Government of the United States Virgin Islands

Management's Discussion and Analysis, Financial Statements (with Independent Auditor's Report Thereon) and Required Supplementary Information

Year Ended September 30, 2018

The report accompanying these financial statements was issued by BDO USA, LLP, a Delaware limited liability partnership and the U.S. member of BDO International Limited, a UK company limited by guarantee.

Government of the
United States Virgin Islands

Management's Discussion and Analysis,
Financial Statements (With Independent Auditor's
Report Thereon) and Required Supplementary Information
Year Ended September 30, 2018

Government of the United States Virgin Islands

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying 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, 2018, and the related notes to the financial statements, which collectively comprise the Government's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements.

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the following funds and/or component units:

- 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), and the Virgin Islands Housing Finance Authority (VIHFA), discretely-presented component units, which collectively represent 28.9%, (64.1%), and 35.5%, respectively, of the assets, net position (deficit), and revenues of the Aggregate Discretely-Presented Component Units.

- The Virgin Islands Lottery (V.I. Lottery), a nonmajor enterprise fund, which represents 1.1% and 6.4%, respectively, of the assets and revenues of the Aggregate Remaining Fund Information, and 11.0% and 22.9%, respectively, of the assets and revenues of the Business-Type Activities.

- Government Employees' Retirement System of the U.S. Virgin Islands (GERS), a fiduciary component unit (pension trust fund), which represents 71.0%, 85.4%, and 62.5%, respectively, of the assets, net position/fund balance, and revenues/additions of the Aggregate Remaining Fund Information.

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Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for the activities, funds, and component units indicated above, are based solely on the reports of other auditors.

We conducted our audit 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the Business-Type Activities, Unemployment Insurance-Enterprise Fund, and the Aggregate Remaining Fund Information.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Except for the matters described in the Basis for Disclaimer of Opinion on the Business-Type Activities, Unemployment Insurance-Enterprise Fund, and the Aggregate Remaining Fund Information paragraphs, we believe that the audit evidence we and other auditors have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Summary of Opinions

Opinion Unit	Type of Opinion
Governmental Activities	Qualified
Business-Type Activities	Disclaimer
General Fund	Qualified
Debt Service Fund	Unmodified
Capital Projects Fund	Unmodified
Federal Grants Fund	Qualified
The West Indian Company Limited-Enterprise Fund	Unmodified
Unemployment Insurance-Enterprise Fund	Disclaimer
viNGN, INC.-Enterprise Fund	Unmodified
Aggregate Remaining Fund Information	Disclaimer
Aggregate Discretely Presented Component Units	Qualified

Basis for Qualified Opinion on Governmental Activities

The Government did not maintain the requisite documentation to support its accrued retroactive liability as of and for the year ended September 30, 2018. As such, we are unable to determine whether adjustments were required in the Governmental Activities.

The Government did not maintain the requisite documentation to support its interest and other revenues in the amount of $26.7 million for the year ended September 30, 2018. As such, we were unable to determine whether adjustments were required in the Governmental Activities.

The Government's notes to the basic financial statements do not include the necessary information under Governmental Accounting Standards Board, Statement No. 77, *Tax Abatement Disclosures*. In our opinion, disclosure of this information is required by accounting principles generally accepted in the United States of America.

Basis for Qualified Opinion on Governmental Activities, General Fund, and Federal Grants Fund

The Government did not maintain the requisite documentation to support its determination as to the sufficiency of the design and operation of key controls surrounding the environment in which Medicaid claims are processed. As such, we were unable to determine whether adjustments were required in the General Fund and in the Governmental Activities.

The Government did not maintain the requisite documentation to support its due from federal government and federal grants and contributions revenues in the amount of $34.7 million as of the year ended September 30, 2018. As a result, we were unable to obtain sufficient audit evidence to determine whether adjustments were required in the Federal Grants Fund and in the Governmental Activities.

Basis for Qualified Opinion on Aggregate Discretely Presented Component Units

The financial statements of the University of the Virgin Islands Research and Technology Park Corporation (RTPark), have not been audited, and we were not engaged to audit RTPark's financial statements as part of our audit of the Government's basic financial statements. RTPark's financial activities are included in the Government's basic financial statements as discretely-presented component units and represent .7%, 9.8%, and .4% of the assets, net position, and revenues, respectively, of the Aggregate Discretely Presented Component Units.

The report of other auditors on the 2018 financial statements of VIWMA, a discretely presented component unit, was qualified because VIWMA did not properly identify, classify, and record expenditures related to damages incurred as a result of the 2017 hurricanes. Accordingly, the auditors were unable to determine whether adjustments to accounts payable, grant expenditures and receivables from the Federal government, and expense classifications were required. The auditors were unable to obtain sufficient audit evidence to determine whether capital assets were fairly stated.

The report of other auditors on the 2018 financial statements of MBA, a discretely presented component unit, was qualified because MBA does not report net pension liability, other postemployment benefits (OPEB) revenue, OPEB expense, pension expense, related deferred inflows and outflows of resources, if any, the required financial statements disclosures and the required supplementary information as required by accounting principles generally accepted in the United States of America.

The Electric System of the Virgin Islands Water and Power Authority has classified a portion of its outstanding bonds and notes as long-term liabilities in its statement of net position. In our opinion, these obligations should be classified as current liabilities to conform with accounting principles generally accepted in the United States of America because at June 30, 2018, the Electric System is in default on certain covenants pertaining to its bond resolutions and the lenders may demand repayment of these obligations. If the financial statements were corrected for that departure from accounting principles generally accepted in the United States of America, total current liabilities would be increased by $251.4 million and total noncurrent liabilities would be decreased by $251.4 million as of June 30, 2018.

Qualified Opinion

In our opinion, based on our audit and the reports of other auditors, except for the effects of the matters described in the Basis for Qualified Opinion paragraphs above, the financial statements referred to above present fairly, in all material respects, the financial position of the Governmental Activities, General Fund, Federal Grants Fund, and the Aggregate Discretely Presented Component Units of the Government of the United States Virgin Islands as of September 30, 2018, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Disclaimer of Opinion on Business-Type Activities and on Aggregate Remaining Fund Information

The basic financial statements do not include a liability for medical malpractice claims in the reciprocal insurance fund (a non-major enterprise fund) and, accordingly, the Government has not recorded an expense for the current period change in that liability. The Government's records do not permit it, nor is it practical to extend our auditing procedures sufficiently to determine the extent by which the Business-Type Activities and Aggregate Remaining Fund Information as of and for the year ended September 30, 2018, may have been affected by this condition.

The Government did not maintain the requisite documentation to support its workers compensation liability of $35.9 as of and for the year ended September 30, 2018. As such, we were unable to determine whether adjustments were required in the Business-Type Activities and the Aggregate Remaining Fund Information.

The Government did not maintain the requisite documentation to support its interest and other revenues in the Business-Type Activities in the amount of $8.5 million and in the Aggregate Remaining Fund information in the amount $35.2 million for the year ended September 30, 2018. As such, we were unable to determine whether adjustments were required in the Business-Type Activities and the Aggregate Remaining Fund Information.

Basis for Disclaimer of Opinion on Unemployment Insurance-Enterprise Fund and on Business-Type Activities

The Government's records were not available or contained incomplete information. As such, the records do not permit it, nor is it practical to extend our auditing procedures sufficiently to determine the extent by which the Unemployment Insurance-Enterprise Fund and Business-Type Activities as of and for the year ended September 30, 2018, may have been affected by this condition.

Disclaimer of Opinion

Because of the significance of the matters discussed in the Basis for Disclaimer Opinion paragraphs above, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the Business-Type Activities, the Unemployment Insurance-Enterprise Fund, and on the Aggregate Remaining Fund Information of the Government of the United States Virgin Islands. Accordingly, we do not express an opinion on these financial statements.

Unmodified Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund, other than the General Fund, Federal Grants Fund, and Unemployment Insurance-Enterprise Fund of the Government of the United States Virgin Islands as of September 30, 2018, and the respective changes in financial position and, where applicable cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 15, in 2018, the Government adopted Governmental Accounting Standards Board Statement (GASB) No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. As further discussed in Note 17, certain adjustments were applied to restate beginning net position. Our opinion, based on our audit and the reports of other auditors, is not modified with respect to these matters.

The accompanying financial statements have been prepared assuming the Government will continue as a going concern. As discussed in Note 16 to the financial statements, the Government reported an unrestricted net deficit in Governmental Activities and in the General Fund that raise substantial doubt about its ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding those matters are also described in Note 16. These financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

As discussed in Note 18 to the financial statements, the Government may be adversely impacted by the outbreak of a novel strain of coronavirus, known as COVID-19, which was declared a global pandemic by the World Health Organization in March 2020. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and the schedules of changes in total OPEB liability and related ratios, net pension liability, pension contributions, and revenue and expenditures – budget and actual budgetary basis – General Fund on pages 9 through 21 and 141 through 146, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2020, on our consideration of the Government's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Government's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Government's internal control over financial reporting and compliance.

BDO USA, LLP

June 30, 2020

Management's Discussion and Analysis

Introduction

The following management's discussion and analysis presents an overview of the financial position and activities of the Government of the United States Virgin Islands (the Government) as of and for the fiscal years ended September 30, 2018 and 2017.

Government-wide Financial Statements

The government-wide financial statements are designed to present an overall picture of the financial position of the Government. These statements consist of the statement of net position and the statement of activities, which are prepared using the economic resources measurement focus and the accrual basis of accounting. This means that current year's revenues and expenses are included regardless of when cash is received or paid, producing a view of financial position and changes in financial position similar to that presented by most private-sector companies.

The statement of net position combines and consolidates the Government's current financial resources with capital assets and long-term obligations.

Both of the above-mentioned financial statements have separate sections for three different types of the Government programs or activities. These three types of activities are as follows:

> ***Governmental Activities*** – The activities in this section are mostly supported by taxes and intergovernmental revenues (federal grants). Most services normally associated with the primary government fall into this category, including general government, public safety, health, public housing and welfare, education, transportation and communication, and culture and recreation.
>
> ***Business-Type Activities*** – These functions normally are intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. These business-type activities of the Government include the operations of the: (i) the West Indian Company (WICO); (ii) the unemployment insurance program; and (iii) viNGN, Inc. dba Virgin Islands Next Generation Network (viNGN). These programs operate with minimal assistance from the governmental activities of the Government.
>
> ***Discretely Presented Component Units*** – These are operations for which the Government has financial accountability even though they have certain independent qualities as well. For the most part, these entities operate similar to private sector businesses and the business-type activities described above. The Government's discretely presented component units are presented in two categories, major and nonmajor. This separation is determined by the relative size of the entities' assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenue, and expenses in relation to the total of all component units.

Fund Financial Statements

Fund financial statements focus on the most significant (or major) funds of the Government. A fund is a separate accounting entity with a self-balancing set of accounts. The Government uses funds to keep track of sources of funding and spending related to specific activities. The Government uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

A major fund is a fund whose revenues, expenditures or expenses, assets, or liabilities (excluding extraordinary items) are at least 10.0% of the corresponding totals for all governmental or enterprise funds and at least 5.0% of the aggregate amount for all governmental and enterprise funds for the same item. The general fund is always considered a major fund. In addition to funds that meet the major fund criteria, any other governmental or enterprise fund that the Government believes is particularly important to the financial statements may be reported as a major fund.

All of the funds of the Government are divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds

Governmental funds are accounted for using the modified accrual basis of accounting, which measures cash and other assets that can be readily converted to cash. The governmental funds' statements provide a detailed short-term view of the general governmental operations and the basic services provided. The reconciliation following the fund financial statements explains the differences between the governmental activities, reported in the government-wide financial statements and the governmental funds' financial statements. The General Fund, the PFA debt service fund, the PFA capital projects fund and the Federal grants fund are reported as major governmental funds.

The General Fund is the Government's primary operating fund. It accounts for all financial resources of the Government, except those required to be accounted for in another fund.

The PFA debt service fund accounts for the resources accumulated, and payments made, for principal and interest on long-term general obligation debt issued by the Virgin Islands Public Finance Authority (PFA) on behalf of the Government.

The PFA capital projects fund accounts for bond proceeds of debt issued by the Virgin Islands Public Finance Authority on behalf of the Government. The bond proceeds have been designated for certain necessary public safety and capital development projects which are accounted for in this fund.

The Federal grants fund accounts for proceeds and federal payments that are legally restricted for expenditures for federally specified purposes.

The governmental fund activities are reported in a separate balance sheet and statement of revenues, expenditures, and changes in fund balances. Additionally, the Government presents a reconciliation of the statement of revenues, expenditures, and change in fund balances, to the statement of activities.

Proprietary Funds

Services provided to outside (nongovernmental) customers are reported in enterprise funds. Enterprise funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. These are the same business-type activities reported in the government-wide financial statements.

The West Indian Company Limited (WICO), the Unemployment Insurance Fund, and viNGN, INC. d/b/a Virgin Islands Next Generation Network (viNGN) are major proprietary funds.

The WICO fund accounts for the activities of WICO, which owns a port facility including a cruise ship pier and manages a shopping mall complex on the island of St. Thomas.

The Unemployment Insurance Fund is a federally mandated program to manage unemployment insurance.

The viNGN fund accounts for the activities of viNGN, which designs, develops and manages a middle mile wholesale fiber optic network in order to make available reliable high-speed internet connections to retail internet service providers.

The proprietary fund activities are reported in a separate statement of net position, statement of revenues, expenses, and changes in net position and statement of cash flows.

Fiduciary Funds

The fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position.

Financial Analysis of the Government as a Whole

The Government faces the challenge of maintaining fiscal sustainability, promoting economic growth and rebuilding infrastructure following two Category 5 hurricanes in September 2017. To promote fiscal sustainability, the Government retained an international firm to develop short and long-range cash management strategies, identify federal recovery grants, implement a recovery website and assist with federal reporting of recovery grants. The Government has also retained the services of a national engineering firm to lead the reconstruction effort in the Virgin Islands and provide oversight of FEMA Hazard Mitigation and HUD Community Disaster grants. In the second annual progress report following the hurricanes, the Office of Disaster Recovery estimated federal recovery funding for the Virgin Islands amounted to $8.0 billion to be received over a five-year period.

The Government has initiated outreach programs to promote environmentally safe industries and to attract investors. During fiscal year 2018, the Government began negotiations with Limetree Bay Refining, an affiliate of Limetree Bay Terminals, LLC (Limetree) to restart oil refining on the island of St. Croix. An agreement was reached in December 2018, and Limetree will invest $1.3 billion in the St. Croix facility, along with the purchase of land and housing units near the oil terminal for a closing payment of $70.0 million.

In December 2017, the Government was awarded loans under the Community Disaster Loans (CDLs) program of the Federal Emergency Management Agency (FEMA). On July 1, 2018, PFA issued $188.5 million in Series 2018 A Revenue Bonds in a private placement to FEMA. The bonds secure certain CDLs issued to the Government and two semi-autonomous hospitals following the Hurricanes in September 2017. These bonds are secured by a pledge of gross receipts tax revenue.

Financial Analysis of the Primary Government

Total assets and deferred outflows of resources of the Government as of September 30, 2018 and 2017, were approximately $2.9 billion and $2.8 billion, respectively. Total liabilities and deferred inflows were approximately $7.8 billion and $7.2 billion, respectively, over the same period. Liabilities exceed assets mainly due to unfunded pension and other postemployment benefits such as health insurance due to retired Government employees amounting to $4.1 billion and $4.4 billion at September 30, 2018 and 2017.

At September 30, 2018, the Government's net deficit of $4.9 billion consisted of $278.8 million invested in capital assets, net of related debt; $287.9 million restricted by statute or other legal requirements that were not available to finance day-to-day operations; and an unrestricted net deficit of $5.5 billion. As of September 30, 2017, the Government's net position was a deficit of $4.5 billion consisting of $146.6 million investment in capital assets, net of related debt; $268.2 million restricted by statute or other legal requirements that were not available to finance day-to-day operations; and an unrestricted net deficit of $4.9 billion.

For the fiscal year ended September 30, 2018, the primary government earned program and general revenue amounting to $2.1 billion, including net insurance recoveries of $124.0 million, and reported expenses of $2.2 billion resulting in an increase in net deficit of approximately $68.3 million. For the fiscal year ended September 30, 2017, the primary government earned program and general revenue amounting to $1.3 billion and reported expenses of $1.8 billion, including net impairment losses of $227.3 million, resulting in an increase in net deficit of approximately $747.4 million.

Overall, revenue increased in fiscal 2018 by approximately $861.8 million, when compared to fiscal 2017, mainly due to net insurance recoveries recognized of $124.0 million, an increase in federal operating grant revenues of $601.4 million and an increase in tax revenues of $89.3 million.

Overall expenses increased in fiscal 2018 by $182.7 million, when compared to fiscal 2017, mainly due to increases in federal expenditures and professional services hired for the Government's recovery and rebuilding projects and activities.

A summary of net position and changes in net position for the primary government follows (expressed in thousands):

	Governmental Activities		Business-Type Activities		Total	
September 30,	**2018**	2017	**2018**	2017	**2018**	2017
Assets and Deferred Outflows						
Current assets	**$ 1,223,348**	$ 956,041	**$ 37,507**	$ 41,990	**$ 1,260,855**	$ 998,031
Internal balances	**46,902**	46,447	**(46,902)**	(46,447)	**-**	-
Capital assets	**745,054**	643,215	**127,599**	132,927	**872,653**	776,142
Other assets	**7,213**	4,573	**1,131**	975	**8,344**	5,548
Deferred outflows of resources	**792,112**	985,758	**-**	-	**792,112**	985,758
Total assets and deferred outflows	**2,814,629**	2,636,034	**119,335**	129,445	**2,933,964**	2,765,479
Liabilities and Deferred Inflows						
Long-term liabilities	**6,524,188**	6,298,084	**74,615**	79,523	**6,598,803**	6,377,607
Other liabilities	**845,364**	775,523	**94,692**	89,937	**940,056**	865,460
Deferred inflows of resources	**284,370**	6,027	**-**	-	**284,370**	6,027
Total liabilities and deferred inflows	**7,653,922**	7,079,634	**169,307**	169,460	**7,823,229**	7,249,094
Net Position						
Net investment in capital assets	**230,693**	93,180	**48,148**	53,457	**278,841**	146,637
Restricted	**282,585**	260,321	**5,329**	7,862	**287,914**	268,183
Unrestricted deficit	**(5,352,571)**	(4,797,101)	**(103,449)**	(101,334)	**(5,456,020)**	(4,898,435)
Total net deficit	**$ (4,839,293)**	**$ (4,443,600)**	**$ (49,972)**	$ (40,015)	**$ (4,889,265)**	$ (4,483,615)

September 30,	Governmental Activities 2018	Governmental Activities 2017	Business-Type Activities 2018	Business-Type Activities 2017	Total 2018	Total 2017
Revenues						
Program revenue:						
Charges for services	**$ 20,857**	$ 25,296	**$ 58,751**	$ 62,471	**$ 79,608**	$ 87,767
Operating grants and contributions	**840,282**	256,390	**17,741**	236	**858,023**	256,626
Capital grants and contributions	**72,951**	20,405	**-**	-	**72,951**	20,405
General revenue:						
Taxes	**934,577**	845,242	**-**	-	**934,577**	845,242
Interest and other	**57,654**	60,661	**8,714**	5,110	**66,368**	65,771
Payment in lieu of taxes	**11,141**	8,975	**-**	-	**11,141**	8,975
Tobacco settlement rights	**1,094**	1,201	**-**	-	**1,094**	1,201
Total revenues	**1,938,556**	1,218,170	**85,206**	67,817	**2,023,762**	1,285,987
Expenses						
General government	**1,296,511**	879,538	**-**	-	**1,296,511**	879,538
Public safety	**91,868**	89,537	**-**	-	**91,868**	89,537
Health	**71,568**	136,435	**-**	-	**71,568**	136,435
Public housing and welfare	**284,087**	216,628	**-**	-	**284,087**	216,628
Education	**215,405**	246,621	**-**	-	**215,405**	246,621
Transportation and communication	**48,032**	57,608	**-**	-	**48,032**	57,608
Culture and recreation	**6,893**	12,423	**-**	-	**6,893**	12,423
Interest on long-term debt	**102,613**	104,542	**-**	-	**102,613**	104,542
Unemployment insurance	**-**	-	**43,166**	1,278	**43,166**	1,278
West Indian Company	**-**	-	**12,449**	11,625	**12,449**	11,625
viNGN	**-**	-	**9,806**	8,382	**9,806**	8,382
Other	**-**	-	**33,681**	41,477	**33,681**	41,477
Total expenses	**2,116,977**	1,743,332	**99,102**	62,762	**2,216,079**	1,806,094
Changes in net position (deficit) before transfers and special item	**(178,421)**	(525,162)	**(13,896)**	5,055	**(192,317)**	(520,107)
Transfers	**(1,000)**	(300)	**1000**	300	**-**	-
Special item – insurance recoveries (impairment losses) on capital assets, net	**119,240**	(221,222)	**4,756**	(6,062)	**123,996**	(227,284)
Changes in net deficit	**(60,181)**	(746,684)	**(8,140)**	(707)	**(68,321)**	(747,391)
Net deficit, beginning of year, as restated	**(4,779,112)**	(3,696,916)	**(41,832)**	(39,308)	**(4,820,944)**	(3,736,224)
Net deficit, end of year	**$ (4,839,293)**	$ (4,443,600)	**$ (49,972)**	$ (40,015)	**$ (4,889,265)**	$ (4,483,615)

Financial Analysis of the Government's Funds

Governmental Funds

Governmental Funds. The focus of *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Government's financing requirements. In particular, the unassigned fund balance/deficit may serve as a useful measure of a government's net resources available, or not available, for discretionary use as they represent the portion of the fund balance which has not yet been limited to use for a particular purpose by either an external party or the primary Government.

