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, 2023

Government of the United States Virgin Islands

Contents

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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, 2023, and the related notes to the financial statements, which collectively comprise the Government's basic financial statements, and have issued our report thereon dated January 27, 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	Disclaimer
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 Waste Management Authority (VIWMA), 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); 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, 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**
2023-001	Year-End Close Process and Financial Deficit
2023-002	Revenue and Receivables
2023-003	Grants Management
2023-004	Capital Assets and Related Expenditures
2023-005	Recording of Liabilities
2023-006	Management of the Medicaid Program
2023-007	Unemployment Insurance Trust Fund
2023-008	Workers Compensation Program
2023-009	Payroll, Related Accruals, and Other Expenditures
2023-010	Bank Accounts
2023-011	Other Postemployment Benefits Obligation
2023-012	Accounting Standards Implementation
2023-013	Irregularities related to Procurement Activities
2023-014	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
2023-015	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 tests disclosed an instance of suspected fraud that is required to be reported in accordance with *Government Auditing Standards* and which is described in greater detail in Appendix A as item 2023-013. 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
2023-013	Irregularities related to Procurement Activities
2023-014	Procurement Regulations
2023-016	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.

January 27, 2026

Appendix A

Material Weaknesses in Internal Control Over Financial Reporting

Finding 2023-001: 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.

In addition, our review of the Government's draft financial statements identified inconsistencies and omissions in the footnote disclosures, as well as inconsistencies in the classification and reporting of certain account balances. Specifically, we noted the following:

- The Government did not include required disclosure for refundable advances in the notes to the draft financial statements.
- The Government received settlement proceeds of approximately $97.0 million, which were classified as operating revenue rather than as a special item reported within other financing sources in the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds. Further, the proceeds should have been reported as restricted fund balance in accordance with Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Paragraph 8 of GASB 54 states that restricted fund balance includes amounts restricted to specific purposes by enabling legislation.

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.

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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)/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. While staffing may continue to be a challenge, collaboration with Departments and Agencies (D&A) will be essential through setting expectations, establishing realistic goals, and providing support. GVI does not expect this finding to be resolved immediately; however, by addressing fiscal management challenges on a monthly basis, developing effective reporting mechanisms to identify issues, implementing adequate internal controls, updating policies and procedures, and providing 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, 2023, several of the Government's components did not have audited financial statements nor reported their 2023 financial transactions in the financial statements. These include Virgin Islands Port Authority, Virgin Islands Water and Power Authority, Virgin Islands Economic Development Authority, Virgin Islands Housing Finance Authority, Virgin Islands Government Hospital and Health Facilities Corporation (Roy L. Schneider Hospital and Governor Juan F. Luis Hospital and Medical Center), University of the Virgin Islands, Magens Bay Authority, University of the Virgin Islands, and Virgin Islands Research and Technology Park Corporation. In addition, 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.

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. 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.

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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 recent coronavirus (COVID-19) pandemic. Collectively, these factors have materially and adversely affected the Government's financial stability.

Cause - Recovery costs associated with the 2017 hurricanes have significantly strained available resources. In addition, unfunded pension and OPEB obligations continue to exert pressure on financial results. These conditions were further exacerbated by the COVID-19 pandemic, which disrupted operations and negatively impacted revenue streams, resulting in additional 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.

Recommendation - Management has initiated actions intended to stabilize and improve the Government's financial position through a comprehensive, multi-faceted plan that includes legislative measures to enhance revenue, cost-reduction initiatives, and proposed increases in employee pension contributions. The Government has also received significant federal assistance related to the 2017 hurricanes and the COVID-19 pandemic.

We further recommend that management continue to develop and implement long-term financial plans and balanced budgets aimed at generating sustainable operating results, avoiding recurring deficits, and rebuilding unrestricted net position.

Views of Responsible Officials:

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

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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.

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.

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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 increasing 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 eight (8) journal entries and noted that two (2) were created and posted by the same user, with no evidence of review by other authorized personnel.

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.

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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.

Appendix A

Material Weaknesses in Internal Control Over Financial Reporting

Finding 2023-002: Revenue and Receivables

A. Reconciliation of Subsidiary Registers

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

Condition - We noted the following:

- The Government does not reconcile its subsidiary registers with its tax receivable general ledger account balances.
- During our review of the real property tax receivable schedule prepared under the modified accrual basis, we noted that the schedule did not include the most recent collections from October to November 2023, amounting to $1.2 million, and therefore required an adjustment.

