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, 2017

Government of the United States Virgin Islands

Contents

Tel: 301-354-2500
Fax: 301-354-2501
www.bdo.com

12505 Park Potomac Ave, Suite 700
Potomac, MD 20854

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Government of the United States Virgin Islands (the Government) as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the Government's basic financial statements, and have issued our report thereon dated September 30, 2019. We expressed a qualified opinion on the financial statements of the governmental activities, general fund, federal grants fund, and aggregate discretely-presented component units opinion units based on the circumstances noted in our aforementioned report. In addition, we expressed a disclaimer of opinion on the financial statements of the business type activities, unemployment insurance-enterprise fund, and aggregate remaining fund information opinion units based on the circumstances described in our aforementioned report.

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

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) to determine the 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 have not been identified. However, as described in greater detail in Appendices A and B, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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

Finding #	Nature of Finding
2017-001	Financial Position
2017-002	Accounting in the Aftermath of Disasters
2017-003	Year-End Close Process
2017-004	Revenue and Receivables
2017-005	Grants Management
2017-006	Capital Assets and Related Expenditures
2017-007	Recording of Liabilities
2017-008	Management of the Medicaid Program
2017-009	Unemployment Insurance Trust Fund
2017-010	Workers Compensation Program
2017-011	Payroll, Related Accruals, and Other Expenditures

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 deficiencies identified below and described in greater detail in Appendix B to be significant deficiencies.

Finding #	Nature of Finding
2017-012	Bank Accounts
2017-013	Information Technology Environment

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Government's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed 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
2017-014	Landfill Consent Decrees
2017-015	Establishment of a Medical Malpractice Trust Fund
2017-016	Procurement Regulations
2017-017	Casino Control Commission

The Government's Responses to Findings

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

Purpose of this Report

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

BDO USA, LLP

September 30, 2019

Appendix A

Material Weaknesses in Internal Control Over Financial Reporting

Finding 2017-001: Financial Position

The Government is in a difficult financial position based primarily on operating losses, outstanding debt, bond downgrades, and pension obligation issues. This matter has been exacerbated by the hurricanes of September 2017.

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

Deficits in Unrestricted Net Position

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

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

Views of Responsible Officials:

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

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

Implementation Date: On-going.

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

Plan Funding Considerations

Finding and Recommendation:

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

Appendix A

Material Weaknesses in Internal Control Over Financial Reporting

We noted that the Government has not funded the minimum annual required contributions (ARC) for the Retirement System and the OPEB plan for several years.

- The Government funded 25% of the minimum ARC for the Retirement System for the year ended September 30, 2017. The most recent GERS actuarial valuation report as of October 1, 2016, disclosed a net pension liability of $4.6 billion which represents a long-term obligation the Government has to fund.

- The Government is projected to fund 35% of the ARC for the OPEB plan, for the year ended September 30, 2017. As of such point in time, the actuarial accrued liability and funding status showed an unfunded accrued obligation of $1.3 billion. Because of the accumulated underfunded ARC over a number of years, the Government has amassed a net OPEB obligation of $477.0 million as reflected on the books and records.

Management may consider embarking on an advisory path to study other alternatives to ensure the minimum ARC obligations are met each year. Additionally, the Government should consider establishing an OPEB Trust Fund which would accumulate assets in order to meet the required obligations.

Views of Responsible Officials:

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

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

Implementation Date: Fiscal Year 2020

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

Government Insurance Fund

Finding and Recommendation:

We noted a financial strain (from claims) due to a mismatch from the Government's employers' premium contributions into the *Government Insurance Fund*. For the years ended September 30, 2017 and 2016, the ratio of expenditures to income has been 128% and 211%, respectively. It appears that losses since the financial crisis of 2008 have easily exceeded the premiums collected *sans* the impact of operational costs to run the Workers Compensation portion of the Fund. In order to maintain continued solvency, we recommend that management consider an evaluation of the claims adjudication and related processes (as an attempt to lower the costs) in lieu of making any increases to the likely mandated employer contribution formulas. Management may also consider embarking on an advisory path to consider some alternatives that could minimize the severity of any losses.

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

Implementation Date: Fiscal Year 2020

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

Other Post-Employment Benefits Obligation

Effective for the fiscal year ended September 30, 2018, the Government will be required to implement Statement No. 75 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

The accounting standard will require that a liability be recorded for the Government's proportionate share of the unfunded OPEB actuarial accrued obligation with an offsetting decrease to net position.

Views of Responsible Officials:

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

Action Plan: We are working with the actuary to implement this Standard; explicitly, the calculation of the net OPEB liability for the fiscal year ended September 30, 2018.

Implementation Date: Fiscal Year 2020

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

Appendix A

Material Weaknesses in Internal Control Over Financial Reporting

Finding 2017-002: Accounting in the Aftermath of Disasters

On September 6 and 19, 2017, the United States Virgin Islands were struck by two Category 5 hurricanes. The extent and severity of the storms was unprecedented and resulted in catastrophic damage to the Territory, as a whole.

Specifically impacting the finance functions, there was extensive damage of business premises, furniture and equipment, electronic servers, and various files and supporting documentation along with displacement of employees and operations.

