GOVERNMENT OF THE UNITED STATES VIRGIN ISLANDS
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OFFICE OF THE VIRGIN ISLANDS INSPECTOR GENERAL
Fiscal Year 2016 Budget Proposal

INTRODUCTION

Good afternoon Senator Clifford Graham, Chairman of the Committee on Finance, members of the Committee, other members of the 31st Legislature, staff of the Legislature, ladies and gentlemen. My name is Steven van Beverhoudt, and I am the Virgin Islands Inspector General. With me this afternoon is Ms. Delia Thomas, Deputy Virgin Islands Inspector General. We are here today to provide an overview of the proposed Fiscal Year 2016 Budget for the operations of the Office of the Virgin Islands Inspector General (VI Inspector General's Office) and to answer any questions that you might have.

First I will give you a summary of our activities to date for Fiscal Year 2015, and then I will discuss our budget request for Fiscal Year 2016.

STATE OF THE VI INSPECTOR GENERAL'S OFFICE

In the second quarter of Fiscal Year 2015, a new administration was sworn into office, beginning the fifth administration under which I have served as the

Virgin Islands Inspector General. I must say that to date, Governor Mapp has been very supportive of the VI Inspector General's Office. He has instructed the Office of Management and Budget (OMB) not to cut our funding for Fiscal Year 2015, and to maintain our same funding level for Fiscal Year 2016. He has supported our request to fill the four vacant positions, for which final approval from the Division of Personnel and OMB has recently been received. Governor Mapp is working with us to address salary concerns of the VI Inspector General's Office staff as we attempt to reduce the constant flow of highly qualified professionals from the VI Inspector General's Office to higher paying positions within and outside of the Government.

At the operational level, the Administration has on several occasions supported findings reported by us in our audit and inspection reports. In particular, at a recent press conference Governor Mapp supported our findings as they related to the Tax Incentive Program of the Economic Development Authority. We are working with Lieutenant Governor Potter in resolving the issues surrounding our inspection report on real property auctions, and I recently met with Commissioner-nominee Robles from the Department of Agriculture to discuss our audit report on the leasing of farmland on St. Croix.

It is refreshing to have the support of an administration as together we work for the betterment of the people of the Virgin Islands. I know that I speak for the staff of the VI Inspector General's Office, when I say that it is gratifying and encouraging in having the support of the Chief Executive after spending many months of working and reporting on these various audits and inspections. It is our desire that this positive relationship continues throughout the tenure of the Administration.

As you know, the VI Inspector General's Office is **the only Government audit agency** permanently located in the Virgin Islands. The various Federal Inspectors General offices are focusing their efforts on the spending of Federal funds for their respective agencies. With a total Government budget in excess of $1 billion, the majority of which is local funds, we are the only entity with the responsibility of audit oversight over the three branches of the Government including the many departments, agencies, and autonomous and semi-autonomous instrumentalities.

Currently there are 18 budgeted positions, of which 14 are filled in both the St. Thomas/St. John and St. Croix districts. As previously indicated, we recently received authorization to fill our four vacant positions (two in the St. Croix District and two in the St. Thomas/St. John District). We hope to post the vacancies shortly to begin the recruitment process. We will be filling the auditor positions at the entry level in the hope of recruiting individuals who can be trained both formally and with on-the-job training. Our organizational chart is attached as an exhibit on page 17 of this document.

Regarding the audit and inspection aspect of our operations, our 2015 Audit Plan is attached on page 18 of this presentation. Although our resources have not increased to date, we have continued the trend that we started in Fiscal Year 2014 to do audits and inspections that have more of an impact on the Government and deal with issues that affect the daily lives of the people of the Virgin Islands.

To date, the following audits and inspections have either been completed or are progressing through various phases of the audit and inspection process:

- ✓ **Audit of the Economic Development Program Administered by the Economic Development Authority**
  - ➢ The objectives of the audit were to determine whether (i) policies and procedures were in place to measure, assess and evaluate the economic impact of the Economic Development Program on the Territory, and (ii) the Economic Development Authority (EDA) administered the Economic Development Program in accordance with the Code and approved rules and regulations.