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).

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B. Tax Return Processing Method

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

Condition - We noted the following:

- 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 automated edit checks detect many errors, they do not ensure the complete accuracy of the information entered. Relying primarily on automated edit checks and random sample reviews does not fully ensure the accuracy and reliability of the entered data.
- During our testing of gross receipts taxes receivable, we sampled and selected eleven (11) transactions and identified one (1) instance that was incorrectly included in receivables.

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.

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C. Real Property Tax

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

***Condition* -** We noted the following:

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

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

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

***Recommendation* -** Management should review and identify properties owned by the Government and its component units within the tax roll listing to ensure appropriate tax credits/exemptions are applied. Management should also implement enhanced controls to ensure tax billings are issued only to taxable properties. In addition, management should review and correct the penalty interest calculation methodology to ensure it reflects the appropriate time period. Regular internal reviews and staff training should be conducted to help prevent future discrepancies.

Views of Responsible Officials:

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

Action Plan: Management will perform a review and identification of the Government's and component units' properties in the tax roll listing to ensure proper tax credits are applied. Management will also implement enhanced controls to ensure tax billings are accurately issued only to taxable properties.

Implementation Date: Ongoing.

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

Material Weaknesses in Internal Control Over Financial Reporting

D. Recording of Notes Receivables

Criteria - Governmental Accounting Standards require that assets and related income be accurately recorded in the financial statements in accordance with the terms of underlying agreements. In addition, effective internal controls should ensure that schedules are properly maintained and reconciled to general ledger on a regular basis.

Condition - In fiscal year 2019, the Government amended and restated its operating agreements with Limetree Bay Terminals, LLC, which included the sale of certain capital assets in exchange for cash and a long-term promissory note. The promissory note has a ten-year term, with interest payments due semi-annually. During our review of the amortization schedule for the promissory note, which is recorded as notes receivable, we identified that principal receipts were incorrectly recorded as interest income. As a result, both notes receivable and interest income were overstated by $4.5 million as of and for the year ended September 30, 2023, and an adjustment was required.

Cause - The Government does not appear to have a process in place to adequately monitor and reconcile related revenues and receivables.

Effect or Potential Effect - This resulted in the improper recording of revenue and receivables, leading to a misstatement in the financial statements.

Recommendation - To prevent the need for adjustments to receivable and revenue accounts, we recommend that the general ledger balances be reconciled to detailed supporting records on a regular basis. A strong control system over receivables, including an accurate 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 detailed supporting records on a regular basis. In addition, the Government will strengthen controls over receivables, which includes an accurate accounting system that maintains agreement between the receivables subsidiary ledger and the general ledger, to help prevent audit adjustments at year-end.

Implementation Date: Fiscal Year 2026.

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

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Finding 2023-003: Grants Management

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

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

Condition - We noted the following:

- Significant transactions paid to, or transferred to, various Government departments were erroneously reported as subrecipient transactions.
- Approximately $43.5 million in expenditures pertaining to Assistance Listing Number (ALN) 21.027, *Coronavirus State and Local Fiscal Recovery Funds*, had not been recorded as expenditures and required an adjustment.

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. In addition, failure to record the expenditures results in the understatement of expenditures in both the SEFA and financial statements. These conditions may impair the accuracy and reliability of financial reporting, potentially resulting in noncompliance with applicable accounting standards and grant requirements. 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 - The Government should perform regular reconciliations of the SEFA to underlying accounting records and grant documentation to ensure all expenditures are accurately recorded. Any discrepancies identified should be promptly investigated and corrected. In addition, the Government should continue to enhance communication and reconciliation procedures between the centralized agency responsible for collecting SEFA information and each agency administering federal grant programs to prevent the recurrence of errors and misclassifications.

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.

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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.
- 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: Immediate, 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.

Appendix A

Material Weaknesses in Internal Control Over Financial Reporting

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.
- The Government was unable to provide supporting documentation for eight (8) of one hundred forty-eight (148) sampled transactions related to drawdowns made during fiscal year 2023.
- The Government was unable to provide supporting documentation to support proper revenue recognition for eight (8) of one hundred sixty-one (161) sampled transactions related to federal grant revenues.

