvals, budget controls, and real-time reconciliation with the ERP and agency records. This prevents expenses from being charged to grants without available funding and ensures accurate classification of transactions.



Material Weaknesses in Internal Control Over Financial Reporting

- Enhanced documentation and audit trails: AmpliFund will require supporting documentation for all grant transactions and maintains a complete audit trail, improving transparency and supporting audit readiness.
- Automated SEFA reporting: The system can generate SEFA reports directly from transactional data, reducing the risk of misclassification and errors, and will support quarterly and annual reconciliations.
- Subrecipient monitoring: AmpliFund includes a subrecipient portal and risk-based monitoring tools, ensuring compliance with federal requirements and timely corrective actions.
- Compliance and timeliness: The system provides dashboards and alerts for key deadlines, including FAC submissions, and supports continuous monitoring and timely reporting.

Immediate corrective actions aligned with the audit's recommendations will include:

- Quarterly reviews of ALN, expenditures, and cash receipts postings to grants.
- Continuous reconciliations of SEFA with departments and agencies.
- Enhanced documentation, monitoring, and training for all grant management staff.
- Consistent application of accountability measures supported and enforced through Executive Order No. 480-2017, which restructured financial oversight and reporting across government agencies by designating the DOF as the lead executive agency for enforcing financial laws and establishing the Commissioner of Finance as the central authority for financial management and reporting.

Implementation Date: Immediately, Amplifund 1st phase scheduled to be implemented by Fiscal Year 2026.

Person(s) Responsible: Amplifund implementation - OMB's Federal Grant Management and Compliance Unit and Executive Order Enforcement, DOF Executive team members.

B. Federal Grants and Contributions

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

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

- There is no readily verifiable information regarding the aging and collection of prior-year receivables, nor an assessment of the adequacy of the allowance for uncollectible accounts. Specifically, there is no documentation that matches each cash receipt to the related expenses and indicates the period in which the expense was incurred.

Material Weaknesses in Internal Control Over Financial Reporting

- The Government was unable to provide supporting documentation for four (4) of one hundred and seventy-eight (178) sampled transactions related to drawdowns made during fiscal year 2024.
- The Government was unable to provide supporting documentation to substantiate proper revenue recognition for one (1) of fourteen (14) sampled transactions related to federal grant receivables.

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

Effect or Potential Effect - This condition makes it difficult to establish and support individual receivable balances and related deferrals for grants and contracts, may obscure items that have been inactive for many years, and can create confusion regarding the true level of activity. Additional time and effort were required during the audit to reconcile balances and locate supporting documentation or alternative evidence. This condition also increases the risk of errors and potential fraudulent transactions.

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

- Maintain a drawdown schedule that identifies the expenses included in each drawdown for each federal program and the period in which the expenses were incurred.
- Attach a copy of each drawdown request, including evidence of required approvals, in the ERP system, along with the corresponding bank statement evidencing receipt of funds from the federal government.
- Include, within the ERP system, a detailed listing of the expenses supporting the amounts drawn down. This detail should include, as applicable, the invoice date, payroll period, and check date.
- Produce and maintain detailed reports and supporting records at defined intervals for review and analysis by management, independent auditors, and oversight bodies. Management should also consider strict adherence to, and/or revision of, its records retention policy.

Views of Responsible Officials:

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

Action Plan: The Government will ensure that receivables are tracked by each individual Government agency by performing the following:

- Maintain a drawdown schedule that notes the expenses comprising each drawdown for each federal program, as well as the period in which the expenses were incurred.
- Attach a copy of each drawdown, including evidence of proper approvals, in the ERP system, along with the corresponding bank statement showing the receipt of funds from the federal government.



Material Weaknesses in Internal Control Over Financial Reporting

- Include a listing of expenses supporting the amount drawn down in the ERP system. This detail should include the invoice date, payroll period, and check date, as applicable.

Implementation Date: Ongoing.

Person(s) Responsible: The management team of OMB Compliance Unit and DOF Treasury team.

C. Accounting for Subaward Reimbursement

Criteria - In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, transactions should be recognized and reported based on their underlying substance and timing of eligibility requirements. Resources received or returned in connection with nonexchange transactions should be evaluated to determine whether they represent current-period inflows, receivables, reductions of prior outflows, or other balance sheet activity.

Condition - The Government received funding under ALN 21.023, *Emergency Rental Assistance Program*, and passed the funds through to the Virgin Islands Housing Finance Authority (VIHFA), a component unit, as a subaward. Based on our review, VIHFA returned approximately \$7.5 million to the Government during the year for amounts previously disbursed in excess of the subaward agreement. This repayment represented the recovery of prior-year overpayments and, therefore, did not constitute federal financial assistance. However, the Government recorded the reimbursement as other income rather than as an offset to the prior-year receivable, which had not been recorded.

Cause - This issue appears to have resulted from inadequate monitoring and reconciliation of subaward expenditures against approved grant award amounts, as well as a lack of clear guidance for accounting for reimbursements of prior-year overpayments.

Effect or Potential effect - Overpayments to subawardees indicate noncompliance with federal grant requirements. Because the reimbursement represented a recovery of prior-year overpayments rather than current-year revenue or federal financial assistance, recording the amount as other income may overstate current-year revenue and misstate the nature of the transaction. In addition, prior-year receivable balances or related accounts may not have been properly recognized or adjusted, resulting in an inaccurate presentation of financial position and changes in net position or fund balance.

Recommendation - We recommend that management strengthen subaward monitoring procedures to ensure that expenditures do not exceed authorized federal award amounts. Management should also implement controls to identify overpayments timely, properly account for reimbursements, and ensure that recoveries of prior-year overpayments are recorded in the appropriate accounts.

Views of Responsible Officials:

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



Material Weaknesses in Internal Control Over Financial Reporting

Action Plan: Management will strengthen subaward monitoring procedures to ensure that expenditures do not exceed authorized federal award amounts. Management will also implement controls to identify overpayments timely, properly account for reimbursements, and ensure that recoveries of prior-year overpayments are recorded in the appropriate accounts.

Implementation Date: Ongoing.

Person(s) Responsible: OMB Leadership, specifically the Compliance Unit.

D. Report Submission

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

Condition - We noted that the Government did not comply with the required submission date of the data collection form and reporting package to the FAC for the fiscal year ended September 30, 2024.

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

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

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

Views of Responsible Officials:

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

Action Plan: The Government will:

- Establish a centralized annual reporting calendar, to be created and maintained by the Department of Finance's Executive Order Accountability Team. This calendar will track all key audit milestones, including reconciliations with evidence of review and approval, as well as submission deadlines, including the FAC due date.
- Leverage the capabilities of the new grant management system, AmpliFund by Euna Solutions, for reporting compliance and automated reminders.
- Develop government-wide standard operating policies and procedures to provide a uniform and consistent approach across all agencies for grant management, fixed assets, fraud, waste, and abuse (FWA), and cash management, along with an automated training schedule requirement through a training platform.