Capital Assets Impairment Process

Finding and Recommendation:

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

- Beyond the significant buildings, motor vehicles, and infrastructure, there was lack of a coordinated inventory process to evaluate the damages suffered. These individually smaller items such as, machinery and equipment, were cumulatively significant for financial reporting purposes.

- While various damage assessment reports were performed by distinct experts hired in the aftermath of the disasters, there was a lack of coordination with the accounting team in ensuring that the reports would also be sufficient for recording impairment loss(es) on the books and records.

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

- Damage assessments were not readily matched to the asset registers due to incomplete and inaccurate descriptions in the respective registers. This resulted in additional time and effort in calculating and applying impairment to specific capital assets.

Because of the above factors, the capital assets impairment process had to be reperformed at a much later date and resulted in significant delays and adjustments during the audit process. We recommend that the Government implement a formal process whereby, annual impairment assessments are conducted, independent of the external audit.

Further, the results of periodic physical counts should be readily available for analysis by external parties and should be compared to the detailed capital asset subsidiary ledger and communicated to the Department of Finance so that necessary adjustments can be recorded.

This will help improve the tracking of assets for disposal and impairment purposes. It should also be noted that as a recipient of Federal grant funds, the Government is required to have in place an inventory management system to track items purchased with Federal funds.

Views of Responsible Officials:

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

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

Implementation Date: Immediately.

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

Formalize Emergency Payroll Procedures

Payroll processing commences with timesheets which are approved by agency heads in the STATS system (timesheet system), which then forms the basis for payroll processing at Department of Finance. It was noted that payroll processing during the last month of the fiscal year was severely impacted as result of the September 2017 hurricanes. The hurricanes resulted in a major loss of power and displacement of personnel. Employees could not attend work for days as the roads were rendered inaccessible. As a result, the recording of timesheets in the STATS system was temporarily shelved.

As a transitory relief measure, the Government instituted the "Straight 80" payroll process where all "active" employees in the employee database (ERP system) were paid for 80 hours during the last payroll. We noted the following with regard to the process:

- Management could not provide a formal documented policy regarding how the "Straight 80" payroll process would be performed along with the required subsequent reconciliations that would be necessitated (as employees were paid based on estimates).

- A reconciliation of the payroll paid based on estimated times versus what should have actually been paid after verifying with the various department heads was not performed on a timely basis. The reconciliation was only performed after the audit process commenced.

We recommend that a formal written emergency procedures manual be developed for use by the Government in case of a major disruption to operations. This manual should address the processes to be performed, the key contacts or personnel, and the reconciliations that would be required.

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 Department of Finance has a draft policy on disaster related payroll processing. We have been and continue to engage in providing information to the Division of Personnel since September 14, 2017, so that records can be kept current, in the event we have to move to another "Straight 80."

Implementation Date: Fiscal Year 2019

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

Appendix A

Material Weaknesses in Internal Control Over Financial Reporting

Finding 2017-003: Year-End Close Process

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

<u>Timeliness and Methodology of Close Process</u>

Finding and Recommendation:

- We noted a significant delay in the year-end closing process and preparation of year-end financial statements. We noted that in many cases, reconciliations were finalized during the audit process, which represents a substantial delay when compared to the Government's fiscal year-end. Therefore, detailed schedules supporting general ledger accounts did not always agree with the respective general ledger balances. Significant post-closing adjustments were provided during the audit process. Reconciliation mechanisms should be enhanced in an effort to avoid the recurrence of such errors.

- We noted that post-closing adjustments are not posted in the accounting system but are maintained in a manual excel working trial balance. Considering the volume of post-closing adjustments and the manual process of reversing year-end accruals and/or other adjustments, there is continuous opportunity where items can be missed and may not be accurately and timely captured, and therefore, increasing the potential for prior period adjustments to correct balances.

- During our review of the Government's draft financial statements, we noted inconsistencies and/or omissions with the incorporation of disclosures in the footnotes to the financial statements along with inconsistencies in the incorporation of component units' financial statements as it related to classification and reporting of account balances.

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

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

Views of Responsible Officials:

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

Action Plan: In an effort to develop reliable and timely interim and year-end financial statements, all accounts, accruals, and reconciliations will be reviewed on a quarterly basis. Any unreconciled differences will be identified and resolved, with any applicable journal entries, recorded in the financial system of the Government.

Appendix A

Material Weaknesses in Internal Control Over Financial Reporting

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

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

Implementation Date: Immediately.

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

Journal Entries

Finding and Recommendation:

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

Views of Responsible Officials:

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

Action Plan: In an effort to maintain a desirable separation of duties, management has updated the policy by implementing controls whereas, the individual that creates a journal entry will not approve or post that journal. This was only available to limited staff at the Department of Finance and the policy has been made effective immediately. We are continuing to find these rare occurrences and reach out to those employees to follow Munis and system permissions. We also have to work with Munis to see if the names generated in the entry and posting area indeed denote no separation of duties.

Implementation Date: Immediately.