- We found that although the EDA had a positive impact in promoting the growth, development, and diversification of the Territory's economy, there was need for improvements in its administration of the Economic Development Program. Specifically, we found that the EDA (i) does not have a mechanism in place to require the timely measurement, assessment and reporting of the overall economic and fiscal impact of the Economic Development Program on the Territory's economy, (ii) does not promote higher levels of participation by certain business types found to have a relatively low economic and fiscal impact on the Territory, (iii) recommended changes to the tax benefits law that have created a potential "business welfare" program by providing beneficiaries with 100% benefits for as much as 40 to 50 years, (iv) used rules and regulations that contradicted the Code regarding extension of benefits, (v) in extending benefits, granted full benefits to beneficiaries not eligible to receive them at that level under the law, (vi) granted extension of benefits in numbers and durations in excess of what was allowed under the law, (vii) performed infrequent compliance reviews, (viii) did not effectively ensure that beneficiaries complied with reporting requirements, (ix) did not always promptly inform regulatory agencies of changes in the certificate statuses of beneficiaries, (x) did not consistently adhere to the time requirements for the various phases of the application process, (xi) did not adequately monitor the collection of information needed to process applications for economic development benefits, and (xii) did not always process applications in an organized and systematic manner.

- That report was issued in final in January of this year, and each senator was sent a copy. The report can be accessed from our website at viig.org.

✓ **Inspection of the Alternative Investment Program Administered by the Government Employees Retirement System**

- The objective of the inspection was to determine whether the investment practices used by the Government Employees Retirement System (GERS) under the non-traditional methods were authorized by the Code, secured and monitored to reduce GERS's exposure to risk.
- There are several significant findings as a result of this inspection regarding the Alternative Investment Program as administered by the GERS. On July 1, 2014, based on our concerns from the preliminary

findings of the inspection, we issued an alert memorandum to the GERS Board recommending that a moratorium be implemented regarding further activities of the Alternative Investment Program. A copy of the memorandum was provided to each member of the Board, the Administrator of GERS, the Governor of the Virgin Islands and each member of the 30th Legislature. I can provide a copy of the memorandum to any member of the 31st Legislature if requested.

- ➢ A preliminary draft report is currently under my review and revision, and the preliminary draft report should be issued to the administration of the GERS shortly for their review.

- ✓ **Audit of the Inventory Controls for Selected School Nutrition Programs at the Department of Education**
  - ➢ The audit objectives were to determine if the Department of Education, (i) administered its inventory systems for the School Nutrition Programs in accordance with established criteria and best practices, and (ii) had controls in place to effectively safeguard and monitor nutrition program inventories.
  - ➢ Like the GERS Alternative Investment Program inspection, there are significant findings, and these issues can seriously affect the

Government's Federal reimbursements in the various School Nutrition Programs.

- ➢ A draft report is currently under supervisory review and revision, and should be provided to the administration of Education shortly for their review.

✓ **Audit of Selected School Nutrition Program Claims and Reimbursements Procedures at the Department of Education**

- ➢ This audit is the second part of our review of selected School Nutrition Programs.
- ➢ The objectives of the audit is to assess whether the School Food Authority had sufficient internal controls and monitoring procedures to ensure that the meal counting and claiming process adhered to USDA requirements.
- ➢ We have just completed the risk assessment. We are now in the process of preparing the audit program, to begin the fieldwork.

✓ **Audit of the Public Finance Authority**

- ➢ This audit is a joint project between the VI Inspector General's Office and the Office of Inspector General for the Department of the Interior.

- The objective of the audit is to determine whether the Public Finance Authority managed its operations, bond proceeds, and other income effectively and in accordance with established laws, rules, and regulations.
- The field work phase is currently ongoing and should be completed by the end of August.
- We hope to have a final report released by the end of this calendar year or very early in 2016.