Appendix A

Material Weaknesses in Internal Control Over Financial Reporting

- Develop supplemental materials, such as checklists and training guides, based on the government-wide standard operating policies and procedures (SOPP).
- Train all staff involved in the audit and reporting process on federal grant management and reporting requirements.

Implementation Date: Fiscal Year 2027.

Person(s) Responsible: The OMB Management team.



Material Weaknesses in Internal Control Over Financial Reporting

Finding 2024-004: Capital Assets and Related Expenditures

A. Record Keeping

Criteria - GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Government*, requires capital asset transactions reporting in the government-wide financial statements. The Government's policies and procedures require the timely reporting of all transactions in the ERP system.

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

- Forty-six (46) capital expenditure line items, totaling approximately \$1.6 million, appeared to meet the criteria for capitalization but had not been recognized as capital asset additions during the year.
- Thirteen (13) invoices related to capital asset accruals, totaling approximately \$0.3 million, appeared to meet the criteria for capitalization but had not been recognized as capital asset additions during the year.
- We were unable to determine whether adjustments to beginning balances for capital assets and accumulated depreciation were necessary.

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

Effect or Potential Effect - Capital asset balances reported in the financial statements may be understated or incomplete, potentially leading to inaccurate reporting of total assets.

Recommendation - We recommend that the Government strengthen its procedures for recording and reviewing capital asset additions to ensure that all relevant invoices are accurately and timely included in the asset listings. This should include implementing periodic reconciliations between supporting documentation and the capital asset register, as well as providing additional training to staff on proper cut-off procedures and period-end reporting requirements. Enhanced controls will help prevent omissions and misstatements, ensure accurate financial reporting, and reduce the need for subsequent adjustments.

Views of Responsible Officials:

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

Action Plan: The DOF has rerouted the specific payment through the regular Accounts Payable invoice processing workflow, which is captured in the spool. This change took effect in Fiscal Year 2025. Additionally, as part of the Capital Asset scrub and true-up, future processes will involve coordinating with the Treasury unit on all wires to be performed, in case a wire transfer becomes necessary.



Material Weaknesses in Internal Control Over Financial Reporting

Effective immediately, updated Policy and Procedures (SOPP 130) establish a timeline for department and agency invoice submissions. While each agency has its own response to the timeliness of entering invoices, a comprehensive review of the reasons and ways to mitigate issues will be conducted in Fiscal Year 2026.

Implementation Date: Immediately.

Person(s) Responsible: Capital Asset Coordinators, in collaboration with the Treasury Director and/or designee.

B. Reconciliation and Review of Subsidiary Registers

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

Condition - Based on our review of the subsidiary asset registers, we noted that the 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. Also, certain depreciable assets recorded as additions during the fiscal year in the registers had inaccurate depreciation start dates.

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

Effect or Potential Effect - The practice of grouping a significant number of properties under only a few asset numbers, rather than recording them individually, may result in inaccuracies in asset management and financial reporting. This can lead to difficulties in tracking and valuing individual properties, increasing the risk of misstatements in the financial statements. In addition, inaccurate depreciation start dates increase the risk of misstatements to depreciation expense in the financial statements.

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

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

Views of Responsible Officials:

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

Material Weaknesses in Internal Control Over Financial Reporting

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

Implementation Date: Ongoing.

Person(s) Responsible: Management team of DOF Accounting and Financial Reporting Division.

C. Construction in Progress (CIP) Monitoring

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

Condition - We noted the following:

- We selected a sample of twenty-two (22) construction-in-progress (CIP) assets for project status testwork and five (5) CIP assets recorded as CIP transfers. For the project status testwork, supporting documentation was not provided for sixteen (16) of the twenty-two (22) assets selected. In addition, for one (1) of the twenty-two (22) assets selected, the project was confirmed to have been completed in prior fiscal years but remained recorded as CIP as of September 30, 2024. For the CIP transfer testwork, supporting documentation was not provided for four (4) of the five (5) items selected.
- The Government adopted the method of using the ‘release of claims’ date as the date a project is placed in service. However, we noted 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 by the project managers.
 - In other instances, the ‘release of claims’ date was not utilized; instead, the date of the last invoice received on the project or the ‘substantial completion letter’ was utilized as the indicator of when the project was completed and as the depreciation start date.

Cause - The Government does not maintain proper supporting documentation to verify CIP activity, and there is inconsistency in the methods used to determine project completion during the fiscal year. Additionally, confirmation procedures were not performed in a timely manner, resulting in outdated or inaccurate CIP information.

Material Weaknesses in Internal Control Over Financial Reporting

Effect or Potential Effect - Failure to timely transfer completed projects from construction in progress to the completed asset category, combined with inconsistent application of the methodology for determining the date a project is placed in service, may result in misstatements of capital asset balances and related depreciation in the financial statements. This can impact the accuracy and reliability of financial reporting, hinder effective asset management, and potentially lead to noncompliance with applicable accounting standards.

Recommendation - With the increase in the number of CIP projects, it is imperative to maintain a robust system for recording project costs accurately and timely, as well as consistently monitoring project status with the respective project owners. It is critical that the Government reconciles these costs with the reports and records of the project managers, related invoices, contracts, and amendments, ensuring alignment with contract costs and capital expenditure budgets. Further, a consistent method should be applied for determining project completion and transferring assets to the appropriate depreciable asset class.

Views of Responsible Officials:

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

Action Plan: Accounting Director and Capital Asset Coordinators will meet with the Department of Public Works (DPW) Assistant Commissioner of Finance and Fiscal Director to develop an internal procedure to ensure that appropriate supporting documentation is available at the time of invoice entry and, at a minimum, can be provided to Capital Asset Coordinators upon request.

Implementation Date: Second quarter of Fiscal Year 2026.

Person(s) Responsible: Capital Asset Coordinator, Director of Accounting, DPW Fiscal Director, and DPW Assistant Commissioner.

D. Capital Assets Impairment Process

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

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

- An overall documented impairment analysis was not available for audit review.
- Certain assets were not readily traceable to the asset registers due to lack of a proper ID.
- Some damage assessments and physical inventory counts for the departments and agencies were informally done, or were not performed at all, until the accounting team requested them.



Material Weaknesses in Internal Control Over Financial Reporting

Cause - Each division or department appeared to have its own separate process for conducting damage assessments and physical inventory counts, resulting in inconsistencies.

Effect or Potential Effect - The lack of coordination between departments may cause delays in processing and accounting for impairment conclusions, resulting in untimely adjustments in the asset registers. Additionally, lack of proper asset ID may result in improper accounting of the transaction(s) with respect to the derecognition of the assets from the books. The use of different processes or methodologies by various divisions or departments can lead to inconsistent impairment data, complicating the comparison and consolidation of information across the Government.

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

Views of Responsible Officials:

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

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

Implementation Date: Ongoing.