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

Appendix A

Material Weaknesses in Internal Control Over Financial Reporting

Finding 2017-004: Revenue and Receivables

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

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

Reconciliation of Subsidiary Registers

Finding and Recommendation:

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

Views of Responsible Officials:

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

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

Implementation Date: Fiscal Year 2020

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

Allowance for Doubtful Accounts

Finding and Recommendation:

Adjustments to the allowances for doubtful accounts are calculated by the use of a formula that was established many years ago. This computation places a high degree of reliance on past experience and can be greatly influenced by specific large write-offs that may occur from time to time.

Material Weaknesses in Internal Control Over Financial Reporting

It is difficult to determine whether these historical formulas are properly matching bad-debt expense and tax revenue in the most appropriate manner, but it appears that the total allowances were understated. As a result, a significant adjustment was required during the audit process.

We believe that consideration should be given to re-evaluating the Government's model for establishing the allowances required to include some accounts receivable performance measures. Poor practices in this area have a direct negative impact on the Government because this affects cash flow. An updated analysis will provide management with accurate doubtful-account allowances that matches bad-debt expense with tax revenue.

Views of Responsible Officials:

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

*Action Plan***:** For purposes of interim financial reporting, the Bureau of Internal Revenue will review and implement a new formula for doubtful accounts. We will continue to look at the rare cases of this impact.

Implementation Date: Fiscal Year 2020

Person(s) Responsible: The management team of the Department of Finance, Lieutenant Governor's Office, and Bureau of Internal Revenue; specifically, the Director of Accounting and Tax Assessor and/or the Chief of Staff.

Real Property Tax

Finding and Recommendation:

- We noted six (6) sampled tax credit items for which the Government was unable to provide completed supporting documentation. Management should recognize that the potential exists for additional discrepancies.

- With respect to delinquent accounts, we noted that the property owners enter into settlement agreements with the Government which includes a fixed amount of penalties and interest. It is noted, however, that the CAVU system, continues to calculate such interest and penalties even after the actual settlement date. This has the effect of potentially inflating the calculated interest in the stand-alone CAVU system.

Views of Responsible Officials:

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

Appendix A

Material Weaknesses in Internal Control Over Financial Reporting

Action Plan: In an effort to provide adequate supporting documentations for sampled items, the Government will review, revise, and redistribute its records retention policy to departments and agencies.

Implementation Date: Fiscal Year 2020

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

Other Revenues

Finding and Recommendation:

- The Government was unable to provide readily available supporting documentation for 25% of the sampled items for charges for services and 53% of the sampled items for interest and other revenues. As a result, additional time and effort was required during the audit process to locate and/or identify alternative methodologies.

- During our procedures over stamp tax revenues, we noted four (4) sampled items for which the Government was unable to provide completed supporting documentation. Management should recognize that the potential exists for additional discrepancies.

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

Views of Responsible Officials:

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

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

Implementation Date: Fiscal Year 2020

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

Appendix A

Material Weaknesses in Internal Control Over Financial Reporting

Finding 2017-005: Grants Management

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

Control Systems Over the Schedule of Expenditures of Federal Awards

Finding and Recommendation:

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

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

- There are times when manual adjustments are made at the individual agency or departmental level, outside of the ERP system.

- In certain cases, as a result of errors in recording expenditures at the agency or departmental level, we noted that local expenditures may be included in the SEFA, as produced from the ERP system.

- We noted that there are instances, while an approval for a new grant is imminently pending and the Government is incurring start-up expenditures on said new grant program, all expenditures are coded to an existing (old) project code. Subsequently, upon the grant's approval, the Government does not revert back and reclassify the expenditures to the correct project codes.

- We noted certain block grants may be allocated to two or more grant programs at the agency or departmental level. However, this allocation may not be readily evident in the SEFA, as produced from the ERP system.

- We noted various instances where pass-through amounts had not been reflected on the SEFA.

These issues also impact the roll-forward schedule for the general ledger account entitled 'Due from Federal government.' The aforementioned methods have resulted in additional analysis and delays in order to ensure accuracy of the SEFA.

Appendix A

Material Weaknesses in Internal Control Over Financial Reporting

The following reclassification adjustments were necessitated during the annual audit process:

- Approximately $3.5 million in expenditures had not been reflected in CFDA Number 10.557, *Special Supplemental Nutrition Program for Women, Infants, and Children (WIC).*

- Approximately $185,000 in expenditures had erroneously been recorded to CFDA Number 10.555, *National School Lunch Program* but belonged to CFDA Number 10.558, *Child and Adult Care Food Program* and CFDA Number 10.560, *State Administrative Expenses for Child Nutrition.*

- Approximately $58.5 million in expenditures had not been reflected in CFDA Number 10.561, *State Administrative Matching Grants for the Supplemental Nutrition Assistance Program*. Alternatively, approximately $506,000 in expenditures had erroneously been reflected in the program.

- Approximately $622,000 in expenditures had erroneously been recorded to CFDA Number 93.600, *Head Start* but belonged to CFDA Number 10.558, *Child and Adult Care Food Program.*

- Approximately $4.6 million had been reflected as expenditures for CFDA Number 93.667, *Social Services Block Grant;* however, the majority of these funds had actually been spent for various other Federal programs.

