GOVERNMENT OF THE UNITED STATES VIRGIN ISLANDS
OFFICE OF THE V. I. INSPECTOR GENERAL
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OFFICE OF THE VIRGIN ISLANDS INSPECTOR GENERAL
Fiscal Year 2020 Budget Proposal

INTRODUCTION

Good morning Senator Kurt Vialet, Chairman of the Committee on Finance, members of the Committee, other members of the 33rd Legislature, staff of the Legislature, ladies and gentlemen in the viewing and listening audience. I am Steven van Beverhoudt, the Virgin Islands Inspector General. With me this morning is Ms. Delia Thomas, Deputy Virgin Islands Inspector General. We are here today to provide an overview of the proposed Fiscal Year 2020 Budget for the operations of the Office of the Virgin Islands Inspector General (V. I. Inspector General's Office) and to answer any questions that you might have.

STATE OF THE V. I. INSPECTOR GENERAL'S OFFICE

Title 3, Chapter 40 of the Virgin Islands Code, establishes the V. I. Inspector General's Office as the independent auditing arm of the Government of the Virgin Islands (Government). The Code gives the V. I. Inspector General's Office the responsibility of auditing and investigating all three branches of the Government, including the autonomous and semi-autonomous instrumentalities. We are the only

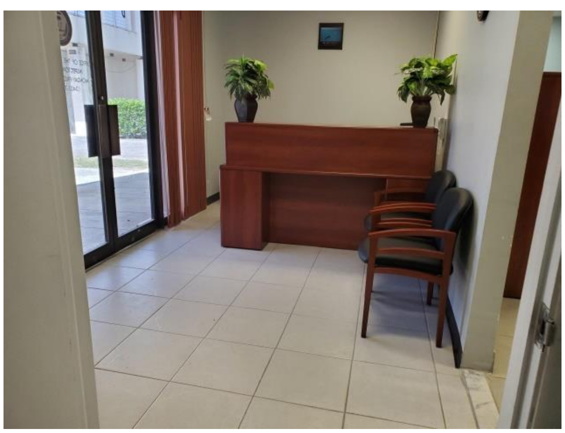
Government, local or Federal, auditing arm permanently situated in the Virgin Islands.

Our mission is "to promote economy, efficiency and effectiveness, and to further the prevention of fraud, waste and abuse in the administration of the programs and operations of the Government of the Virgin Islands."

Fiscal Year 2018 was a re-grouping and re-building year for the Virgin Islands, and this mode was no different for the V. I. Inspector General's Office. The re-grouping and re-building has continued into Fiscal Year 2019.

I am pleased to report that structurally, the repairs to our building on St. Thomas is 99.9% completed and our office on St. Croix has been completely refurnished. Below are some recent photos of our improvements.

<u>St. Croix Office</u>



St. Thomas Office

Currently there are 18 filled positions within the organization, and all employees are at their correct salary level. We are in the process of filling our six vacant auditor positions. In fact, we have selected two candidates so far, one has started to work on Tuesday and the second is scheduled to report on September 16th. We will continue our scrutiny of prospective applicants in order to make the best choices possible to join our organization. In Fiscal Year 2020 we are requesting authorization to fill the position of General Counsel, as we have no attorney within the V. I. Inspector General's Office at this time. Our organizational chart can be found on page 14 of this document.

We have eight Certified Fraud Examiners and six members with Master's Degrees. An additional employee is working on her Master's Degree, as well as one of our newly hired employees. We continue to encourage the continued education and professional development of our staff.

Regarding the audit and inspection aspect of our operations, our 2019 Annual Audit Plan Summary can be found on page 15. There are four new projects that were started in Fiscal Year 2019. They are: (i) audit of contract administration at the Virgin Islands Waste Management Authority; (ii) audit of contract administration at the Governor Juan Luis Hospital; (iii) inspection of the use of GERS loan proceeds to the V. I. Finest Foods/West Bay Supermarket project; and, (iv) inspection of the Government procedures used to notify GERS of retirees providing services to the Government. Also, as can be seen in our 2019 Audit Plan, we hope to, at some point, do some audits involving some complex issues that will require specialized auditors, thus our request for funding for contract services in Fiscal Year 2020.