Person(s) Responsible: Management team of DPP and DOF.



Material Weaknesses in Internal Control Over Financial Reporting

Finding 2024-005: Recording of Liabilities

A. Retroactive Pay Liability

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

Condition - We noted that currently there is a \$144.1 million retroactive pay liability reflected in the books and records; however, the supporting schedules can only confirm \$135.0 million, which is based on an analysis of CBAs from the initial retroactive pay wage commission findings. Additionally, approximately 70.0% of the Government's employees are paid varying rates, based on different CBAs. We also noted that several CBAs have not been evaluated, implemented, ratified, or accrued for.

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

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

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

Views of Responsible Officials:

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



Material Weaknesses in Internal Control Over Financial Reporting

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

Implementation Date: Ongoing.

Person(s) Responsible: DOF and Office of Collective Bargaining (OCB).

B. Medical Malpractice Liability

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

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

Cause - There appears to be a lack of controls and procedures around the Government's claims data process.

Effect or Potential Effect - The liabilities and related expenses may be understated or misstated because medical claims have not been analyzed and reported, adversely affecting the Government's financial position and increasing the risk of noncompliance with accounting standards.

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

Views of Responsible Officials:

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

Action Plan: The Department of Health is in the process of submitting a Request for Proposal to solicit an actuary to perform the evaluation.



Material Weaknesses in Internal Control Over Financial Reporting

Implementation Date: Ongoing.

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

C. Accounts Payable

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

Condition - At present, the Government's general ledger control account for accounts payable does not agree with the subsidiary ledger balances throughout the entire fiscal year. This 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 OMB. This also impacts the accuracy of capital asset recordation, as accruals for goods and services received are not properly and timely recorded in the capital asset register, resulting in capital assets being reflected in the incorrect periods. The Government records accounts payable in total at year-end and does not record or track accounts payable at the individual project level, and therefore, by each federal program.

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

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

Recommendation - Management should consider utilizing the ERP Accounts Payable module more consistently to reduce the manual efforts currently involved in establishing accounts payable. We recommend that controls be enhanced to ensure that all invoices for services performed as of year-end are properly accrued. In addition, the Government should strengthen supervisory review of the accounts payable reconciliation process and the estimation of accrued liabilities to improve the accuracy and timeliness of financial reporting.

Views of Responsible Officials:

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



Material Weaknesses in Internal Control Over Financial Reporting

Action Plan: The DOF and OMB management team are working on reducing prior year and carry-forward spending in Fiscal Year 2026. Collaboratively, both offices and their management teams are developing a process for carry-forward invoices. Before the Government can determine the solution, D&A must conduct a comprehensive analysis starting with funding and budget needs at the beginning of the year, ensuring timely encumbrance through allotments and available funding, and confirming that the agencies have the necessary human resources to enter invoices promptly. Additionally, DOF and OMB need to identify the systems or technology required to monitor all invoices at the agency level, such as creating emails for each agency with the DOF Chief Accounts Payable and Director of Accounting to review all incoming invoices, along with proper aging reports for monthly reconciliations. Note that addressing the timeliness of invoice capture in the ERP involves multiple interconnected areas that must be handled collectively. Finally, regarding accountability, per the updated SOPP 130, D&A will be responsible for monthly tracking and reporting, which will be better managed moving forward. Hiring someone specific to work with vendors and D&A may be considered, but that is premature at this stage. The Government does not expect to see the impact of this immediately, but over time through monitoring and accountability measures.

Implementation Date: Ongoing.

Person(s) Responsible: Director of Accounting, Accounting Operation Manager, Chief Accounts Payable, and Financial Accounting Analyst.

D. Completeness and Accuracy of Pension Census Data

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

Condition - We obtained the current year census data and compared it to the prior year census data for the central government to assess completeness and noted the following inconsistencies:

- Active employees - We recalculated the number of active employees based on roll-forward details as 6,615, while the census data provided reflected 6,322 employees, resulting in a variance of 293 employees (4.6%).
- Retirees and beneficiaries - We recalculated the number of retirees and beneficiaries based on roll-forward details as 8,050, while the census data provided reflected 7,715 individuals, resulting in a variance of 335 employees (4.3%).

We further noted that the pension census data submitted to actuarial service providers contained significant discrepancies when compared to employee records maintained by the Government. We selected a sample of twenty-five (25) individuals from the census data, including both active employees and retirees, and noted the following:

- For five (5) employees, we identified discrepancies between the hire dates reported in the census data and those recorded in the most recent Notice of Personnel Action (NOPA) records.

Material Weaknesses in Internal Control Over Financial Reporting

- For one (1) employee, we identified a discrepancy in salary information when comparing the census data to the latest details in the NOPA records.
- For two (2) employees, we identified discrepancies in both hire dates and salary information between the census data and the most recent NOPA records.
- For one (1) retiree, detailed NOPA records were not available. However, we performed alternative procedures by verifying the individual's hire date and employment status in the Munis system, which confirmed that the individual was a former employee who has since retired.

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

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

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

Views of Responsible Officials:

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

Action Plan: The Government has contracted a consultant to implement an electronic system that will ensure the accuracy of all active employee and retiree census data before submission for future valuations, calculations, or analysis.

Implementation Date: Ongoing.

Person(s) Responsible: DOF management, specifically, the Executive Assistant Commissioner.

E. Income Tax Refunds Payable

Criteria - Paragraph 102 of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, as amended, requires that a loss contingency be accrued when (a) information available prior to the issuance of the financial statements indicates it is probable that an asset has been impaired or a liability has been incurred as of the date of the financial statements (with the implicit condition that it is probable one or more future events will occur confirming the fact of the loss), and (b) the amount of the loss can be reasonably estimated. Loss contingencies may include pending, threatened, or unasserted litigation, claims, or assessments as of the financial statement date. Governmental funds should recognize expenditures and related fund liabilities for claims and judgments.



Material Weaknesses in Internal Control Over Financial Reporting

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

Condition - We observed that the income tax liability was not properly accrued, resulting in an understatement of approximately \$90.0 million, which required an adjustment.

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

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

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

Views of Responsible Officials:

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

Action Plan: The Government will implement a formal procedure for calculating its year-end liability for income tax refunds. This can be achieved by using subsequent payments made after the year-end or by developing reliable estimation methods.

Implementation Date: Ongoing.

Person(s) Responsible: DOF management team.

F. Plan Funding Considerations

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

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

- As per the GERS actuarial valuation report as of October 1, 2023, the Retirement System was 10.33% funded for the year ended September 30, 2024. The same report also disclosed a net pension liability of approximately \$4.0 billion, representing a long-term obligation that the Government is responsible for funding.

Material Weaknesses in Internal Control Over Financial Reporting

- As per the OPEB actuarial valuation report as of October 1, 2023, the OPEB plan reflected a total OPEB liability of approximately \$812.3 million, representing long-term medical, dental, and other postemployment benefit obligations that the Government is responsible for funding.