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

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.

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- 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.

- 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. Federal Grants Accounting

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

Condition - Based on our review and testing of the schedule of grant revenues, we noted that local reimbursements amounting to $4.9 million into the Asset Recovery Fund were improperly reported as Federal grant revenue and required an adjustment.

Cause - The Government does not appear to have a process in place to adequately monitor federal revenues.

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

Recommendation - Management should ensure strict adherence to its reconciliation and review policies and procedures and establish a process for regular monitoring of federal grant revenues.

Views of Responsible Officials:

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

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Action Plan: The DOF, Treasury and Accounting Divisions, in collaboration with OMB, departments, and agencies, will strengthen controls over the accounting and reporting of federal grant revenues. A standardized reconciliation process will be implemented to ensure grant-related receipts are accurately classified between federal and local sources.

Monthly reconciliations between Treasury's cash receipts records and OMB Federal Grants Management Unit (FGMU) will be performed to detect and correct discrepancies on a timely manner. In addition, the Accounting Division will conduct a comprehensive review of the working trial balance to identify and correct object code misclassifications, particularly for Asset Recovery Fund transactions previously reported as federal grant revenues.

Implementation Date: Ongoing.

Person(s) Responsible: DOF Treasury and Accounting Divisions, OMB FGMU, and departmental and agency program managers and CFOs.

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, 2023.

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 showing evidence of review and approvals and submission deadlines (including the FAC due date).
- Leverage the new grant management system, Amplifund by Euna Solutions, capabilities for reporting compliance and automated reminders.

Material Weaknesses in Internal Control Over Financial Reporting

- Government-wide Standard Operating Policies and Procedures will be developed to provide a uniform and consistent approach across all agencies in Grant Management, Fixed Assets, Fraud Waste and Abuse (FWA), Cash Management and with an automated training schedule requirement through a training platform.
- Supplemental detail for example cheat sheets, checklists, and training guides will be developed based on the Government-wide Standard operating policies and procedures (SOPP).
- All staff involved in the audit and reporting process will receive annual training on federal grant management and reporting requirements.

Implementation Date: Fiscal Year 2026.

Person(s) Responsible: The OMB Management team.

Appendix A

Material Weaknesses in Internal Control Over Financial Reporting

Finding 2023-004: Capital Assets and Related Expenditures

A. Record Keeping

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

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

- Twenty-four (24) invoices for capital asset additions, totaling $6.6 million during the year, were not included in the initial listing of additions and required an adjustment. Of these, five (5) invoices related to prior years.
- Two (2) invoices for assets capitalized during the year, which related to fiscal year 2022, were recorded in the incorrect period and required an adjustment.
- We were unable to determine whether adjustments were required to opening balances related to capital assets and accumulated depreciation.

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.

Effective immediately, updated Policy and Procedures (SOPP 130) establishes 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.

Material Weaknesses in Internal Control Over Financial Reporting

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 register to ensure consistency, accuracy, and completeness of records in line with best practices.

Condition - Based on our review of the subsidiary asset registers, we noted 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.

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.

Action Plan: The Government will 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.

Implementation Date: Ongoing.

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Material Weaknesses in Internal Control Over Financial Reporting

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:

- During our sampling procedures over construction in progress activity, we identified one (1) project totaling $59.3 million, out of nineteen (19) projects, that had been confirmed as completed but had not been transferred to the completed asset category and therefore required an adjustment.
- 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.

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.

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Material Weaknesses in Internal Control Over Financial Reporting

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 procedures 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:

- While an annual impairment assessment was performed by the Department of Property and Procurement (DPP), the process to ensure completeness of the impairment assessments across the asset classes was not readily addressed. Moreover, conclusions reached by DPP should be processed and accounted for by the Department of Finance and adjustments recorded in the asset registers, as necessary.
- Certain assets were not readily traceable to the asset registers due to lack of proper ID. This may result in improper accounting of the transaction(s) with respect to the derecognition of the assets from the books.
- Some damage assessments for the departments and agencies were informally done, or were not performed at all, until the accounting team requested them. Further, each division or department seemed to have its own separate process or methodology.