- Approximately $300,000 had been reflected as expenditures for CFDA Number 93.778, *Medical Assistance Program*; however, these funds had actually been spent for CFDA Number 93.767, *Children's Health Insurance Program*.

- Approximately $7.6 million had not been reflected in CFDA Number 20.205, *Highway Planning and Construction*.

- Approximately $1.3 million had erroneously been reflected as expenditures in CFDA Number 97.036, *Disaster Grants – Public Assistance*.

While we noted an improvement in fiscal year 2017, communication and reconciliation mechanisms should be continued to be enhanced between the centralized Government agency which is responsible for collecting the SEFA information and each individual agency which manages Federal grant programs in an effort to avoid the recurrence of such errors and misclassifications.

Views of Responsible Officials:

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

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

Material Weaknesses in Internal Control Over Financial Reporting

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

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

Implementation Date: Immediately.

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

Federal Grants and Contributions

Finding and Recommendation:

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

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

This leads to difficulty in establishing individual balances of both receivables and deferrals from grants and contracts, may mask items that have been inactive for many years, and can cause confusion regarding the true level of activity. Additional time and effort was required during the audit process to rectify and reconcile the balances. We recommend that receivables should be tracked by the individual Government agency(ies) by performing the following:

- Maintenance of a drawdown schedule noting the expenses making up each drawdown for each Federal program and the period in which the expenses were incurred.

- A copy of each drawdown noting proper approvals should be attached in the ERP system along with the corresponding bank statement showing the receipt of funds from the Federal government.

- A listing of expenses supporting the amount drawn down should be included in the ERP system. This detail should include the invoice date and/or payroll period and check date.

Appendix A

Material Weaknesses in Internal Control Over Financial Reporting

Views of Responsible Officials:

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

Action Plan: In an effort to more accurately account for Federal receivables and related transactions, the Office of Management and Budget will collaboratively work with the Department of Finance to fully implement the Grants Management Module, per the ERP system. In addition, the Government will conduct research to examine the need for training and proper oversight, to ensure that individuals are reconciling and properly classifying federal expenditures. This could also entail outsourcing this responsibility or developing a unit to address the oversight.

Implementation Date: Fiscal Year 2020

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

Appendix A

Material Weaknesses in Internal Control Over Financial Reporting

Finding 2017-006: Capital Assets and Related Expenditures

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

Record Keeping

Finding and Recommendation:

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

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

- Four (4) items acquired in fiscal year 2017 that were above the asset capitalization threshold had not been reflected in the initial additions listing.
- Thirty-six (36) assets acquired in fiscal year 2016 were capitalized in fiscal year 2017.

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

Views of Responsible Officials:

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

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

Implementation Date: Immediately.

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

Appendix A

Material Weaknesses in Internal Control Over Financial Reporting

Reconciliation and Review of Subsidiary Registers

Finding and Recommendation:

The Government maintains a subsidiary register for the purpose of calculating depreciation for all assets. We noted recurring unresolved variances between the subsidiary ledgers and the general ledger that were adjusted during the audit process. Based on our review of the subsidiary registers, we noted the following:

- Accumulated manual input errors had been carried over into the current ERP asset registers. For instance, acquisition dates for assets initially recorded as construction in process (CIP) had not been updated to reflect the actual transfer dates upon completion of the project and thereby, resulted in excess depreciation expense.

- Subsidiary registers for buildings and infrastructure contained incomplete and inadequate descriptions which made it difficult to identify which 'parent assets' (i.e., building complex or road network) these pertained to. Moreover, subsidiary register information for infrastructure assets should be aligned to how these are being identified by the Department of Public Works (DPW) who physically oversees this asset category.

- Subsidiary registers for land contained a significant number of properties that are lumped into only few asset numbers instead of being recorded as individual properties. Some machinery and equipment that had been purchased in bulk was lumped together into one asset code and others did not contain tagging information to physically identify the items.

- Various buildings in the asset register were identified as transferred to other component units in prior years and were adjusted during the audit process. Asset transfers to/from the Government should be monitored on a timely basis and a thorough review of the asset custodians should be regularly performed to ensure that all central Government assets are properly accounted for and, as applicable, formal transfer of the title(s) has occurred.

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

Views of Responsible Officials:

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

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

Appendix A

Material Weaknesses in Internal Control Over Financial Reporting

Implementation Date: Fiscal Year 2020

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

Construction in Progress (CIP) Monitoring

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

- During our sampled procedures over the construction in progress activity, we noted the following:
    - Twenty-five (25) projects did not have a confirmed status at year-end.
    - One (1) project was transferred out to the completed assets category but was only partially completed.
    - One (1) project was confirmed to be complete but had not been closed out and transferred to the completed assets category.
    - Two (2) projects were confirmed to be terminated but had not been closed out and expensed.
    - One (1) project was confirmed to be complete and transferred out to the completed assets category but was missing supporting invoices which made up the final cost.
    - One (1) project had no identifiable project manager and the Government was not able to confirm the status of the project.
- The Government adopted the method of using the 'release of claims' date as the date the project was placed in service. However, we noted an inconsistent application of this methodology.
    - In some instances, the 'release of claims' date did not correspond with the actual date the project was placed in service. For instance, one building was completed, occupied and used by the Government during the year but the 'release of claims' had not yet been provided by the contractor.
    - In other instances, we noted that the 'release of claims' date was not known, and the date of the last invoice received on the project was utilized as an indicator of when the project was completed.