We continue to make ourselves available to provide assistance to Federal auditors regarding activities they plan on conducting in the Virgin Islands.

In Fiscal Year 2019 to date, the following audits and inspections have either been completed or are progressing through various phases of the audit and inspection process:

- ✓ **Follow-up Review on 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 was to determine: (i) if the Lieutenant Governor’s Office correctly paid property owners the net proceeds generated from sold properties; and, (ii) if the Lieutenant Governor’s Office deducted and accounted for the taxes and public sewer system user fees, penalties and costs as prescribed by the Title 33, Section 2547 (c) of the Code.
    - ➢ A final report was issued on October 5, 2018, and can be seen on our website, viig.org.

- ✓ **Audit of Executive Branch Credit Cards and Lines of Credit Practices and Procedures**
    - ➢ The objective was to review the policies and procedures, and evaluate the internal controls relative to credit instruments utilized by the Executive Branch.
    - ➢ The official draft report was sent to the Commissioners of Finance and Property and Procurement. Their responses were due by last Friday, however, extensions have been granted to Monday, September 9th. The final report will be issued shortly after the receipt of the responses.
- ✓ **Audit of the Selected Administrative Functions of the Virgin Islands Board of Education**
    - ➢ The objective was to determine whether the V. I. Board of Education carried out selected administrative functions over retirement matters, financial controls and contract administration in accordance with established laws, policies and procedures, rules and regulations.
    - ➢ The initial scope of the audit covered fiscal years 2013 through 2016.
    - ➢ A draft report is being reviewed and revised by me, and we hope to have our exit conference in next few weeks, with a final report issued before the end of the year.

- ✓ **Audit of Contract Administration at the Virgin Islands Waste Management Authority**
  - ➢ The objective of the audit is to determine whether the Virgin Islands Waste Management Authority is complying with laws, rules and regulations, and sound procurement practices in its contract administration.
  - ➢ The scope covers fiscal years 2017 through 2019.
  - ➢ We are currently completing our risk assessment to determine the areas with greatest risk in order to focus our audit work.
- ✓ **Audit of Contract Administration at the Governor Juan F. Luis Hospital**
  - ➢ The objective of the audit is to determine whether the Governor Juan F. Luis Hospital is complying with laws, rules and regulations, and sound procurement practices in its contract administration.
  - ➢ The scope covers fiscal years 2017 through 2019.
  - ➢ We are completing the risk assessment to determine the areas with greatest risk in order to focus our audit work.

- ✓ **Inspection of Government Controls on the Re-employment of Government Employees**
    - ➢ The objective of the inspection is to determine the controls in place by the Government to identify when a retiree returns to active service.
    - ➢ We have completed significant analysis of Executive Branch procedures and are currently assessing procedures for the other branches and the autonomous and semiautonomous agencies.
- ✓ **Inspection of the Use of GERS Loan Proceeds for the VI Finest Foods/West Bay Supermarket Project**
    - ➢ The objective of the inspection is to determine whether the loan proceeds were used for the intended purposes in accordance with the loan agreement.
    - ➢ We have recently received numerous documents related to the project and are currently reviewing them.
- ✓ **Audit of Revolving Fund Accounts Administered by the Department of Agriculture**
    - ➢ The audit has been initiated based on a request submitted by the current Commissioner of the Department of Agriculture.

- This project is in the preliminary stage and objectives are being developed based on the requests of the Commissioner.

The required Quality Control Peer Review, which is an assessment of our compliance with the required Government Accountability Office standards, was completed in this fiscal year. There were some minor areas where improvements were needed, and they are being addressed. In particular, we are updating our auditor's manual and finalizing our investigator's manual in accordance with professional standards. A copy of the Quality Control Peer Review report is attached beginning on page 16.

In the area of investigations, to date in Fiscal Year 2019, our investigative report confirmed the allegation that an Office Manager of the Virgin Islands Bureau of Motor Vehicles violated procedures by inappropriately processing and approving several vehicle registrations. Again, the report can be viewed on our website, viig.org. In addition, there are several ongoing investigations that are at various levels of completion.

Based on our audit of the operations of the Virgin Islands Casino Control Commission we participated extensively with our Federal partners in conducting a criminal investigation on the apparent misappropriation of Government funds. As a result, a Federal Grand Jury handed down a 30-count indictment of the former

Chairperson and a contractor. As with all allegations of wrongdoing, those charged are considered innocent as the case moves through the judicial process.