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

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

Material Weaknesses in Internal Control Over Financial Reporting

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

Views of Responsible Officials:

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

Action Plan: 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.

E. Capital Assets - Business-Type Activities

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

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

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

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

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

Material Weaknesses in Internal Control Over Financial Reporting

Views of Responsible Officials:

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

Action Plan: The Capital Asset Coordinator will work with Benham and Hodge, CPA, to identify opportunities to make the process less manual.

Implementation Date: Second quarter of Fiscal Year 2026.

Person(s) Responsible: Capital Asset Coordinator and Benham and Hodge, CPA.

Appendix A

Material Weaknesses in Internal Control Over Financial Reporting

Finding 2023-005: 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 $147.0 million retroactive pay liability reflected in the books and records; however, the supporting schedules can only confirm $138.3 million, which is based on an analysis of CBAs from the initial retroactive pay wage commission findings. Additionally, approximately 65.0% 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.

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.

Material Weaknesses in Internal Control Over Financial Reporting

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 Division of Personnel (DOP) management, including the Payroll Director.

B. Medical Malpractice Liability

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

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

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

Effect or Potential Effect - The Government's inability to gather and generate the necessary information for an actuary to compile an estimated liability at year-end has resulted in records that do not permit, or make it practical to extend, audit procedures sufficiently to determine the extent of impact on Business-Type Activities and Aggregate Remaining Fund Information as of, and for the year ended, September 30, 2023. This oversight may lead to underreported liabilities, 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.

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

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. In addition, during our review and inquiry of subsequent disbursements, we noted that accounts payable did not include accrual of invoices totaling $1.1 million for services performed as of year-end and therefore required an adjustment. 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. Further, during our review of Medicaid claims accrual from the Molina MMIS system, we noted that the Government did not record the required year-end accrual of $11.6 million and an adjustment was necessary.

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.

Material Weaknesses in Internal Control Over Financial Reporting

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.

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 do 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. Landfill Closure and Post-Closure Costs Liability

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

Condition - The Government determines the closure and post-closure costs for the three landfills in the U.S. Virgin Islands for fiscal year 2023 based on estimates provided by a third-party engineering firm, which are updated by applying an inflation rate. Our review of these reports indicates that the related liability was not accurately recorded as of the end of the fiscal year. Based on the most recent third-party engineering estimates, we identified an additional liability of $36.1 million and required an adjustment.

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

Material Weaknesses in Internal Control Over Financial Reporting

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

Recommendation - The Government should collaborate closely with the Virgin Islands Waste Management Authority and the third-party engineering firm responsible for calculating the closure and post-closure landfill liability. A report should be prepared to implement monitoring controls and ensure the timely review of all calculations. While updating landfill closure and post-closure cost estimates using an inflation factor is acceptable, we recommend that the Government conduct a comprehensive review of all reports and calculations to ensure the accuracy of the included assumptions.

Views of Responsible Officials:

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

Action Plan: The Government will collaborate closely with the Virgin Islands Waste Management Authority and the third-party engineering firm responsible for calculating the closure and post-closure landfill liability. A report should be prepared to implement monitoring controls and ensure the timely review of all calculations. Additionally, the Government will conduct a comprehensive review of all reports and calculations to ensure the accuracy of the included assumptions.

Implementation Date: Ongoing.

Person(s) Responsible: The Management Team of Waste Management Authority and DOF.

E. Completeness and 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 obtained the current year census data and compared it to the prior year census data for the central government assess completeness and noted following inconsistencies:

- Active employees – We recalculated active employees based on roll-forward details as 6,657, while census data provided reflected 6,426 employees, resulting in a variance of 231 employees (3.6%).
- Retirees and Beneficiaries – We recalculated retirees and beneficiaries based on roll-forward details as 8,081, while census data provided reflected 7,876 individuals, resulting in a variance of 205 employees (2.6%).

We further noted that the Government's pension census data submitted to actuarial service providers contained significant discrepancies when compared to employee records maintained by the Government. The inaccuracies could have a material impact on the financial statements.

Material Weaknesses in Internal Control Over Financial Reporting

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.
- For four (4) employees, we identified discrepancies in both hire dates and salary information when comparing the census data to the most recent NOPA records.
- For two (2) retirees, detailed NOPA records were not available. However, we performed alternative procedures by verifying their hire date and employment status in the Munis system, which confirmed that they were former employees who have since retired.
- For three (3) retirees, we identified discrepancies between the retirement dates reported in the census data and those recorded in the retirees' NOPA records.