Material Weaknesses in Internal Control Over Financial Reporting

In anticipation of the increase in the number of CIP projects after fiscal year 2017 due to the hurricane restoration activity, it is imperative to maintain a good system of recording project costs accurately and timely, and monitoring project status on a consistent basis with the respective project owners.

It is critical that the Government reconciles these costs with the reports and records of the respective project managers, ensuring agreement to contract costs and capital expenditure budgets, and applying a consistent method of determining project completion and transfer to the related depreciable asset class.

Views of Responsible Officials:

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

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

Implementation Date: Immediately.

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

Capital Assets - Business-Type Activities

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

Views of Responsible Officials:

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

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

Implementation Date: Immediately.

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

Appendix A

Material Weaknesses in Internal Control Over Financial Reporting

Finding 2017-007: Recording of Liabilities

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

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

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

<u>Retroactive Pay Liability</u>

Finding and Recommendation:

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

- We noted that currently there is a $195.0 million retroactive pay liability reflected on the books and records; however, the supporting schedules can only confirm $184.0 million which, in turn, is based on an analysis of collective bargaining agreements (CBAs) from the initial retroactive pay wage Commission findings.

- Approximately 77% of the Government's employees are paid varying rates, based on different CBAs. We noted that there are several CBAs that have not been evaluated, implemented, ratified, and accrued for. We recommend that management set up a master file that summarizes the pay rate from each CBA and related factors that influence the rate. Management should then periodically review the master file and compare pay rates to the authorized rates contained in personnel files to determine that the current and effective rates in usage are appropriate.

Views of Responsible Officials:

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

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

Material Weaknesses in Internal Control Over Financial Reporting

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

Implementation Date: Fiscal Year 2020

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

Medical Malpractice Liability

Finding and Recommendation:

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

Due to a lack of controls around the Government's claims data process, it has been unable to gather and generate the proper information which is needed for an actuary to compile an estimated liability at year-end. As such, the Government's records do not permit, nor is it practical to extend audit procedures sufficiently to determine the extent by which the Business-Type Activities and the Aggregate Remaining Fund Information may have been impacted, as of and for the year ended September 30, 2017, thereby effecting the auditor's ability to opine on said opinion units. We recommend that the Government consider allocating adequate resources to properly evaluate the necessary information which can then be provided to an actuarial service provider as it facilitates the Government in calculating the year-end liability.

Views of Responsible Officials:

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

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

Implementation Date: Fiscal Year 2020

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

Appendix A

Material Weaknesses in Internal Control Over Financial Reporting

Accounts Payable

Finding and Recommendation:

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

This routine also impacts the accuracy in recordation of capital assets in that any accruals for goods and services received is not properly and timely recorded in the capital asset register, resulting in capital assets being reflected in the incorrect periods.

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

Views of Responsible Officials:

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

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

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

Implementation Date: Immediately.

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

Appendix A

Material Weaknesses in Internal Control Over Financial Reporting

Landfill Closure and Post Closure Costs Liability

Finding and Recommendation:

The Government obtains various reports with respect to its closure and post closure cost estimates for the three landfills in the U.S. Virgin Islands. The post-closure cost estimates for fiscal year 2017 for all three landfills were updated by applying an inflation rate. While updating the landfill closure and post-closure cost estimates using an inflation factor is an acceptable procedure, going forward, we recommend the Government comprehensively review all reports and calculations to ensure that assumptions included are accurate. For instance, we noted that currently, the annual closure maintenance costs are calculated based on 34 years of monitoring versus the required 30 years.

Views of Responsible Officials:

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

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

Implementation Date: Fiscal Year 2020

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

Quality of Census Data

Finding and Recommendation:

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

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

Views of Responsible Officials:

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

Appendix A

Material Weaknesses in Internal Control Over Financial Reporting

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

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

Implementation Date: Fiscal Year 2020

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

Appendix A

Material Weaknesses in Internal Control Over Financial Reporting

Finding 2017-008: Management of the Medicaid Program

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

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

Finding and Recommendation:

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

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

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

The Government's records do not permit a determination as to the sufficiency of the design and operation of key controls surrounding the environment in which the Government's Medicaid claims reside. As such, we are unable to determine how the Governmental Activities and the General Fund information may have been impacted, as of and for the year ended September 30, 2017, thereby effecting the auditor's ability to opine on said opinion units.

Views of Responsible Officials:

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

Action Plan: The Medicaid Program is presently in an active contract with a vendor who is providing the cost audits and reconciliations as required by the Federal regulations. The audits were delayed due to the passage of the hurricanes in September 2017. Presently, the auditor is wrapping up the audits inclusive of fiscal year 2017 and anticipates completion by the end of calendar year 2019.

Material Weaknesses in Internal Control Over Financial Reporting

With respect to VIBES, a contract was issued to Public Consulting Group who has now tested the implementation, verification, and validation (IV&V) as mandated by the Centers for Medicare & Medicaid Services (CMS).