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

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

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

Views of Responsible Officials:

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

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

Implementation Date: Ongoing.

Person(s) Responsible: The Government Financial Team.



Material Weaknesses in Internal Control Over Financial Reporting

Finding 2024-006: Management of the Medicaid Program

Cost Report Audits, System Security Review, and Approvals

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

Condition - We noted the following:

- Two Government-owned and operated hospitals—the Governor Juan F. Luis Hospital & Medical Center and the Roy Lester Schneider Hospital—provide Medicaid services to eligible Territory residents. Both hospitals operate on a non-DRG platform and bill using daily per diem rates based on the number of patients served. Costs incurred by the hospitals, long-term care facilities, and/or Federally Qualified Health Centers (FQHCs) participating in the Medicaid program are summarized in cost reports, which are submitted to the Department. Under the Government's Medicaid State Plan, these cost reports are required to be audited. Based on the audited cost reports, a receivable or payable should be recorded for the difference between costs submitted for reimbursement and the amounts actually reimbursed. We noted that the Department did not audit the fiscal year 2024 cost reports.
- The Department did not perform a risk analysis and system security review for the Virgin Islands Benefit Eligibility System (VIBES) when it was implemented in July 2017.

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

Effect or Potential Effect - The Government was unable to determine how Governmental Activities and the General Fund may have been impacted as of, and for the year ended, September 30, 2024, which affected the auditor's ability to opine on these opinion units. In addition, because a risk analysis and system security review were not performed, there is no assurance that the system is functioning as intended, which exposes the program to potential unauthorized activity and payments to ineligible participants.

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

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 Department of Human Services (DHS) is requesting federal authorization for sole sourcing to allow the process to move forward with the previous vendor of record. Once approval is obtained and the contract is executed, DHS intends to issue a Notice to Proceed so the implementation of the audit recommendation can continue.

Implementation Date: Ongoing.

Person(s) Responsible: Chief Financial Officer, DHS and Program Administrator, DHS.



Material Weaknesses in Internal Control Over Financial Reporting

Finding 2024-007: Unemployment Insurance Trust Fund

Account Reconciliation Process

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

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

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

Effect or Potential Effect - The Government's records do not permit, nor is it practical to extend, audit procedures sufficiently to determine the extent to which the Business-Type Activities and the Unemployment Insurance Trust Fund may have been impacted as of, and for the year ended, September 30, 2024, thereby affecting the auditor's ability to opine on said opinion units.

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

Views of Responsible Officials:

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

Action Plan: The Government will ensure that all accounts, accruals, and reconciliations are prepared and reviewed on a periodic basis. Additionally, the Government will consider allocating adequate resources to properly evaluate and maintain the necessary information to accurately reflect the Fund's activity at each fiscal year-end.

Implementation Date: Ongoing.

Person(s) Responsible: Department of Labor management team.



Material Weaknesses in Internal Control Over Financial Reporting

Finding 2024-008: Workers Compensation Program

A. Actuarial Valuation

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

GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, requires governments to recognize liabilities for claims incurred but not reported (IBNR), estimate the cost of claims, and disclose information about claims and potential losses. An actuarial analysis is required periodically to provide a reasonable estimate of outstanding workers' compensation claims liability for financial statement reporting.

Condition - The Government did not engage a third-party actuary to assist with the valuation of the workers' compensation liability, as it had in prior years. In addition, the Government did not maintain adequate supporting documentation to substantiate the reasonableness of the internally calculated liability.

Cause - The absence of an independent actuarial valuation and lack of adequate supporting documentation undermines the reliability of the workers' compensation liability reported in the financial statements. This increases the risk that the liability is misstated, which could result in either an overstatement or understatement of liabilities.

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

Recommendation - We recommend that the Government ensure the workers' compensation liability is supported by an appropriate actuarial valuation or equivalent documentation to substantiate the assumptions and methodology used in estimating liabilities.

Views of Responsible Officials:

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

Action Plan: The Government will ensure the workers' compensation liability is supported by an appropriate actuarial valuation or equivalent documentation to substantiate the assumptions and methodology used in estimating liabilities.

Implementation Date: Ongoing.

Person(s) Responsible: DOF management, specifically the Executive Assistant Commissioner.



Material Weaknesses in Internal Control Over Financial Reporting

B. Claims Expenditure

Criteria - Management is responsible for ensuring that workers' compensation claims expenditures, which may require significant judgment and estimation, are based on accurate underlying data and are subject to appropriate review controls to ensure completeness, accuracy, and proper financial statement recording.

Condition - During our audit procedures over workers' compensation claims expenditures for the year ended September 30, 2024, we identified an error in the calculation and recording of claims expenditures. Management recorded an expenditure of \$4.4 million; however, the correct amount was \$2.6 million, which required an adjustment.

Cause - The error was caused by an insufficient review of the workers' compensation reports and related calculations to ensure the accuracy of the recorded expenditure amount.

Effect or Potential Effect - Workers' compensation claims expenditures and the related liability were overstated. Although the misstatement was identified and corrected during the audit, the condition demonstrates a deficiency in internal controls over the review and recording of claims expenditures. If not addressed, similar errors could occur in future reporting periods and may result in material misstatements to the financial statements.

Recommendation - We recommend that management enhance internal controls over the calculation, review, and recording of workers' compensation claims expenditures. Specifically, management should implement a formal supervisory review process to verify the accuracy of underlying reports, supporting calculations, and related journal entries before amounts are recorded in the financial statements. This review should be documented and performed in a timely manner to help ensure that claims expenditures and related liabilities are complete, accurate, and properly reported.

Views of Responsible Officials:

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

Action Plan: Management will enhance internal controls over the calculation, review, and recording of workers' compensation claims expenditures. Specifically, management will implement a formal supervisory review process to verify the accuracy of underlying reports, supporting calculations, and related journal entries before amounts are recorded in the financial statements.

Implementation Date: Ongoing.

Person(s) Responsible: DOF Director of Accounting and Reporting and DOL Leadership, specifically the Director of the Government Insurance Fund.



Material Weaknesses in Internal Control Over Financial Reporting

Finding 2024-009: Payroll, Related Accruals, and Other Expenditures

A. Payroll Expenditures

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

Condition - During our review of the compensated absences schedule for the year, we identified the following:

- Twenty (20) instances in which the employee pay rate used in the compensated absences report did not agree to the rates from the last payroll cycle of the fiscal year.
- In several instances, employees in certain labor categories received overtime payments that exceeded their annual salaries due to staffing shortages. Although these payments were approved, this remains an area susceptible to error or misuse given the volume and dollar amounts involved.

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

Effect or Potential Effect - These conditions increase the risk that payroll expense, compensated absences liabilities, accrued leave balances, and related disclosures may be incomplete, inaccurate, or unsupported. Inaccurate employee data, inconsistent pay rates, redundant records, and missing supporting documentation may result in errors in the calculation and reporting of payroll-related amounts and may impair management's ability to effectively monitor and reconcile payroll and leave activity.