At September 30, 2018, the Government's governmental funds reported a combined fund balance of $454.5 million, an increase of $191.7 million when compared to the prior year combined fund balance of $262.8 million. Approximately $226.8 million of this amount consists of deficit unassigned fund balances representing expenditures in governmental funds that exceeded discretionary funds available. The remainder of the fund balance is either restricted, committed, or assigned to indicate that it is: i) restricted for particular purposes ($474.8 million), ii) committed for particular purposes ($123.0 million), or iii) assigned for particular purposes ($83.5 million).

The General Fund is the chief operating fund of the primary Government. At September 30, 2018, the unassigned fund deficit of the General Fund was $72.4 million while the total fund deficit of the General Fund was $40.8 million. The fund balance of the General Fund increased by $167.1 million during the current fiscal year. This increase was achieved - mainly due to a decrease in General Fund expenditures of $74.2 million and an increase in General Fund tax revenues of $84.3 million, and the receipt of a Community Disaster Loan from FEMA in the amount of $188.5 million structured as the Series 2018 bonds.

The PFA Debt Service Fund accounts for the resources accumulated, and payments made, for principal and interest on long-term general obligation debt issued by PFA on behalf of the Government. At September 30, 2018, the restricted fund balance of the PFA Debt Service Fund was $282.3 million, an increase of $22.3 million from the prior fiscal year. This increase is mainly due to an increase in tax revenue of $2.0 million, an increase in interest and other revenue of $0.9 million, an increase in transfers from other funds of $7.8 million and a decrease in transfers to other funds of $8.9 million.

The PFA Capital Projects Fund accounts for bond proceeds issued by PFA that have been designated for certain necessary public safety and capital development projects. At September 30, 2018, the restricted fund balance of the PFA Capital Projects Fund was $153.9 million, a decrease of $9.2 million from the prior fiscal year. The decrease was due to capital outlays.

The Federal Grants Fund accounts for proceeds and payments that are restricted to expenditures for specified purposes. At September 30, 2018, the fund deficit of the Federal Grants Fund increased by $50.9 million to $88.2 million. The increase was due to federal grant expenditures exceeding federal grant revenues by $53.5 million, offset by transfers from other funds by $2.6 million.

Proprietary Funds

Proprietary Funds. The focus of *proprietary funds* is to report the same functions presented as business-type activities in the government-wide financial statements. Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the West Indian Company, Ltd (WICO), Unemployment Insurance, and the Virgin Islands Next Generation Network (viNGN) as these funds are considered to be major funds.

At September 30, 2018, the primary Government's proprietary funds reported a combined net deficit of $50.0 million, a decrease of $8.2 million when compared to the prior year combined net deficit of $41.8 million. The net deficit is the result of an unrestricted deficit in the proprietary funds ($103.4 million), offset by net investment in capital assets ($48.1 million) and restricted net position ($5.3 million).

WICO owns a port facility including a cruise ship pier and manages a shopping mall complex on the islands of St. Thomas. At September 30, 2018, the net position of WICO was $1.2 million, a decrease of $2.4 million from the restated net position of the prior fiscal year. This decrease was mainly due to a deficit in operations of $2.3 million and interest expense of $2.3 million, offset by insurance recoveries of $2.1 million.

The Unemployment Insurance Fund is a federally mandated program to manage unemployment insurance. At September 30, 2018, the net deficit of the fund was $68.2 million, an increase of $14.1 million from the prior fiscal year. The increase in net deficit is mainly due to an increase in unemployment claims following the 2017 hurricanes.

viNGN designs, develops and manages a middle mile wholesale fiber optic network in order to make available reliable high-speed internet connections to retail internet service providers. At September 30, 2018, viNGN reported net position of $32.6 million, a decrease of $3.3 million from the prior fiscal year. This decrease was mainly due to a loss in operations of $6.2 million offset by insurance recoveries of $2.5 million and grant revenues of $350 thousand.

General Fund Budgetary Highlights

The Virgin Islands Office of Management and Budget prepares an annual executive budget subject to approval by the Governor and the Legislature of the Virgin Islands. The executive budget is prepared on a budgetary basis similar to the cash basis of accounting. The executive budget includes only those funds that are subject to appropriation by law. More information regarding budgetary procedures is provided in the Required Supplementary Information accompanying the basic financial statements.

A summary of the budgetary report for the General Fund of the Government, included on page 144 of the financial statements, follows (expressed in thousands):

September 30, 2018	Original Budget	Amended Budget	Actual	Variance
Total revenues	$ 936,321	$ 936,321	$ 715,177	$ (221,144)
Total expenditures	957,447	857,637	803,328	54,309
Excess (deficiency) of revenues over expenditures	(21,126)	78,684	(88,151)	166,835
Other financing sources, net	(183,242)	(42,423)	268,862	311,285
Excess (deficiency) of revenues and net other financing sources over expenditures	$ (204,368)	$ 36,261	$ 180,711	$ 144,450

For fiscal year 2018, the General Fund realized a favorable budgetary variance of $144.5 million mainly due to other financing sources of $311.3 million and excess revenues over expenditures of $166.8 million.

Other financing sources had a favorable variance mainly due to the issuance of the Series 2018A-1, 2018A-2, and 2018A-3 Community Disaster Loan bonds of $188.5 million. The General Fund realized an unfavorable revenue variance of $221.1 million mainly due to taxes revenues under budget by $75.9 million, charges for services revenues being under budget by $66.0 million and interest and other revenues being less than budget by $100.4 million during the fiscal year. The General Fund realized a favorable expenditures variance of $54.3 million due to spending efficiencies as compared to budgeted amounts. The amended expenditures budget decreased by $99.8 million, due primarily to a decrease in general government of $82.6 million.

Capital Assets

Capital assets additions during fiscal year 2018 amounted to $129.5 million for governmental activities and $4.5 million for business-type activities. Capital assets additions during fiscal year 2017 amounted to $71.8 million for governmental activities and $20.1 million for business-type activities.

The Government's capital assets include land, land improvements, buildings, building improvements, machinery and equipment, infrastructure, construction in progress, and intangibles, as follows (expressed in thousands):

	Governmental Activities		Business-Type Activities		Total	
September 30,	**2018**	2017	**2018**	2017	**2018**	2017
Land and improvements	**$ 237,515**	$ 235,664	**$ 5,526**	$ 5,526	**$ 243,041**	$ 241,190
Building and improvements	**434,918**	405,244	**89,060**	88,341	**523,978**	493,585
Machinery and equipment	**206,322**	201,049	**78,618**	75,544	**284,940**	276,593
Infrastructure	**151,348**	140,786	**-**	-	**151,348**	140,786
Intangible assets	**-**	-	**30,774**	30,774	**30,774**	30,774
Construction in progress	**154,427**	76,003	**5,332**	4,844	**159,759**	80,847
Total capital assets	**1,184,530**	1,058,746	**209,310**	205,029	**1,393,840**	1,263,775
Less accumulated depreciation	**(439,476)**	(415,531)	**(81,711)**	(72,102)	**(521,187)**	(487,633)
Total capital assets, net	**$ 745,054**	$ 643,215	**$ 127,599**	$ 132,927	**$ 872,653**	$ 776,142

Note 9 provides detailed information regarding the capital assets of the primary government and the component units of the Government.

Debt Administration (General Obligation and Revenue Bonds)

The Government issues both general obligation bonds and revenue bonds. The Revised Organic Act [48 U.S.C. Section 1574 (b)(ii)] restricts the principal amount of general obligation debt that the Government may issue to no greater than 10% of the aggregate assessed valuation of taxable real property in the U.S. Virgin Islands. Following is a summary of bonds outstanding as of September 30, 2018, (expressed in thousands):

Bond Issue	**Maturity**	**Rates (%)**	**Balance**
Series 2018 A-1, A-2 and A-3 Revenue Bonds	2022 - 2037	2.86-3.19	$ 188,522
Series 2015 Federal Highway Bonds	2016 - 2033	3.00-5.00	78,610
Series 2014 D Revenue Bonds	2015 - 2033	6.03	5,235
Series 2014 C Revenue and Refunding Bonds	2015 - 2044	4.50-5.00	232,260
Series 2014 A Revenue Bonds	2015 - 2034	5.00	44,965
Series 2013 B Revenue and Refunding Bonds	2018 - 2024	3.00 – 5.00	41,045
Series 2013 A Revenue and Refunding Bonds	2018 - 2024	5.00 – 5.25	23,915
Series 2012 C Revenue Bonds	2017 - 2042	3.00 – 5.00	28,130
Series 2012 A and B Revenue and Refunding Bonds	2017 - 2032	2.25 – 5.25	168,540
Series 2012 A Revenue Bonds	2022 - 2032	4.00 – 5.00	139,265
Series 2010 A and B Revenue Bonds	2012 - 2029	4.00 – 5.25	385,655
Series 2009 A Revenue Bonds (Cruzan)	2010 - 2039	3.00 – 6.00	34,130
Series 2009 A1, A2, B and C Revenue and Refunding Bonds	2010 - 2039	3.00 – 5.00	256,825
Series 2009 A Revenue Bonds (Diageo)	2014 - 2037	6.00 – 6.75	226,970
Series 2006 A Revenue Bonds	2007 - 2029	3 50 – 5.00	193,230
Series 2006 A, B, C and D Tobacco Turbo and Capital Appreciation Bonds	2035	6.25 – 7.63	7,290
Series 2001 A Tobacco Bonds	2031	4.62 – 5.13	5,315
Total bonds outstanding			2,059,902
Plus (less):			
Bonds premium			45,924
Bonds discount			(2,261)
Bonds accretion			9,038
Total bonds payable, net			$ 2,112,603

Note 10 provides detailed information regarding all bonds of the primary government.

The Government made bond principal payments on outstanding general and special revenue bonds amounting to $77.4 million during fiscal year 2018 and $75.2 million during fiscal year 2017.

In August 2017, Fitch Ratings downgraded the Government's Matching Fund Revenue and Gross Receipts Tax debt to B from BB-. In the same month, the Government stopped providing information to Standard & Poor's necessary to evaluate the Government's liquidity, and that rating agency withdrew its credit ratings for the Virgin Islands in October 2018. In January 2018, Moody's Investors Service downgraded the Government's Matching Fund Revenue Bonds as follows: Senior Lien Bonds to Caa2 from Caa1; Subordinate Lien Bonds to Caa3 from Caa2; Subordinated Indenture (Diageo) Bonds to Caa3 from Caa2; and Subordinated Indenture (Cruzan) Bonds to Caa3 from Caa2.

In December 2019, Standard & Poor's Global Ratings revised its outlook from negative to stable and affirmed its A rating on the outstanding Series 2015A grant anticipation bonds (GARVEE bonds).

In January 2020, Moody's affirmed the Territory's Caa3 issuer rating and stable outlook, as well as the Caa2 rating on Matching Fund Senior Lien Bonds, and Caa3 rating on other Matching Fund Bonds.

Other Liabilities of the Primary Government

Other long-term outstanding liabilities of the Government include the following (expressed in thousands):

September 30,	2018	2017
Governmental activities:		
Accrued compensated absences	**$ 36,762**	$ 36,151
Retroactive union arbitration	**195,286**	195,286
Litigation	**21,216**	16,145
Landfill closure and post closure costs	**102,135**	97,923
Business-type activities:		
Workers compensation	**35,994**	42,279
Compensated absences	**1,976**	-
Loan payable – U.S. Treasury	**68,590**	66,994
Loan payable – WICO	**42,646**	42,666
Total other liabilities	**$ 504,605**	$ 497,444

Net Pension Liabilities

The Government has implemented the provisions of Governmental Accounting Standards Board Statement (GASB) No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68* and GASB Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*. Following is a description of the pension plan and accounting for pension expense, liabilities, and deferred outflows/inflows of resources.

Following is the net pension liability reported in fiscal years 2018 and 2017 (expressed in thousands):

September 30,	2018	2017
Net pension liability	**$ 3,354,768**	$ 3,535,517

Net Other Postemployment Benefit (OPEB) Liabilities

Effective in fiscal year 2018, the Government implemented the provisions of Governmental Accounting Standards Board Statement (GASB) No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This standard requires the reporting and disclosure of costs and liabilities associated with postemployment benefits provided to retirees of the Government and ten (10) of the Government's component units under a special funding arrangement. Implementation of this standard required a restatement of the prior year net position of governmental activities, decreasing it by $335.5 million. Additional details about the implementation of this standard are presented in Note 15 and Note 17.

Following is the total OPEB liability reported in fiscal years 2018 and 2017 (expressed in thousands):

September 30,	2018	2017 (As restated)
Total other postemployment benefits liability	**$ 783,373**	$ 812,955

Significant Currently Known Facts

The Government promotes fiscal sustainability through economic development, compliance initiatives, and budgetary restraints on expenditures. The Government is also working with non-governmental organizations and Federal partners as part of its recovery efforts following the 2017 hurricanes.

Revenue and Compliance Initiatives

The Government has implemented several initiatives to create jobs, stimulate economic growth and promote fiscal sustainability including: entering into an agreement with Limetree Bay Ventures for an investment of $1.3 billion to reopen the HOVENSA oil refinery, continued promotion of tourism through national advertising, compliance initiatives to ensure voluntary tax filing requirements are met, and outreach to national and foreign investors. The Government continues to promote its high-tech broadband capabilities, educated workforce and tax incentive programs to management, technology, and tourism-related industries.

Federal Recovery Partners

Fiscal year 2018 was the first year of recovery following the 2017 hurricanes. The Government and its component units, working with Federal recovery partners, including FEMA and other agencies, completed essential debris removal and emergency projects needed to reestablish normal business and governmental operations in the Territory. In fiscal year 2019, the Territory established an Office of Disaster Recovery and worked with federal recovery partners including FEMA, HUD, FHWA and other agencies to establish a multi-year, multi-billion recovery plan building resiliency in managing climate change.

Budgetary Control of Expenditures

The Government has experienced an increase in carry-forward liabilities from prior fiscal years mainly due to landfill closure costs, post-employment benefits for retirees, and net pension liabilities in connection with the Government's defined benefit pension plan.

The Government also has carry-forward liabilities due to unpaid retroactive salary increases that accumulated following Hurricanes Hugo, Marilyn, and Bertha in the years of 1990 through 1998. At September 30, 2018 and 2017, long-term liabilities for pension and other post-employment benefits to retired government employees amounted to $4.1 billion and $4.4 billion, respectively. The Government's defined benefit pension plan was 16.18% and 16.54% funded as of the measurement dates of September 30, 2018 and 2017, respectively.

Based on actuarial projections, the plan may not be able to meet its responsibilities by fiscal year 2023. A Pension Reform Joint Task Force has provided recommendations to the Legislature to (i) increase the retirement age of Government workers; (ii) restructure plan benefits; and (iii) to no longer allow retirees to both work and collect benefits from the Government. The retirement system increased the contribution rates of participating employers by 1.0% per year over the three fiscal years 2015, 2016 and 2017 and at September 30, 2018, the employer contribution rate was 20.5%. In December 2019, the employer rate was increased by 3.0% bringing the contribution rate to 23.5% effective January 1, 2020.

Coronavirus COVID-19 Pandemic

In December 2019, a novel strain of coronavirus, known as COVID-19, was reported which quickly spread around the globe, including the United States and its Territories. In March 2020, the Governor of the U.S. Virgin Islands declared a state of emergency due to COVID-19. The extent of the impact of COVID-19 on the operational and financial performance of the Government will depend on certain developments, including the duration and spread of the outbreak and the impact on the economy, employees, and vendors, all of which are uncertain and cannot be predicted.

In April 2020, the Virgin Islands was declared a major disaster area by the President of the United States of America. The Presidential declaration enables the Territory to receive Federal funding for emergency protective measures, including direct Federal assistance. Through May 2020, the Government and its blended and discretely presented component units have been awarded $168.4 million in federal pandemic recovery assistance, including the Coronavirus Relief Fund.

Contacting the Government's Financial Management

This financial report is designed to provide the Government's citizens, taxpayers, customers, and creditors with a general overview of the Government's finances. If you have questions about this report, or need additional financial information, contact the Government of the United States Virgin Islands, Department of Finance, No. 2314 Kronprindsens Gade, St. Thomas, VI 00802.

Basic Financial Statements

Government of the United States Virgin Islands

Statement of Net Position

(in thousands)

September 30, 2018	Primary Government: Governmental Activities	Primary Government: Business-type Activities	Primary Government: Total	Component Units
Assets				
Cash and cash equivalents	$ 264,214	$ 24,673	$ 288,887	$ 149,455
Investments, at fair value	627,719	1,661	629,380	39,679
Receivables, net	199,837	5,844	205,681	198,148
Internal balances	46,902	(46,902)	-	-
Due from federal government	34,762	-	34,762	72,698
Due from component units	96,816	-	96,816	88
Due from primary government	-	-	-	50,951
Inventories	-	-	-	28,909
Prepayments and other assets	-	-	-	19,139
Restricted:				
Cash and cash equivalents	-	5,329	5,329	84,727
Investments	-	-	-	101,875
Other	-	-	-	19,675
Capital assets, net	745,054	127,599	872,653	1,552,795
Notes receivable	-	-	-	11,385
Other assets	7,213	1,131	8,344	56,100
Total assets	2,022,517	119,335	2,141,852	2,385,624
Deferred Outflows of Resources				
Deferred amounts related to pension	785,551	-	785,551	244,983
Deferred charges on bond refunding	6,561	-	6,561	4,792
Deferred amounts related to OPEB	-	-	-	636
Total deferred outflows of resources	792,112	-	792,112	250,411
Total assets and deferred outflows of resources	$ 2,814,629	$ 119,335	$ 2,933,964	$ 2,636,035

See accompanying notes to financial statements.

Government of the United States Virgin Islands

Statement of Net Position

(in thousands)

September 30, 2018	Primary Government: Governmental Activities	Primary Government: Business-type Activities	Primary Government: Total	Component Units
Liabilities				
Accounts payable and accrued liabilities	$ 314,255	$ 6,776	$ 321,031	$ 654,179
Tax refunds payable	100,652	-	100,652	-
Unemployment insurance benefits	-	3,257	3,257	-
Customer deposits	-	-	-	29,469
Due to primary government	-	-	-	67,399
Due to component units	17,956	-	17,956	10,160
Due to federal government	-	-	-	4,142
Interest payable	47,057	-	47,057	7,894
Unearned revenues	251,750	10,068	261,818	24,554
Other current liabilities:				
Line of credit	-	-	-	29,844
Loans and notes payable	10,020	69,410	79,430	4,909
Bonds payable	89,058	-	89,058	16,050
Other liabilities	14,616	5,181	19,797	29,200
Noncurrent liabilities:				
Loans and notes payable	19,390	41,826	61,216	88,669
Bonds payable	2,023,545	-	2,023,545	368,671
Net pension liability	3,354,768	-	3,354,768	989,871
Other postemployment benefits liability (OPEB)	783,373	-	783,373	101,027
Interest payable	2,329	-	2,329	-
Other liabilities	340,783	32,789	373,572	166,279
Total liabilities	7,369,552	169,307	7,538,859	2,592,317
Deferred Inflows of Resources				
Deferred amounts related to OPEB	45,088	-	45,088	11,046
Deferred amounts related to pension	239,282	-	239,282	127,244
Total liabilities and deferred inflows of resources	$ 7,653,922	$ 169,307	$ 7,823,229	$ 2,730,607
Net Position (Deficit)				
Net investment in capital assets	$ 230,693	$ 48,148	$ 278,841	$ 1,113,222
Restricted:				
Unemployment insurance	-	867	867	-
Debt service	282,327	3,957	286,284	-
Capital projects	258	505	763	-
Other purposes	-	-	-	157,848
Unrestricted deficit	(5,352,571)	(103,449)	(5,456,020)	(1,365,642)
Total net deficit	$ (4,839,293)	$ (49,972)	$ (4,889,265)	$ (94,572)

See accompanying notes to financial statements.

Government of the United States Virgin Islands

Statement of Activities

(in thousands)

Year Ended September 30, 2018	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net Revenue (Expense) and Changes in Net Position: Primary Government: Governmental Activities	Primary Government: Business-type Activities	Primary Government: Total	Component Units
Functions:								
Primary government:								
Governmental activities:								
General government	$ 1,296,511	$ 19,154	$ 584,864	$ 68,246	$ (624,247)	$ -	$ (624,247)	$ -
Public safety	91,868	345	2,751	-	(88,772)	-	(88,772)	-
Health	71,568	467	15,985	-	(55,116)	-	(55,116)	-
Public housing and welfare	284,087	437	191,587	-	(92,063)	-	(92,063)	-
Education	215,405	-	23,109	-	(192,296)	-	(192,296)	-
Transportation and communication	48,032	282	21,986	4,705	(21,059)	-	(21,059)	-
Culture and recreation	6,893	172	-	-	(6,721)	-	(6,721)	-
Interest on long-term debt	102,613	-	-	-	(102,613)	-	(102,613)	-
Total governmental activities	2,116,977	20,857	840,282	72,951	(1,182,887)	-	(1,182,887)	
Business-type activities:								
WICO	12,449	7,165	500	-	-	(4,784)	(4,784)	-
Unemployment insurance	43,166	12,147	16,891	-	-	(14,128)	(14,128)	-
viNGN	9,806	3,651	350	-	-	(5,805)	(5,805)	-
Other	33,681	35,788	-	-	-	2,107	2,107	-
Total business-type activities	99,102	58,751	17,741	-		(22,610)	(22,610)	-
Total primary government	$ 2,216,079	$ 79,608	$ 858,023	$ 72,951	$ (1,182,887)	$ (22,610)	$ (1,205,497)	$ -
Component units:								
Virgin Islands Housing Authority	$ 55,488	$ 6,898	$ 38,538	$ 2,496	$ -	$ -	$ -	$ (7,556)
Virgin Islands Port Authority	86,061	40,825	-	9,726	-	-	-	(35,510)
Virgin Islands Water and Power Authority:								
Electric System	295,344	133,656	-	414,194	-	-	-	252,506
Water System	30,513	24,769	-	1,303	-	-	-	(4,441)
Virgin Islands Government Hospital and Health Facilities Corporation:								
Roy L. Schneider Hospital	73,184	37,971	22,834	2,385	-	-	-	(9,994)
Juan F. Luis Hospital	66,119	20,887	20,635	119	-	-	-	(24,478)
University of the Virgin Islands	80,896	44,483	21,470	4,992	-	-	-	(9,951)
Other component units	311,753	42,419	247,660	2,718	-	-	-	(18,956)
Total component units	$ 999,358	$ 351,908	$ 351,137	$ 437,933	$ -	$ -	$ -	$ 141,620
Total primary government and component units					$ (1,182,887)	$ (22,610)	$ (1,205,497)	$ 141,620

See accompanying notes to financial statements.