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.

F. Income Tax Refunds Payable

Criteria - Paragraph 102 of GASB Statement No. 62, as amended, requires that a loss contingency be accrued when (a) information available prior to the issuance of the financial statements indicates it is probable that an asset has been impaired or a liability has been incurred as of the date of the financial statements (with the implicit condition that it is probable one or more future events will occur confirming the fact of the loss), and (b) the amount of the loss can be reasonably estimated.

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Loss contingencies may include pending, threatened, or unasserted litigation, claims, or assessments as of the financial statement date. Governmental funds should recognize expenditures and related fund liabilities for claims and judgments arising from loss contingencies.

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

Condition - We observed that the income tax liability has been accrued for tax returns that have been processed but not yet paid as of September 30, 2023. However, the tax liability for returns processed and paid subsequently, specifically those for fiscal year 2023 and prior, was excluded from the accrual of tax refunds payable, amounting to $16.8 million and 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.

G. 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.

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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, 2022, the Retirement System is 8.91% funded for the year ended September 30, 2023. The same report also disclosed a net pension liability of $4.09 billion which represents a long-term obligation the Government has to fund.
- As per the OPEB actuarial valuation report as of October 1, 2021, the OPEB plan reflects a total OPEB obligation of $976.61 million which represents the long-term medical, dental, and other obligations that the Government has to fund.

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

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

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

Views of Responsible Officials:

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

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 should 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.

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Material Weaknesses in Internal Control Over Financial Reporting

Finding 2023-006: Management of the Medicaid Program

<u>Cost Report Audits, System Security Review, and Approvals</u>

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 2023 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, 2023, 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.

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Action Plan: The Department of Human Services (DHS) intends to shift the responsibility of Cost Reports internally to Fiscal Office, under the supervision of Director of Audit and Compliance. The first step towards this initiative will require a contract to be executed with a previous vendor, to implement a template for quick calculation. This method has proven to be effective in previous years. DHS consider this a high-priority initiative that will provide much-needed revenues to the coffers.

Implementation Date: Ongoing.

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

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Finding 2023-007: 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, 2023, thereby affecting the auditor's ability to opine on said opinion unit.

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 be 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: DOL management team.

Material Weaknesses in Internal Control Over Financial Reporting

Finding 2023-008: Workers Compensation Program

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 statements 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.

Appendix A

Material Weaknesses in Internal Control Over Financial Reporting

Finding 2023-009: 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 - We noted the following:

- The Department of Human Services transitioned to a manual timesheet process in lieu of system-generated timesheets after the September 2017 hurricanes caused damage to its ADI Time payroll system, which had not been adequately backed up. The Department continued to use the manual timesheet process for the year under review.
- The compensated absences schedule includes some redundant data. For example, some employees who should not be on the schedule have accrued balances, negative balances, or zero balances. During our review of the compensated absences schedule for the year, we identified the following:
    - Eighty-one (81) instances where employees had annual leave hours, but no pay rate or liability was included in the schedule.
    - Two (2) instances where the employee’s pay rate in the schedule did not agree with the pay rate reflected in the employee’s NOPA.
    - Forty-five (45) instances where the employees had negative leave balances, but those amounts were still included in the schedule and in the total compensated absences liability.
- We selected a sample of thirty-one employees (31) and noted six (6) instances where active employees who should have been included were omitted from the schedule.
- In several instances, employees in certain labor categories received overtime payments exceeding 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 - The Government’s reliance on manual timesheets, along with the presence of inaccurate and redundant data in the compensated absences schedule, has increased the risk of errors and misstatements in payroll and liability reporting. Issues such as incorrect pay rates, negative leave balances, missing employees, and excessive overtime payments highlight weaknesses in internal controls and data management.

Recommendation - We recommend that the Government consider the following:

- Transition the Department to the STATS timesheet system, which is currently utilized by various other agencies and departments.

- Conduct a thorough review and cleanup of the compensated absences schedule to remove redundant data and correct inaccuracies.
- 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.

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.

Person(s) Responsible: Director of Payroll.