Recommendation - We recommend that the Government consider the following:

- Conduct a thorough review and cleanup of the compensated absences schedule to remove redundant data and correct inaccuracies.
- Strengthen internal controls and conduct regular reconciliations of payroll and leave records.
- Closely monitor and review overtime payments to ensure they are properly authorized and justified.
- Strictly adhere to, or consider revising, its records retention policy.

Views of Responsible Officials:

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

Action Plan: The Payroll Unit will monitor accrual liabilities bi-annually.

Implementation Date: September 2026.



Material Weaknesses in Internal Control Over Financial Reporting

Person(s) Responsible: Director of Payroll.

B. Transactions with Personnel

Criteria - The Government has established policies governing executive and other employee expense reimbursements, which require that all business expenses incurred through credit cards or advance payments be supported by adequate documentation. Required documentation includes, as applicable, a statement of expense, purchase order, approved Government Travel Request, travel voucher, and receipts sufficient to substantiate each element of the expenditure.

Condition - We noted that, for two (2) sampled selections, expenditures were not recorded in the proper period. In addition, for one (1) sampled selection, supporting documentation was not available to substantiate the expense.

Cause - The Government did not consistently follow its established policies and did not maintain the supporting documentation necessary to demonstrate compliance with requirements related to employee reimbursement transactions.

Effect or Potential Effect - Failure to follow established policies and maintain adequate supporting documentation increases the risk of financial misstatements, improper period recognition, unauthorized transactions, and potential misuse of public funds.

Recommendation - We recommend that the Government strengthen its monitoring controls to ensure compliance with its reimbursement policies and implement an independent review process to verify that expenditures are properly supported, accurately recorded, and recognized in the appropriate reporting period.

Views of Responsible Officials:

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

Action Plan: The Government will institute a stricter monitoring process to ensure compliance with stated policies and the implementation of an independent review process.

Implementation Date: Fiscal Year 2026.

Person(s) Responsible: Executive Assistant Commissioner and Director of Accounting and Financial Reporting.

C. Reporting for Expenditures

Criteria - 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.



Material Weaknesses in Internal Control Over Financial Reporting

Condition - During our sampling procedures over general expenses, we noted that twenty-two (22) out of two hundred and seventy (270) expense transactions were not recorded in the proper period.

Cause - There appears to be a lack of adherence to established written policies and procedures related to the proper recording and reporting of expenditures.

Effect or Potential Effect - Recording expenditures in the wrong period can result in inaccurate financial statements, as expenses may be overstated or understated in a given fiscal year.

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

Views of Responsible Officials:

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

Action Plan: Lack of monthly reconciliations at the D&As results in untimely adjustments in the system. Accordingly, the Government will require Chief Financial Officers (CFO) to generate Flexible Period Reports reflecting all final balances by the 30th of the following month, allowing D&As sufficient time to enter, release, and obtain approval for journal entries.

Implementation Date: Fiscal Year 2026.

Person(s) Responsible: DOF Directors, Managers, and Supervisors.

D. Formalize Emergency Payroll Procedures

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

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

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

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



Material Weaknesses in Internal Control Over Financial Reporting

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

Views of Responsible Officials:

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

Action Plan: The Government will develop and implement a formal, written emergency payroll procedures manual to be utilized in the event of major operational disruptions, such as those experienced during the 2017 hurricanes. This manual will outline the necessary processes, identify key contacts and personnel, and specify required reconciliations to ensure the integrity of payroll operations during emergencies.

Implementation Date: Fiscal Year 2026.

Person(s) Responsible: Director of Payroll.



Material Weaknesses in Internal Control Over Financial Reporting

Finding 2024-010: Bank Accounts

A. Strengthen Controls Over Bank Reconciliations

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

Condition - We noted the following:

- A substantial number of outstanding checks, some issued as far back as 2007, are still being carried on the reconciliations and were eventually reclassified to accounts payable at year-end.
- Several accounts that had been formally closed at year-end contained adjustments or reclassification entries during the fiscal year related to outstanding checks totaling \$2.2 million.
- During our review of the bank reconciliations, we noted insufficient documentation to confirm that the reconciliations and related journal entries had been reviewed and approved. In addition, we identified a \$1.4 million variance between the accounting records and the external bank confirmation(s).

Cause - These issues reflect weaknesses in the Government's bank account administration processes. The absence of comprehensive and current records, including incomplete bank listings and missing documentation for new account openings, indicates insufficient oversight and a lack of formalized procedures and review controls.

Effect or Potential Effect - These weaknesses in recordkeeping can lead to significant inaccuracies in the Government's financial statements. Outstanding checks that remain unreconciled for extended periods may result in overstated liabilities or misclassified balances.

Recommendation - We recommend that the Government perform timely reconciliations of all bank accounts to promptly identify and resolve outstanding checks and other discrepancies. The Government should also implement and consistently apply a documented review and approval process for all bank reconciliations and related journal entries, including retaining evidence of review, such as the reviewer's name or signature, electronic approval, and date, with the reconciliation package in accordance with its record-retention policy.

Views of Responsible Officials:

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

Action Plan: The DOF Treasury Division, Accounting Division, and the Commissioner's office will review the process and implement best practices to strengthen internal controls over bank reconciliations. This includes a comprehensive review and cleanup of outstanding checks, maintaining a centralized bank account master listing, reconciling all accounts, enhancing oversight and monitoring, and providing training. These actions aim to enhance control over cash management, improve transparency, and reduce the risk of financial misstatements.



Material Weaknesses in Internal Control Over Financial Reporting

Implementation Date: Fiscal Year 2026.

Person(s) Responsible: DOF Treasury Division, Accounting Division, and Commissioner's Office.

B. Cash Pooling and Allocation(s)

Criteria - Cash pooling and allocations should be conducted in a manner that ensures transparency, proper allocation of funds, and accurate reporting.

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

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

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

Recommendation - We recommend that management enhance the documentation supporting the pooling and subsequent allocation of cash accounts. There should be a clear and easy-to-track link between the confirmed cash account balances and the cash balances for each fund, including how those amounts are restricted or assigned in the year-end financial statements.

Views of Responsible Officials:

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

Action Plan: DOF acknowledges the need to strengthen documentation and oversight of pooled cash management and fund allocations. The Department will review and update its existing cash pooling and allocation processes to ensure that transactions are properly supported and reconcilable to the general ledger and financial statements. Efforts will include developing standardized documentation procedures to clearly reflect the allocation methodology for pooled cash balances, improving tracking between pooled bank accounts and fund-level cash positions, and implementing periodic reviews to confirm that allocations are properly recorded. Additionally, enhanced reconciliation and reporting procedures will be established to improve transparency and auditability of pooled cash activity.

Implementation Date: Ongoing.

Person(s) Responsible: DOF Treasury Division, Accounting Division, and Commissioner's Office.