Government of the United States Virgin Islands

Statement of Activities

(in thousands)

Year Ended September 30, 2018	Net Revenue (Expense) and Changes in Net Position			
	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
General revenue:				
Taxes	$ 934,577	$ -	$ 934,577	$ -
Payment in lieu of taxes	11,141	-	11,141	-
Interest and other	57,654	8,714	66,368	21,266
Tobacco settlement rights	1,094	-	1,094	-
Special item - insurance recoveries (impairment loss) on capital assets, net	119,240	4,756	123,996	(45,539)
Transfers – internal activities of primary government	(1,000)	1,000	-	-
Total general revenue and other items	1,122,706	14,470	1,137,176	(24,273)
Changes in net position (deficit)	(60,181)	(8,140)	(68,321)	117,347
Net position (deficit), beginning of year, as restated	(4,779,112)	(41,832)	(4,820,944)	(211,919)
Net deficit, end of year	$ (4,839,293)	$ (49,972)	$ (4,889,265)	$ (94,572)

See accompanying notes to financial statements.

Government of the United States Virgin Islands

Balance Sheet - Governmental Funds

(in thousands)

September 30, 2018	General	PFA Debt Service	PFA Capital Projects	Federal Grants	Other Governmental	Total Governmental
Assets						
Cash and cash equivalents	$ 57,887	$ 13,488	$ 22,326	$ -	$ 170,513	$ 264,214
Investments, at fair value	164,909	359,946	97,766	-	5,098	627,719
Receivables:						
Taxes, net	157,969	40,841	-	-	-	198,810
Other	38	-	-	-	122	160
Due from federal government	-	-	-	34,762	-	34,762
Due from:						
Other funds	35,598	-	37,129	-	38,336	111,063
Component units, net	65,959	-	-	-	30,857	96,816
Total assets	$ 482,360	$ 414,275	$ 157,221	$ 34,762	$ 244,926	$ 1,333,544
Liabilities						
Accounts payable and accrued liabilities	$ 123,803	$ -	$ 1,302	$ 122,944	$ 66,206	$ 314,255
Tax refunds payable	100,652	-	-	-	-	100,652
Unearned revenues	139,746	108,504	-	-	3,500	251,750
Due to:						
Other funds	36,161	-	-	-	28,000	64,161
Component units	15,904	-	2,048	-	4	17,956
Total liabilities	416,266	108,504	3,350	122,944	97,710	748,774
Deferred Inflows of Resources						
Unavailable revenues	106,852	23,444	-	-	-	130,296
Total liabilities and deferred inflows of resources	523,118	131,948	3,350	122,944	97,710	879,070
Fund balances (deficit)						
Restricted	-	282,327	153,871	-	38,564	474,762
Committed	30,669	-	-	-	92,296	122,965
Assigned	1,001	-	-	-	82,548	83,549
Unassigned	(72,428)	-	-	(88,182)	(66,192)	(226,802)
Total fund balances (deficit)	(40,758)	282,327	153,871	(88,182)	147,216	454,474
Total liabilities, deferred inflows of resources and fund balances (deficit)	$ 482,360	$ 414,275	$ 157,221	$ 34,762	$ 244,926	
Amounts reported for governmental activities in the statement of net position are different because:						
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.						745,054
Expenditures identified as related to a future period are recognized as a prepaid asset in the statement of net position.						7,213
Deferred costs of refunding bonds are not financial resources and are therefore, not reported in the funds.						6,561
Other long-term assets, primarily taxes receivable, will not be available to pay for current period expenditures and therefore, are deferred in the funds.						131,163
Deferred outflows and inflows of resources of pension and postemployment benefit liabilitiesare not current financial resources and therefore, are not included in the funds.						501,181
Interest on long-term debt is not accrued in the funds, but rather is recognized as an expenditure when due.						(49,386)
Long-term pension liabilities are not due and payable in the current period and therefore, are not reported in the funds.						(3,354,768)
Long-term postemployment benefit liabilities are not due and payable in the current period and therefore, are not reported in the funds.						(783,373)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds.						(2,497,412)
Net deficit of governmental activities						$ (4,839,293)

See accompanying notes to financial statements

Government of the United States Virgin Islands

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds

(in thousands)

Year Ended September 30, 2018	General	PFA Debt Service	PFA Capital Projects	Federal Grants	Other Governmental	Total Governmental
Revenues						
Taxes	$ 646,875	$ 271,231	$ 754	$ -	$ 16,571	$ 935,431
Payment in lieu of taxes	11,141	-	-	-	-	11,141
Federal grants and contributions	9,940	7,574	-	873,651	22,068	913,233
Charges for services	9,432	-	-	-	11,425	20,857
Tobacco settlement rights	-	-	-	-	904	904
Interest and other	23,865	4,691	2,303	-	26,795	57,654
Total revenues	701,253	283,496	3,057	873,651	77,763	1,939,220
Expenditures						
Current:						
General government	435,497	227	2,184	608,391	61,258	1,107,557
Public safety	73,632	-	-	4,353	814	78,799
Health	24,229	-	-	34,106	2,181	60,516
Public housing and welfare	56,590	-	-	186,838	5,204	248,632
Education	159,457	-	-	22,475	3,594	185,526
Transportation and communication	17,573	-	-	1,875	16,116	35,564
Culture and recreation	5,246	-	-	-	517	5,763
Capital outlays	1,527	-	9,042	69,168	49,852	129,589
Debt service:						
Principal	17,492	80,979	853	-	865	100,189
Interest	1,060	100,099	16	-	309	101,484
Loan issuance costs	1,733	-	-	-	-	1,733
Total expenditures	794,036	181,305	12,095	927,206	140,710	2,055,352
Excess (deficiency) of revenue over expenditures	(92,783)	102,191	(9,038)	(53,555)	(62,947)	(116,132)
Other financing sources (uses)						
Bonds issued	188,522	-	-	-	-	188,522
Insurance recoveries	-	-	-	-	120,265	120,265
Transfers from other funds	88,412	8,520	36	2,643	7,755	107,366
Transfers to other funds	(17,068)	(88,448)	(207)	-	(2,643)	(108,366)
Total other financing sources (uses), net	259,866	(79,928)	(171)	2,643	125,377	307,787
Net change in fund balances	167,083	22,263	(9,209)	(50,912)	62,430	191,655
Fund balances (deficit), beginning of year	(207,841)	260,064	163,080	(37,270)	84,786	262,819
Fund balances (deficit), end of year	$ (40,758)	$ 282,327	$ 153,871	$ (88,182)	$ 147,216	$ 454,474

See accompanying notes to financial statements.

Government of the United States Virgin Islands

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities – Governmental Funds

(in thousands)

Year Ended September 30, 2018

Net change in fund balances – total governmental funds	$ 191,655
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation, impairment loss, and disposals in the current year.	101,839
Tax revenue in the statement of activities, which do not provide current financial resources, are not reported as revenue in the funds.	(664)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of the governmental funds. This is the amount by which bond proceeds of $188.5 million exceed debt repayments of $100.2 million.	(88,333)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This is the amount by which the increase in certain liabilities reported in the statement of net position of the previous year increased expenses reported in the statement of activities that do not require the use of current financial resources.	(9,892)
Some expenses reported as prepaid assets in the statement of net position in the current year are recognized as expenses in the following year in the statement of activities.	2,634
Bond premiums and discounts are reported as other financing sources and uses in the governmental funds when the bonds are issued, and are capitalized and amortized in the government-wide financial statements. This amount represents additional net interest expense reported in the statement of activities related to the amortization of premiums, discounts, deferred refunding, and accreted interest on capital appreciation bonds during the current year.	3,702
Certain interest reported in the statement of activities does not require the use of current financial resources and therefore is not reported as expenditures in the governmental funds. This amount represents the increase in interest payable reported in the statement of net position.	(296)
Certain OPEB expense reported in the statement of activities does not require the use of current financial resources and therefore is not reported as expenditures in the governmental funds. This amount represents the increase in OPEB liabilities for the allocable share of OPEB expense reported in statement of net position.	(15,507)
Certain pension expense reported in the statement of activities does not require the use of current financial resources and therefore is not reported as expenditures in the governmental funds. This amount represents the increase in pension liabilities for the allocable share of pension expense reported in statement of net position.	(245,319)
Change in net deficit of governmental activities	$ (60,181)

See accompanying notes to financial statements.

Government of the United States Virgin Islands

Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds

(in thousands)

Year Ended September 30, 2018	Business-type Activities				
	WICO	**Unemployment Insurance**	**viNGN**	**Other Enterprise**	**Total**
Operating revenues					
Charges for services	$ 7,165	$ 12,147	$ 3,651	$ 35,788	$ 58,751
Operating expenses					
Cost of services	6,218	43,166	4,726	32,271	86,381
Depreciation and amortization	3,248	-	5,080	1,410	9,738
Total operating expenses	9,466	43,166	9,806	33,681	96,119
Operating (loss) income	(2,301)	(31,019)	(6,155)	2,107	(37,368)
Non-operating revenues (expenses)					
Grants revenue	500	16,891	350	-	17,741
Interest and other income	213	36	8	8,457	8,714
Payment in lieu of taxes	(700)	-	-	-	(700)
Interest expense	(2,283)	-	-	-	(2,283)
Total non-operating (expenses) revenues, net	(2,270)	16,927	358	8,457	23,472
(Loss) income before operating transfers and special item	(4,571)	(14,092)	(5,797)	10,564	(13,896)
Transfers from other funds	-	-	-	1,000	1,000
Insurance recoveries	2,133	-	2,500	123	4,756
Change in net position	(2,438)	(14,092)	(3,297)	11,687	(8,140)
Net position (deficit), beginning of year, as restated	3,676	(54,071)	35,932	(27,369)	(41,832)
Net position (deficit), end of year	$ 1,238	$ (68,163)	$ 32,635	$ (15,682)	$ (49,972)

See accompanying notes to financial statements.

Government of the United States Virgin Islands

Statement of Net Position – Proprietary Funds

(in thousands)

	Business-type Activities				
September 30, 2018	WICO	Unemployment Insurance	viNGN	Other Enterprise	Total
Assets					
Current assets:					
Cash and cash equivalents	$ 1,039	$ 1,540	$ 1,881	$ 20,213	$ 24,673
Restricted cash	4,462	-	-	-	4,462
Investments, at fair value	-	-	-	1,661	1,661
Receivables, net:					
Grants receivable	500	-	350	-	850
Premiums receivable	-	1,277	-	-	1,277
Other receivables	667	-	994	968	2,629
Due from other funds	-	-	-	300	300
Other assets	738	-	320	73	1,131
Total current assets	7,406	2,817	3,545	23,215	36,983
Noncurrent assets:					
Restricted cash and cash equivalents	-	867	-	-	867
Other noncurrent receivables	1,088	-	-	-	1,088
Capital assets	45,454	-	67,002	15,143	127,599
Total noncurrent assets	46,542	867	67,002	15,143	129,554
Total assets	$ 53,948	$ 3,684	$ 70,547	$ 38,358	$ 166,537
Liabilities					
Current liabilities:					
Accounts payable and accrued liabilities	$ 738	$ -	$ 1,108	$ 4,930	$ 6,776
Due to other funds	7,350	-	36,804	3,048	47,202
Unemployment insurance benefits	-	3,257	-	-	3,257
Workers compensation	-	-	-	5,005	5,005
Loan payable to U.S. Treasury	-	68,590	-	-	68,590
Unearned revenue	-	-	-	10,068	10,068
Compensated absences payable	176	-	-	-	176
Loans payable related to capital assets	820	-	-	-	820
Total current liabilities	9,084	71,847	37,912	23,051	141,894
Noncurrent liabilities:					
Workers compensation	-	-	-	30,989	30,989
Compensated absences payable	1,800	-	-	-	1,800
Loans payable related to capital assets	41,826	-	-	-	41,826
Total noncurrent liabilities	43,626	-	-	30,989	74,615
Total liabilities	$ 52,710	$ 71,847	$ 37,912	$ 54,040	$ 216,509
Net Position (Deficit)					
Net investment in capital assets	$ 2,807	$ -	$ 30,198	$ 15,143	$ 48,148
Restricted:					
Unemployment insurance	-	867	-	-	867
Debt service	3,957	-	-	-	3,957
Capital projects	505	-	-	-	505
Unrestricted (deficit)	(6,031)	(69,030)	2,437	(30,825)	(103,449)
Total net position (deficit)	$ 1,238	$ (68,163)	$ 32,635	$ (15,682)	$ (49,972)

See accompanying notes to financial statements.

Government of the United States Virgin Islands

Statement of Cash Flows – Proprietary Funds

(in thousands)

	Business-type Activities				
Year Ended September 30, 2018	WICO	Unemployment Insurance	viNGN	Other Enterprise	Total
Cash flows from operating activities					
Cash received from customers and users	$ 7,617	$ 19,157	$ 3,177	$ 34,868	$ 64,819
Cash paid to beneficiaries and suppliers	(3,434)	-	(1,918)	-	(5,352)
Cash paid to employees	(2,655)	(43,166)	(2,324)	(35,794)	(83,939)
Net cash provided by (used in) operating activities	1,528	(24,009)	(1,065)	(926)	(24,472)
Cash flows from noncapital financing activities					
Other income	-	36	-	8,457	8,493
Transfer from other funds	-	-	-	1,000	1,000
Federal grants	-	16,891	-	-	16,891
Payment in lieu of taxes	(700)	-	-	-	(700)
Issuance of debt	-	15,646	-	-	15,646
Principal paid on debt issuances, including interest	-	(14,050)	-	-	(14,050)
Net cash provided by noncapital financing activities	(700)	18,523	-	9,457	27,280
Cash flows from capital and related financing activities					
Acquisition and construction of capital assets	(493)	-	(3,250)	(755)	(4,498)
Proceeds from sale of capital assets	31	-	-	96	127
Proceeds from insurance recoveries	2,133	-	2,500	123	4,756
Proceeds from loan issuance	566	-	-	-	566
Principal payments on loan payable	(586)	-	-	-	(586)
Interest paid	(2,283)	-	-	-	(2,283)
Net cash used in capital and related financing activities	(632)	-	(750)	(536)	(1,918)
Cash flows from investing activities					
Interest income	10	-	9	-	19
Purchase of investments	-	-	-	(6)	(6)
Net cash provided by (used in) investing activities	10	-	9	(6)	13
Net increase (decrease) in cash and cash equivalents	206	(5,486)	(1,806)	7,989	903
Cash and cash equivalents, beginning of year	5,295	7,893	3,687	12,224	29,099
Cash and cash equivalents, end of year	$ 5,501	$ 2,407	$ 1,881	$ 20,213	$ 30,002
Reconciliation of operating (loss) income to net cash provided by (used in) operating activities					
Operating (loss) income	$ (2,301)	$ (31,019)	$ (6,155)	$ 2,107	$ (37,368)
Adjustments to reconcile operating (loss) income to net cash provided by (used in) operating activities:					
Depreciation and amortization	3,248	-	5,080	1,410	9,738
Other income	171	-	-	-	171
Provision for doubtful accounts	41	-	-	-	41
Change in operating assets and liabilities:					
Receivables, net	261	7,010	(474)	(593)	6,204
Unearned revenue	-	-	-	(327)	(327)
Other assets	(207)	-	51	(10)	(166)
Accounts payable and accrued liabilities	156	-	433	499	1,088
Compensated absences payable	159	-	-	-	159
Workers compensation	-	-	-	(4,468)	(4,468)
Due to other funds	-	-	-	456	456
Net cash provided by (used in) operating activities	$ 1,528	$ (24,009)	$ (1,065)	$ (926)	$ (24,472)

See accompanying notes to financial statements.

Government of the United States Virgin Islands

Statement of Cash Flows – Proprietary Funds

(in thousands)

	Business-type Activities				
Year Ended September 30, 2018	WICO	Unemployment Insurance	viNGN	Other Enterprise	Total
Reconciliation of cash and cash equivalents to the statement of net position					
Cash and cash equivalents – current	$ 1,039	$ 1,540	$ 1,881	$ 20,213	$ 24,673
Cash and cash equivalents – restricted	4,462	867	-	-	5,329
Total cash and cash equivalents, end of year	$ 5,501	$ 2,407	$ 1,881	$ 20,213	$ 30,002

See accompanying notes to financial statements.

Government of the United States Virgin Islands

Statement of Fiduciary Net Position

(in thousands)

September 30, 2018	Pension Trust	Agency
Assets		
Cash and cash equivalents:		
Unrestricted	$ 162,830	$ 14,224
Restricted	18	-
Investments, at fair value:		
Certificate of deposits	-	11,562
Cash collateral received under securities lending transactions	1,231	-
U.S. Government and agency obligations	18,094	-
Corporate obligations	22,943	-
Common stock - U.S.	-	-
Mortgage and asset backed securities	29,282	-
Commingled and mutual funds	371,186	-
Unsettled securities sold	-	-
Investment loans	23,987	-
Real estate investment trust	-	-
Limited partnerships	16,334	-
Real estate	79,148	-
Receivables, net:		
Loans and advances	74,181	-
Accrued interest	1,677	-
Other	-	23,787
Other assets	12,590	-
Total assets	$ 813,501	$ 49,573
Liabilities		
Accounts payable and accrued liabilities	$ -	$ 49,573
Benefits in process of payment	3,903	-
Unsettled securities purchased	-	-
Securities lending collateral	1,231	-
Other liabilities	39,547	-
Total liabilities	44,681	49,573
Net position restricted for pension benefits	$ 768,820	$ -

See accompanying notes to financial statements.

Government of the United States Virgin Islands

Statement of Changes in Fiduciary Net Position

(in thousands)

Year Ended September 30, 2018	Pension Trust
Additions	
Contributions:	
Employer	$ 96,748
Plan members	44,482
Total contributions	141,230
Investment income:	
Net appreciation of fair value of investments	37,035
Interest, dividends, and other, net	17,684
Real estate – net rental loss	613
Total investment income	55,332
Less investment expense	1,255
Investment income, net	54,077
Other income	7,880
Total additions	203,187
Deductions	
Benefits paid	253,919
Refunds of contributions	11,412
Administrative and operational expenses	14,506
Total deductions	279,837
Change in net position	(76,650)
Net position restricted for pension benefits, beginning of year	845,470
Net position restricted for pension benefits, end of year	$ 768,820

See accompanying notes to financial statements.

1. Summary of Significant Accounting Policies

The Government of the United States Virgin Islands (the Government) is an unincorporated organized territory of the United States of America. The powers of the Government are derived from and set forth in the Revised Organic Act of 1954, as amended. The Government assumes responsibility for public safety, health, public housing and welfare, education, transportation and communication, and culture and recreation.

The accompanying basic financial statements of the Government have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

The accompanying basic financial statements have been prepared primarily from accounts maintained by the Department of Finance of the Government. Additional data has been derived from reports prepared by other departments, agencies, and public corporations based on independent or subsidiary accounting systems maintained by them.

Financial Reporting Entity

For financial reporting purposes, the Government is a primary government (PG). The PG includes all Government departments, agencies, boards, and organizations that are not legally separate. In addition to the PG, the financial reporting entity includes blended and discretely presented component units. Component units include all legally separate organizations for which the Government's elected officials are financially accountable and organizations for which the nature and significance of their relationship with the PG are such that exclusion would cause the reporting entity's financial statements to be misleading. The criteria used to define financial accountability include: (i) if an organization is fiscally dependent on, and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the PG, (ii) a government board appointed by a higher level of government, or (iii) a jointly appointed board.

The financial statements of the following component units are included in the financial reporting entity either as blended or as discretely presented component units in accordance with GAAP:

(a) Blended Component Units

The following public benefit corporations, while legally separate from the Government, meet the criteria to be reported as part of the PG because they provide services entirely or almost entirely to the Government:

Virgin Islands Public Finance Authority (PFA)

PFA was created as a public corporation and autonomous governmental instrumentality by Act No. 5365, *the Government Capital Improvement Act of 1988*, with the purpose of aiding the Government in the performance of its fiscal duties and in effectively carrying out its governmental responsibility of raising capital for essential public projects. Under the enabling legislation, PFA has the power, among other matters, to borrow money and issue bonds and to lend the proceeds of its bonds to the Government or any governmental instrumentality.

The powers of PFA are exercised by a board of directors consisting of the Governor (Chairperson), the Commissioner of Finance, the Director of the Office of Management and Budget, and two representatives of the private sector appointed by the Governor with the advice and consent of the Legislature (the Legislature). PFA activities are blended within the PG and are reported as major funds, except for PFA Special Revenue Fund.

PFA's blended component units, The West Indian Company Limited (WICO) and viNGN, INC. d/b/a Virgin Islands Next Generation Network (viNGN) are presented as major proprietary funds while King's Alley Management, Inc. and Lonesome Dove Petroleum, Inc. are included in other nonmajor proprietary funds in the Government's basic financial statements.

Tobacco Settlement Financing Corporation (TSFC)

TSFC was created in September 2001 under Act No. 6428 as a separate and independent corporation of the Government to purchase the rights, title, and interest in tobacco settlement litigation awards and to issue revenue bonds supported by the tobacco settlement rights. The responsibility for the operations of TSFC is vested in a board of directors composed of three Government officials appointed by the Governor and two private citizens. The activities of TSFC are limited to activities conducted on behalf of the Government. The TSFC is reported in the other governmental funds.