✓ **Inspection of the Professional Services Contract between the Government of the Virgin Islands and the Law Offices of John K. Dema, P. C.**

- This inspection was initiated at the request of Governor Mapp, based on invoices submitted for expenses claimed by the law firm representing the Government in the litigation and settlement for damages resulting from the contamination by third parties of the natural resources near and located in the South Shore Industrial Area, located in South-Central St. Croix.

- ➢ The objective of the inspection is to determine if the amounts claimed are allowable, allocable, and reasonable charges to the professional service contract.
- ➢ We are in the process of reviewing the supporting documentation submitted by the contractor. The support consists of nearly 5,000 documents.

✓ **Inspection of the Disposition of Funds Collected During the Real Property Auctions Held in 2012 and 2013**

- ➢ As a result of our September 2014 inspection of real property auctions, we found the need to review the dispositions of funds collected, deposited and returned to the various bidders and original property owners.
- ➢ The objective of the inspection is to determine if the funds collected during the real property auctions were properly distributed in accordance with the provisions of the Virgin Islands Code.
- ➢ We are in the fieldwork phase of this inspection, and we hope to complete it within the next two months. We anticipate a report to be issued by the end of the calendar year or early in 2016.

Reports and memorandums issued in Fiscal Year 2014 and to date in Fiscal Year 2015 have identified in excess of $169 million of potential savings or funds that could have been put to better use. The implementation of the recommendations made in the EDA report could eventually result in significant revenues to the Territory.

In January of 2015, with the assistance of the USDA Graduate School and funded by the Department of the Interior, we began the process of revising our Auditor's Manual. A consultant from Seattle, Washington spent a week with us rewriting and updating our Manual. Although periodic Audit Policy Memorandums have been issued over the years, the Manual has not had a major revision since its creation in 1992. The basic Manual has been prepared, however, it still needs review and some adjusting before it can be finalized. We also need to incorporate procedures for the use of the electronic audit management system that was recently purchased.

We successfully completed our required quality control peer review in April of 2015. Although there were a few minor deficiencies noted, the reviewer concluded that "…the quality control system for the auditing practice of VIIG in effect for the year ended September 30, 2014 was adequately designed and complied with during the year then ended to provide VIIG with reasonable assurance of conforming with applicable professional standards, in all material respects." A copy of the review was submitted to the Governor, each Senator and is available on our website. I have also attached a copy of the review to this presentation beginning on page 19.

In May of this year we acquired, installed and received training in the electronic audit management system called AutoAudits. It is a Windows-based system that will basically automate the entire audit process for the VI Inspector General's Office. We have started the transition to the new system with a recently started audit assignment, making changes and revisions to the database as we go along to meet our needs and requirements. We hope to fully transition to AutoAudits before the end of Fiscal Year 2016. Once completed, the entire audit process to include work paper preparation, indexing, referencing, and supervisory review and approval will be done electronically. In addition, our offices on St. Croix and St. Thomas will be able to go through the entire audit cycle electronically without sending a single piece of paper between the islands.

Once we have completed the transition of the audit process, we plan to make the necessary adjustments to setup a similar case management system for the investigative unit of the VI Inspector General's Office.

In the area of investigations, during Fiscal Year 2015, we continue to serve a very active role in the Federal Public Corruption Task Force of the United States Attorney's Office. In that regard, the former executive director of the Legislature was convicted earlier this fiscal year by a Federal jury on four of the six counts of bribery and extortion for which he was charged, and was recently sentenced to five years in prison by a District Court Judge. On a local level, several investigations are also ongoing, and although we do not comment on our investigative activities, we are actively pursuing some significant allegations and leads developed from prior audits and inspections. The still ongoing local prosecution of the former executives of the Schneider Hospital is now scheduled for later this year. In February of 2015, the wife of the former Chief Executive Officer of the Schneider Hospital pled guilty to one count of accessory after the fact and was recently sentenced to three years in prison by a Superior Court Judge. A total of $421,000 in funds and assets were secured as a result of this case.

In Fiscal Year 2014 we received 23 complaints about possible fraud, waste or abuse in the Government and through June 30, 2015 an additional 18 complaints were received. As is common throughout the profession, a majority of the complaints either lack sufficient information to corroborate the claims, or they were resolved administratively.