Implementation Date: On-going.

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

Utilization Control and Medicaid Fraud Control Unit

Finding and Recommendation:

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

We noted that the Department does not have a MFCU in place nor does it have the necessary controls or procedures to safeguard against unnecessary utilization of care and services and to identify, investigate, and refer suspected fraud cases.

Views of Responsible Officials:

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

Action Plan: Subsequent to fiscal year-end and during 2018, the V.I. Medicaid Fraud Control Unit (MFCU) was established through a Memorandum of Understanding. The unit is located within the Department of Justice. The MFCU has Territory-wide authority to investigate and criminally prosecute (or refer for prosecution) cases of Medicaid fraud and patient abuse or neglect in residential care facilities. The MFCU may also bring civil actions to recover false Medicaid claims. The MFCU has a memorandum of understanding with the Virgin Islands Medicaid Program which describes the agencies' working relationship.

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

Implementation Date: On-going.

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

Appendix A

Material Weaknesses in Internal Control Over Financial Reporting

Finding 2017-009: Unemployment Insurance Trust Fund

Account Reconciliation Process

Finding and Recommendation:

We noted that the majority of the account reconciliations were not available during the audit process. Others contained incomplete information and/or were not in accordance with required accounting practices. As such, the Government's records do not permit, nor is it practical to extend audit procedures sufficient to determine the extent by which the Business Type Activities and Unemployment Insurance Trust Fund may have been impacted, as of and for the year ended September 30, 2017, thereby affecting the auditor's ability to opine on said opinion unit.

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

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

Views of Responsible Officials:

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

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

Implementation Date: Fiscal Year 2020

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

Appendix A

Material Weaknesses in Internal Control Over Financial Reporting

Finding 2017-010: Workers Compensation Program

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

Accuracy of the Program Loss Reserves

Finding and Recommendation:

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

We noted that, historically, the data underlying the Government's analysis is as of September 30, 2013. A delay in claims payments during the 48 months beginning October 1, 2013 and ended September 30, 2017, resulted in significantly lower paid amounts in the data valued as of September 30, 2017, compared with the prior period evaluation. As such, the Government's actuary concluded that there is no predictive value in the data as of September 30, 2017. Since loss development factors are determined based on the assumption that a percentage of the total reported losses are paid at any given point in time, the application of the paid patterns underlying the Government's loss triangles to the paid losses valued as of September 30, 2017, would have resulted in understating the ultimate values.

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

- Initiate the development of a formal document describing the processes used in computing and reporting these liabilities in the financial statements. The Government and its actuary should consider incorporating open claims and severity models in their projections.

- Provide a clear reasoning as to how the Government establishes any subjective assumptions.

- Include explicit explanations for any changes made to methodologies or programs made in the current period that were not present in the prior period valuation.

- Monitoring the accounts payables balance(s) for the major hospitals to ensure that any relevant matters are reflected in future analyses.

- For completeness, we suggest constructing a formal Risk Control Matrix and a visual flow chart relating to the valuation processes.

Appendix A

Material Weaknesses in Internal Control Over Financial Reporting

Views of Responsible Officials:

VIDOL and the Workers Compensation Administration (WCA) concur with the auditor's findings and recommendations.

Action Plan: Workers Compensation claims are handled manually; therefore, assumptions of existing claim losses are unpredictable as it takes on claim (severe injury) to change future claims costs and/or payouts as healthcare rates vary and based on the availability of funds. Projection is made based on previous year's history. VIDOL purchased the ERIC System Risk Management software.

Implementation Date: Immediately.

Person(s) Responsible: The management team of the Virgin Islands Department of Labor and Department of Finance; specifically, the WCA Director, and VIDOL IT personnel.

Appendix A

Material Weaknesses in Internal Control Over Financial Reporting

Finding 2017-011: Payroll, Related Accruals, and Other Expenditures

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

Payroll Expenditures

Finding and Recommendation:

- As a result of the ADI Time payroll system not having been backed up before the September 2017 hurricanes, the Department of Human Services was unable to provide readily available supervisor approved timesheets for the last several months of the fiscal year. Additional time and effort was required during the audit process to locate and/or identify alternative methodologies. Adequate arrangements should be made for protection of files and use of backup space.

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

- A significant understatement in the year-end payroll accrual was noted and adjusted during the audit process. We recommend that payroll reconciliations be prepared and reviewed for accuracy and completeness on a timely basis.

Furthermore, we noted that the Government's payroll registers contained various Hospital employees. It is noted that several years ago, the payroll process for Hospital employees was performed simultaneously with that of the Government's and hence, the combined registers. The Hospital now has its own payroll management process. As a result, the Government's payroll registers now contain extra employees that have zero balances when a pay-check run is performed, thereby confounding the reports unnecessarily. We recommend that management consider the need for retaining only the necessary information.

Views of Responsible Officials:

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

Action Plan: We will enhance monitoring of deactivating employees from the system and we will closely review reports for appropriate and accurate information.

Implementation Date: Fiscal Year 2020

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

Appendix A

Material Weaknesses in Internal Control Over Financial Reporting

<u>Transactions with Personnel</u>

Finding and Recommendation:

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

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

This area can receive intense scrutiny and as a best practice, we recommend the Government consider instituting a stricter monitoring process to ensure compliance with stated policies and an independent review process for executive expenses.