Complete audited financial statements of PFA and TSFC blended component units can be obtained directly by contacting their respective administrative offices:

Administrative Offices of Blended Component Units

Virgin Islands Public Finance Authority
5033 Kongens Gade, Government Hill
St. Thomas, VI 00802

Tobacco Settlement Financing Corporation
5033 Kongens Gade, Government Hill
St. Thomas, VI 00802

(b) Discretely Presented Component Units

The following component units, as required by GAAP are discretely presented in the basic financial statements because of the nature of the services they provide and the Government's ability to impose its will.

The component units are reported in a separate column to emphasize that they are legally separate from the PG and governed by separate boards.

(c) Major Component Units

Virgin Islands Housing Authority (VIHA)

VIHA was created as a public corporation and autonomous governmental instrumentality by Act No. 903 on June 18, 1962, with the purpose of providing housing for low and moderate-income families residing in the U.S. Virgin Islands. The majority of VIHA funding is through two contractual agreements with Housing and Urban Development (HUD). VIHA is required to make payments in lieu of taxes to the PG when residual receipts are available, and whereby the PG agrees to provide municipal services and continue the tax-exempt status of VIHA projects. VIHA is governed by a board of commissioners. The governing board is autonomous and responsible to HUD. An executive director is appointed by VIHA's Board to manage the day-to-day operations.

Virgin Islands Port Authority (VIPA)

VIPA was created as a public corporation and autonomous government instrumentality by Act No. 2375 on December 23, 1968, with the purposes of owning, operating, and managing air and marine terminals of the U.S. Virgin Islands. The powers of VIPA are exercised by a board of governors consisting of the Commissioner of Economic Development and Agriculture (Chairperson), the Attorney General, the Commissioner of Public Works, the Director of the Small Business Development Agency, and five other persons appointed by the Governor with the advice and consent of the Legislature.

Virgin Islands Water and Power Authority (WAPA)

WAPA was created as a public corporation and autonomous governmental instrumentality by Act No. 1248 on August 13, 1964, with the purpose of operating the water production and electric generation plants in the U.S. Virgin Islands. The powers of WAPA are exercised by a governing board consisting of nine members, all appointed by the Governor with the advice and consent of the Legislature, from which three are heads of cabinet-level executive departments or agencies and six other persons, who are nominated by the Legislature. WAPA is required by its bond resolutions to maintain separate audited financial statements for each system (the Electric and Water Systems).

Virgin Islands Government Hospital and Health Facilities Corporation (VIGHHFC)

VIGHHFC was created by Act No. 6012 on August 23, 1994 and became active on May 1, 1999, with the purpose of providing healthcare services and hospital facilities to the people of the U. S. Virgin Islands. The powers of VIGHHFC are exercised by a board of directors consisting of 15 members as follows: the Director of the Office of Management and Budget, the Commissioner of Finance, and 13 other members appointed by the Governor with the advice and consent of the Legislature. The VIGHHFC is composed of the Schneider Regional Medical Center located in St. Thomas, the Governor Juan F. Luis Hospital and Medical Center located in St. Croix, and the Schneider Regional Medical Center Foundation (the Foundation). The hospitals issue separately audited financial statements.

The Schneider Regional Medical Center's financial statements include its component units: the Myra Keating Smith Community Health Center (Health Center) of St. John and the Charlotte Kimelman Cancer Institute (Cancer Institute) on St. Thomas. The Cancer Institute has remained closed following the 2017 hurricanes. The Health Center and Cancer Institute are legally separate organizations for which the Roy L. Schneider Hospital is financially accountable. The Foundation is a legally separate nonprofit corporation for which the Schneider Regional Medical Center is financially accountable. The Juan F. Luis Hospital and Medical Center's financial statements include its component unit: Virgin Islands Cardiac Center at the Governor Juan F. Luis Hospital and Medical Center Foundation, Inc. (VICC Foundation). VICC Foundation is a legally separate nonprofit corporation for which the Juan F. Luis Hospital and Medical Center is financially accountable.

University of the Virgin Islands (the University)

The University was organized as an instrumentality of the Government under Act No. 852 on March 16, 1962, in accordance with Section 16(a) of the Revised Organic Act of 1954, as amended. The University is a higher education institution that offers four-year liberal arts degree and master's degree programs and associates degrees in arts and occupational programs. The powers of the University are exercised by a board of trustees consisting of 17 members as follows: Chairman of the Board of Education, Commissioner of Education, and the President of the University, all serving as members ex-officio, 9 other members appointed by the Governor with the advice and consent of the Legislature, two other members elected by the board of trustees, one representative of the student body, one alumnus of the University, and another representative of the teaching faculty. The University was not organized as a self-sustaining entity and therefore receives financial and other support from the Government.

The University's financial statements include a blended and discretely presented component unit. The Foundation for the University of the Virgin Islands is the blended component unit. This organization operates as a nonprofit corporation whose purpose is to assist and support the University in accomplishing its charitable and educational mission. The Foundation for the Reichhold Center for the Arts is a discretely presented component unit that supports the arts and provides financial assistance in operating an entertainment complex on the St. Thomas campus of the University.

(d) Other Component Units (Nonmajor)

Virgin Islands Economic Development Authority (EDA)

EDA was created by Act No. 6390 on December 21, 2000, as a public corporation and semiautonomous instrumentality of the Government. EDA was created as an umbrella authority of the Economic Development Commission, the Small Business Development Agency, the Government Development Bank, and the Virgin Islands Industrial Development Park Corporation. The powers of EDA are exercised by a board of directors consisting of the members of the Virgin Islands Economic Development Commission, the Director of the Virgin Islands' Bureau of Internal Revenue, and five members not employed by the Government, but appointed by the Governor with the advice and consent of the Legislature.

Magens Bay Authority (MBA)

MBA was created as a corporate instrumentality by Act No. 2085 on December 20, 1967, with the purpose of acquiring, improving, and operating parks and beaches. The powers of MBA are exercised by a board of directors consisting of the Governor and six members initially appointed by the Governor. The board of directors is responsible for the appointment and reappointment of subsequent board members except that the Governor, with the advice and consent of the Legislature may, by appointment, fill any vacancy on the board of directors remaining unfilled for sixty days.

Virgin Islands Housing Finance Authority (VIHFA)

VIHFA was created as a public corporation and autonomous governmental instrumentality by Act No. 4636 on October 20, 1981, with the purpose of stimulating low and moderate-income housing construction and home ownership through the issuance of revenue bonds to provide low-interest mortgage loans to qualified purchasers of low and moderate-income housing. On October 31, 2008, VIHFA established the Virgin Islands Housing Management, Inc. (VIHM), a wholly owned nonprofit subsidiary that manages VIHFA's rental properties. The financial statements of VIHM are separately issued, and not blended into the PG. The powers of VIHFA are exercised by a board of directors consisting of the Commissioner of the Department of Housing, Parks, and Recreation (the Chairman), the Director of the Office of Management and Budget, and three persons not employed by the Government appointed by the Governor with advice and consent of the Legislature.

Virgin Islands Public Broadcasting System (VIPBS)

VIPBS was created as a public corporation and autonomous instrumentality by Act No. 2364 on November 15, 1968, with the purpose of advancing the general welfare, education, cultural development, and awareness of public affairs of the population of the U.S. Virgin Islands as well as to provide an effective supplement to the in-school education of children.

The powers of VIPBS are exercised by a board of directors consisting of the Commissioner of Education, the Chairman of the Board of Education, three members appointed by the President of the Legislature, and four members, not more than two of whom should be employed by the Government and appointed by the Governor with the advice and consent of the Legislature.

In addition, the Director of the Office of Management and Budget, the President of the University of the Virgin Islands, and the General Manager of VIPBS are ex-officio members of the board who are not entitled to vote.

Virgin Islands Waste Management Authority (VIWMA)

VIWMA was established as an autonomous instrumentality of the Government by Act No. 6638 and approved by the Governor of the Virgin Islands on January 23, 2004. VIWMA provides environmentally sound management for the collection and disposal of solid waste in the Territory, including operation and closure of landfills and wastewater collection, treatment, and disposal. VIWMA is governed by a Board of Directors consisting of seven members.

University of the Virgin Islands Research and Technology Park Corporation (RTPark)

RTPark was established as an autonomous instrumentality of the Government by Act 6502 on February 21, 2002, as amended, by Act 6725, the Protected Cell Amendments Act of 2005. RTPark was organized for internet commerce and technology, providing an enabling environment for research, development, business incubation and technology-driven businesses.

RTPark is governed by a Board of Directors consisting of seven members, including the Chairman of the Board of Trustees of the University, the President of the University, two trustees selected from among the Board of Trustees of the University, and three members selected by the Governor.

Complete audited financial statements of the discretely presented component units can be obtained directly by contacting their administrative offices:

Administrative Offices

Virgin Islands Housing Authority
9900 Oswald Harris Court
St. Thomas, VI 00802

Virgin Islands Port Authority
P.O. Box 301707
St. Thomas, VI 00803-1707

Virgin Islands Water and Power Authority
P.O. Box 1450
St. Thomas, VI 00804-1450

Virgin Islands Government Hospital and Health Facilities Corporation
9048 Sugar Estate, 2nd floor
St. Thomas, VI 00802

University of the Virgin Islands
2 John Brewer's Bay
St. Thomas, VI 00802

Virgin Islands Economic Development Authority
8000 Nisky Shopping Center, Suite 620
St. Thomas, VI 00802

Magens Bay Authority
P.O. Box 10583
St. Thomas, VI 00801

Virgin Islands Housing Finance Authority
3202 Demarara
Frenchtown Plaza, Suite 200
St. Thomas, VI 00802

Virgin Islands Public Broadcasting System
P.O. Box 7879
St. Thomas, VI 00801

Virgin Islands Waste Management Authority
1 A&B Demarara
St. Thomas, VI, 00802

University of the Virgin Islands Research and Technology Park Corporation
RR1 Box 10000
Kingshill, St. Croix, VI 00850-9781

All financial statements of the discretely presented component units have a fiscal year end of September 30, 2018, except for WAPA and VIHA which have a fiscal year-end of June 30, 2018 and December 31, 2017, respectively.

(e) Fiduciary Component Unit

The following public benefit corporation is legally separate from the Government, meets the definition of a blended component unit, and is presented in the fund financial statements along with other fiduciary funds of the Government. Fiduciary funds are not reported in the government-wide financial statements.

Employees' Retirement System of the Government of the Virgin Islands (GERS)

GERS was created as an independent and separate agency of the Government with the purpose of administering the Government's and the component units' cost-sharing, multi-employer defined benefit pension plan. GERS was established on October 1, 1959. The responsibility for the operation of GERS is vested in a board of trustees composed of seven members appointed by the Governor with the advice and consent of the Legislature.

Employee and employer contributions to GERS are recognized as additions to net position held in trust for employees' pension benefits in the period in which employee services are performed, except for contributions pursuant to the Early Retirement Act of 1994, which are recorded as the cash is received. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan, except for benefits pursuant to sections 8(a) and 8(b) of the Early Retirement Act of 1994, which are recorded when the subsidy provided by the Government is receivable and payable.

Complete audited financial statements of this component unit can be obtained directly by contacting its administrative office:

Government Employees' Retirement System of the Virgin Islands
3438 Kronprindsens Gade
St. Thomas, VI 00802

Government-wide and Fund Financial Statements

The government-wide financial statements (that is, the statement of net position and the statement of activities) report information on all the non-fiduciary activities of the PG and its component units. The effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the PG is reported separately from certain legally separate component units for which the PG is financially accountable. The statement of net position presents the reporting entities' non-fiduciary assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment.

Program revenues include (i) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (ii) grants and contributions that are restricted to meeting the operational or capital requirements of a function or segment. Taxes and other items are not included among program revenues and are appropriately reported instead, as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

(a) Government-wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting in conformity with GAAP as prescribed by the GASB. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue when eligibility requirements have been met.

(b) Governmental Fund Financial Statements

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it is both measurable and available. Revenues are deemed available when they become susceptible to accrual and are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Government considers most revenue to be available if collected within 90 days of the end of the current fiscal year-end. Specifically, gross receipts taxes, real property taxes, and income taxes are deemed available if collected within 30, 60, and 90 days, respectively, after the end of the current fiscal year-end.

Grant revenue is deemed available if collected within the 12 months after the end of the current fiscal year-end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, compensated absences, debt service, other postemployment benefits and pension expenditures are recorded only when payment is due.

Income taxes, gross receipts taxes, real property taxes, and grant funding are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period to the extent they are considered available. All other revenue items are deemed measurable and available only when cash is received by the Government.

(c) Proprietary Funds, Fiduciary Funds, and Discretely Presented Component Units Financial Statements

The financial statements of the proprietary funds, fiduciary funds, and discretely presented component units are reported using the economic resources measurement focus and the accrual basis of accounting also used in the government-wide financial statements described above.

Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Fund Accounting

The Government reports its financial position and results of operations in funds, which are considered separate accounting entities. The operations of each fund are accounted for within a set of self-balancing accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial, and contractual provisions. Generally accepted governmental accounting principles establish criteria (percentage of the assets, liabilities, revenue, or expenditures/expenses of either fund category or the governmental and enterprise funds combined) for the determination of major funds. Indirect costs are automatically allocated and reported in the program expense for each fund. Non-major funds are combined in a single column in the fund financial statements. The Government reports the following major funds:

(a) Governmental Funds

The Government reports the following major governmental funds:

- General Fund – The general fund is the Government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

- PFA Debt Service Fund – PFA debt service fund accounts for the resources accumulated, and payments made, for principal and interest on long-term general obligation debt issued by PFA on behalf of the Government.

- PFA Capital Projects Fund – PFA capital projects fund accounts for bond proceeds of debt issued by PFA on behalf of the Government. The bond proceeds have been designated for certain necessary public safety and capital development projects which are accounted for in this fund.

- Federal Grants Fund - The federal grants fund accounts for proceeds and payments that are restricted to expenditures for specified purposes.

(b) Proprietary Funds

These funds account for those activities for which the intent of management is to recover, primarily through user charges, the cost of providing goods or services to the general public. The Government reports the following major proprietary funds:

- The West Indian Company Limited – WICO, a blended component unit of PFA, accounts for the activities of a cruise ship pier and shopping mall complex on the island of St. Thomas.

- Unemployment Insurance Fund – The unemployment insurance fund accounts for the collection of unemployment premiums from employers in the U.S. Virgin Islands, and the payment of unemployment benefits to eligible unemployed recipients.

- viNGN, INC. d/b/a as Virgin Islands Next Generation Network (viNGN) – viNGN, a blended component unit of PFA, accounts for the management of a middle mile wholesale fiber optic network providing reliable high-speed internet access to retail internet service providers and public infrastructure stewards.

(c) Fiduciary Funds

Fiduciary funds are used to account for assets held by the Government in a trustee capacity, or as an agent for individuals, private organizations, and other governmental units. The following are the Government's fiduciary funds:

- Pension Trust Fund – The pension trust fund accounts for the activities of GERS, an independent and separate agency of the Government, responsible for the proper operation of the Government's defined benefit pension plan.

- Agency Fund – The agency fund is custodial in nature and does not involve measurement of the results of operations.

Cash and Cash Equivalents

The Government follows the practice of pooling cash. The balance in the pooled cash accounts is available to meet current operating requirements and any excess is invested in various interest-bearing accounts and time deposits with eligible depository institutions.

Cash equivalents of the proprietary funds and discretely presented component units consist of demand accounts, money market accounts, certificates of deposit with maturities of not more than 90 days from the date of acquisition, money market funds, short-term U.S. government and its agencies' obligations, and repurchase agreements with a U.S. commercial bank maturing within three months. Cash and cash equivalents of the discretely presented component units are maintained in separate bank accounts from those of the PG, in their own names.

By law, banks, or trust companies designated as depositories of public funds of the Government are to maintain corporate surety bonds or pledge collateral satisfactory to the Commissioner of Finance to secure all governmental funds deposited. The Government maintains an irrevocable stand-by letter of credit in the amount of $375.0 million with the Federal Home Loan Bank of New York to serve as pledged collateral for public fund depositories held at Banco Popular de Puerto Rico.

For the purpose of the statement of cash flows, cash and cash equivalents are defined to be cash on hand, demand deposits, restricted cash and investments, and highly liquid investments with a maturity of three months or less from the date of purchase. For financial statement presentation purposes, cash and cash equivalents are shown as cash and investments and restricted cash and investments.

Investments

The PG and its component units follow the provisions of GAAP which establishes and modifies the following disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk), interest rate risk, and foreign currency risk.

Investment policies of the PG, its blended component units, major funds, and major component units are as follows:

- *Primary Government Investment Policies* - Title 33, Chapter 117 of the Virgin Islands Code (V.I. Code) authorizes the Government to invest in U.S. Government and its agencies' obligations, mortgage-backed securities, repurchase agreements, commercial paper, local government obligations, and corporate debt and equity obligations.

  As of September 30, 2018, the General Fund, the Virgin Islands Lottery, a nonmajor enterprise fund, and an agency fund had invested in certificates of deposit with two local banks. Investments are reported at fair value at September 30, 2018.

- *PFA Investment Policies* – Investments of PFA are reported at fair value. Various bond resolutions of PFA restrict investments to direct obligations of the U.S. Government, territories, possessions and states, specific bank obligations, investment agreements or similar funding agreements, shares or other interests in mutual funds, trusts or investment companies, corporate commercial paper, and money market portfolios consisting of any of the foregoing. PFA has retained investment managers and investments are held in trust by a commercial bank on behalf of PFA. PFA handles investments for two major governmental funds of the Government: PFA Debt Service Fund and PFA Capital Projects Fund.

- *Tobacco Settlement Financing Corporation Investment Policies* – Various bond resolutions of this blended component unit restrict investments to direct obligations of the U.S. Government, territories, possessions and states, specific bank obligations, investment agreements or similar funding agreements, shares or other interests in mutual funds, trusts or investment companies, corporate commercial paper, and money market portfolios consisting of any of the foregoing. TSFC has retained investment managers and investments are held in trust by a commercial bank on behalf of the TSFC. Investments are reported at fair value in the non-major governmental fund of the Government.

- *VIHA Investment Policies* – This major component unit is required by the U.S. Department of Housing and Urban Development (HUD) to invest excess funds in obligations of the United States, certificates of deposit, or any other federally insured investment. HUD requires that deposits be fully collateralized and may be held by an unaffiliated bank or trust company for the account of the VIHA.

- *WAPA and VIPA Investment Policies* – These major component units are authorized under bond resolutions and the V.I. Code to invest in open accounts, time deposits, non-negotiable certificates of deposit, repurchase agreements, obligations of the U.S. government, and obligations of any state within the United States, mutual funds, and corporate commercial paper. Investments are reported at fair value.

- *VIGHHFC Investment Policies* – The board of trustees of this major component unit has not developed a formal investment policy.

- *University Investment Policies* – The board of trustees of this major component unit is responsible for the management of the University's investments and establishes an investment policy, which is carried out by the Vice President for Administration and Finance. The University and its component unit, the Foundation for the Reichhold Center of the Arts have a formal investment policy approved by their corresponding board of trustees, which contains a requisite section on addressing risks. The University's investments are included in the Foundation's investment portfolio for management and investment purposes.

- *Pension Trust Fund Investment Policies* – The board of trustees of GERS has enacted policies that limit investments in certain investment categories and provide requirements for the institutions managing investments. Under those policies, GERS may invest in U.S. Government and agencies obligations, bonds or notes of any state, territory or possession of the United States, municipal bonds and obligations, foreign bonds, bonds of domestic railroad corporations, public utility bonds, industrial corporate bonds or trust certificates, common and preferred shares of foreign and domestic corporations, mutual funds, mortgage or personal loans to GERS members or retirees, and mortgage and asset-backed securities. Investments in bonds are subject to rating restrictions of BBB and may not exceed 2% of the portfolio. Investments in stock of a single corporation may not exceed 1% of the market value of the fund or exceed 1% of the outstanding stock of the corporation.

The aggregate amount of investments in stock may not exceed 60% of the market value of total investments of GERS. Investment in foreign stock should be limited to 10% of the market value of the total investments of GERS. Any investment of 20% or more of the aggregate value of the portfolio must be approved by two-thirds of the membership of the board of trustees. The investments are administered by several professional investment managers and are held in trust by a commercial bank on behalf of GERS.

Investments in equity securities in the GERS pension trust fund are reported at quoted market values. Shares of mutual funds are reported at the net asset value of shares held by GERS at year-end. Purchases and sales are recorded on a trade-date basis. Realized gains and losses on securities are determined by the average cost method.

GERS is authorized to provide loans to businesses approved by the Board of Trustees as alternative investments. On December 8, 2009, GERS executed a loan agreement with Carambola Northwest, LLC (Carambola), a condominium, hotel and golf resort on the island of St. Croix. The five-year term loan in the amount of $15.0 million was collateralized with all real property holdings of Carambola, with an interest rate of 10.5% per annum. Carambola subsequently went into default on the loan agreement. On May 11, 2013, GERS exercised its rights under the loan agreement and executed a preliminary Disposition Agreement with Carambola assuming management and ownership of the resort complex. As of September 30, 2018, the complex had an appraised value of $15.0 million.

On July 18, 2012, GERS executed a loan agreement with Attilanus. Under the terms of the agreement, a credit facility of $10.0 million was made available to meet on-going premium costs and other expenses of the Company. The terms of the credit facility require interest payments at a rate of 15% per annum, and principal payments reduce the future amount available. The entire loan principal and accrued and unpaid interest was to be repaid at the termination of the credit facility on July 10, 2017. The loan was not paid on the termination date and as of September 30, 2018, the outstanding balance of the credit facility was $10.0 million. GERS has received interest payments totaling $3.4 million.

On September 24, 2013, GERS entered into a loan agreement with KAZI Foods of the Virgin Islands, Inc. in the amount of $6.0 million at an interest rate of 6.25%, and a maturity date of October 23, 2023. At September 30, 2018, the outstanding principal balance on the loan is $3.6 million.

