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THE VIRGIN ISLANDS COMPANY

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MR. AIKEN, from the Committee on Expenditures in the Executive Departments, submitted the following

REPORT

FOREWORD

The Committee on Expenditures in the Executive Departments has received an audit report prepared by the General Accounting Office showing the financial condition of the Virgin Islands Company for the fiscal year ending June 30, 1946. The audit report has been reviewed by the committee and it was observed that the accounting records are poorly maintained, inaccurate and, therefore, not used for management purposes.

PURPOSE AND CONDITION OF VIRGIN ISLANDS COMPANY

The Virgin Islands Company was incorporated in 1934 by a local ordnance of the Colonial Council for St. Thomas and St. John, Virgin Islands, for the purpose of aiding in the economic rehabilitation of the Virgin Islands. The Company functions as an instrument of the Department of the Interior in operating sugarcane plantations, a sugar mill, a rum distillery, employees' housing, rural electrification project, and various other related activities on the island of St. Croix. The properties operated by the company, with the exception of the rural electrification project, are owned by the United States Government. They are operated by the Company under what is, in effect, a lease agreement with the Government. The cost of these properties are not recorded on the books except for improvements and capital additions which have been charged against operating income. The depreciated value of these properties on June 30, 1946, was $1,655,059 and the net operating loss for that fiscal year was $97,776. However, since depreciation on fixed assets was not recorded, it is apparent that the operating loss is understated. Some of the properties acquired by the Company were transferred from the Public Works Administration while other properties were procured by use of relief grants authorized by the Federal Emergency Relief Administration. The economy of the island of St. Croix is geared entirely to the growing of sugarcane and because of droughts, hurricanes, low yields, lack of marketing facilities, and improper management, the Company has lost money every year except during the war years of 1944 and 1945. Since the formation of the Company the total loss from all operating divisions, including the rural electric division, aggregated $456,325, which has been charged against relief grants. In view of the need for continued Federal aid and the belief that subsidized work is better than the dole or relief, the following recommendations and comments are submitted for consideration:

GAO RECOMMENDATIONS AND COMMENTS OF THE COMMITTEE

1. GAO recommendation: The Department of the Interior should obtain competent managerial personnel to replace the President and Vice President who severed their connections with the Company during the General Accounting Office audit.

Officials of the Department of the Interior advised that the position of President was filled during the early part of November. The position of Vice President is still vacant. In the meantime, the work formerly performed by the Vice President has been transferred to other officials.

Committee recommendations: No recommendations by the committee.

2. GAO recommendation: The United States Treasury should own the capital stock although the executive direction may continue to be in the Department of the Interior. The Treasury should be authorized by Congress to subscribe for stock to cover permanent requirements for both fixed and working capital.

3. GAO recommendation: The Company should be authorized to borrow funds from the United States Treasury for temporary working capital purposes.

4. GAO recommendation: The organic statute should provide, as in the case of the Commodity Credit Corporation, that the Treasury, subject to appropriation of funds therefor, shall be required to reimburse the Company annually for any operating losses. Similarly, the Company should be required, by law, to deposit annually into the Treasury any net income from operations.

5. GAO recommendation: Consideration should be given to the Company's owning all of the properties operated by it, including the rural electric project, although it might not have power to sell the properties except by superior approval. Depreciation on the property should be required to be provided in determining net operating income or loss.

Committee recommendation: The recommendations contained in items 2, 3, 4, and 5, in which the committee concurs, are included in S. 1183 introduced during the first session of the Eightieth Congress. It is believed and strongly recommended that depreciation and all operating costs be promptly evaluated and recorded in the accounting records for more effective determination of profit and loss.

6. GAO recommendation: The Company should not be required to make payments in lieu of property taxes and income taxes to the local municipal treasuries.

Committee recommendation: The committee feels that consideration should be given to eliminating such payments as are in lieu of income taxes, because of: (*a*) The nonprofit nature of the Corporation, and (*b*) the unpredictable sugar crop which materially affects the profit or loss position of the Company.

Section 11 of S. 1183 does not relieve the Company of income taxes, but requires it to make annual payments into the municipal treasuries of the Virgin Islands as required by section 5 of the act of May 26, 1936 (49 Stat. 1372). In view of the fact that the Company was originally formed to create employment and rehabilitate the island of St. Croix, it is therefore recommended that section 11 be deleted in its entirety.

7. GAO recommendation: The proposed bill does not state specifically that the new Corporation is to assume the liabilities of the Virgin Islands Company or what disposition should be made of the relief funds or operating profits for fiscal years 1944 and 1945, which is due the United States Treasury.