Once again, the local prosecution of the former executives of the Schneider Regional Medical Center has been delayed until October 2019. In the meantime, a considerable amount of time is being used to prepare for the case.

To date, in Fiscal Year 2019, we have received 22 complaints alleging wrong doing by Government officials. Of the total, there were 19 allegations of wrong doings on St. Thomas, and 3 allegations of wrong doing on St. Croix. Many of the complaints lacked sufficient information, were resolved administratively, or were matters for other departments and agencies.

Regarding training, the USDA Graduate School provided us with a two-day course in quick response auditing. In addition, in June 2019, the professional staff attended the Association of Certified Fraud Examiner's 30th Annual Global Conference in Austin, Texas.

2020 BUDGET

We support the Administration's 2020 Fiscal Year Budget recommendation of $3,003,576. This amount is $61,098, or about 2% less than the Fiscal Year 2019 revised appropriation. Fiscal Year 2019 actual expenditures through July 31, 2019 totaled $1,726,756.

The following are our comments relating to each prime account of the Fiscal Year 2020 proposed spending plan. Our Fiscal Year 2020 proposal by sub-accounts is shown on page 19.

Personnel Services and Fringe Benefits. The budget proposal provides for 17 filled positions and 6 vacant positions, for which we are currently filling and recruiting, and 1 new position, that of a General Counsel. The total proposed funding level for personnel and related services is $2,431,285, or 80.9% of the overall budget request. This amount consists of $1,793,599 and $637,686 for Personnel Services and Fringe Benefits respectively.

Personnel Services	**$1,793,599**
Fringe Benefits	**637,686**
	$2,431,285

Supplies. Budgeted supplies costs for Fiscal Year 2020 are estimated at $50,000 or 1.7% of the overall request.

Supplies	**$50,000**

Other Services. Budgeted other services costs for Fiscal Year 2020 are estimated at $422,291, or 14% of the budget request. The majority of the increase relates to professional services. As was previously discussed, we hope to start some audits involving complex issues in 2020.

Other Services	**$422,291**

Utility Services. Our utilities costs are estimated at $50,000, or 1.7% of the Fiscal Year 2020 budget request.

Utility Services **$50,000**

Capital Outlays. Finally, the budget requests $50,000 in capital outlays for computers for the new staff that we are in the process of hiring. This amounts to 1.7% of the budget request.