On June 30, 2014, GERS entered into a construction loan agreement with V.I. Finest Foods, LLC in the amount of up to $8.2 million at an interest rate of 6.4%, with an interest-only period of 17 months and a fully amortizing period of 103 months. The loan was subsequently modified on May 24, 2016, to provide an increase in the principal amount of the loan to $11.0 million and an extended maturity date of March 31, 2025. At September 30, 2018, the outstanding balance of the loan is $10.4 million.

GERS has also invested in Havensight Mall, a shopping and pier complex on the island of St. Thomas with a fair market value of $41.0 million and the limited partnership Mesirow with a fair market value of $16.3 million at September 30, 2018.

GERS owns administrative facilities on the islands of St. Thomas and St. Croix. Portions of the facilities are leased to government agencies and commercial tenants, and portions of the facilities are utilized for GERS operations. The investment in real estate is reported at its appraised value, which approximates fair value, in the amount of $23.1 million at September 30, 2018.

Receivables

Taxes receivable represent amounts owed by taxpayers for individual and corporate income taxes, gross receipts taxes, excise taxes, hotel occupancy taxes, and real property taxes. Federal government receivables represent amounts owed to the Government for reimbursement of expenditures/expenses incurred pursuant to federally funded programs.

Accounts receivable are reported net of estimated allowances for uncollectible amounts, which are determined, based upon past collection experience and current economic conditions.

The accounts receivable from non-governmental customers of the discretely presented component units are net of estimated uncollectible amounts. These receivables arise primarily from service charges to users.

Interfund and Intra-Entity Transactions

The Government has the following types of transactions among funds:

- *Interfund Transfers* – Legally required transfers are reported as interfund transfers in (out) when incurred. Transfers between the PG and its blended component units are reported as interfund transfers, except for transfers within the same fund type.

- *Intra-entity Transactions* – These are transactions between the PG and its discretely presented component units, and among the component units.

Similarly, receivables and payables between the PG and its blended component units are reported as amounts due from (to) other funds. Transfers between the PG and discretely presented component units (and among those component units) are reported separately as revenue and expenses or expenditures. Amounts owed to and from discretely presented component units by the PG are reported separately from interfund payables and receivables as due from (to) component units, net of allowance for estimated uncollectible amounts.

Restricted Assets

Restricted assets in the PG and discretely presented component units are set aside primarily for the payment of bonds, notes, construction funds, unemployment benefits, and other specific purposes.

Capital Assets

Capital assets, which include land, land improvements, buildings, building improvements, machinery and equipment, construction in progress, intangibles and infrastructure assets are reported in the applicable governmental, business-type activities, and component unit columns in the government-wide financial statements as well as in the applicable proprietary funds reported in the fund financial statements.

The PG defines capital assets as assets that have an initial, individual cost and useful lives of: (i) $5,000 for personal property with a useful life of five years; (ii) $50,000 for buildings and building improvements with estimated useful lives of 40 and 20 years, respectively; (iii) $100,000 for land improvements with an estimated useful life of 20 years; (iv) $200,000 for intangibles with estimated useful lives between 2 and 15 years; and (v) $200,000 for infrastructure with an estimated useful life of 30 years. All costs of acquiring land are capitalized.

Capital assets purchased or acquired are carried at historical cost or normal cost. The normal costing method to estimate cost based on replacement cost indexed by a reciprocal factor of the price increase from the appraisal date to the actual or estimated acquisition date was used to estimate the historical cost of certain land, buildings, and building improvements because invoices and similar documentation was no longer available in certain instances. Donated capital assets are recorded at acquisition value at the time of donation.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest costs are capitalized during the construction period only for business-type activities and proprietary component units. The costs of routine maintenance and repairs that do not add value to the assets or materially extend asset lives are expensed as incurred.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements.

Depreciation expense is recorded in the government-wide financial statements, as well as the proprietary funds and component units' financial statements.

Capital assets of the PG, excluding land and construction in progress, are depreciated on the straight-line method over the assets' estimated useful lives.

The estimated useful lives of capital assets reported by the component units are (i) 4 to 50 years for buildings and building improvements; (ii) 20 to 40 years for airports and marine terminals; (iii) 40 to 100 years for water transmission and distribution mains; and (iv) 3 to 25 years for vehicles and equipment.

The PG and its component units review the carrying value of their capital assets to determine if circumstances exist indicating impairment. If facts or circumstances support the possibility of impairment, management follows the guidance in GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. If impairment is indicated, an adjustment is made to the carrying value of the capital assets.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents consumption of the net position that applies to future period(s) and is not recognized as an outflow of resources (expense/expenditure) until the future date occurs.

The Government has two items for financial reporting in these categories, as follows:

- Deferred amounts related to pension represent unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer's reporting period.

- Deferred charges on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time.

The Government has three items for financial reporting in this category, as follows:

- Deferred amounts related to pension consist of the unamortized portion of the difference between expected and actual experience, net difference between projected and actual earnings on pension plan investments, changes in assumptions, and changes in proportion and differences between contributions and proportional share of contributions.

- Deferred amounts related to other postemployment benefits consisting of the unamortized portion of the changes in assumptions and other inputs.

- Modified accrual basis of accounting - Unavailable revenues qualify for reporting in this category. The item, *unavailable revenues*, is reported only in the governmental funds' balance sheet. The governmental funds report unavailable revenues from three sources: property taxes, gross receipts taxes, and income taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Tax Refunds Payable

During the calendar year, the Government collects individual income taxes through withholdings and payments from taxpayers. At September 30th, the Government estimates the amount owed to taxpayers for overpayments during the first nine months of the calendar year. These estimated amounts and the actual tax refunds claimed for prior years but not paid at year-end are recorded as tax refunds payable and as a reduction of tax revenue.

Compensated Absences

The vacation policy of the Government provides for the accumulation of four, six, or eight hours for each full biweekly pay period depending on the time of entry into government service. At the beginning of each calendar year, vacation leave is limited to 480 hours (60 days). However, the excess of 480 hours is considered by GERS for service credit towards the employees' retirement.

This vacation policy does not apply to professional educational personnel of the Virgin Islands Department of Education, who receive compensation during the school breaks. Upon retirement, an employee receives compensation for unused vacation leave at the employee's base pay rate.

Employees accumulate sick leave at a rate of four hours for each full biweekly pay period up to a maximum of 180 days. Separated employees do not receive payment for unused sick leave; therefore, a provision for accumulated sick leave is not required.

Compensated absences accumulation policies for the blended component units and discretely presented component units vary from entity to entity, depending upon negotiated bargaining agreements and other factors agreed upon between the management of these entities and its employees.

Long-term Liabilities

The liabilities reported in the government-wide financial statements include the Government's bonds, long-term notes, pension liabilities and other long-term liabilities including: accrued compensated absences, retroactive union arbitration, litigation, landfill closure and post closure costs, postemployment benefits, and workers compensation claims.

Bond premiums, discounts, and amounts deferred on capital appreciation bonds are amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premiums and discounts. Issuance costs are reported as expenses in the year incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Net Position

Net position is reported in three categories:

- *Net Investment in Capital Assets* – This consists of capital assets, net of accumulated depreciation and amortization, and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets. Debt pertaining to significant unspent debt proceeds are not included in the calculation of invested in capital assets, net of related debt. The unspent portion of the debt is presented, net of the related debt, as restricted for capital projects.

- *Restricted Net Position* – Constraints placed on the use of assets are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

- *Unrestricted Net Position* – These consist of assets which do not meet the definition of the two preceding categories.

When both restricted and unrestricted resources are available for use, generally it is the Government's policy to use restricted resources first, then the unrestricted resources, as needed.

Fund Balance

GAAP provides a hierarchy of classifications based primarily on the extent to which the Government is bound to honor constraints on the specific purposes for which amounts in funds may be spent. Following are the fund classifications:

- *Restricted Fund Balance* – Fund balances constrained by externally imposed constraints such as constitutional provisions, laws and regulations, debt covenants, and grantors. The Government's policy is to consider restricted amounts to have been spent first when expenditures are incurred for which both restricted and unassigned fund balances are available.

- *Committed Fund Balance* – Fund balances subject to constraints imposed by the Government's highest level of decision-making authority including legislation enacted by the Legislature of the Virgin Islands and resolutions or ordinances enacted by Government elected regulatory boards and authorities. Committed fund balances may be modified or rescinded by enacted legislation, or amendment of resolutions or ordinances.

- *Assigned Fund Balance* – Fund balances subject to budgetary constraints of the Legislature, the Office of Management and Budget, or authorizing boards of the Government, that are not restricted or committed.

  Budgetary authority of the Office of Management and Budget is provided by Title 2, Sections 22, 23, 26 and 27 VIC, and Executive Order No. 371-1997. The Government's policy is to expend assigned or committed amounts, before unassigned amounts, when an expenditure is incurred.

- *Unassigned Fund Balance* – Unassigned fund balance is the residual classification for the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. The residual deficit of the Federal Grants Fund and other governmental funds are also reported as unassigned fund balance.

Risk Management

With some exceptions, the Government does not carry general liability insurance coverage on its properties or the acts of its employees, relying instead on self-insurance and/or statutory liability limitations. The Government purchases commercial insurance for physical losses or damages against its property. The limit of liability for all risks, excluding earthquake, windstorm, and flood, is $1.0 million for each occurrence except for windstorm and flood losses, which has a $45.0 million limit. For physical losses arising from earthquake, the insurance policy has a limit of $100.0 million for each occurrence and in the annual aggregate.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Adoption of Accounting Pronouncements

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions. It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The requirements of this Statement are effective for the Government's financial statements for the year ended September 30, 2018. Also see Note 15 and Note 17.

In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. This Statement improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The requirements of this Statement are effective for the Government's financial statements for the year ended September 30, 2018. The Government has evaluated this Statement and has determined there is no impact on the financial statements.

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. This Statement addresses practical issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. The requirements of this Statement are effective for the Government's financial statements for the year ended September 30, 2018. The Government has evaluated this Statement and has determined there is no impact on the financial statements.

In May 2017, the GASB issued Statement No. 86, C*ertain Debt Extinguishments Issues*. This Statement improves consistency in accounting and financial reporting for in-substance defeasance of debt. The Statement provides guidance for transactions in which cash and other monetary assets acquired with existing resources are placed in an irrevocable trust for the sole purpose of extinguishing debt. The requirements of this Statement are effective for the Government's financial statements for the year ended September 30, 2018. The Government has evaluated this Statement and has determined there is no impact on the financial statements.

Following are statements issued by GASB that are effective in future years. In light of the COVID-19 pandemic, on May 8, 2020, the GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, to provide relief to governments. This Statement, which was effective upon issuance, postpones the effective dates of certain provisions in these upcoming pronouncements for one year, except for GASB Statement No. 87 which is postponed for eighteen months.

GASB Statement No.		Adoption Effective in Fiscal Year (as Revised)
83	Certain Asset Retirement Obligations	2020
84	Fiduciary Activities	2021
87	Leases	2022
88	Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements	2020
89	Accounting for Interest Cost Incurred Before the End of a Construction Period	2022
90	Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61	2021
91	Conduct Debt Obligations	2023
92	Omnibus 2020	2022
93	Replacement of Interbank Offered Rates	2022
94	Public-Private and Public-Public Partnerships and Availability Payment Arrangements	2023

Certain provisions of GASB Statement No. 92 are excluded from GASB Statement No. 95. Additionally, GASB Statement No. 95 excludes provisions in GASB Statement No. 93 related to lease modifications and excludes GASB Statement No. 94 since the GASB considered the pandemic in determining effective dates. Earlier application of the standards is permitted to the extent specified in each pronouncement as originally issued. The Government is currently evaluating the impact of these statements.

2. Component Units

The basic financial statements include the financial statements of the following discretely presented component units:

Major Component Units

- Virgin Islands Housing Authority
- Virgin Islands Port Authority
- Virgin Islands Water and Power Authority
- Virgin Islands Government Hospital and Health Facilities Corporation
- University of the Virgin Islands

Other Component Units (Nonmajor)

- Virgin Islands Economic Development Authority
- Magens Bay Authority
- Virgin Islands Housing Finance Authority
- Virgin Islands Public Broadcasting System
- Virgin Islands Waste Management Authority
- University of the Virgin Islands Research and Technology Park Corporation (unaudited)

Condensed financial information as of September 30, 2018, of all discretely presented component units follows (expressed in thousands):

	Housing Authority	Virgin Islands Port Authority	Virgin Islands Water and Power Authority		Hospital and Health Facilities Corporation		University of the Virgin Islands	Other Component Units*	Total Component Units
			Electric System	Water System	Schneider Regional Medical	Juan F. Luis Hospital			
Assets and deferred outflows of resources									
Current assets	$ 34,951	$ 70,455	$ 82,554	$ 11,621	$ 18,028	$ 25,110	$ 15,470	$ 164,825	$ 423,014
Due from primary government	-	-	33,078	5,432	-	2,766	651	9,024	50,951
Due from federal government	764	4,959	36,671	1,072	1,307	1,733	3,167	23,025	72,698
Restricted assets	1,022	26,350	55,870	792	1,250	1,411	65,704	53,878	206,277
Capital assets, net	56,536	216,462	931,474	66,056	34,695	21,545	58,180	167,847	1,552,795
Other noncurrent assets	6,361	600	18,726	-	419	-	13,552	40,231	79,889
Deferred outflows of resources	15,779	38,039	58,059	11,892	33,521	50,294	17,802	25,025	250,411
Total assets and deferred outflows of resources	115,413	356,865	1,216,432	96,865	89,220	102,859	174,526	483,855	2,636,035
Liabilities and deferred inflows of resources									
Current liabilities	5,801	28,674	443,198	9,766	34,367	38,999	10,407	221,278	792,490
Due to primary government	-	-	-	-	20,094	47,305	-	-	67,399
Due to federal government	-	-	4,142	-	-	-	-	-	4,142
Bonds payable - long-term	-	39,717	253,954	75,000	-	-	-	-	368,671
Notes payable - long-term	-	-	-	-	-	-	79,416	9,253	88,669
Due to (from) component unit	-	-	69,692	(69,692)	-	10,160	-	-	10,160
Pension liabilities	72,534	148,005	247,391	50,670	146,633	134,218	84,782	105,638	989,871
Other postemployment benefits	11,552	23,127	46,280	9,479	-	-	10,589	-	101,027
Other noncurrent liabilities	2,752	2,618	145,686	-	-	-	4,673	10,550	166,279
Unearned revenue - long-term	-	-	-	-	-	-	-	3,609	3,609
Deferred inflows of resources	6,790	12,484	53,950	11,050	24,776	14,129	5,391	9,720	138,290
Total liabilities and deferred inflows of resources	99,429	254,625	1,264,293	86,273	225,870	244,811	195,258	360,048	2,730,607
Net assets (deficit):									
Invested in capital assets, net of related debt	54,786	198,058	610,288	66,056	34,695	18,092	(19,385)	150,632	1,113,222
Restricted	1,188	26,926	22,718	649	1,249	101	38,250	66,767	157,848
Deficit	(39,990)	(122,744)	(680,867)	(56,113)	(172,594)	(160,145)	(39,597)	(93,592)	(1,365,642)
Total net position (deficit)	$ 15,984	$ 102,240	$ (47,861)	$ 10,592	$ (136,650)	$ (141,952)	$ (20,732)	$ 123,807	$ (94,572)

**University of the Virgin Islands Research and Technology Park Corporation (unaudited)*

Information on Statement of Activities	Expenses	Program revenue: Charges for Services	Program revenue: Operating Grants and Contributions	Program revenue: Capital Grants and Contributions	Total Component Units
Virgin Islands Port Authority	$ 86,061	$ 40,825	$ -	$ 9,726	$ (35,510)
Virgin Islands Housing Authority	55,488	6,898	38,538	2,496	(7,556)
Virgin Islands Water and Power Authority:					
Electric System	295,344	133,656	-	414,194	252,506
Water System	30,513	24,769	-	1,303	(4,441)
Virgin Islands Government Hospital and Health Facilities Corporation:					
Roy L. Schneider Hospital	73,184	37,971	22,834	2,385	(9,994)
Juan F. Luis Hospital	66,119	20,887	20,635	119	(24,478)
University of the Virgin Islands	80,896	44,483	21,470	4,992	(9,951)
Other component units*	311,753	42,419	247,660	2,718	(18,956)
Total activities	$ 999,358	$ 351,908	$ 351,137	$ 437,933	$ 141,620
General revenue:					
Interest and other					21,266
Special item - impairment losses on capital assets, net					(45,539)
Changes in net position					117,347
Net position, beginning of year (*as restated*)					(211,919)
Net deficit, end of year					$ (94,572)

**University of the Virgin Islands Research and Technology Park Corporation (unaudited)*

The summary of due to/from primary government and component units as of September 30, 2018, is as follows (expressed in thousands):

	Due from PG/ Component Units	Due to PG/ Component Units
Governmental funds:		
General fund	$ 65,959	$ 15,904
PFA capital projects	-	2,048
Other governmental funds	30,857	4
Discretely presented component units:		
WAPA – Electric System	33,078	-
WAPA – Water System	5,432	-
Hospital and Health Facilities Corporation	2,766	67,399
University of the Virgin Islands	651	-
Other component units*	9,024	-
	$ 147,767	$ 85,355

**University of the Virgin Islands Research and Technology Park Corporation (unaudited)*

The amounts reported by the Governmental funds and the discretely presented component units may not agree due to reporting on different fiscal year-ends.

3. Cash and Cash Equivalents

Primary Government

At September 30, 2018, the PG reported $288.9 million in unrestricted cash and cash equivalents and $5.3 million in restricted cash and cash equivalents. All bank balances were fully collateralized.

Pension Trust Fund

GERS considers all highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents. At September 30, 2018, GERS held $162.8 million in cash and cash equivalents consisting of: $146.0 million in money market accounts and $16.8 million in operational accounts.

Component Units

At September 30, 2018, discretely presented component units held $149.5 million in unrestricted cash and cash equivalents and $84.7 million in restricted cash and cash equivalents.

4. Investments

Fair Value Measurements

The Government categorizes the fair market measurements of its investments within the fair value hierarchy established by GAAP. GASB Statement No. 72, *Fair Value Measurement and Application*, provides the framework for measuring fair value by establishing a three-level fair value hierarchy that describes inputs that are used to measure assets and liabilities as follows:

Level 1: Inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.

Level 2: Inputs are other than quotes prices included within Level 1 that are observable for an asset or liability, that are either directly or indirectly observable.

Level 3: Inputs are significant unobservable inputs.

The fair value hierarchy gives the highest priority to Level 1 and the lowest priority to Level 3 inputs. If a price for an identical asset is not observable, a government may evaluate fair market value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. If the fair value of an asset is measured using inputs from more than one level of the fair market value hierarchy, the measurement is based on the lowest level input that is significant to the entire measurement.

The following section describes the valuation technique methodologies the Government is using to measure assets at fair value:

Level 1: Investments classified within Level 1 are valued based on quotes obtained from active public exchanges or reported on the national market and are stated at the last reported sales price on the day of valuation. Fair value of exchange-traded contracts is based upon exchange settlement prices.

Level 2: Investments classified within Level 2 are valued by pricing vendors using outside data. In determining the fair value of the investments, the pricing vendors use a market approach and pricing spreads based on the credit risk of the issuer, maturity, current yield, and other terms and conditions of each security. The commercial paper, certificates of deposit, U.S. government, agency and state obligations, U.S. Treasury notes, debt securities are classified as Level 2 instruments as their fair value is based on quoted values stated by the bank's mark-to-market estimate using a stated fixed rate. The interest rate is observable at commonly quoted indexes for the full term of the instruments.

Level 3: Investments in limited partnerships and private debt/direct lending are classified within Level 3 of the fair value hierarchy. Given the absence of market quotations, fair value is estimated using the information provided by the investment managers or general partners. The values are based on estimates that require varying degrees of judgment and, for the fund of funds investments, are primarily based on financial data supplied by the investment managers of the underlying funds.

Individual holdings within alternative investments may include instruments in both nonmarketable and market-traded securities. Nonmarketable securities may include equity in private companies, real estate, thinly traded securities, and other investment vehicles. While these financial instruments contain varying degrees of risk, the Government's exposure with respect to each such investment is limited to carrying amount (fair value as described above).

Assets using net asset value per share as fair value are not required to be categorized using the fair value hierarchy levels.

As of September 30, 2018, the PG's investments include a non-negotiable certificate of deposit, which is not subject to the fair value hierarchy.

Primary Government

Following are the investments of the PG categorized within the three-level fair value hierarchy:

		(in thousands)		
	September 30, 2018	**Level 1**	**Level 2**	**Level 3**
Money market funds	$ 320,704	$ 320,704	$ -	$ -
Investments with contractual maturities:				
Certificates of deposit	4,065	-	4,065	-
U.S. government, agency and state obligations	122,554	-	122,554	-
U.S. Treasury notes	31,222	-	31,222	-
Portfolio investments:				
Commercial paper	140,668	-	140,668	-
Subtotal	619,213	$ 320,704	$ 298,509	$ -
Investments, at cost:				
Non-negotiable certificate of deposit	10,145			
Others	22			
Total	$ 629,380			

Following is a summary of the investments of the PG categorized by investment type and weighted average maturity, as of September 30, 2018, (expressed in thousands):

		Maturity (in years)		
	Fair Value	**Less Than 1 Year**	**1 to 5 Years**	**Over 5 Years**
Investments with contractual maturities				
Certificates of deposit	$ 14,210	$ 14,210	$ -	$ -
U.S. government, agency and state obligations	122,554	16,700	105,854	-
U.S. Treasury notes	31,222	31,222	-	-
Portfolio investments				
Commercial paper	140,668	140,434	-	234
Other investments	22	22		
Total investments with contractual maturities	308,676	$ 202,588	$ 105,854	$ 234
Investments without contractual maturities				
Money market funds	320,704			
Total	$ 629,380			

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The PG does not have a formal investment policy that limits investment maturities as a means of managing such exposure. As a means of keeping the interest rate risk low, investments held by the PG are virtually less than five years in nature.