Committee recommendation: The committee feels that specific provision should be made in the bill to permit the Company to retain all relief funds now on hand and to use the unexpended balance as working capital. The Corporation should assume all liabilities of the Virgin Islands Company and pay off such liabilities from relief, operating revenues, and capital borrowed from the United States Treasury.

8. GAO recommendation: The proposed Federal charter should authorize enlargement of the activities of the Company and should provide for increased capitalization therefor. Enlargement of activities would result in the Corporation's incurring expenses of a somewhat speculative nature such as those necessary to encourage research and experimentation, develop resources, enlist private investments, encourage and develop tourist trade, provide transportation facilities, and make loans for various other purposes.

Committee recommendation: Recognizing that both development and rehabilitation of the island's economic resources are the only alternatives to charitable support of their people and conceding the merit of the view expressed by the Secretary of the Interior that the islands "possess resources sufficient to make them self-supporting and that objective can be achieved through the establishment of the proposed Corporation," a grant of authority sufficiently broad to insure that opportunities will be availed of toward that end appears to be justified.

However, the committee feels that in view of the speculative nature of some of these ventures and the low standard of living that prevails on the island, the proposed legislation should be more specific as to what portion or percentage of the income may be used for each venture during any fiscal year.

The committee recommends: That provision be made to limit the amount to be loaned under section 4, subsections (a) to (f), inclusive, to 10 percent of the Corporation's net income.

That subsection (g) should be changed to require each person, partnership, corporation, or group of individuals applying for a loan, be required to furnish adequate security. That the interest on such loans shall not exceed 6 percent per annum.

9. GAO recommendation: Consideration should be given to obtaining insurance on the Company's property operated under the agreement with the Secretary of the Interior.

Committee recommendation: The Government's practice of self-insurance has been assumed by the Company to prohibit the carrying of adequate insurance on its own properties or any insurance whatever on those operated under the agreement with the Secretary of the Interior.

The Company has an insurable interest in all of these facilities and it is authorized to obtain adequate insurance protection in accordance with two decisions of the Comptroller General (B-41682, May 31, 1944, and 21 Comp. Gen. 928). In view of the foregoing, the committee concurs with the recommendations of the General Accounting Office and believes that adequate insurance should be carried on all properties owned or operated by the Company.

10. GAO recommendation: All employees having access to cash or checks should be bonded to protect the company against loss or embezzlement.

Committee recommendation: The committee concurs in the recommendation of the General Accounting Office. However, it is further recommended that the organic statute be amended to authorize the Company to pay the premium on bonds required of employees entrusted with cash or the distribution of checks.

11. GAO recommendation: In connection with the miscellaneous activities of the Company, it is recommended that the expenses or maintenance of employees' houses be subject to more control, and consideration be given to increasing the rental rates. The livestock program should be expanded or abandoned and consideration be given to leasing the St. Croix market and cold-storage plant to private operators.

Committee recommendation: Better control should be established over the employees housing project and the rental rates should be increased to correspond to similar quarters in the area. It is also felt that the livestock program and the St. Thomas market and cold-storage plant should be leased to private operators and no attempt be made to continue these projects in their present form under the new Corporation.

12. GAO recommendation: The Company should take necessary action to recover title to 427.084 acres of land acquired by the War Department under Public Land Order 170 and 213.72 acres acquired by the same Department under Executive Order 8511.

Committee recommendation: This property should be acquired by the Company as soon as it is declared surplus and immediately thereafter the land should be converted to sugarcane production or some other purpose relating to the Company's operations.

RURAL ELECTRIC DIVISION

The rural electric division is one of the major operating units of the Virgin Islands Company. This division was established in 1942 and financed entirely by funds borrowed from the Rural Electrification Administration. The division has a generating plant and approximately 55 miles of power lines. The Company proposes to borrow $157,000 from the REA for extension of rural distribution lines and expansion of the power plant.

A close inspection of the proposal indicates that repayment of the loan is very doubtful. Our findings are summarized under the following headings:

Economic conditions in the islands

1. According to REA's own economic report, "The island's economy depends principally on sugarcane, and this crop is hazardous due to rainfall and low yields per acre." The economic report goes on to say, "The municipality of St. Thomas and St. John is usually self-supporting, while the municipality of St. Croix requires annual deficit appropriations from the Congress of the United States."

2. The allotment packet shows that 67 percent of the farms are from 3 to 9 acres in size, and 17 percent are from 10 to 19 acres. It is to be presumed that the latter class constitutes the largest farms on the island, otherwise, mention of the larger farms would have been made. This surely represents a small crop area from which to derive sufficient revenue to pay the large electric bills expected of the 145 farm members.