Views of Responsible Officials:

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

Implementation Date: Fiscal Year 2020

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

<u>Supporting Documentation for Expenditures</u>

Finding and Recommendation:

The Government's policies dictate that all expenditure items must have adequate support and resulting approvals, as maintained within its ERP system. During our sampled procedures, we identified three (3) items for which proper support for the expenditures was not readily available within the ERP system, yet the expenditures had been approved. While the supporting information was subsequently provided, in order to strengthen internal controls over disbursements, it is recommended that the Government adhere to its stated policies.

Views of Responsible Officials:

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

Material Weaknesses in Internal Control Over Financial Reporting

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

Implementation Date: On-going.

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

Appendix B

Significant Deficiencies in Internal Control Over Financial Reporting

Finding 2017-012: Bank Accounts

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

Strengthen Controls Over Bank Reconciliations

Finding and Recommendation:

During fiscal year 2017, we noted some instances where bank reconciliations were not reviewed on a timely basis and bank reconciliation variances had not been properly explained or investigated. We continue to recommend that bank reconciliations be prepared and reviewed for accuracy and completeness on a timely basis. Ideally, these reconciliations and reviews should take place on a monthly basis. Additionally, we observed the following:

- We noted a significant amount of outstanding checks, some issued as far back as 1998, which are still being carried on the reconciliations. Outstanding checks and other uncleared reconciling items that are over one year old should be investigated and removed from the bank reconciliations and the original transactions should be reversed. Research should be done periodically to eliminate large numbers of old items being carried from month to month and from year to year. As an auxiliary step, consideration should also be given to the Territory's unclaimed property laws.

- In one instance, we noted a check dated in 2018 which had been improperly included on the September 30, 2017, outstanding check list. This error resulted in a $1.3 million adjustment to cash. We recommend that management perform a more detailed review of reconciling items on the bank reconciliations to avoid large adjustments after the year-end close.

- We noted $57.0 million in checks that were printed in fiscal year 2017 but had not been mailed prior to year-end. These checks were properly reclassified to accounts payable during the audit process. It is best practice to mail checks once they have been printed to avoid confusion as to what invoices are truly outstanding. Further, checks should only be printed once there are enough funds in the account(s) to cover the requisite payment amounts.

Views of Responsible Officials:

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

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

Appendix B

Significant Deficiencies in Internal Control Over Financial Reporting

Implementation Date: Fiscal Year 2020

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

Cash Pooling and Allocation(s)

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

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

Views of Responsible Officials:

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

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

Implementation Date: Fiscal Year 2020 and 2021

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

Appendix B

Significant Deficiencies in Internal Control Over Financial Reporting

Finding 2017-013: Information Technology Environment

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

Finding and Recommendation:

We noted the following during our procedures over program change management:

- The Oracle programmer has the ability to migrate program changes into the production environment of VIDOLA$.

- Final approval to go live for the VIDOLA$ upgrade was informal in nature.

- There is an IT Consultant with administrative access to the OS/400 system, which provides the individual with update access to the production environment of the VITAX application.

We noted the following during our procedures over user access:

- The Oracle Programmer has root or administrative access to the Red Hat operating system, VIDOLA$ application, and Oracle database management system. In addition, some individuals were granted inappropriate administrative access to the Oracle database (including non-IT personnel).

- Members of the Windows domain admin. at the Bureau of Internal Revenue appear to be excessive. There are 26 total user accounts that have this domain access.

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

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

  Applications:
  - Timeforce
  - MUNIS
  - VIDOLA$
  - VITAX
  - ScanOptics
  - VIMS
  - RawData
  - CAVU
  - CAMA
  - Property Information System
  - CARIBS
  - VIBES

Significant Deficiencies in Internal Control Over Financial Reporting

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

- Administrative access rights to the Windows domain at the Bureau of Internal Revenue is provided to non-IT personnel as well as IT consultants.

- Administrative access to the Oracle Database is provided to non-IT personnel.

We noted the following with respect to operating system security:

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

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

  Applications:
    - Timeforce
    - CAVU
    - VIMS
    - VIBES
    - Property Information System
    - VIDOLA$
    - MMIS

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

Views of Responsible Officials:

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

Action Plan I: The Bureau of Internal Revenue (the Bureau) acknowledges that there are issues surrounding the IT area that must be addressed to ensure the integrity and protection of the systems. The Bureau will establish change management policies and procedures that would require formal notice of approval of changes, followed by accepted processes for the migration of changes into production.

The Bureau will research the ability to change system applications from universal administrative credentials to a user specific/rule specific credential model and establish and implement policies to prevent segregation of duties conflicts.

Action Plan II: The Virgin Islands Department of Labor (VIDOL) will adapt standards prescribed by the National Institute of Standards and Technology that directly relate to change and configuration management. As this endeavor seeks to retrain the thought process of technical and program staff to work in harmony, a project plan will need to be created and implemented.