B. Transactions with Personnel

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

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

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

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

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

Views of Responsible Officials:

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

Action Plan: The 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.

Material Weaknesses in Internal Control Over Financial Reporting

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.

Condition - During our sampling procedures of general expenses, we noted that thirty-two (32) out of two hundred seventy-one (271) general expense transactions were not recorded in the proper period.

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

Views of Responsible Officials:

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

Action Plan: Lack of monthly reconciliations at the D&A creates untimely adjustments in the system. Accordingly, the Government will:

- Require CFOs to generate Flexible Period Reports of all final balances by the 30th of the following month, which will allow D&As the opportunity to enter, release, and obtain approval for journal entries.
- Create a workflow in the ERP system for general journals to assign responsibility to CFOs for timely adjustments and to support the requirement to provide Flexible Period Reports.
- Have the DOF Accounting Operations Manager and Director of Accounting work with Tyler Technologies to evaluate options for tracking timeliness within the ERP system.

Implementation Date: Fiscal Year 2026.

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

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Material Weaknesses in Internal Control Over Financial Reporting

D. Formalize Emergency Payroll Procedures

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

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

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

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

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

Views of Responsible Officials:

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

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 should 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.

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Material Weaknesses in Internal Control Over Financial Reporting

Finding 2023-010: Bank Accounts

A. Strengthen Controls Over Bank Reconciliations

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

Condition - We noted the following:

- A substantial number of outstanding checks, some issued as far back as 1998, are still being carried on the reconciliations and were eventually reclassed to accounts payable at year-end.
- Two (2) imprest cash accounts, confirmed by the banks, were not listed in the imprest cash account report at year-end.
- The Government's bank listing did not include an account that had a balance as of September 30, 2023.
- We were unable to obtain complete documentation and formal written procedures related to the opening of nine (9) new bank accounts for the Government.
- Several accounts that had been formally closed at year-end contained adjustments or reclassification entries totaling $2.2 million in outstanding checks during the fiscal year.
- During our review of the bank reconciliation, there was insufficient documentation to confirm that the reconciliation and related journal entries had been reviewed and approved.

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

Effect or Potential Effect - These weaknesses in bank account administration and 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. Incomplete bank listings and missing documentation for account openings increase the risk of errors, omissions, or even undetected unauthorized transactions.

Recommendation - We recommend that the Government strengthen its bank account administration and cash management processes by implementing comprehensive and formalized procedures for opening, maintaining, and closing bank accounts. Regular reconciliation of all bank accounts should be performed to promptly identify and resolve outstanding checks and discrepancies. The Government should implement and consistently use a documented review and approval process for all bank reconciliations and related journal entries, including evidence of review (e.g., reviewer name/signature or electronic approval and date) retained with the reconciliation package in accordance with the record-retention policy. The Government should also ensure that complete and up-to-date documentation is maintained for all bank accounts, including accurate listings and supporting records for new account openings and closures.

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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 and account administration. This includes a comprehensive review and cleanup of outstanding checks, maintaining a centralized bank account master listing, reconciling all accounts, establishing formal procedures for account management, correcting closed 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.

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

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

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

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

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

Views of Responsible Officials:

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

Action Plan: DOF acknowledges the need to strengthen documentation and oversight of pooled cash management and fund allocations.

Material Weaknesses in Internal Control Over Financial Reporting

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.

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 2023-011: Other Post Employment Benefit Valuation

A. Actuarial Valuation

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

Condition - The Government has not performed a full actuarial valuation of OPEB in accordance with GAAP as of October 1, 2022, applicable for fiscal year 2023. The most recent full actuarial valuation was completed as of October 1, 2019.

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

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

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

Views of Responsible Officials:

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

Action Plan: The Government contracted a vendor; however, the implementation of a new system for departments and agencies to upload their census data caused delays for the qualified actuary in performing a comprehensive actuarial valuation of the OPEB plan in accordance with GAAP.

Implementation Date: Ongoing.

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

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Material Weaknesses in Internal Control Over Financial Reporting

B. Administration and Recordkeeping

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

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.

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Action Plan: The Government will 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, 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. 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.

Implementation Date: Ongoing.