Credit Risk – The authorizing legislation of the PG does not limit investments by credit rating categories. Authorizing legislation does limit the investment choices of the PG to direct obligations or obligations guaranteed by the United States, obligations of states, territories, possessions and commonwealths of the United States, obligations of international banking institutions, repurchase agreements, investment contracts, certificates of deposit, guaranteed investment contracts, shares in mutual funds, investment companies, corporate commercial paper, money market portfolio investments, and investment pools.

At September 30, 2018, the PG's investments in money market funds were rated AAA by Standard & Poor's, and Aaa- and Aaa by Moody's Investors Service. The PG's investments in commercial paper were rated A-1 and A-2 by Standard & Poor's and P-1 and P-2 by Moody's Investors Service. The PG's investments in government, agency and state obligations were rated AA- to AAA by Standard & Poor's and Aa3 to Aaa by Moody's Investors Service. The PG's investments in certificates of deposit was rated P-2 by Moody's Investor Services and A-2 by Standard & Poor's.

Concentration of Credit Risk – The PG places no limit on the amount that may be invested in one issuer. At September 30, 2018, more than 5.0% of the PG's investments were invested in: Goldman Financial Square Money Market #524 (38.6%), Hannover FDG Co., LLC, CPDs (12.12%), Federal Home Loan Mortgage Corporation (8.8%), Federated Government Obligation #5 Money Market (8.6%), and Chesham FIN, LLC, CPDs (6.2%).

Custodial Credit Risk – The PG does not have a custodial risk policy. The custodial credit risk for investments is the risk that, in the event of the failure of a depository financial institution or other counterparty, the PG will not be able to recover the value of an investment or collateral securities that are in the possession of an outside party. At September 30, 2018, $617.5 million of investments were held in the name of the Bank of New York Trust Company, N.A, as trustee for the Government.

Pension Trust Fund

Following are the investments of the Pension Trust Fund categorized within the three-level fair value hierarchy:

		(in thousands)		
	September 30, 2018	Level 1	Level 2	Level 3
Debt securities:				
Government agency obligations	$ 17,119	$ -	$ 17,119	$ -
Municipal obligations	975	-	975	-
Corporate bond	22,943	-	22,943	-
Asset-backed securities	6,808	-	6,808	-
Collateralized mortgage obligations	1,116	-	1,116	-
Commercial mortgaged-backed securities	3,472	-	3,472	-
Residential mortgaged-backed securities	17,886	-	17,886	-
Limited partnerships:				
Private equity funds	16,334	-	-	16,334
Private lending	23,987	-	-	23,987
Member loans	74,181	-	-	74,181
Real estate/other real assets	79,148	-	-	79,148
Subtotal	263,969	$ -	$ 70,319	$ 193,650
Investment, as cost:				
Money market funds	146,014			
Investments measured at net asset value (NAV):				
Commingled equity funds	156,369			
Commingled bond funds	214,817			
Securities lending collateral fund	1,231			
Total	$ 782,400			

Pension trust funds investments which are measured at NAV per share, or equivalent are presented in the table below (expressed in thousands):

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Investments measured at net asset value (NAV):				
Commingled equity funds	$ 156,369	$ -	Daily, Semi-monthly	1 – 15 days
Commingled bond funds	214,817	-	Daily	2 – 10 days
Securities lending collateral fund	1,231	-	Daily	None
Total	$ 372,417	$ -		

Commingled equity and bond funds - This type includes nine commingled funds that invest in publicly traded domestic and global stocks, and domestic and global fixed income securities. The fair values of the investments in this type have been determined using the NAV per share (or its equivalent) of the investments. The total commingled funds can be liquidated on a daily basis. All of the underlying securities within the commingled funds carry a recurring fair value measurement level of 2. There are no unfunded commitments for the commingled funds at September 30, 2018.

Securities lending collateral - GERS' custodian is the agent in lending the GERS' securities for collateral and investments which are in a commingled fund.

Following is a summary of the investments of the pension trust fund, categorized by investment type and weighted average maturity, as of September 30, 2018, (expressed in thousands):

		Maturity (in years)				
	Fair Value	Less Than 1 Year	1 to 5 Years	6 to 10 Years	More than 10 Years	No Stated Maturity
Investments with contractual maturities						
Commingled mutual funds	$ 371,186	$ -	$ -	$ -	$ -	$ 371,186
Corporate obligations	22,943	886	10,382	6,853	4,822	-
Investment loans	23,987	9,401	4,150	10,436	-	-
Mortgage and asset backed securities	29,282	193	5,758	2,186	21,145	-
Municipals	975	-	-	-	975	-
U.S. government and agency obligations	582	-	582	-	-	-
U.S. Treasury bonds	6,082	-	-	-	6,082	-
U.S. Treasury notes	10,455	-	6,975	3,480	-	-
Total investments with contractual maturities	465,492	$ 10,480	$ 27,847	$ 22,955	$ 33,024	$ 371,186
Investments without contractual maturities						
Money market funds	146,014					
Real estate investments:						
Havensight Mall - U.S. Virgin Islands	41,000					
Renaissance Carambola Beach Resort	15,000					
GERS Complex - U.S. Virgin Islands	23,148					
Limited partnerships	16,334					
Debt lending - member loans	74,181					
Securities lending short-term collateral investment pool	1,231					
Total	$ 782,400					

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. GERS does not have a specific policy to manage interest rate risk, but requires investment managers to diversify by issue, maturity, sector, coupon, and geography. Investment managers retained by GERS follow specific investment guidelines and are evaluated against specific market benchmarks that represent their investment style. Any exemption from general guidelines requires approval from GERS' board of trustees.

Credit Risk – GERS investment policy is designed to minimize credit risk by restricting authorized investments to only those investments permitted by statute, subject to certain additional limitations.

These additional limitations consist of prohibitions against investments in derivative securities, options, futures or short positions. GERS investment policy allows investments in mortgage pass-through securities.

The credit ratings of GERS' debt securities at September 30, 2018, include (expressed in thousands):

	Standard & Poor's Global Ratings		Moody's Investors Service	
	Fair Value	Credit Ratings	Fair Value	Credit Ratings
Corporate obligations	$ 263	AA+	$ 263	AA1
Corporate obligations	138	AA-	-	-
Corporate obligations	525	A+	-	-
Corporate obligations	553	A	-	-
Corporate obligations	3,846	A-	-	-
Corporate obligations	6,205	BBB+	-	-
Corporate obligations	8,025	BBB	-	-
Corporate obligations	3,368	BBB-	-	-
Corporate obligations	20	Not Available	-	-
Corporate obligations	-	-	1,844	A1
Corporate obligations	-	-	1,007	A2
Corporate obligations	-	-	2,585	A3
Corporate obligations	-	-	6,384	Baa1
Corporate obligations	-	-	5,080	Baa2
Corporate obligations	-	-	5,474	Baa3
Corporate obligations	-	-	306	Not Available
Investment loans	23,987	Not Rated	23,987	Not Rated
Mortgage and asset backed securities	5,087	AAA	-	-
Mortgage and asset backed securities	24,195	Not Available	-	-
Mortgage and asset backed securities	-	-	345	Aaa
Mortgage and asset backed securities	-	-	6,558	Aa1
Mortgage and asset backed securities	-	-	21,534	Not Available
Mortgage and asset backed securities	-	-	845	Not Rated
Commingled and mutual funds	371,186	Not Rated	371,186	Not Available
Total	$ 447,398		$ 447,398	

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of GERS' investments in a single issuer of securities. GERS' investment policy establishes limitations on portfolio composition by investment type to limit its exposure to concentration of credit risk. There are no investments in any one issuer that represent 5.0% or more of total investments.

Custodial Credit Risk – The custodial credit risk for investments is the risk that, in the event of the failure of a depository financial institution or other counterparty, GERS will not be able to recover the value of an investment or collateral securities that are in the possession of an outside party. With the exception of underlying securities on loans secured by noncash collateral, the System's entire investment portfolio was held with a single third-party custodian in the System's name as of September 30, 2018. At September 30, 2018, the System had no underlying securities on loan secured by noncash collateral.

Cash collateral held for securities lending transactions is invested in a collective investment pool maintained by the securities lending agent.

Foreign Currency Risk – Foreign currency risk is the risk of holding investments in foreign currencies and the risk that those foreign currencies may devalue. GERS has no general investment policy with respect to foreign currency risk.

Risks associated with foreign exchange contracts include the movement in the value of foreign currency relative to the U.S. dollar and the ability of the counterparty to perform in accordance with the terms of the contract. Changes in the market value of open and closed forward contracts are recorded with interest, dividends, and other income or losses reported at fair value.

During the fiscal year ended September 30, 2018, GERS did not engage in any foreign currency exchange contracts.

Securities Lending Transactions – The Government's statutes permit GERS to participate in securities lending transactions, and GERS has, via a securities lending authorization agreement (the Agreement), authorized State Street Bank and Trust Company (the Custodian) to lend its securities to broker-dealers and banks pursuant to a form of a loan agreement. Lent securities are collateralized with cash, securities issued or guaranteed by the U.S. government, or irrevocable bank letters of credit. GERS does not have the ability to pledge or sell collateral securities delivered absent a borrower default. No restrictions were imposed during 2018 as to the amount of loans the Custodian can make on behalf of GERS. Under the terms of the Agreement, the Custodian must indemnify the Government for losses attributable to violations by the Custodian under the "standard of care" clause described in the Agreement. There were no such violations during fiscal year 2018, or losses resulting from the default of the borrowers or the Custodian.

Loans are generally terminable on demand. The collateral received shall, (i) in the case of loaned securities denominated in U.S. dollars or whose primary trading market is located in the U.S. or sovereign debt issued by foreign governments, have a market value of 102% of the market value of the loaned securities; (ii) in the case of loaned securities which are not denominated in U.S. dollars or whose primary trading market is not located in the United States, have a market value of 105% of the market value of the loaned securities; or (iii) have a higher value as may be applicable in the jurisdiction in which the loaned securities are customarily traded. Such collateral should be kept, at a minimum, at 100% of the market value of the security for all borrowers throughout the outstanding period of the loans.

At September 30, 2018, approximately $6.7 million of U.S. government and agency obligations, and equity corporate bonds were on loan. The cash collateral received with a corresponding liability of an equal amount is recorded in the statement of fiduciary net position. The cash collateral received on each loan was invested, together with the cash collateral of other lenders, in a collective investment pool. As of September 30, 2018, such investment pool had a weighted average maturity of 39 days and an average expected maturity of 78 days. Because the loans were terminable on demand, their duration did not generally match the duration of the investments made with cash collateral.

Component Units

Following are the investments of the discretely presented component units categorized within the fair value hierarchy:

		(in thousands)		
	September 30, 2018	**Level 1**	**Level 2**	**Level 3**
Investments, at fair value:				
U.S. Government agencies and notes	$ 34,904	$ 34,904	$ -	$ -
Common stocks	11,712	11,712	-	-
Corporate bonds	4,116	-	4,116	-
Mutual funds	725	725	-	-
Derivative instruments	13,890	-	13,890	-
Subtotal	65,347	$ 47,341	$ 18,006	$ -
Investments, at cost:				
Certificate of deposits	19,981			
Investments measured at net asset value (NAV):				
Alternative investments	56,226			
Total	$ 141,554			

Following is a summary of the investments of the discretely presented component units, categorized by investment type and weighted average maturity, as of September 30, 2018, (expressed in thousands):

		Maturity (in years)			
	Fair Value	**Less Than 1 Year**	**1 to 5 Years**	**6 to 10 Years**	**More than 10 Years**
Investments with contractual maturities					
Certificates of deposit	$ 19,981	$ 13,984	$ 5,997	$ -	$ -
U.S. Government agencies and notes	34,904	34,904	-	-	-
Total investments with contractual maturities	54,885	$ 48,888	$ 5,997	$ -	$ -
Investments without contractual maturities					
Common stock	11,712				
Mutual funds	725				
Corporate bonds	4,116				
Other investments	70,116				
Total	$ 141,554				

Interest Rate Risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The component units of the Government have not established formal policies which limit investment maturities as a means of managing such exposure and have some exposure to interest rate risk.

Credit Risk and Concentration of Credit Risk – The authorizing legislation of the component units does not limit investments by credit rating categories. Authorizing legislation limits the investments choices of the component units, as described in Note 1. There are no investments in any one issuer that represent 5.0% or more of total investments.

Custodial Credit Risk – The custodial credit risk for investments is the risk that, in the event of the failure of a depository financial institution or other counterparty, the component units will not be able to recover the value of an investment or collateral securities that are in the possession of an outside party. The component units of the Government do not have custodial credit risk policies.

Agency Fund

At September 30, 2018, the agency fund had $11.6 million invested in certificates of deposit. They are classified as Level 2 instruments as their fair value is based on quoted values stated by the bank's mark-to-market estimate using a stated fixed rate. The interest rate is observable at commonly quoted indexes for the full term of the instruments.

5. Receivables

Primary Government

Receivables for governmental funds at September 30, 2018, consist of the following (expressed in thousands):

	General	PFA Debt Service	Other Governmental	Total
Income taxes	$ 274,494	$ -	$ -	$ 274,494
Real property taxes	137,089	-	-	137,089
Hotel occupancy taxes	5,615	-	-	5,615
Excise taxes	1,365	-	-	1,365
Gross receipts taxes	-	250,343	-	250,343
Gross taxes receivables	418,563	250,343	-	668,906
Less allowance for doubtful accounts	(260,594)	(209,502)	-	(470,096)
Taxes receivables, net	157,969	40,841	-	198,810
Other	$ 38	$ -	$ 122	160
Tobacco settlement rights				867
Total				$ 199,837

(a) Tax Receivables

The Naval Appropriations Act created a separate tax structure for the U.S. Virgin Islands that mirrors the Internal Revenue Code (IRC) of 1986, as amended. Income taxes are due from every corporation, partnership, individual, association, estate, or trust that meets the filing requirements of the U.S. Internal Revenue Code. A U.S. taxpayer who is a permanent resident of the U.S. Virgin Islands satisfies his/her Virgin Islands income tax obligations by filing his/her return with and paying income taxes to the Government. Bona fide residents of the Virgin Islands are taxed by the Virgin Islands on their world-wide income. A nonresident of the U.S. Virgin Islands pays income taxes on his/her U.S. Virgin Islands source income to the Government.

The revenue is recognized in the general fund in the fiscal period for which the income tax return was filed. The revenue from income tax withholding and estimated payments are recognized in the general fund as collected, net of estimated tax refunds.

Subchapter S and C corporate income tax returns are due by the 15th day of the fourth month following the close of the calendar year and become delinquent if not paid on or before the due date. Partnership income taxes are due by April 15 of the following year and trust income taxes are due by April 15 of the following year for which the income tax was levied. Trust income taxes must be paid by the tax filing date.

For the tax year ended December 31, 2017, the income tax filing date for individuals, businesses and trust tax filings (and certain other tax filings) were extended to June 29, 2018 through disaster relief provisions of the Internal Revenue Service (IRS) following Hurricanes Irma and Maria. For the tax year ended December 31, 2018, the income tax filing dates were not extended.

Property taxes are assessed each calendar year on all taxable real property located in the U.S. Virgin Islands. The receivable is recognized, net of estimated uncollectable amounts, in the general fund in the fiscal period for which the tax is assessed.

The revenue is recognized in the general fund in the fiscal period for which the property tax is levied, provided the tax is collected within 60 days after fiscal year-end, unless the facts justify a period greater than 60 days. Receivables collected after that period, are recorded as unavailable property tax revenue.

The Office of the Tax Assessor is responsible for the assessment of all taxable real property. Noncommercial real property subject to taxation is reassessed once every five years and commercial real property subject to taxation is reassessed biannually. The Tax Assessor prepares an annual assessment roll and schedule of collections for each parcel of real property that is used by The Office of the Tax Collector, as the basis for issuing tax bills to all taxpayers in the U.S. Virgin Islands.

Property taxes are to be levied by May 15 of each year in the name of the record owner on January 15 of the same year. The taxes are due on June 30 and become delinquent if not paid by August 31.

For businesses with gross receipts of $225,000 per annum or less, gross receipts taxes are levied on an annual basis based on the amount of gross receipts exceeding $9,000 per month. Businesses with annual gross receipts of more than $225,000 are levied on a monthly basis with no $9,000 per month exemption. The gross receipts tax rate is 5.0% of sales and service revenue.

Monthly gross receipts tax filings are due within 30 calendar days following the last day of the calendar month collected. Annual gross receipts tax filings are due within 30 calendar days following the last day of the calendar year.

(b) Other Receivables

In addition to tax receivables, the PG receives tobacco settlement right payments in connection with a Master Settlement Agreement with certain participating cigarette manufacturers. Under the terms of the agreement, the U.S. Virgin Islands receives .0173593% of annual payments made under the agreement. As of September 30, 2018, the PG reported a receivable of $867,000 for tobacco settlement right payments as included in the accompanying statement of net position.

On November 14, 2011, the PG entered into a loan agreement on behalf of GERS in the amount of $13.0 million, at an interest rate of 4.9% and a maturity date of December 15, 2016. The loan was secured by pledged property tax receipts for years prior to and including 2005.

The loan was not paid by the due date of December 15, 2016 and was converted to a two-year term loan to be paid with pledged property tax revenues and pledged gross receipts tax revenues. At September 30, 2018, the outstanding balance of the loan was $643,000 included in GERS investment loan balance.

Component Units

Receivables for the discretely presented component units at September 30, 2018, consist of the following (expressed in thousands):

Utility service charges	$ 25,450
Patients	17,619
Students	1,819
Port fees	4,385
Other*	148,875
Total	$ 198,148

**University of the Virgin Islands Research and Technology Park Corporation (unaudited)*

Pension Trust Fund

Loans and advances to members of GERS at September 30, 2018, consist of the following (expressed in thousands):

Personal loans	$ 68,871
Mortgage loans	6,266
Automobile loans	14
	75,151
Less allowance for losses	(970)
Total	$ 74,181

6. Unavailable Revenues

The components of unavailable revenues of the general fund and PFA debt service fund as of September 30, 2018, consist of the following (expressed in thousands):

	General	PFA Debt Service	Total
Property taxes	$ 24,965	$ -	$ 24,965
Income taxes	81,887	-	81,887
Gross receipts taxes	-	23,444	23,444
Total	$ 106,852	$ 23,444	$ 130,296

7. Interfund Transfers

Interfund transfers for the year ended September 30, 2018, consist of the following (expressed in thousands):

Transfers from/to	General	PFA Debt Service	PFA Capital Projects	Federal Grants	Other Governmental	Total
General	$ -	$ 88,412	$ -	$ -	$ -	$ 88,412
PFA Debt Service	8,313	-	207	-	-	8,520
PFA Capital Projects	-	36	-	-		36
Federal Grants	-	-	-	-	2,643	2,643
Other governmental	7,755	-	-	-	-	7,755
Other business-type	1,000	-	-	-	-	1,000
Total	$ 17,068	$ 88,448	$ 207	$ -	$ 2,643	$ 108,366

Interfund transfers constitute the transfer of resources from the fund that receives the resources to the fund that utilizes them. The most significant transfer to the general fund from other governmental funds included a $88.4 million transfer from PFA debt service fund (a major governmental fund) representing gross receipt tax revenues available after bond debt service requirements.

Significant transfers made from the general fund include a transfer of $8.3 million to PFA debt service fund (a major governmental fund); a transfer of $4.4 million to PFA Special Revenue Fund (a non-major governmental fund); a transfer of $2.0 million to the St. Croix Capital Improvement Fund (a non-major governmental fund); and a transfer of $1.0 million to the Crisis Intervention Fund (a non-major governmental fund).

Due From/To Other Funds

Due from/to other funds	General	PFA Capital Projects	Other Governmental	Other Business Type	Total
General	$ -	$ -	$ 35,861	$ 300	$ 36,161
Other governmental	28,000	-	-	-	28,000
Total Governmental Funds	28,000	-	35,861	300	64,161
WICO	7,350	-	-	-	7,350
viNGN	-	36,804	-	-	36,804
Other enterprise	248	325	2,475	-	3,048
Total Proprietary Funds	7,598	37,129	2,475	-	47,202
Total	$ 35,598	$ 37,129	$ 38,336	$ 300	$ 111,363

The due from/to other funds includes the following amounts the general fund owes to other funds: $14.0 million to St. Croix Capital Improvement Fund for capital improvement projects, $10.7 million to PFA/Office of Economic Opportunity Fund for unpaid professional services, $4.9 million due to the Emergency Molasses Fund (a non-major governmental fund) for unpaid appropriations; $3.5 million due to PFA special revenue fund for unpaid matching funds; and $1.5 million due to the Elected Governor Retirement Fund.

The amount due from other funds by the general fund is mainly composed of $24.8 million due from the District Street Lighting Fund (a non-major governmental fund) and $2.7 million from the Bond Proceeds Fund (a non-major governmental fund).

The due to PFA Capital Projects funds includes $36.8 million due from the Virgin Islands Next Generation Network (viNGN), a major business-type fund in connection with start-up costs of the broadband project.

The amount due to other governmental funds by the other enterprise includes $1.0 million due from the Virgin Islands Lottery to the Pharmaceutical Assistance to the Aged Fund; and $1.1 million due from the Virgin Islands Lottery to the Virgin Islands Educational Initiative Fund consisting primarily of 15.0% of revenue derived from lottery games under contract between the Virgin Islands Lottery and private contractors be transferred to these funds.

8. Restricted Assets

Primary Government

Restricted assets of proprietary funds and business-type activities as of September 30, 2018, include cash and cash equivalents as follows (expressed in thousands):

Unemployment insurance funds	$ 867
WICO debt service funds	4,462
Total	$ 5,329

These funds were restricted to repay loans payable to the U.S. Treasury and WICO's loan for capital asset purchases.