In the area of training, again I would like to thank Governor Mapp for his foresight in seeing the need for professional training and interaction with our peers outside of the territory. This past June, for the first time in almost eight years, we were able to meet our annual continued professional education (CPE) requirements by attending the 26th Annual Association of Certified Fraud Examiners Global Fraud Conference in Baltimore. The conference in addition to providing formal training allowed networking opportunities with fellow auditors and investigators from throughout the country and the world.

2016 BUDGET

The 2016 Executive Budget, like the budget that was passed for Fiscal Year 2015, totals $2,000,000. Considering the Governments financial issues, we are not requesting any additional funding Fiscal Year 2016. We have attached, as an exhibit to this presentation on page 22, the proposed distribution of the 2016 funds. We do hope that this level of funding is approved and like Fiscal Year 2015, all of the funds are allotted. As of June 30, 2015, we spent or obligated a little over $999,000 or 49.96% of the Fiscal Year 2015 appropriation. The following are our comments relating to each prime account of the Fiscal Year 2016 proposed spending plan.

Personal Services and Fringe Benefits. Our budget proposal provides for 18 positions. Four of which are currently vacant, but we hope to have them filled before the start of Fiscal Year 2016. The total proposed funding level for personnel and related services is $1,619,628, or $1,154,381 and $465,247 for Personal Services and Fringe Benefits respectively.

Personal Services	**$1,154,381**
Fringe Benefits	**465,247**
	$1,619,628

As previously stated, currently there are four vacant positions within the VI Inspector General's Office, two in the St. Croix District and two in the St. Thomas/St. John District. Having recently received approval to fill the positions, we hope to be fully staffed to our approved level of 18 employees by the beginning of the 2016 Fiscal Year. Also, as previously stated, the proposed funding level for Fiscal Year 2016 includes funds for salary adjustments for the staff of the agency.

Capital Outlays. We are requesting $100,000 in Capital Outlays, in order to update our computers territory-wide. The last update of our computers was in Fiscal Year 2002. With the rapid enhancements in technology, our computers are outdated and very slow, often times resulting in very frustrating delays in accessing and opening files.

Capital Outlays	**$100,000**

Supplies. Budgeted supplies costs for Fiscal Year 2016 are estimated at $60,000.

Supplies	**$60,000**

Other Services. Budgeted other services costs for Fiscal Year 2016 are estimated at $175,372.

Other Services	**$175,372**

Utility Services. Finally, our utilities costs for Fiscal Year 2016 are estimated at $45,000.