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

C. Update of Mortality Tables

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

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

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

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

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

Views of Responsible Officials:

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

Action Plan: The Government will ensure that the Society of Actuaries updates the generational mortality improvement scales annually. Utilizing a more recent scale or implementing annual updates would enhance the accuracy and relevance of actuarial valuations.

Implementation Date: Ongoing.

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

Appendix A

Material Weaknesses in Internal Control Over Financial Reporting

Finding 2023-012: Accounting Standards Implementation

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

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

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, a government is required to recognize a right-to-use subscription asset-an intangible asset-and corresponding subscription liability.

Condition - The Government did not perform an assessment to analyze the impact that implementing GASB 77, GASB 87, and GASB 96 would have on its financial statements.

Cause - There is an absence of a formal process or oversight mechanism to ensure the timely assessment and analysis of the impact of new accounting standards, specifically GASB 77, GASB 87, and GASB 96 on the Government's financial statements.

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

Recommendation - We recommend that the Government conduct a comprehensive assessment to evaluate the impact of implementing GASB 77, GASB 87, and GASB 96 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.

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

Appendix A

Material Weaknesses in Internal Control Over Financial Reporting

Finding 2023-013: Irregularities related to Procurement Activities

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

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

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

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

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

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

- Invoice were dated prior to the purchase order approval date for one hundred and twelve (112) out of hundred –and ninety-eight (198) transactions.
- No evidence was available that a request for proposal (RFP) was initiated for forty-four (44) out of forty-five (45) purchase orders over the $50,000 policy threshold.
- A single individual approved multiple levels for payment remittance for forty-nine (49) out of one hundred and ninety-eight (198) transactions.

Material Weaknesses in Internal Control Over Financial Reporting

- As required by the procurement policy, no evidence was available to show that three quotes were requested and obtained prior to the awards for nineteen (19) out of twenty-four (24) purchase orders above $10,000.
- No contract was provided to verify the terms and conditions of the contract for twenty-five (25) out of thirty (30) purchase orders above $50,000.
- No evidence that a payment remittance was fully approved for seven (7) out of one hundred and ninety-eight (198) transactions.
- No documentation was available to clarify and understand purpose of transaction outside the invoice. The contract, bid, RFP information, and grants requests were not available to support compliance with procurement and/or payment policies and processes for twelve (12) out of one hundred and ninety-eight (198) transactions.
- Invoices provided do not contain the information to clarify the prices or services provided for twenty-nine (29) out of one hundred and ninety-eight (198) transactions.
- The purchase order description does not match the invoice description for nine (9) out of one hundred and ninety-eight (198) transactions.
- The amount invoiced from and paid to the vendor is greater than the amount listed on the purchase order for three (3) out one hundred and ninety-eight (198) transactions.
- The purchase of goods and/or services was not for any documented business purpose for one (1) out of one hundred and ninety-eight (198) transactions.

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

Material Weaknesses in Internal Control Over Financial Reporting

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 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.

Material Weaknesses in Internal Control Over Financial Reporting

Finding 2023-014: Procurement Regulations

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

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

Condition - We sampled and selected eighty-eight (88) purchase orders and sixty-nine (69) contract files and noted the following:

- Fifteen (15) missing purchase order (PO) numbers during sequence testing. Management explained that these PO numbers were missing in 2023 but did not provide any report or supporting details to confirm they were unused. Additionally, there is no formal procedure in place to document unused PO numbers or the reasons for their omission. Accordingly, BDO cannot conclusively verify the completeness of the PO population.
- Twelve (12) 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.
- Eight (8) purchase orders from two (2) vendor appeared to be split purchase orders where adequate supporting documentation were not available to determine if purchase order splitting occurred.
- We were unable to conclusively verify completeness of the fiscal year 2023 contract population as the GVIBUY website does not appear to be updated timely.
- Twenty-five (25) instances where executed contract files did not contain requisite documentation to provide evidence that the respective procurement met stated requirements.
- Sixteen (16) instances where adequate supporting documentation were not available to determine whether the first invoice was generated before the date of contract execution.

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

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

Material Weaknesses in Internal Control Over Financial Reporting

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

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 on GVIBUY.

Implementation Date: Fiscal Year 2026.

Person(s) Responsible: DPP management team.