Component Units

Restricted assets of discretely presented component units as of September 30, 2018, include cash and cash equivalents, investments, and receivables as follows (expressed in thousands):

Cash and cash equivalents:	
Debt service and sinking fund requirements	$ 36,385
Endowment funds	183
HUD project funds	1,022
Revolving loan funds	27,270
Construction funds	12,497
Renewal and replacement funds	517
Other	6,853
Total	84,727
Investments:	
Debt service and sinking fund requirements	15,980
Construction funds	18,075
Endowment funds	60,750
Renewal and replacement funds	295
Revolving loan funds	6,221
Other	554
Total	101,875
Other:	
Pledged funds	19,675
Total	$ 206,277

9. Capital Assets

Primary Government

Capital assets activity for governmental activities for the year ended September 30, 2018, is summarized as follows (expressed in thousands):

	Beginning Balance	Additions	Transfers/ Adjustment	Impairment/ Disposals	Ending Balance
Capital assets not being depreciated:					
Land	$ 227,558	$ -	$ -	$ -	$ 227,558
Construction in progress	76,003	90,478	(10,940)	(1,114)	154,427
Total capital assets not being depreciated	303,561	90,478	(10,940)	(1,114)	381,985
Capital assets being depreciated and amortized:					
Land improvements	8,106	-	1,851	-	9,957
Infrastructure	140,786	2,978	7,584	-	151,348
Buildings and improvements	405,244	30,398	1,159	(1,883)	434,918
Machinery and equipment	201,049	5,628	346	(701)	206,322
Total capital assets being depreciated and amortized	755,185	39,004	10,940	(2,584)	802,545
Less accumulated depreciation and amortization for:					
Land improvements	(4,870)	(340)	-	-	(5,210)
Infrastructure	(37,962)	(4,787)	-	-	(42,749)
Buildings and improvements	(196,651)	(11,462)	-	1,129	(206,984)
Machinery and equipment	(176,048)	(8,915)	-	430	(184,533)
Total accumulated depreciation and amortization	(415,531)	(25,504)	-	1,559	(439,476)
Total capital assets being depreciated and amortized, net	339,654	13,500	10,940	(1,025)	363,069
Total Governmental activities capital assets, net	$ 643,215	$ 103,978	$ -	$ (2,139)	$ 745,054

Depreciation and amortization expense are charged to functions of the PG for the year ended September 30, 2018, as follows (expressed in thousands):

Governmental Activities:	
General government	$ 9,577
Public safety	1,933
Health	2,470
Education	3,516
Public housing and welfare	288
Culture and recreation	317
Transportation and communication	7,403
Total	$ 25,504

Capital assets activity for business-type activities for the year ended September 30, 2018, is summarized as follows (expressed in thousands):

	Beginning Balance	Additions	Transfers/ Adjustment	Impairment/ Disposals	Ending Balance
Capital assets not being depreciated:					
Land	$ 5,178	$ -	$ -	$ -	$ 5,178
Construction in progress	4,844	1,424	(936)	-	5,332
Total capital assets not being depreciated	10,022	1,424	(936)	-	10,510
Capital assets being depreciated and amortized:					
Land improvements	348	-	-	-	348
Buildings and improvements	88,341	334	385	-	89,060
Machinery and equipment	75,544	2,739	335	-	78,618
Intangible assets	30,774	-	-	-	30,774
Total capital assets being depreciated and amortized	195,007	3,073	720	-	198,800
Less accumulated depreciation and amortization for:					
Land improvements	(343)	-	-	-	(343)
Buildings and improvements	(41,923)	(3,608)	(2,149)	-	(47,680)
Machinery and equipment	(26,141)	(5,116)	4,675	-	(26,582)
Intangible assets	(3,695)	(1,014)	(2,397)	-	(7,106)
Total accumulated depreciation and amortization	(72,102)	(9,738)	129	-	(81,711)
Total capital assets being depreciated and amortized, net	122,905	(6,665)	849	-	117,089
Total Business-type activities capital assets, net	$ 132,927	$ (5,241)	$ (87)	$ -	$ 127,599

Depreciation and amortization expense are charged for the year ended September 30, 2018, as follows (expressed in thousands):

Business-type Activities:	
WICO	$ 3,248
viNGN	5,080
Other enterprise funds	1,410
Total	$ 9,738

Component Units

Capital assets activity for discretely presented component units for the year ended September 30, 2018, is summarized as follows (expressed in thousands):

	Beginning Balance	Additions	Transfers	Impairment/ Disposals	Ending Balance*
Capital assets not being depreciated:					
Land	$ 111,224	$ 1,435	$ 10,783	$ -	$ 123,442
Construction in progress	123,676	562,061	(466,723)	(1,915)	217,099
Total capital assets not being depreciated	234,900	563,496	(455,940)	(1,915)	340,541
Capital assets being depreciated and amortized:					
Buildings and improvements	1,904,352	59,934	443,957	(304,631)	2,103,612
Airport and marine terminal facilities	174,400	-	9,869	-	184,269
Personal property and equipment	140,663	5,113	(17,783)	(4,559)	123,434
Intangible assets	2,919	-	-	-	2,919
Total capital assets being depreciated and amortized	2,222,334	65,047	436,043	(309,190)	2,414,234
Less accumulated depreciation and amortization for:					
Buildings and improvements	(1,105,924)	(42,724)	-	188,096	(960,552)
Airport and marine terminal facilities	(137,700)	(6,126)	-	-	(143,826)
Personal property and equipment	(92,361)	(5,770)	-	3,287	(94,844)
Intangible assets	(2,216)	(542)	-	-	(2,758)
Total accumulated depreciation and amortization	(1,338,201)	(55,162)	-	191,383	(1,201,980)
Total capital assets being depreciated and amortized, net	884,133	9,885	436,043	(117,807)	1,212,254
Total component units capital assets, net	$ 1,119,033	$ 573,381	$ (19,897)	$ (119,722)	$ 1,552,795

**University of the Virgin Islands Research and Technology Park Corporation (unaudited)*

Depreciation and amortization expense charged by each component unit for the year ended September 30, 2018, is as follows (expressed in thousands):

Virgin Islands Housing Authority	$ 8,022
Virgin Islands Port Authority	16,285
Virgin Islands Water and Power Authority:	
Electric System	20,091
Water System	1,399
Virgin Islands Government Hospital and Health Facilities Corporation:	
Schneider Regional Medical Center	1,580
Governor Juan F. Luis Hospital	2,498
University of the Virgin Islands	2,587
Other component units*	2,700
Total	$ 55,162

**University of the Virgin Islands Research and Technology Park Corporation (unaudited)*

Hurricanes Irma and Maria

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.

The PG and its component units suffered losses to office buildings and educational facilities, roads, infrastructure, and various machineries and equipment. The PG had purchased commercial insurance to cover its risk of loss from destruction of assets and realized insurance recoveries during the year of $125.0 million.

The organizations evaluated their respective capital assets in accordance with GASB Statement No. 42 and realized their respective losses from impairment, net of insurance recoveries. In the fiscal year ended September 30, 2017, the PG recognized a loss from impairment amounting to $221.2 million for governmental activities and $6.1 million for business type activities.

The discretely presented component units have recognized impairment losses net of insurance recoveries for the year ended September 30, 2018, as follows (expressed in thousands):

Virgin Islands Housing Authority	$ (4,259)
Virgin Islands Port Authority	56,225
Virgin Islands Water and Power Authority:	
Electric System	(99,779)
Water System	(1,273)
University of the Virgin Islands	3,547
Total	$ (45,539)

The amount of the impairment losses for damaged capital assets is based on calculations using a combination of the restoration cost approach and a physical verification approach. Under the restoration cost approach, the amount of impairment is derived from the estimated costs to restore the utility of the capital asset. The estimated restoration cost can be converted to historical cost either by restating the estimated restoration cost using an appropriate cost index or by applying a ratio of the estimated restoration cost over estimated replacement cost to the carrying value of the capital asset.

The organizations also conducted physical inspections of assets to determine and estimate the extent of the damages. As a result, assets fully depreciated prior to the hurricanes would have an impairment loss of zero dollars, regardless of the damage.

Actual repairs to damaged capital assets are expected to far exceed the calculated impairment losses. Any insurance recoveries received have been used to offset the impairment losses, in accordance with the guidelines of GASB Statement No. 42. The impairment losses, net of insurance recoveries received during the year, are reported as a special item in the accompanying financial statements.

10. Long-Term Liabilities

Primary Government

The change in long-term bonds and loans for governmental activities is as follows for the year ended September 30, 2018, (expressed in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year	Due Thereafter
Matching Funds Revenue Bonds						
Series 2013 B Revenue and Refunding Bonds	$ 41,045	$ -	$ -	$ 41,045	$ -	$ 41,045
Series 2013 A Revenue and Refunding Bonds	31,470	-	7,555	23,915	7,905	16,010
Series 2012 A Revenue Bonds	140,165	-	900	139,265	950	138,315
Series 2010 A and B Revenue Bonds	388,175	-	2,520	385,655	2,660	382,995
Series 2009 A Revenue Bonds (Cruzan)	34,870	-	740	34,130	780	33,350
Series 2009 A1, A2, B and C Revenue and Refunding Bonds	287,555	-	30,730	256,825	32,275	224,550
Series 2009 A Revenue Bonds (Diageo)	232,205	-	5,235	226,970	5,600	221,370
Total	1,155,485	-	47,680	1,107,805	50,170	1,057,635
Gross Receipts Revenue Bonds						
Series 2018 A Revenue Bonds	-	188,522	-	188,522	-	188,522
Series 2014 D Revenue Bonds	5,425	-	190	5,235	200	5,035
Series 2014 C Revenue and Refunding Bonds	237,500	-	5,240	232,260	5,510	226,750
Series 2014 A Revenue Bonds	46,600	-	1,635	44,965	1,720	43,245
Series 2012 A and B Revenue and Refunding Bonds	181,720	-	13,180	168,540	13,690	154,850
Series 2012 C Revenue Bonds	29,950	-	1,820	28,130	1,600	26,530
Series 2006 A Revenue Bonds	196,590	-	3,360	193,230	3,485	189,745
Total	697,785	188,522	25,425	860,882	26,205	834,677
Tobacco Settlement Bonds						
Series 2006 A, B, C and D Tobacco Turbo and Capital Appreciation Bonds	7,290	-	-	7,290	-	7,290
Series 2001 A Tobacco Bonds	6,180	-	865	5,315	-	5,315
Total	13,470	-	865	12,605	-	12,605
Federal-Aid Highway Bonds						
Series 2015 Bonds	82,080	-	3,470	78,610	3,645	74,965
Total	1,948,820	188,522	77,440	2,059,902	80,020	1,979,882
Plus (less):						
Bonds premium	51,698	-	5,774	45,924	-	45,924
Bonds discount	(2,475)	-	(214)	(2,261)	-	(2,261)
Bonds accretion	8,013	1,025	-	9,038	9,038	-
Total bonds payable, net	$ 2,006,056	$ 189,547	$ 83,000	$ 2,112,603	$ 89,058	$ 2,023,545

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year	Due Thereafter
Notes						
2016 A Note	$ 8,723	$ -	$ 2,136	$ 6,587	$ 2,136	$ 4,451
2014 E Revenue Note	20,000	-	15,000	5,000	5,000	-
2014 B Revenue Notes	8,000	-	2,000	6,000	2,000	4,000
2013 A Revenue Notes	853	-	853	-	-	-
2012 A TIF Notes	11,448	-	268	11,180	241	10,939
2011 B Revenue Anticipation Notes	3,135	-	2,492	643	643	-
Total notes payable	52,159	-	22,749	29,410	10,020	19,390
Total governmental activities bonds and notes payable	$ 2,058,215	$ 189,547	$ 105,749	$ 2,142,013	$ 99,078	$ 2,042,935

The change in other long-term liabilities for governmental activities is as follows for the year ended September 30, 2018, (expressed in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year	Due Thereafter
Accrued compensated absences	$ 36,151	$ 611	$ -	$ 36,762	$ 14,317	$ 22,445
Retroactive union arbitration	195,286	-	-	195,286	-	195,286
Litigation	16,145	5,571	500	21,216	299	20,917
Landfill closure and post closure	97,923	4,212	-	102,135	-	102,135
Total	$ 345,505	$ 10,394	$ 500	$ 355,399	$ 14,616	$ 340,783

Accrued compensated absences, retroactive union arbitration, litigation, landfill closure and post-closure costs are generally expected to be liquidated with resources derived from the general fund.

At September 30, 2018, the PG reported other post-employment benefits (OPEB) to retirees such as health insurance liability of $783.4 million. The OPEB liability is valued as of October 1, 2017, determined by an actuarial valuation as of that date.

The change in OPEB liabilities for governmental activities is as follows for the year ended September 30, 2018, (expressed in thousands):

	Restated Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year	Due Thereafter
Total OPEB liability	$ 812,955	$ 52,120	$ 81,702	$ 783,373	$ -	$ 783,373

At September 30, 2018, the PG reported a net pension liability of $3.4 billion for its proportionate share of the net defined benefit pension liability administered by GERS. The net pension liability is valued as of September 30, 2017, determined by an actuarial valuation as of that date.

The change in pension liabilities for governmental activities is as follows for the year ended September 30, 2018, (expressed in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year	Due Thereafter
Net pension liability	$ 3,535,517	$ -	$ 180,749	$ 3,354,768	$ -	$ 3,354,768

The changes in long-term liabilities for business-type activities are as follows for the year ended September 30, 2018, (expressed in thousands):

	Restated Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year	Due Thereafter
Workers compensation claims	$ 40,462	$ -	$ 4,468	$ 35,994	$ 5,005	$ 30,989
Loan payable – U.S. Treasury	66,994	15,646	14,050	68,590	68,590	-
Compensated absences - WICO	1,817	246	87	1,976	176	1,800
Loan payable – WICO	42,666	566	586	42,646	820	41,826
Total	$ 151,939	$ 16,458	$ 19,191	$ 149,206	$ 74,591	$ 74,615

Debt Margin

Pursuant to 48 U.S.C. Section 1574(b)(i) of the Revised Organic Act, the Government may issue revenue bonds for public improvements or undertakings authorized by an act of the Legislature, without limitation as to principal amount. Such revenue bonds are payable solely from the revenue directly derived from and attributable to such public improvements or undertakings. Pursuant to 48 U.S.C. Section 1574(b)(ii), the Government is authorized to issue general obligation bonds for any public purpose provided that no such indebtedness is more than 10.0% of the aggregate assessed valuation of the taxable real property in the U.S. Virgin Islands. In addition, pursuant to 48 U.S.C. Section 1574(a) (Public Law 94-932), the U.S. Virgin Islands is authorized to issue bonds or other obligations in anticipation of the matching funds to be received from the federal government pursuant to 26 U.S.C. Section 7652(b)(3). There is no legal limit on the value of bonds that the Government may issue pursuant to 48 U.S.C. Section 1574(a). The Legislature of the U.S. Virgin Islands must authorize all bond issuances. PFA is authorized to issue bonds for financing any project or for the purpose authorized by the Legislature. Given that PFA's powers to issue bonds are derived from 48 U.S.C. Section 1574(b), the bonds issued by PFA are subject to the limitations of said 48 U.S.C. Section 1574(b).

On August 23, 1999, the Legislature amended the V.I. Code to add a Mandatory Balanced Budget Provision. Such provisions, specifically Title 2 of the V.I. Code Section 256, provide that the amount of debt of the Government existing on October 1, 2000 shall be the debt limit of the Government, exclusive of bond principal and interest that may become due. The debt limit specified under Title 2 of the V.I. Code Section 256 does not include bonds authorized by law for which a specific source of revenue is identified and committed to retiring those bonds.

As used in Title 2 of the V.I. Code Section 256, the term "debt" means the total accumulated unpaid obligations that are due and payable, including unpaid income tax refunds, amounts owed to vendors, and current year unpaid debt service obligations, if any. As used in the statute, the term "debt" does not include that portion of principal or interest on bonds that is not yet due and payable.

(a) Bonds Payable

Bonds payable outstanding at September 30, 2018, are comprised of the following (expressed in thousands):

	Maturity	Interest Rate (%)	Balance
Matching Funds Revenue Bonds			
Series 2013 B Revenue and Refunding Bonds	2018 - 2024	3.00 - 5.00	$ 41,045
Series 2013 A Revenue and Refunding Bonds	2018 - 2024	5.00 - 5.25	23,915
Series 2012 A Revenue Bonds	2022 - 2032	4.00 - 5.00	139,265
Series 2010 A and B Revenue Bonds	2012 - 2029	4.00 - 5.25	385,655
Series 2009 A Revenue Bonds (Cruzan)	2010 - 2039	3.00 - 6.00	34,130
Series 2009 A1, A2, B and C Revenue and Refunding Bonds	2010 - 2039	3.00 - 5.00	256,825
Series 2009 A Revenue Bonds (Diageo)	2014 - 2037	6.00 - 6.75	226,970
Total			1,107,805
Gross Receipts Revenue Bonds			
Series 2018 A Revenue Bonds	2022 - 2037	2.86 – 3.19	188,522
Series 2014 D Revenue Bonds	2015 - 2033	6.03	5,235
Series 2014 C Revenue and Refunding Bonds	2015 - 2044	4.50 – 5.00	232,260
Series 2014 A Revenue Bonds	2015 - 2034	5.00	44,965
Series 2012 A and B Revenue and Refunding Bonds	2017 - 2032	2.25 - 5.25	168,540
Series 2012 C Revenue Bonds	2017 - 2042	3.00 - 5.00	28,130
Series 2006 A Revenue Bonds	2007 - 2029	3.50 - 5.00	193,230
Total			860,882
Tobacco Settlement Bonds			
2006 Series A, B, C & D Tobacco Turbo and Capital Appreciation Bonds	2035	6.25 – 7.63	7,290
2001 Series A Tobacco Bonds	2031	4.62 – 5.13	5,315
Total			12,605
Federal-Aid Highway Bonds			
Series 2015 Bonds	2016 - 2033	3.00 – 5.00	78,610
Total bonds payable			2,059,902
Plus (Less):			
Bonds premium			45,924
Bonds discount			(2,261)
Bonds accretion			9,038
Total bonds payable, net			$ 2,112,603

Matching Funds Revenue Bonds

Series 2013 B Revenue and Refunding Bonds

On October 17, 2013, PFA issued the Series 2013 B Revenue and Refunding Bonds, the proceeds of which amounted to $51,365,000. These bonds are secured by a pledge of Matching Fund Revenues, which includes certain funds established under the original indenture, the Eighth Supplemental Indenture and the Series 2013B Loan Notes issued by the Government. The proceeds were loaned to the Government under the same terms as the bonds. The bonds are limited special obligations of PFA. The Series 2013 B Bonds were issued to: (i) refund a portion of the Series 2004 A Bonds, (ii) fund the Series 2013 B Subordinate Lien Debt Service Reserve Account, and (iii) finance certain costs of issuance of the Series 2013 B Bonds. The Series 2013 B Bonds mature in 2024 at an interest rate of 3.0% to 5.0%. The proceeds of the Series 2013 B Revenue and Refunding Bonds were placed in an irrevocable trust to provide for future debt service payments on the Series 2004 A. At October 1, 2014, the outstanding principal of the Series 2004 A Bonds was defeased through a call redemption amounting to $58,835,000.

Interest on the Series 2013 B Revenue and Refunding Bonds is payable semi-annually on April 1 and October 1, and principal is payable annually on October 1. The Government is responsible for all principal and interest payments on the Series 2013 B Revenue and Refunding Bonds. The principal and interest payments on October 1 are funded by the Matching Fund Revenues, and the required investment to meet the April 1 interest payment is determined and deposited into the debt service reserve accounts, which is also funded by the Matching Fund Revenues.

The Series 2013 B Revenue and Refunding Bonds are not redeemable at the option of PFA.

Series 2013 A Revenue and Refunding Bonds

On September 19, 2013, PFA issued the Series 2013 A Revenue and Refunding Bonds, the proceeds of which amounted to $36,000,000. These bonds are secured by a pledge of Matching Fund Revenues, which includes certain funds established under the original indenture, the Eighth Supplemental Indenture and the Series 2013 A Loan Notes issued by the Government. The proceeds were loaned to the Government under the same terms as the bonds. The bonds are limited special obligations of PFA. The Series 2013 A Bonds were issued to: (i) refund a portion of the Series 2004 A Bonds, Series 2009 A1 Bonds, and Series 2009 B Bonds, (ii) fund the Series 2013 A Subordinate Lien Debt Service Reserve Account, and (iii) finance certain costs of issuance of the Series 2013 A Bonds. The Series 2013 A Bonds mature from 2018 to 2024 at an interest rate of 5.0% to 5.25%. The proceeds of the Series 2013 A Revenue and Refunding Bonds were placed in an irrevocable trust to provide for future debt service payments on the Series 2004 A, Series 2009 A1, and Series 2009 B Bonds. The economic gain obtained by this advance refunding is the difference between the present value of old debt service requirements and the new debt service. This refunding resulted in a deferred loss of approximately $10.9 million and an economic loss of approximately $1.5 million.

Interest on the Series 2013 A Revenue and Refunding Bonds is payable semi-annually on April 1 and October 1, and principal is payable annually on October 1. The Government is responsible for all principal and interest payments on the Series 2013 A Revenue and Refunding Bonds. The principal and interest payments on October 1 are funded by the Matching Fund Revenues, and the required investment to meet the April 1 interest payment is determined and deposited into the debt service reserve accounts, which is also funded by the Matching Fund Revenues.

The Series 2013 A Revenue and Refunding Bonds are not redeemable at the option of PFA.

Series 2012 A Revenue Bonds

On September 7, 2012, PFA issued the Series 2012 A Revenue Bonds, the proceeds of which amounted to $142,640,000. These bonds are secured by a pledge of Matching Fund Revenues, which includes certain funds established under the original indenture, the Seventh Supplemental Indenture and the Series 2012 Loan Notes issued by the Government. The proceeds were loaned to the Government under the same terms as the bonds. The bonds are limited special obligations of PFA. The Series 2012 A Bonds were issued to: (i) finance various operating expenses and other obligations of the Government, (ii) fund the Series 2012 A Subordinate Lien Debt Service Reserve Account, and (iii) finance certain costs of issuance of the Series 2012 A Bonds. The Series 2012 A Bonds mature from 2022 to 2032 at an interest rate of 4.0% to 5.0%.