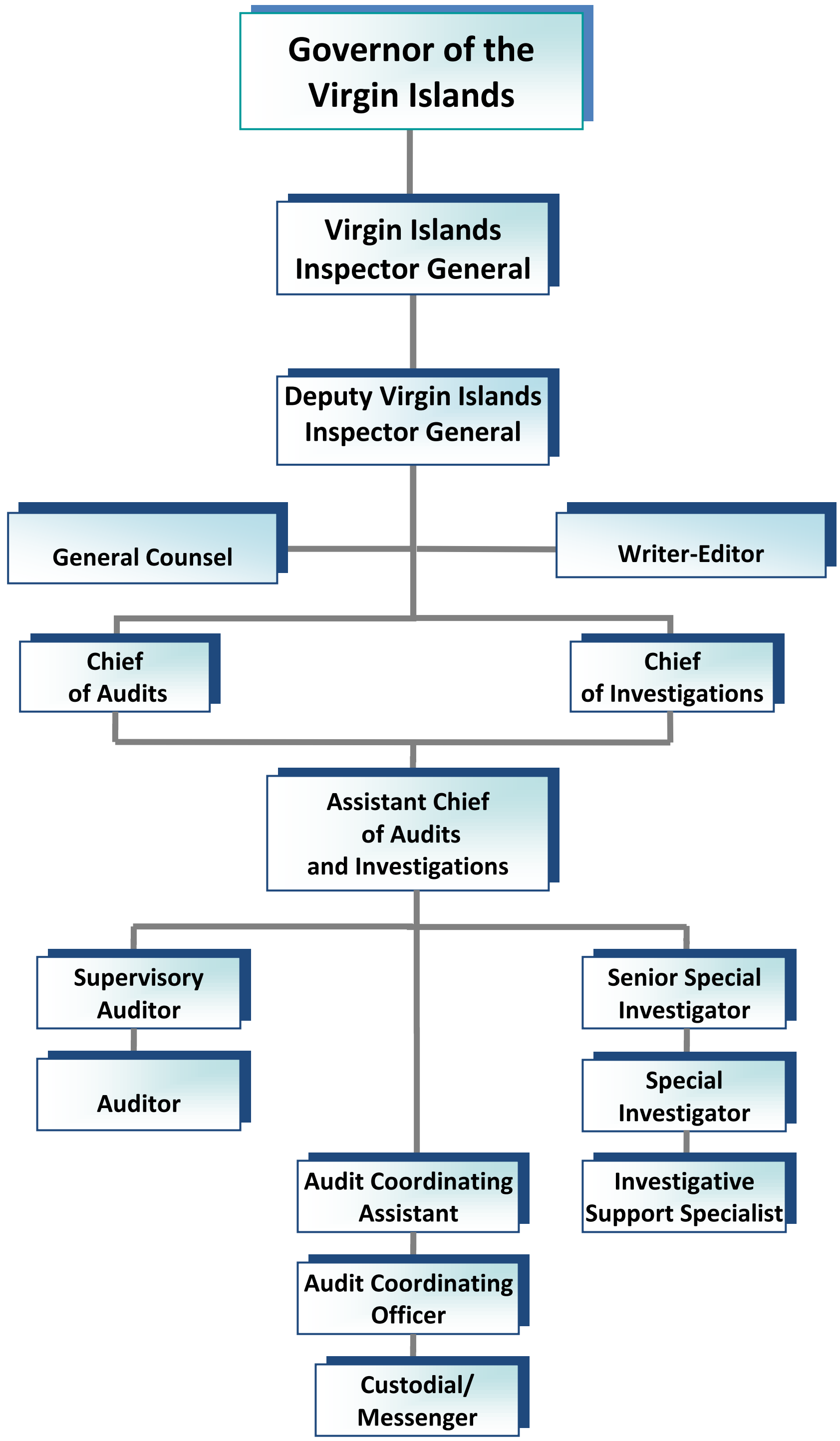
Capital Outlay **$50,000**

SUMMARY

In summary, with a new administration, new agency heads will continue to request audit services. As the only permanent Government audit presence in the Virgin Islands, the need for oversight of Government funds will always be there. We therefore ask for your full support of the recommended Fiscal Year 2020 Budget of $3,003,576.

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 2019

	Staff Days
RESOURCED AUDITS	
Fiscal Year 2018 Carryover	
Follow-up Inspection on Property Tax Auctions	50
Audit of the Administrative Functions of the Board of Education	240
Audit of the Executive Branch's Use of Credit Instruments	240
	530
Fiscal Year 2019 New Starts	
Audit of Contract Administration at the VI Waste Management Authority	540
Audit of Contract Administration at the Governor Juan F. Luis Hospital	540
Follow-up Audit of Controls Over Petty Cash and Impress Accounts	300
Inspection of Procedures to Control Reemployment of Retired Government Employees	240
Inspection of the Use of Loan Proceeds from the Government Employees Retirement System	240
	1,860
Other	
Special Assignments and Technical Assistance	60
Assistance to Investigations	90
Audit Recommendations Follow-up	30
Audit Work Plans	30
	210
Total Resourced Man-days	2,600
UNRESOURCED AUDITS	
Audit of the Contract Converting WAPA's Fuel Usage to Propane Gas	420
Audit of the Administrative Functions of the Government Employees Retirement System	420
Audit of the Cost/Benefits of the Government's Enterprise Resource Planning System (ERP)	420
Audit of the Cost/Benefits of the Third Party Fiduciary for the Department of Education	420
Contracting Practices of the UVI Research and Technology Park	250
Audit of Government-wide Travel Practices	420
Audit of the Construction of the Charles W. Turnbull Library	340
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
Non- Executive Branch Use of Credit Instruments	300
Government-wide Grant Administration	350
Total Un-resourced Man-days	5,525

Paul H. Koehler
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February 6, 2019

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, 2017. 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, 2017 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 February 6, 2019 for your consideration.