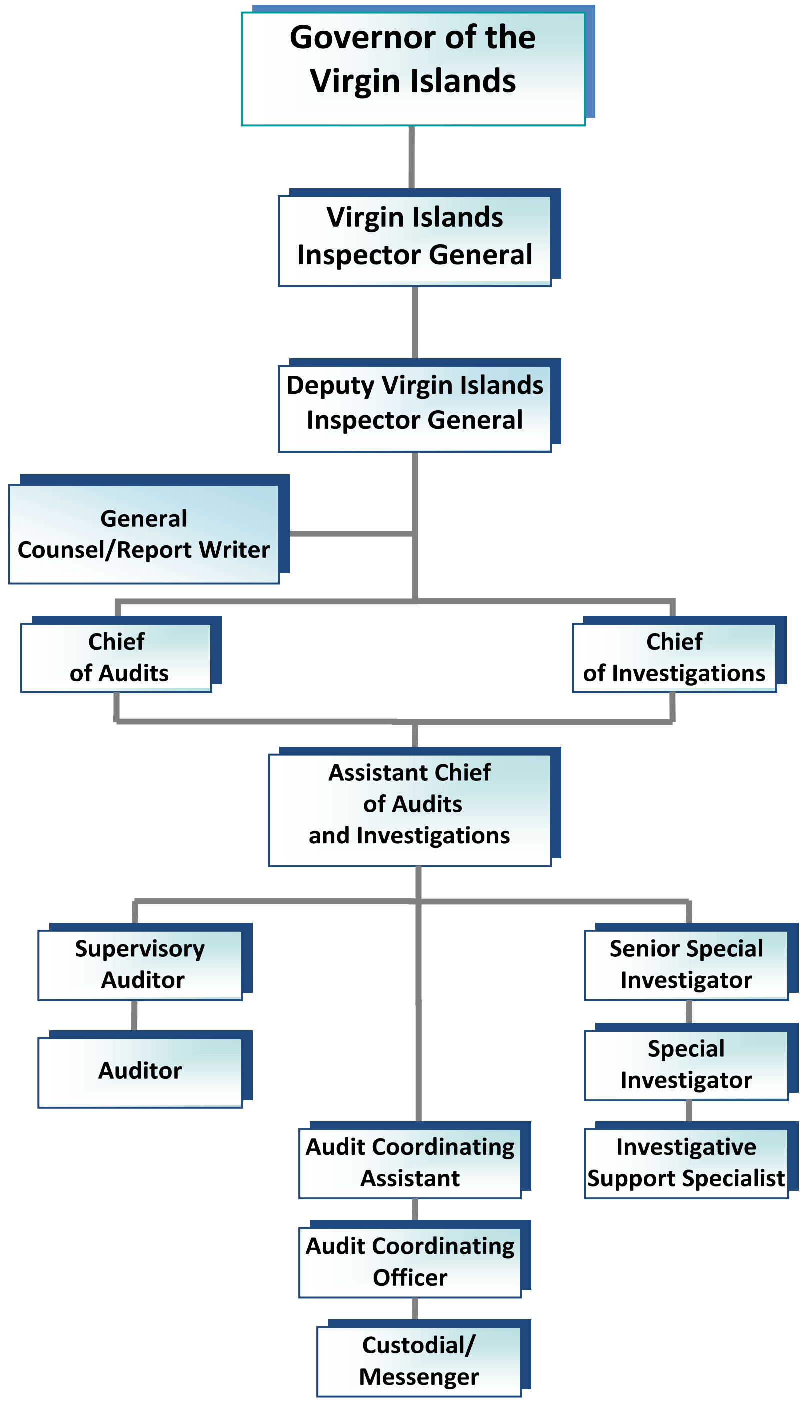
Utility Services	**$45,000**

SUMMARY

In summary, the VI Inspector General's Office continues to do the best we can with the resources provided. We have an excellent and professional group of employees who are committed to do all that is possible to help the Government to be effective and efficient in carrying out its responsibilities for the people of the Virgin Islands. Can we use more funds, hire more auditors and investigators? Sure we can; however, in view of the state of the economy and the Government, we are not requesting additional funding at this time. Our only request is that the level of funding be maintained and allotted at the Fiscal Year 2015 level of $2,000,000.

We thank you for the opportunity to be here today, and we are available to answer any questions that you might have.