Material Weaknesses in Internal Control Over Financial Reporting

C. Check Sequences

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

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

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

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

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

Views of Responsible Officials:

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

Action Plan: The Director of MIS and the Director of Accounting will collaborate with the check run team to address challenges and explore ways to utilize Tyler Munis to reduce errors. Currently, the ERP system allows individuals to enter check numbers manually, and human error can result in checks being issued and processed out of sequence. If Tyler Munis cannot assist in resolving this deficiency, it may be necessary to implement additional review procedures at the MIS unit and ensure follow-through by the Chief Accounts Payable - Check Run Manager.

Implementation Date: Fiscal Year 2026.

Person(s) Responsible: MIS Check Run Processor, Chief Accounts Payable, Accounting Manager, and Director of Accounting.



Material Weaknesses in Internal Control Over Financial Reporting

Finding 2024-011: Other Postemployment Benefits (OPEB) Obligation

A. Plan Auditor’s Report

Criteria - GAAP, for accounting and financial reporting for postemployment benefits other than pensions, requires participating employers in a cost-sharing OPEB plan to recognize and disclose their proportionate share of the collective total OPEB liability, collective deferred outflows of resources, collective deferred inflows of resources, and OPEB expense.

Condition - The Government was unable to provide a plan auditor’s report or audited schedules of OPEB amounts. As a result, the Government’s proportionate share of the total OPEB liability, reported at \$812.3 million as of September 30, 2024, could not be verified.

Cause - Management did not engage a plan auditor to provide specific employer-level allocation reports required for GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

Effect or Potential Effect - In the absence of a plan auditor’s report, sufficient supporting documentation is not available to substantiate each participating employer’s proportionate share of the collective total OPEB liability, collective deferred outflows of resources, collective deferred inflows of resources, and collective OPEB expense. As a result, there is an increased risk that the OPEB liability, related expense, deferred outflows and inflows of resources, and related disclosures may be materially misstated.

Recommendation - We recommend that the Government coordinate with the OPEB plan administrator, actuary, and plan auditor to ensure that a plan auditor’s report and audited schedules of OPEB amounts are prepared and made available on a timely basis each fiscal year. Management should also establish procedures to obtain, review, and retain this documentation to support the accuracy and completeness of the Government’s proportionate share of the reported OPEB liability and related balances and disclosures.

Views of Responsible Officials:

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

Action Plan: The Government will coordinate with the OPEB plan administrator, actuary, and plan auditor to ensure that the plan auditor’s report and schedules of OPEB amounts are prepared and made available on a timely basis each fiscal year. Management will also establish procedures to obtain, review, and retain this documentation to support the accuracy and completeness of the Government’s proportionate share of the reported OPEB liability and related balances and disclosures.

Implementation Date: Ongoing.

Person(s) Responsible: Executive Assistant Commissioner, DOF.



Material Weaknesses in Internal Control Over Financial Reporting

B. Administration and Recordkeeping

Criteria - The Government follows the provisions of GASB Statement No. 75. This standard requires the reporting and disclosure of costs and liabilities associated with postemployment benefits provided to retirees.

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

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

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

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

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

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

Views of Responsible Officials:

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



Material Weaknesses in Internal Control Over Financial Reporting

Action Plan: The Government will formalize the current practice or ensure that benefit payments from the component units and organizations referenced above also include retirees, in accordance with the V.I. Code. Additionally, the Government and/or Division of Personnel (DOP) will consider hiring or contracting an individual with specialized knowledge in accounting and plan administration, even on a part-time basis, to consistently provide higher-level accounting support throughout the year.

Implementation Date: Ongoing.

Person(s) Responsible: Management team of DOP and DOF.

C. Accuracy of Census Data

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

Condition - We noted discrepancies between the Government's OPEB census data submitted to actuarial service providers and the employee records maintained by the Government. As part of our procedures, we evaluated the beginning census data using information from the October 1, 2022 and 2023 valuation reports. From a sample of ninety (90) individuals, including both active employees and retirees, we compared hire dates in the census data to the most recent NOPA records. We found exceptions for three (3) employees whose hire dates did not match the NOPA records, two (2) from the 2022 valuation data and one (1) from the 2023 valuation data.

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

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

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

Views of Responsible Officials:

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

Action Plan: The Government will develop and implement internal controls to ensure the accuracy of active employees and retiree census data prior to submission for future valuations, calculations, or analysis.



Appendix A

Material Weaknesses in Internal Control Over Financial Reporting

Implementation Date: Immediately.

Person(s) Responsible: DOF Executive Assistant Commissioner.



Material Weaknesses in Internal Control Over Financial Reporting

Finding 2024-012: Accounting Standards Implementation

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

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

Effective for the fiscal year ended September 30, 2023, the Government is required to implement GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. Under this Statement, the government is required to recognize a right-to-use subscription asset as an intangible asset and a corresponding subscription liability. Additionally, because no analysis was performed on software-related transactions, software was not assessed for potential capitalization as an intangible asset under GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*.

Condition - The Government did not perform an assessment to analyze the impact that implementing GASB Statement No. 77, GASB Statement No. 87, GASB Statement No. 96, and GASB Statement No. 51 would have on its financial statements.

Cause - There is an absence of a formal process or oversight mechanism to ensure the timely assessment and analysis of the impact of new accounting standards, specifically GASB Statement No. 77, GASB Statement No. 87, GASB Statement No. 96, and GASB Statement No. 51 on the Government's financial statements.

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

Recommendation - We recommend that the Government conduct a comprehensive assessment to evaluate the impact of implementing GASB Statement No. 77, GASB Statement No. 87, GASB Statement No. 96, and GASB Statement No. 51 on its financial statements. This assessment should include a detailed analysis of the requirements and implications of these standards to ensure accurate and compliant financial reporting.

Views of Responsible Officials:

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

Action Plan: It is necessary for the Government to solicit the services of an experienced vendor to perform the required work. A vendor has been selected and will begin in Fiscal Year 2026.

Implementation Date: Fiscal Year 2026.



Appendix A

Material Weaknesses in Internal Control Over Financial Reporting

Person(s) Responsible: DPP Fixed Asset Unit, Capital Asset Coordinators, Vendor, and Contract Manager (payments).



Material Weaknesses in Internal Control Over Financial Reporting

Finding 2024-013: Irregularities Related to Procurement Activities

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

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

Procurement is governed by *Title 31, Chapter 23, Sections 231 - 251*, of the Virgin Islands Code which states the various types and requirements for procuring goods and services. The DPP 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 DPP, then in effect. When creating a requisition or purchase order, all necessary supporting documentation must be attached in the ERP system; this includes the required quotes and a justification letter signed by the User Agency head and approved by the Commissioner of Property and Procurement, if required. The buyer interface system, GVIBUY, should retain all contracts.