Paul H. Koehler, CPA

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February 6, 2019

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, 2017 and have issued my report thereon dated February 6, 2019. 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. 6.30-32 presumptively require the following procedures be performed regarding identification of fraud:

- Assess the risk of significant fraud
- Discuss fraud risks among audit team members
- Design procedures to detect likely significant fraud when fraud is identified
- Extend audit steps, when significant fraud may have occurred. This would include the need to document auditor judgments about the magnitude of any likely fraud and decisions regarding reporting thereof (2011 GAS para. 7.21,22)

Recommendation – VIIG should follow all GAS requirements regarding fraud. Re-emphasize the importance of following applicable GAS requirements, along with appropriate documentation thereof, 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 related to compliance and effectiveness, the report identified methodologies, conclusions, and recommendations that addressed other non-cited objectives, including efficiency. A similar finding was presented in the prior peer review comment letter.

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 para. 3.94 – 3.95 presumptively 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, 2017, 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, 2017. It should be noted that as of February 6, 2019 a new VIIG Auditor's Manual is being planned. The omission of monitoring procedures was also noted in the last four 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.

Finding – Para. 2.16 of GAS unconditionally requires the auditor to document their justification for departure from any relevant presumptive audit standards and how the alternative procedures performed in the circumstances were sufficient to achieve the intent of those standards. However, through the date of this report, there was no such documentation regarding monitoring procedures (GAS 3.94 & 3.95), see above, and timely peer review (GAS 3.96), originally due in April, 2018.

Recommendation – VIIG should document in accordance with GAS para. 2.16 all requirements related to departures from relevant presumptively mandatory audit standards.

The foregoing matters were considered in determining my opinion set forth in my report dated February 6, 2019 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 INSPECTOR GENERAL

1 PERSONNEL SERVICES		
0035-0001	511000 REG EMPLOYEE SALARIES CLAS	$1,095,519
0035-0001	511010 REG EMPLOYEE SALARIES UNCL	$598,080
0035-0001	514030 LUMP SUM PAYMENTS	$100,000
TOTAL PERSONNEL SERVICES		**$1,793,599**
2 FRINGE BENEFITS		
0035-0002	520010 EMPLOYER CONTRIBUTION RETI	$313,331
0035-0002	521000 F.I.C.A.	$111,203
0035-0002	521100 MEDICARE	$26,007
0035-0002	522000 HEALTH INSURANCE PREMIUM	$186,429
0035-0002	522200 WORKERS COMP PREMIUMS	$716
TOTAL FRINGE BENEFITS		**$637,686**
3 SUPPLIES		
0035-0003	541000 OFFICE SUPPLIES	$10,000
0035-0003	541100 OPERATING SUPPLIES	$10,000
0035-0003	542000 REPAIR & MAINTENANCE SUP.	$5,000
0035-0003	546000 DATA PROCESSING SOFTWARE	$20,000
0035-0003	566100 REFERENCE BOOKS	$5,000
TOTAL SUPPLIES		**$50,000**
4 OTHER SERVICES		
0035-0004	532000 REPAIRS AND MAINTENANCE	$40,000
0035-0004	532100 AUTOMOTIVE REPAIR & MAINTENANCE	$8,000
0035-0004	533000 RENTAL OF LAND/BUILDINGS	$20,000
0035-0004	533020 RENTAL OF MACHINES/EQUIPMENT	$5,000
0035-0004	534000 PROFESSIONAL SERVICES	$225,000
0035-0004	534100 SECURITY SERVICES	$5,000
0035-0004	534110 TRAINING	$40,000
0035-0004	535000 COMMUNICATION	$45,000
0035-0004	536000 TRANSPORTATION - NOT TRAVEL	$291
0035-0004	560000 TRAVEL	$25,000
0035-0004	560100 PURCHASE BULK AIRLINE TICKET	$9,000
TOTAL OTHER SERVICES		**$422,291**
5 UTILITIES		
0035-0005	530000 ELECTRICITY	$40,000
0035-0005	531010 WATER	$10,000
TOTAL UTILITIES		**$50,000**
7 CAPITAL OUTLAYS		
0035-0007	575400 CAP COMPTUER & HARDWARE	$50,000
TOTAL CAPITAL OUTLAYS		**$50,000**
TOTAL BUDGET		**$3,003,576**