**OFFICE OF THE
VIRGIN ISLANDS INSPECTOR GENERAL
ORGANIZATIONAL STRUCTURE**



ANNUAL AUDIT PLAN SUMMARY

OFFICE OF THE VIRGIN ISLAND INSPECTOR GENERAL

FISCAL YEAR 2015

	Staff Days
RESOURCED AUDITS	
Fiscal Year 2014 Carryover	
Audit of the Economic Development Commission at the VI Economic Development Authority	120
Inspection of the Alternative Investment Program of the Government Employees Retirement System	270
Audit of the Controls over the Department of Education's School Lunch Program	400
Audit of the Public Finance Authority (Joint Project OVIIG/OIG-DOI)	400
	1190
Fiscal Year 2015 New Starts	
Audit of the Child Nutrition Programs Claims and Reimbursement Controls	400
Audit of the Administrative Functions of the Government Employees Retirement System	360
Audit of the Construction of the Charles W. Turnbull Library	340
Audit of Government-wide Travel Practices	360
	1460
Other	
Special Assignments and Technical Assistance	30
Assistance to Investigations	90
Audit Recommendations Follow-up	20
Audit Work Plans	30
	170
Total Resourced Man-days	2820
UNRESOURCED AUDITS	
Audit of the Administrative Functions of the Governor Juan Luis Hospital	360
Government-wide Use of Professional Service Contracts	360
Administrative Functions of the Licensing Division of Licensing and Consumer Affairs	300
Government-wide Contracting Practices	300
Administrative Functions of the Tax Assessor's Office of the Office of the Lt. Governor	300
Administrative Functions of the Corporate Division, Office of the Lt. Governor	300
Administrative Functions of the Permits Division of Planning and Natural Resources	300
Government-wide Vehicle Purchase and Control Program	325
Government-wide Petty Cash and Imprest Accounts	300
Contracting Practices of the UVI Research and Technology Park	250
Government-wide Grant Administration	350
Waste Management Authority Administration and Performance	360
Total Un-resourced Man-days	5605

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April 10, 2015

Mr. Steven van Beverhoudt, Inspector General
Office of the U.S. Virgin Islands Inspector General
2315 Kronprindens Gade No. 75
St. Thomas, USVI 00802-6468

Dear Mr. van Beverhoudt:

I have reviewed the quality control system for the auditing practices of The Office of the U.S. Virgin Islands Inspector General (VIIG) in effect for the year ended September 30, 2014. My review was conducted in conformity with standards for external peer reviews established by the 2011 Revision to Government Auditing Standards, issued by the Comptroller General of the United States. I tested compliance with VIIG's quality control policies and procedures to the extent considered appropriate. These tests included a review of a selected Government Auditing Standards auditing engagement performed in accordance with the standards for performance audits contained therein.

In performing my review, I have given consideration to the quality control standards contained in Government Auditing Standards. Those standards indicate that the nature, extent, and formality of an audit organization's quality control system will vary based on the audit organization's circumstances, such as the audit organization's size, number of offices and geographic dispersion, the knowledge and experience of its personnel, the nature and complexity of its audit work, and cost-benefit considerations. They state that an audit organization's quality control system encompasses the audit organization's leadership, emphasis on performing high quality work, and the organization's policies and procedures designed to provide reasonable assurance of complying with professional standards and applicable legal and regulatory requirements.

In my opinion, the quality control system for the auditing practices of VIIG in effect for the year ended September 30, 2014 was adequately designed and complied with during the year then ended to provide VIIG with reasonable assurance of conforming with applicable professional standards, in all material respects. Audit organizations can receive a rating of *pass*, *pass with deficiencies*, or *fail*. VIIG has received a peer review rating of *pass with deficiencies*.

As part of this review, I have also issued a separate letter of comments dated April 10, 2015 for your consideration.

Paul H. Koehler, CPA

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April 10, 2015

Mr. Steven van Beverhoudt, Inspector General
Office of the U.S. Virgin Islands Inspector General
2315 Kronprindens Gade No. 75
St. Thomas, USVI 00802-6468

Dear Mr. van Beverhoudt:

I have reviewed the internal quality control system for the auditing practices of The Office of the U.S. Virgin Islands Inspector General (VIIG) in effect for the year ended September 30, 2014 and have issued my report thereon dated April 10, 2015. This letter should be read in conjunction with that report.

My review was for the purpose of reporting upon VIIG's internal quality control system and its compliance with that system. My review was conducted in conformity with standards established by the 2011 Revision to Government Auditing Standards; however, my review would not necessarily disclose all weaknesses in the system or all instances of noncompliance with it because my review was based on selective tests.

There are inherent limitations that should be recognized in considering the potential effectiveness of any internal quality control system. In the performance of most control procedures, departures can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personal factors. Projection of any evaluation of an internal quality control system to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate. As a result of my review, I have the following comments:

Finding – The 2011 GAS para. 7.30 presumptively requires specific wording be used in the audit report to indicate the audit was performed in accordance with GAGAS. This wording is also included in VIIG Policy Memo No. 10 dated February 10, 2012. However, several key words and phrases were omitted from the audit report issued January 10, 2015 that was the subject of this peer review.