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

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

- Invoices were dated prior to the purchase order approval date for eighty-four (84) out of one hundred and ninety-nine (199) transactions selected.
- No evidence was available that a request for proposal (RFP) was initiated for thirty-five (35) out of thirty-five (35) purchase orders selected over the \$50,000 policy threshold.
- A single individual approved multiple levels for payment remittances for fifty-four (54) out of one hundred and ninety-nine (199) transactions selected.
- As required by the procurement policy, no evidence was available to show that three quotes were requested and obtained prior to the awards for eighteen (18) out of twenty-one (21) purchase orders above \$10,000.

Material Weaknesses in Internal Control Over Financial Reporting

- No contract was provided to verify the terms and conditions for fifteen (15) out of thirty-five (35) purchase orders selected above \$50,000.
- No evidence that a payment remittance was fully approved for six (6) out of one hundred and ninety-nine (199) transactions selected.
- No documentation was available to clarify and understand purpose of transaction outside the invoice. The contract, bid, RFP information, and grants requests were not available to support compliance with procurement and/or payment policies and processes for eighty-one (81) out of one hundred and ninety-nine (199) transactions selected.
- Invoices provided did not contain the information to clarify the prices or services provided for eleven (11) out of one hundred and ninety-nine (199) transactions selected.
- The purchase order description did not match the invoice description for nineteen (19) out of one hundred and ninety-nine (199) transactions selected.
- A vendor received payments of approximately \$1.6 million from a checking account restricted for American Rescue Plan Act (ARPA) funds.

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

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

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

Views of Responsible Officials:

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

Action Plan: The Government will evaluate its policies and procedures to ensure all necessary supporting documentation such as purchase orders, contracts, and vendor profiles is retained to support adherence to internal policies and regulatory requirements. Management will implement and enforce procedures to regularly review and verify that all procurement activities are properly documented and compliant with applicable regulations.

Implementation Date: Fiscal Year 2026.

Person(s) Responsible: DPP management team and DOF Treasury Division.

Material Weaknesses in Internal Control Over Financial Reporting

Finding 2024-014: Procurement Regulations

Criteria - Procurement is governed by *Title 31, Chapter 23, Sections 231 - 251*, of the Virgin Islands Code, which states the various types and requirements for procuring goods and services. The DPP 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 DPP, then in effect. When creating a requisition or purchase order, all necessary supporting documentation must be attached in the ERP system; this includes the required quotes and a justification letter signed by the User Agency head and approved by the Commissioner of Property and Procurement, if required. The buyer interface system, GVIBUY, should retain all contracts.

Condition - We sampled and selected ninety-five (95) purchase orders and sixty (60) contract files and noted the following:

- One (1) missing purchase order (PO) number during sequence testing. Management explained that the PO number was missing in 2024 but did not provide any report or supporting details to confirm it was unused. Additionally, there is no formal procedure in place to document unused PO numbers or the reasons for their omission. Accordingly, we cannot conclusively verify the completeness of the PO population.
- Twenty-one (21) purchase orders from twelve (12) different vendors where the files did not contain the requisite documentation to provide evidence that the purchase order met the stated requirements.
- Thirteen (13) purchase orders from five (5) vendors appeared to be split purchase orders where adequate supporting documentation was not available to determine if purchase order splitting occurred.
- Forty (40) instances where executed contract files did not contain requisite documentation to provide evidence that the respective procurement met stated requirements.
- Forty-four (44) instances where adequate supporting documentation was not available to determine whether the initial invoice was generated before the date of contract execution.

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

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



Material Weaknesses in Internal Control Over Financial Reporting

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

Views of Responsible Officials:

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

Action Plan: The Government will retain all necessary supporting documentation for purchase orders, contracts, and vendor profiles to ensure adherence to internal policies and regulatory requirements. Management will implement procedures to regularly review and verify that all procurement activities are properly documented and compliant with applicable regulations. Management will implement a formal process to ensure all executed contracts are timely included in GVIBUY. DPP will coordinate more frequently with DOF IT team to address any potential system issues that can affect data accuracy.

Implementation Date: Fiscal Year 2026.

Person(s) Responsible: DPP management team.



Significant Deficiency in Internal Control Over Financial Reporting

Finding 2024-015: Information Technology (IT) Environment

User Access and Administration

Criteria - Logical security for user access and user administration are critical components of overall information security strategy. These elements focus on ensuring that only authorized individuals have access to information systems and data, thereby protecting sensitive information from unauthorized access, misuse, or breaches.

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

- There are no formal re-certifications of user access security rights performed for the following 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
- MMIS
- VIBES
- CARIBS
- Capture
- RawData
- Ventiv
- VIDOLA\$
- VITAX
- ScanOptics

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

Windows Domain:

- Department of Labor
- Department of Human Services

Applications:

- VIDOLA\$
- VIBES

- Evidence of a terminated user's access being removed timely could not be provided (VIBES) and a terminated user's access was not removed timely after termination notification (MMIS):

Windows Domain:

- Department of Human Services



Significant Deficiency in Internal Control Over Financial Reporting

Applications:

- VIBES
- MMIS
- Evidence was not available to demonstrate that there was an approval for a change that was implemented into production for the Bureau of Internal Revenue for the RawData application.
- There was a new access request where the access granted did not match the requested and approved access permission on the Department of Labor operating system and VIBES application.

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

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

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

Views of Responsible Officials:

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

Action Plan: The Government will evaluate its documentation process to mitigate the risk of changes being implemented without appropriate approval. Additionally, the Government will assess its user access and administration controls, including user addition, modification, and removal, to ensure that appropriate access is granted and that there is strict adherence to record retention policies.

IRB has created a Recertification of User Access Security Rights Policy and Change Management Policy. Both policies are currently in draft form but will be finalized in time for the Agency's next annual Disclosure and Computer Usage training.

Implementation Date: Ongoing.

Person(s) Responsible: IT DOL, DOF, DHS, IRB (Chief of Computer Operations), and LGO.

Noncompliance with Laws and Regulations

Finding 2024-016: Noncompliance with Laws and Regulations

A. Collateral of Depository

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

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

Condition - During our review of the Government's collateral of depository reports, we noted that not all cash accounts of the Government and its component units are included in the report to be collateralized. Additionally, for five (5) out of twelve (12) months, the collateral held at First Bank was less than deposit balance.

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

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

Recommendation - We recommend that the Government implement policies and procedures to ensure all cash accounts for the Government and its component units are in compliance with the stated requirements. Additionally, we recommend the Government implement procedures to regularly monitor and ensure that collateral levels consistently meet or exceed deposit balances at all financial institutions.

Views of Responsible Officials:

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

Action Plan: DOF acknowledges the need to strengthen its oversight of collateralized deposits and ensure compliance with applicable requirements. The Department will review current practices and develop formal procedures to enhance monitoring and reporting of collateral levels across all government accounts. Efforts will be made to improve coordination with financial institutions, establish clearer internal controls, and ensure that collateral levels remain sufficient to protect government deposits. Staff training and periodic reviews will also be incorporated to maintain ongoing compliance.