Appendix B

Significant Deficiency in Internal Control Over Financial Reporting

Finding 2023-015: Information Technology (IT) Environment

<u>**User Access and Administration**</u>

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
    - Lieutenant Governor's Office
    - Department of Human Services

  Applications:

    - Timeforce
    - MUNIS
    - VIDOLA$
    - VITAX
    - ScanOptics
    - MMIS
    - Capture
    - Ventiv
    - RawData
    - CARIBS
    - VIBES

- 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 was not available to demonstrate that there is a formal change management policy on the Bureau of Internal Revenue operating system and VITAX 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 VIDOLA$ application.

Significant Deficiency in Internal Control Over Financial Reporting

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 approvals. 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 by February 28, 2026.

Implementation Date: Ongoing.

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

Appendix C

Noncompliance with Laws and Regulations

Finding 2023-016: 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 one (1) out of twelve (12) months, the collateral held at Banco Popular de Puerto Rico 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 the Government assets if a financial institution were to fail.

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

Appendix C

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 should 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.

Appendix C

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.

Appendix C

Noncompliance with Laws and Regulations

D. Compliance with Legislative Appropriation

Criteria - The Legislature of the Virgin Islands passed an Act 8920 (Bill No. 35-0380), which appropriates funds received under settlement agreements related to Estate of Jeffery E. Epstein and a settlement agreement with Leon Black for various projects and initiatives 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 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 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 of 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.

Condition - During fiscal year 2023, the Government received approximately $97.0 million under settlement agreements related to Estate of Jeffery E. Epstein and $1.45 million under Opioid Abatement settlements. 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 Fund Committee to oversee the use of monies from the fund, as required by Act 8694.

Cause - The Government does not appear to have adequate policies and procedures in place to ensure compliance with the requirement established under Act 8920 and Act 8694.

Effect or Potential Effect - The failure to comply may lead to non-compliance with legal or regulatory requirements, potentially resulting in penalties or sanctions.

Recommendation - We recommend that the Government 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 should 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.

Views of Responsible Officials:

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

Appendix C

Noncompliance with Laws and Regulations

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 2022	Current Year Status
2022-001	Year-End Close Process and Financial Deficit	Material Weakness and Modification of Audit Opinion	Repeated. Finding 2023-001
2022-002	Revenue and Receivables	Material Weakness and Modification of the Audit Opinion for Specified Transactions	Repeated. Finding 2023-002
2022-003	Grants Management	Material Weakness and Modification of the Audit Opinion for Specified Transactions	Repeated. Finding 2023-003
2022-004	Capital Assets and Related Expenditures	Material Weakness and Modification of Audit Opinion	Repeated. Finding 2023-004
2022-005	Recording of Liabilities	Material Weakness and Modification of the Audit Opinion for Specified Liabilities	Repeated. Finding 2023-005
2022-006	Management of the Medicaid Program	Material Weakness and Modification of the Audit Opinion	Repeated. Finding 2023-006
2022-007	Unemployment Insurance Trust Fund	Material Weakness and Modification of the Audit Opinion	Repeated. Finding 2023-007

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 2022	Current Year Status
2022-008	Workers Compensation Program	Material Weakness	Repeated. Finding 2023-008
2022-009	Payroll, Related Accruals, and Other Expenditures	Material Weakness and Modification of the Audit Opinion for Specified Expenditures	Repeated. Finding 2023-009
2022-010	Bank Accounts	Material Weakness	Repeated. Finding 2023-010
2022-011	Other Postemployment Benefits Obligation	Material Weakness and Modification of Audit Opinion	Repeated. Finding 2023-011
2022-012	Accounting Standards Implementation	Material Weakness and Modification of Audit Opinion	Repeated. Finding 2023-012
2022-013	Irregularities related to Procurement Activities	Material Weakness	Repeated. Finding 2023-013
2022-014	Procurement Regulations	Material Weakness	Repeated. Finding 2023-014
2022-015	Information Technology (IT) Environment	Significant Deficiency	Repeated. Finding 2023-015
2022-016	Collateral of Depository	Material Noncompliance	Repeated. Finding 2023-016 A
2022-017	Landfill Consent Decrees	Material Noncompliance	Repeated. Finding 2023-016 B
2022-018	Establishment of a Medical Malpractice Trust Fund	Material Noncompliance	Repeated. Finding 2023-016 C
2022-019	Casino Control Commission	Material Noncompliance	Corrected.