Significant Deficiencies in Internal Control Over Financial Reporting

The change management plan will provide the timeline, milestones, resources, and framework to identify needed tasks and produce required outcomes. Data and program code integrity as well as segregation of duties are critical to the reduction of risk for the VIDOLA$ application.

VIDOL will focus on mitigating risks of fraud by ensuring that no single individual has the authority to execute program changes without checks and balances. VIDOL will implement structured program change procedures in accordance with best practices and established industry standards. Segregation of duties guidelines and policies will be included in the change management process.

VIDOL is working to create a functional test environment for the VIDOLA$ application. VIDOL is working in conjunction with the Bureau of Information Technology (BIT) to obtain the needed hardware to upgrade the production application server and leverage the same hardware to implement a test server. The project is moving forward as both agencies are working out details on hardware and related software licensing. Partnering with BIT will provide VIDOL with the ability to utilize the latest in virtualization technology to maximize all aspects of test environment snapshots, deployment procedures, cloning, and performance analysis.

Policies and guidelines will be created to govern the security of information systems related to administrative access to systems. Described in these policies will be the least level of access needed for individuals to complete needed tasks. Additionally, the root level access to the operating system will be terminated for programmers. Audit, authorization, and accountability logs will be maintained for review, action, and accountability.

Action Plan III: Policies and guidelines will be created to govern the security of information systems related to administrative users. Described in these policies will be a list of persons who should have administrative control and authority over the system. Additionally, any person with administrative access who is not entitled to, it will be removed immediately. Audit, authorization, and accountability logs will be maintained for review, action, and accountability.

Action Plan IV: Policies and guidelines will be created to govern the use of developing stronger passwords combinations.

Implementation Date: Fiscal Year 2020

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

Appendix C

Noncompliance with Laws and Regulations

Finding 2017-014: Landfill Consent Decrees

Finding and Recommendation:

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

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

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

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

Views of Responsible Officials:

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

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

Implementation Date: Fiscal Year 2020

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

Appendix C

Noncompliance with Laws and Regulations

Finding 2017-015: Establishment of a Medical Malpractice Trust Fund

Finding and Recommendation:

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

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

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

Views of Responsible Officials:

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

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

Implementation Date: Fiscal Year 2020

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

Appendix C

Noncompliance with Laws and Regulations

Finding 2017-016: Procurement Regulations

Finding and Recommendation:

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

Procurement regulations and procedures state that contract files must be maintained documenting the history of the procurement, including requisitions and solicitations. In addition, a justification letter must describe the need for a purchase, competitive prices must be obtained from other suppliers, and note the accepted delivery terms. If the intent of the justification letter is to seek approval for an exception to the Procurement Code, then that relevant section of the law must be referenced in the justification letter.

We noted two (2) instances where the contract file did not contain the requisite documentation to provide evidence that the procurement met the stated requirements. We recommend that the Government perform periodic reviews of purchase orders and contracts to ensure that regulations are being adhered to.

Views of Responsible Officials:

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

Action Plan: The Government will continue to take necessary measures to address noncompliance and perform periodic reviews of purchase orders and contracts to ensure that regulations are being adhered to by providing justification letters that meet the requirements.

Implementation Date: Fiscal Year 2020

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

Appendix C

Noncompliance with Laws and Regulations

Finding 2017-017: Casino Control Commission

Finding and Recommendation:

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

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

Views of Responsible Officials:

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

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

Implementation Date: Fiscal Year 2020

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

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 2016	Current Year Status
2016-001	Year-End Close Process	Material Weakness	Material Weakness and Modification of Audit Opinion for Lack of a Required Disclosure within the Financial Statements
2016-002	Revenue and Receivables	Material Weakness and Modification of the Audit Opinion	Material Weakness
2016-003	Grants Management	Material Weakness and Modification of the Audit Opinion for Specified Transactions	Material Weakness and Modification of the Audit Opinion for Specified Transactions
2016-004	Capital Assets and Related Expenditures	Material Weakness and Modification of the Audit Opinion	Material Weakness
2016-005	Recording of Liabilities	Material Weakness and Modification of the Audit Opinion for Specified Liabilities	Material Weakness and Modification of the Audit Opinion for Specified Liabilities
2016-006	Management of the Medicaid Program	Partially Corrected; Material Weakness and Modification of the Audit Opinion	Material Weakness and Modification of the Audit Opinion
2016-007	Unemployment Insurance Trust Fund	Material Weakness and Modification of the Audit Opinion	Material Weakness and Modification of the Audit Opinion
2016-008	Workers Compensation Program	Material Weakness	Material Weakness
2016-009	Pension Plan Obligations	Material Weakness	Material Weakness
2016-010	Bank Accounts	Partially Corrected; Significant Deficiency	Significant Deficiency

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 2016	Current Year Status
2016-011	Payroll, Related Accruals, and Other Expenditures	Significant Deficiency	Material Weakness
2016-012	Information Technology Environment	Significant Deficiency	Significant Deficiency
2016-013	Landfill Consent Decrees	Material Noncompliance	Material Noncompliance
2016-014	Establishment of a Medical Malpractice Trust Fund	Material Noncompliance	Material Noncompliance
2016-015	Procurement Regulations	Material Noncompliance	Material Noncompliance