Implementation Date: Fiscal Year 2026.

Person(s) Responsible: Treasury management under the direction of the DOF's executive leadership.

Noncompliance with Laws and Regulations

B. Landfill Consent Decrees

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

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

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

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

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

Views of Responsible Officials:

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

Action Plan: The Government will allocate budgetary funds to pay any penalties that have already accrued. Additionally, the Government will implement necessary measures to promptly address current noncompliance with the consent decree timetables in order to avoid incurring future penalties.

Implementation Date: Ongoing.

Person(s) Responsible: The Government's Financial team.

Noncompliance with Laws and Regulations

C. Establishment of a Medical Malpractice Trust Fund

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

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

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

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

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

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

Views of Responsible Officials:

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

Action Plan: The Government will establish a separate Medical Malpractice Trust Fund in accordance with applicable legal and regulatory requirements. Management will develop and implement policies and procedures to ensure proper administration, oversight, and compliance with all statutory provisions related to the Fund.

Implementation Date: Fiscal Year 2026.

Person(s) Responsible: Department of Health management team.

Noncompliance with Laws and Regulations

D. Compliance with Legislative Appropriations and Settlement Agreements

Criteria - The Legislature of the Virgin Islands passed an Act 8920 (Bill No. 35-0380), which appropriates funds received under various settlement agreements to enhance community services, mental health resources, infrastructure, and economic development in the U.S. Virgin Islands. Act 8920 includes the establishment of the Southern Trust Company Settlement Fund and the Survivors and Mental Health Healing Trust fund. No amounts in these funds are available for expenditure or disbursement except as authorized or appropriated by Legislature.

In addition, Act 8694 (Bill No.34-0368) requires the establishment of an Opioid Abatement Fund and an Opioid Abatement Fund Committee to oversee the use of monies in the fund to mitigate the impacts of the opioid epidemic in the U.S. Virgin Islands, including, but not limited to, expending access to opioid use disorder prevention, intervention, treatment, and recovery options. The Opioid Abatement Fund includes all monies, payments, proceeds, attorneys' fees and costs or other things received by the Government each year through verdict, judgment, compromise, or settlement of any case or controversy relating to the manufacturing, marketing, distribution, promotion, or dispensing of opioids; monies appropriated or transferred to the fund by the Legislature; and gifts, donations, grants, bequests, and other monies received by the Territory on the fund's behalf.

Additionally, under a settlement agreement, a financial institution agreed to pay the Government \$75.0 million, to be used for specified purposes, including support for charitable organizations, efforts to combat human trafficking, and legal-related purposes of the Territory, in accordance with the terms of the agreement.

Condition - During Fiscal Year 2024, the Government received approximately \$60.0 million under the various settlement agreements and \$2.3 million under the Opioid Abatement settlement. We noted that the Government has not established:

- The Southern Trust Company Settlement Fund and the Survivors and Mental Health Healing Trust fund, as required by Act 8920.
- The Opioid Abatement Fund and the Opioid Abatement Committee, as required by Act 8694.

In addition, the Government did not provide evidence demonstrating that amounts received under the settlement agreement with a financial institution were used in accordance with the terms of that agreement.

Cause - The Government does not appear to have established adequate policies, procedures, and oversight controls to ensure compliance with the requirements set forth in Act 8920, Act 8694, and the applicable settlement agreements.

Effect or Potential Effect - Failure to comply with applicable legislative and settlement agreement requirements may result in noncompliance with legal and regulatory provisions, unauthorized use of restricted funds, inadequate oversight of settlement proceeds, and potential penalties, sanctions, or other adverse consequences.



Noncompliance with Laws and Regulations

Recommendation - We recommend that the Government promptly establish the Southern Trust Company Settlement Fund, the Survivors and Mental Health Healing Trust Fund, the Opioid Abatement Fund, and the Opioid Abatement Fund Committee in accordance with applicable legal and regulatory requirements. Management should also develop and implement formal policies and procedures to ensure proper administration, oversight, monitoring, and documentation of these funds and to demonstrate that all related receipts and disbursements are made in accordance with legislative requirements and settlement agreement provisions.

Views of Responsible Officials:

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

Action Plan: The Government will establish the Southern Trust Company Settlement Fund, the Survivors and Mental Health Healing Trust, Opioid Abatement Fund and an Opioid Abatement Fund Committee in accordance with applicable legal and regulatory requirements. Management will develop and implement policies and procedures to ensure proper administration, oversight, and compliance with all legislative provisions related to the Fund and Committee and provide documentation to support the establishment and use of these funds.

Implementation Date: Fiscal Year 2026.

Person(s) Responsible: Treasury Director and Executive Assistant Commissioner.

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DEPARTMENT OF FINANCE

Appendix D

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

Finding Number	Nature of Finding	Type of Finding in Fiscal Year 2023	Current Year Status
2023-001	Year-End Close Process and Financial Deficit	Material Weakness and Modification of Audit Opinion for Specified Transactions	Repeated. Finding 2024-001
2023-002	Revenue and Receivables	Material Weakness	Repeated. Finding 2024-002
2023-003	Grants Management	Material Weakness and Modification of the Audit Opinion for Specified Transactions	Repeated. Finding 2024-003
2023-004	Capital Assets and Related Expenditures	Material Weakness and Modification of Audit Opinion	Repeated. Finding 2024-004
2023-005	Recording of Liabilities	Material Weakness and Modification of the Audit Opinion for Specified Transactions	Repeated. Finding 2024-005
2023-006	Management of the Medicaid Program	Material Weakness and Modification of the Audit Opinion	Repeated. Finding 2024-006
2023-007	Unemployment Insurance Trust Fund	Material Weakness and Modification of the Audit Opinion	Repeated. Finding 2024-007

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

Finding Number	Nature of Finding	Type of Finding in Fiscal Year 2023	Current Year Status
2023-008	Workers Compensation Program	Material Weakness and Modification of Audit Opinion	Repeated. Finding 2024-008
2023-009	Payroll, Related Accruals, and Other Expenditures	Material Weakness	Repeated. Finding 2024-009
2023-010	Bank Accounts	Material Weakness	Repeated. Finding 2024-010
2023-011	Other Postemployment Benefits Obligation	Material Weakness and Modification of Audit Opinion	Repeated. Finding 2024-011
2023-012	Accounting Standards Implementation	Material Weakness and Modification of Audit Opinion	Repeated. Finding 2024-012
2023-013	Irregularities Related to Procurement Activities	Material Weakness	Repeated. Finding 2024-013
2023-014	Procurement Regulations	Material Weakness	Repeated. Finding 2024-014
2023-015	Information Technology (IT) Environment	Significant Deficiency	Repeated. Finding 2024-015
2023-016	Noncompliance with Laws and Regulations	Material Noncompliance	Repeated. Finding 2024-016