Recommendation – VIIG should use the prescribed GAS wording and follow its own policy memo regarding such wording. Re-emphasize the importance of following applicable GAS requirements and policy memos to all auditors and reviewers to help ensure GAGAS compliance.

Finding – The 2011 GAS para. 6.08 and 6.10 define the term audit objectives and indicate that methodologies and audit procedures are to address the audit objectives. Although the reviewed engagement's audit report cited two objectives, the report identified methodologies and recommendations that addressed other non-cited objectives.

Recommendation – VIIG audit teams should carefully and completely document and report the audit objectives that drive the audit methodologies and procedures, revising them and expanding them as needed, especially for lengthy, multi-year audit engagements like the one that was the subject of this peer review. Doing so will help ensure the efficiency and effectiveness of VIIG audits, and enable users of VIIG audit reports to better understand the objectives and results of these audits.

Finding – GAS requires an audit organization's quality control system to include procedures for monitoring its design and operation, with analysis and summarization of monitoring procedure results at least annually. As of September 30, 2014, the VIIG Quality Control Manual (Auditor's Manual), written in 1991, contained procedures for monitoring compliance with GAS under Auditor's Manual Policy Memorandum No. 8 dated February 9, 2009. However, no such monitoring procedures had been performed through September 30, 2014. It should be noted that as of April 10, 2015 a new VIIG Auditor's Manual is being finalized. The omission of monitoring procedures was also noted in the last three peer review comment letters.

Recommendation – VIIG should comply with its Auditor's Manual to perform (or contract for) procedures for monitoring the design and operation of its quality control procedures, and summarize the results of these monitoring procedures at least annually in accordance with 2011 GAS 3.95. Monitoring of VIIG's work will help ensure high quality audit services are provided to the citizens of the U.S. Virgin Islands.

The foregoing matters were considered in determining my opinion set forth in my report dated April 10, 2015 and this letter does not change that report. These matters were discussed with responsible VIIG officials, and they agreed with all findings.

Paul H. Koehler, CPA

OFFICE OF THE VI INSPECTOR GENERAL
FISCAL YEAR 2016
Proposed Spending Plan

PERSONNEL SERVICES	
CLASSIFIED EMPLOYEE SALARIES	$ 743,181
UNCLASSIFIED EMPL. SALARIES	411,200
ALL OTHER	
SUB-TOTAL	$ 1,154,381
CAPITAL OUTLAYS	
MACHINIERY & EQUIPMENT	$ 100,000
ALL OTHER	
SUB-TOTAL	$ 100,000
FRINGE BENEFITS	
EMPLOYER CONTR. RETIREMENT	$ 236,647
F.I.C.A.	71,572
MEDICARE	16,739
HEALTH INSURANCE PREMIUM	139,699
WORKERS COMP. PREMIUMS	590
ALL OTHER	
SUB-TOTAL	$ 465,247
SUPPLIES	
OFFICE SUPPLIES	$ 10,000
OPERATING SUPPLIES	10,000
REPAIR AND MAINTENANCE SUPPLIES	5,000
SMALL TOOLS/MINOR EQUIPMENT	5,000
DATA PROCESSING SOFTWARE	25,000
PROFESSIONAL REFERENCE BOOKS	5,000
ALL OTHER	
SUB-TOTAL	$ 60,000
OTHER SERVICES & CHARGES	
PROFESSIONAL SERVICES	$ 10,000
COMMUNICATION	30,000
TRAVEL	20,000
TRANSPORTATION - NOT TRAVEL	5,372
AUTOMOTIVE REPAIRS AND MAINTENANCE	10,000
REPAIRS AND MAINTENANCE	45,000
RENTAL- LAND/BUILDING	20,000
RENTAL - MACHINES/EQUIPMENT	5,000
TRAINING	30,000
ALL OTHER	
SUB-TOTAL	$ 175,372
UTILITY SERVICES	
ELECTRICITY	$ 40,000
WATER	5,000
SUB-TOTAL	$ 45,000
TOTAL EXPENSES	$ 2,000,000