3. Farm revenue is greatly affected by hurricanes, drought, and high export duties.

4. No satisfactory statements have been procured either from the allotment packet or from anyone representing REA concerning the factors which most vitally affect project pay-out. No one appears to know about the type of people who will be served by the project; no studies of farm revenue have been presented to us; 80 percent of the members eventually to be connected will be of the "drop cord" variety, using a bare minimum of electricity; and no evidence has been shown to prove that the economic condition of the inhabitants of the island will improve and that their revenue-producing activities can or will be enlarged.

In the ordinary American project, all these factors can be ascertained with a reasonable degree of accuracy. In the proposed project, we find vague references to a proposed tourist trade, but there is no evidence to support the contention that business will be derived from this source.

Poor management of the project

1. The last operating report of REA shows that the project was without a manager during 1946. This is a poor way to conduct one's business, and it is difficult to understand why REA would permit this condition to continue for so long a time. To this deficiency may perhaps be attributed some of the shortcomings of the project.

2. The allotment folder indicates that accounts receivable amount to $8,663. This is one-third of the annual revenue and represents very poor collection efforts—or it represents an inability of the people on the Island to pay their electric bills. In this connection, it may be noted that the audit report shows a reserve for bad debt losses of $2,161. This is 25 percent of the accounts receivable, which is an unheard of reserve. Normal reserves will show a figure of one-half of 1 percent to 1 percent.

The line loss of 43 percent is a staggering figure and means that the project is not receiving revenue for nearly one-half of all the electricity it generates. We have been told that this is not a true line loss, and that it may be attributed to unmetered use of electricity. If this latter statement is true, it indicates bad management; if it is not true, it indicates something is radically wrong with the system.

Present operating condition of the project

1. The audit report of the Comptroller General shows an annual deficit of $8,500 before charges for interest and principal. The enterprise has accrued deficits from 1942 to 1947 which total $67,565. This adequately summarizes the present operating condition.

2. The project has not operated and has not paid out as the original REA allotment papers promised it would. The present project is not and never could be self-liquidating, and it is astonishing that REA, with such a fine record in the continental United States, could make such an error of judgment.

3. The allotment folder shows that 1,159 members would have to be connected to the original project to make it pay out. About 500 have been connected, which indicates that the rest must not be able to pay for electricity.

The proposed project

1. It is estimated that the number of farms connected will rise from 45 at the present time to 145 with the addition of the new project. Nowhere are figures given which show the total number of these "farms" along the lines, so no one can challenge the figure. This item is confusing, if not actually misleading. The same may be said for the number of all other types of users to be added to the lines. One cannot help but feel that the number of members estimated to be connected is the result of mere guesswork.

2. Most American projects, under favorable conditions and with dint of much load building, have been able to raise their monthly consumption to somewhere in the neighborhood of 100 kilowatt-hours per month. Yet, the consumption of these poor farms on a barren, drought-ridden island is estimated at 250 kilowatt-hours per month. It is further estimated that the "drop cord" customers will double their present consumption.

No information at all is given to show how the commercial and small power users will increase in number from 28 to 35, and the large power users from 15 to 20.

The figures used on membership and consumption are severely questioned.

3. The one bright spot in a picture which is otherwise black is that of the sale of surplus power to the municipalities. We are told, however, that the change-over from DC to AC will require from 3 to 5 years. It is possible that this will further throw the feasibility figures off balance.

Committee recommendations

(*a*) That no funds be loaned to the Virgin Islands Company for expansion of the rural electric division.

(*b*) That funds be appropriated to the Department of the Interior to repay the REA loan in its entirety, with interest, and that the project, thereafter, be operated as a Government subsidy.

GENERAL RECOMMENDATIONS

It is the considered opinion of the committee that the Virgin Islands Company should be incorporated under the Government Corporation Control Act of 1945. However, in addition to the recommendations contained in the audit report, the following suggestions are made for consideration in connection with S. 1183:

(*a*) Section 3: Provision should be made for the Corporation to pay the premiums on all bonds required of employees handling cash or salary payments.

(*b*) Section 4, subsection (f): Provision should be made to limit the amount to be loaned under sections (a), (b), (c), (d), (e), and (f), to 10 percent of the net income of the Corporation in any single year.

(*c*) Section 4, subsection (g): Provide that each person, partnership, corporation, or group of individuals applying for a loan be required to furnish necessary security which is acceptable to the Virgin Island Corporation, and that the interest on such loans shall not exceed 6 percent per annum.

(*d*) Section 11: Delete this section from the bill. This will relieve the Corporation from paying taxes to the local municipal government.

(*e*) The profits made during 1944 and 1945, totaling $443,729, which amount is due and unpaid to the United States Treasury, should be retained for payment of outstanding obligations and, if any funds remain, such amount shall be used as working capital.

(*f*) That funds be appropriated to the Department of the Interior to repay the REA loan in its entirety, with interest, and that the project, thereafter, be operated as a Government subsidy.

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