Interest on the Series 2012 A Revenue Bonds is payable semi-annually on April 1 and October 1, and principal is payable annually on October 1. The Government is responsible for all principal and interest payments on the Series 2012 A Revenue Bonds. The principal and interest payments on October 1 are funded by the Matching Fund Revenues, and the required investment to meet the April 1 interest payment is determined and deposited into the debt service reserve accounts, which is also funded by the Matching Fund Revenues.

The Series 2012 A Revenue Bonds maturing after the dates below are redeemable at the option of PFA, at prescribed redemption prices expressed as a percentage of the principal amount, as follows:

Series 2012 A Revenue Bonds	Price
October 1, 2023 and thereafter	100%

Series 2010 A and B Revenue Bonds

On July 8, 2010, PFA issued the Series 2010 A and B Revenue Bonds, the proceeds of which amounted to $399,050,000. These bonds are secured by a pledge of Matching Fund Revenues, which includes certain funds established under the original indenture, the Sixth Supplemental Indenture and the Series 2010 Loan Notes issued by the Government. The proceeds were loaned to the Government under the same terms as the bonds. The bonds are limited special obligations of PFA. The Series 2010 A Bonds were issued to: (i) finance various operating expenses of the Government, (ii) refinance a portion of the outstanding Series 2009 B1 and B2 Notes, (iii) fund the Series 2010 A Subordinate Lien Debt Service Reserve Account, and (iv) finance certain costs of issuance of the Series 2010 A Bonds. The Series 2010 B Bonds were issued to: (i) refinance a portion of the outstanding Series 2009 B1 and B2 Notes, (ii) fund the Series 2010 B Subordinate Lien Debt Service Reserve Account, and (iii) finance certain costs of issuance of the Series 2010 B Bonds. The Series 2010 A Bonds amount to $305,000,000 and mature from 2012 to 2029 at an interest rate of 4.0% to 5.0%. The Series 2010 B Bonds amount to $94,050,000 and mature from 2020 to 2029 at an interest rate of 4.25% to 5.25%.

Interest on the Series 2010 A and B Revenue Bonds is payable semi-annually on April 1 and October 1, and principal is payable annually on October 1. The Government is responsible for all principal and interest payments on the Series 2010 A and B Revenue Bonds.

The principal and interest payments on October 1 are funded by the Matching Fund Revenues, and the required investment to meet the April 1 interest payment is determined and deposited into the debt service reserve accounts, which is also funded by the Matching Fund Revenues. The bonds were fully defeased through an optional redemption on October 1, 2014.

The Series 2010 A and B Revenue Bonds maturing after the dates below are redeemable at the option of PFA, at prescribed redemption prices expressed as a percentage of the principal amount, as follows:

Series 2010 A and B Revenue Bonds	Price
October 1, 2021 and thereafter	100%

Series 2009 A Revenue Bonds (Cruzan)

On December 17, 2009, PFA issued the Series 2009 A Revenue Bonds (Cruzan), amounting to $39,190,000, to finance the costs of the development, acquisition, construction, and installation of a wastewater treatment facility and to fund certain preliminary costs of the alteration, upgrade, expansion, and renovation of the Cruzan distillery on St. Croix, to establish debt service reserves, and to finance costs of issuance of the 2009 A Bonds. These bonds are special limited obligations of PFA payable from and secured by a pledge of the Cruzan Trust estate which includes certain funds established under the Subordinated Indenture and the First Supplemental Subordinate Indenture of Trust. The bonds bear interest at 3.0% to 6.0% and mature from 2010 to 2039 and are subject to an optional redemption price equal to 100% of the principal amount thereof, plus interest accrued to the date fixed for redemption.

In association with the Series 2009 A Revenue Bonds, PFA entered into an agreement with Cruzan VIRIL, Ltd. (Cruzan), on October 6, 2009. Provisions of the agreement call for payments of excess matching funds, after debt service, debt service reserve, and sinking fund redemption payments, to the Government and Cruzan of 60% - 80% and 54% - 60%, respectively.

Interest on the Series 2009 A Revenue Bonds (Cruzan) is payable semi-annually on April 1 and October 1, and principal is payable annually on October 1. The Government is responsible for all principal and interest payments on the Series 2009 A Revenue Bonds. The principal and interest payments on October 1 are funded by the Matching Fund Revenues, and the required investment to meet the April 1 interest payment is determined and deposited into the debt service reserve accounts, which is also funded by the Matching Fund Revenues.

The Series 2009 A Revenue Bonds (Cruzan) maturing after the dates below are redeemable at the option of PFA, at prescribed redemption prices expressed as a percentage of the principal amount, as follows:

Series 2009 A Revenue Bonds (Cruzan)	Price
October 1, 2019 and thereafter	100%

Series 2009 A1, A2, B and C Revenue and Refunding Bonds

On October 1, 2009, PFA issued the Series 2009 A1, A2, B, and C Revenue and Refunding Bonds, the proceeds of which amounted to $458,840,000. These bonds are secured by a pledge of Matching Fund Revenues, which includes certain funds established under the original indenture, the Fourth Supplemental Indenture and the Series 2009 Loan Notes issued by the Government. The proceeds were loaned to the Government under the same terms as the bonds. The bonds are limited special obligations of PFA.

The Series 2009 A1 and A2 Revenue and Refunding Bonds were issued to: (i) finance various capital projects of the Government, (ii) fund the Series 2009 A Senior Lien Debt Service Reserve Account, and (iii) finance certain costs of issuance of the Series 2009 A1 and A2 Revenue and Refunding Bonds. The Series 2009 A1 Revenue and Refunding Bonds amounted to $86,350,000 and mature from 2010 to 2039 at interest rates from 3.0% to 5.0%.The Series 2009 A2 Revenue and Refunding Bonds amount to $8,650,000 and mature from 2010 to 2011 at an interest rate of 3.0%.

The Series 2009 B Revenue and Refunding Bonds were issued to: (i) refund the Series 1998 A Revenue and Refunding Bonds (Senior Lien/Refunding Bonds), (ii) fund the Series 2009 B Senior Lien Debt Service Reserve Account, and (iii) finance certain costs of issuance of the Series 2009 B Revenue and Refunding Bonds. The Series 2009 B Revenue and Refunding Bonds amount to $266,330,000 and mature from 2010 to 2025 at an interest rate of 5.0%.

The Series 2009 C Revenue and Refunding Bonds were issued to: (i) refund the Series 1998 E Revenue and Refunding Bonds (Subordinate Lien/Capital Program Bonds), (ii) fund the Series 2009 C Subordinate Lien Debt Service Reserve Account, and (iii) finance certain costs of issuance of the Series 2009 C Revenue and Refunding Bonds. The Series 2009 C Revenue and Refunding Bonds amounted to $97,510,000 and mature from 2010 to 2022 at an interest rate of 5.0%. The Series 2009 C Revenue and Refunding Bonds are subject to optional redemption by PFA on or after October 1, 2019, at redemption price of 100% of the principal amount thereof, plus interest accrued to the date fixed for redemption.

Interest on the Series 2009 A1, A2, B and C Revenue and Refunding Bonds is payable semi-annually on April 1 and October 1, and principal is payable annually on October 1. The Government is responsible for all principal and interest payments on the Series 2009 A1, A2, B and C Revenue and Refunding Bonds. The principal and interest payments on October 1 are funded by the Matching Fund Revenues, and the required investment to meet the April 1 interest payment is determined and deposited into the debt service reserve accounts, which is also funded by the Matching Fund Revenues.

The Series 2009 A1, A2, B and C Revenue and Refunding Bonds maturing after the dates below are redeemable at the option of PFA, at prescribed redemption prices expressed as a percentage of the principal amount, as follows:

Series 2009 A1, A2, B and C Revenue and Refunding Bonds	Price
October 1, 2019 and thereafter	100%

Series 2009 A Revenue Bonds (Diageo)

On July 9, 2009, PFA issued the Series 2009 A Revenue Bonds (Diageo), the proceeds of which amounted to $250,000,000. These bonds are secured by a pledge of Diageo Matching Fund Revenues (Matching Funds generated from the sale of Captain Morgan rum products), which includes certain funds established under the original indenture, the Third Supplemental Indenture and the 2009 Matching Fund Loan Note – Diageo Project, Series A issued by the Government. The bonds bear interest at 6.00% to 6.75% and mature from 2014 to 2037. The proceeds were loaned to the Government under the same terms as the bonds. The bonds are limited special obligations of PFA.

The bonds were issued to: (i) provide a grant to Diageo USVI, Inc. ("Diageo USVI") to finance the costs of the acquisition, design, development, construction, and equipping of a rum production and maturation warehouse facility to be located on St. Croix (the Diageo Project) (ii) redeem the Subordinated Revenue Bond Anticipation Notes (Virgin Islands Matching Fund Loan Notes – Diageo Project) Series 2009 A issued to finance preliminary costs of the Diageo Project (iii) fund the Series 2009 A Senior Lien Debt Service Reserve Account, (iv) pay capitalized interest on the Series 2009 A Revenue Bonds, and (v) finance certain costs of issuance of the Series 2009 A Revenue Bonds. The Series 2009 A Bonds maturing on or after October 1, 2020 shall be subject to optional redemption on or after October 1, 2019, at a redemption price equal to 100% of the principal amount thereof, plus interest accrued to the date fixed for redemption.

In association with the Series 2009 A Revenue Bonds, PFA entered into an agreement with Diageo USVI, Inc. (Diageo), on June 17, 2008. Provisions of the agreement call for payments of excess matching funds, after debt service, debt service reserve, and sinking fund redemption payments, to Diageo of 49.5% - 57.0%.

Interest on the Series 2009 A Revenue Bonds (Diageo) is payable semi-annually on April 1 and October 1, and principal is payable annually on October 1. The Government is responsible for all principal and interest payments on the Series 2009 A Revenue Bonds. The principal and interest payments on October 1 are funded by the Matching Fund Revenues, and the required investment to meet the April 1 interest payment is determined and deposited into the debt service reserve accounts, which is also funded by the Matching Fund Revenues.

The Series 2009 A Revenue Bonds (Diageo) maturing after the dates below are redeemable at the option of PFA, at prescribed redemption prices expressed as a percentage of the principal amount, as follows:

Series 2009 A Revenue Bonds (Diageo)	Price
October 1, 2020 and thereafter	100%

Pledged Funds

The Government has pledged the Matching Funds Revenues, as described below, to the timely payment of principal and interest on the Series 2013 B Revenue and Refunding Bonds, Series 2013 A Revenue and Refunding Bonds, Series 2012 A Revenue Bonds, Series 2010 A and B Revenue Bonds, Series 2009 A Revenue Bonds (Cruzan), the Series 2009 A1, A2, B and C Revenue and Refunding Bonds, and the Series 2009 A Revenue Bonds (Diageo).

Thus, all amounts to be received by the Government from federal rum excise tax are deposited directly in a trust account from which the Bonds are paid in accordance with the Indenture of Trust.

The Secretary of the United States Department of Treasury makes annually, certain transfers to the Government of substantially all excise taxes imposed and collected under the internal revenue laws of the United States in any fiscal year on certain products produced in the Virgin Islands (primarily rum) and exported to the United States from the Virgin Islands. The amount required to be remitted to the Government by the Secretary of the Treasury is an amount no greater than the total amount of local revenues (primarily taxes) collected by the Government in each fiscal year. The term "matching fund revenues" is used to denote these payments.

Estimated prepayments of matching fund revenues are made to the Government prior to the beginning of each fiscal year, subject to adjustment for the amount of local revenue actually collected by the United States Department of Treasury during such year. Such adjustments are made to the estimated prepayments for a subsequent fiscal year.

The rate of federal rum excise tax is determined by Congress. In November 1999, Congress increased the federal rum excise tax rate from $10.50 to $13.25 per proof gallon. Since then, Congress has extended the higher rate nine times. On February 9, 2018, Congress extended the rate to December 31, 2021 with the enactment of the Bipartisan Budget Act of 2018.

In fiscal year 2018, pledged matching rum excise tax revenues represented 48.0% of total rum excise revenues. Payments of Matching Fund Revenue Bonds principal and interest from matching rum excise tax revenues amounted to $47.7 million and $60.8 million, respectively.

Gross Receipts Revenue Bonds

Series 2018 A Revenue Bonds

On July 1, 2018, PFA issued the Series 2018 A Revenue Bonds in a private placement to the Federal Emergency Management Agency ("FEMA"). The bonds secure certain Community Disaster Loans ("CDLs") drawn following Hurricanes Irma and Maria in the United States Virgin Islands in September 2017. These bonds are secured by the pledge of gross receipts tax revenue. The Series 2018 A Revenue Bonds were issued to (i) finance essential functions of the Government's operations following the hurricanes in the amount of $145.0 million, (ii) finance the operations of the Roy L. Schneider Hospital on the island of St. Thomas in the amount of $28.0 million, (iii) finance the operations of Governor Juan F. Luis Hospital and Medical Center on the island of St. Croix in the amount of $42.0 million, and (iv) fund certain debt service reserve requirements of the bond issuance.

The bonds are subject to optional redemption by PFA at any time at a redemption price of 100% of the principal amount thereof, plus interest accrued through the redemption date. Interest payments commence October 1, 2019, with interest-only payments through October 1, 2022, calculated on a 360-day year consisting of twelve 30-day months. The Series 2018 A bonds mature in 2037. Interest accruing during the deferral period, from the date of each drawdown through September 30, 2019, bear interest beginning October 1, 2019 equal to the draws on the loan. Semi-annual interest and principal payments are due April 1 and October 1. The Government may request cancellation of the repayment of the CDLs if certain financial conditions exist three fiscal years following the date of the disaster.

Interest on the Series 2018 A Revenue Bonds is payable semi-annually on April 1 and October 1, and the principal is payable commencing October 1, 2022. The Government is responsible for all principal and interest payments on the Series 2018 A Revenue Bonds. The principal and interest payments on October 1 are funded by pledged Gross Receipts Taxes and determined and deposited into the debt service reserve accounts, which are also funded by Gross Receipts Taxes.

The Series 2018 A Revenue Bonds maturing after the dates below are redeemable at the option of PFA, at prescribed redemption prices expressed as a percentage of the principal amount, as follows:

Series 2018 A Revenue Bonds	Price
Any time prior to maturity	100%

2014 Series D Revenue Bonds

On December 3, 2014, PFA issued the Series 2014 D Revenue Bonds, the proceeds of which amounted to $5,765,000. These bonds are secured by the pledge of gross receipts tax revenues, subject to the annual moderate-income housing fund deposit as well as any prior liens or pledges. The Series 2014 D Revenue Bonds were issued to (i) finance certain costs associated with the broadband expansion program, (ii) fund the debt service reserve of the Series 2014 D Bonds in an amount necessary to meet debt service requirements, and (iii) pay the costs of issuance related to the Series 2014 D Bonds accounts. The Series 2014 D Bonds mature in 2033 at an interest rate of 6.03%.

Interest on the Series 2014 D Revenue Bonds is payable semi-annually on April 1 and October 1, and the principal is payable in total on October 1, 2033. The Government is responsible for all principal and interest payments on the Series 2014 D Revenue Bonds. The principal and interest payments on October 1 are funded by the Gross Receipts Taxes, and the required investment to meet the April 1 interest payment is determined and deposited into the debt service reserve accounts, which is also funded by Gross Receipts Taxes.

The Series 2014 D Revenue Bonds maturing after the dates below are redeemable at the option of PFA, at prescribed redemption prices expressed as a percentage of the principal amount, as follows:

Series 2014 D Revenue Bonds	Price
Any time prior to maturity	100% Mark-Whole Redemption Price

Series 2014 C Revenue and Refunding Bonds

On November 14, 2014, PFA issued the Series 2014 C Revenue and Refunding Bonds, the proceeds of which amounted to $247,050,000. These bonds are secured by the pledge of gross receipts tax revenues, subject to the annual moderate-income housing fund deposit as well as any prior liens or pledges. The Series 2014 C Revenue and Refunding Bonds were issued to (i) refund the outstanding Series 2003 A Bonds, (ii) finance all or a portion of the costs of certain capital projects, and (iii) pay the costs of issuance related to the Series 2014 C Bonds. The Series 2014 C Bonds mature from 2015 to 2044 at an interest rate of 4.5% to 5.0%.

The proceeds of the Series 2014 C Bonds related to the refunding were placed in a trust account to provide for all future debt service payments on the 2016 to 2034 maturities of the Series 2003 A Bonds. Approximately $235,249,196 of bond proceeds were deposited into the Escrow Fund accounts. On December 1, 2014, the Series 2003 A bonds were defeased through the exercise of call redemptions.

Interest on the Series 2014 C Revenue and Refunding Bonds is payable semi-annually on April 1 and October 1, and the principal is payable annually on October 1. The Government is responsible for all principal and interest payments on the Series 2014 C Revenue and Refunding Bonds. The principal and interest payments on October 1 are funded by the Gross Receipts Taxes, and the required investment to meet the April 1 interest payment is determined and deposited into the debt service reserve accounts, which is also funded by Gross Receipts Taxes.

The Series 2014 C Revenue and Refunding Bonds maturing after the dates below are redeemable at the option of PFA, at prescribed redemption prices expressed as a percentage of the principal amount, as follows:

Series 2014 C Revenue and Refunding Bonds	Price
October 1, 2024 and thereafter	100%

Series 2014 A Revenue Bonds

On September 5, 2014, PFA issued the Series 2014 A Revenue Bonds, the proceeds of which amounted to $49,640,000. These bonds are secured by the pledge of gross receipts tax revenues and are subject to the annual moderate-income housing fund deposit as well as any prior liens or pledges.

The bonds were issued to (i) finance all or a portion of the costs of certain capital projects, as authorized by the Virgin Islands Legislature in 2013 V.I. Act 7499, as amended by 2014 V.I. Act 7631 as further amended by 2014 V.I. Act 7637 and approved by PFA by resolution, (ii) fund the Debt Service Reserve account in an amount necessary to meet the Debt Service Reserve Requirement, and (iii) pay the costs and expenses of issuing and delivering the Series 2014 A Bonds. The Series 2014 A Revenue Bonds mature from 2015 to 2034 at an interest rate of 5.0%.

Interest on the Series 2014 A Revenue Bonds is payable semi-annually on April 1 and October 1, and the principal is payable annually on October 1. The Government is responsible for all principal and interest payments on the Series 2014 A Revenue Bonds. The principal and interest payments on October 1 are funded by the Gross Receipts Taxes, and the required investment to meet the April 1 interest payment is determined and deposited into the debt service reserve accounts, which is also funded by Gross Receipts Taxes.

The Series 2014 A Revenue Bonds maturing after the dates below are redeemable at the option of PFA, at prescribed redemption prices expressed as a percentage of the principal amount, as follows:

Series 2014 A Revenue Bonds	Price
October 1, 2024 and thereafter	100%

Series 2012 A and B Revenue and Refunding Bonds

On November 20, 2012, PFA issued the Series 2012 A and B Revenue and Refunding Bonds, the proceeds of which amounted to $228,805,000. These bonds are secured by the pledge of gross receipts tax revenues, subject to the annual moderate-income housing fund deposit as well as any prior liens or pledges. The Series 2012 A Revenue and Refunding Bonds were issued to (i) refund the outstanding Series 1999 A Bonds, (ii) refund the outstanding 2010 A1 and A2 Notes, (iii) pay the costs and expenses of issuing and delivering the Series 2012 A Revenue and Refunding Bonds, and (iv) fund the Debt Service Reserve account in an amount necessary to meet the Debt Service Reserve requirement related to the Series 2012 A Revenue and Refunding Bonds. The Series 2012 A Bonds mature from 2017 to 2032 at an interest rate of 2.25% to 5.00%.

The Series 2012 B Revenue and Refunding Bonds were issued to (i) refinance the outstanding 2011 A Notes, which initially financed the Broadband Project, (ii) pay the costs and expenses of issuing and delivering the Series 2012 B Revenue and Refunding Bonds, and (iii) fund the Debt Service Reserve account in an amount necessary to meet the Debt Service Reserve requirement related to the Series 2012 B Revenue and Refunding Bonds. The Series 2012 B Revenue and Refunding Bonds mature in 2027 at an interest rate of 5.25%.

The current refunding of the Series 1999 A Bonds, on November 20, 2012, was made in order to obtain lower interest rates. The economic gain obtained by this current refunding is the difference between the present value of old debt service requirements and the new debt service. This refunding resulted in a debt service saving of approximately $11.9 million and an economic gain of approximately $7.7 million.

Interest on the Series 2012 A and B Revenue and Refunding Bonds is payable semi-annually on April 1 and October 1, and the principal is payable annually on October 1. The Government is responsible for all principal and interest payments on the Series 2012 A and B Revenue and Refunding Bonds. The principal and interest payments on October 1 are funded by the Gross Receipts Taxes, and the required investment to meet the April 1 interest payment is determined and deposited into the debt service reserve accounts, which is also funded by Gross Receipts Taxes.

The 2012 Series A and B Revenue and Refunding Bonds maturing after the dates below are redeemable at the option of PFA, at prescribed redemption prices expressed as a percentage of the principal amount, as follows:

Series 2012 A and B Revenue and Refunding Bonds	Price
October 1, 2032 (Series 2012 A)	100%
October 1, 2027 (Series 2012 B)	Make-Whole Redemption Price

Series 2012 C Revenue Bonds

On December 19, 2012, PFA issued the Series 2012 C Revenue Bonds, the proceeds of which amounted to $35,115,000. These bonds are secured by the pledge of gross receipts tax revenues and are subject to the annual moderate-income housing fund deposit as well as any prior liens or pledges. The bonds were issued to (i) provide a loan to the Government to be used to finance certain operating expenses and other obligations of the Government, (ii) fund capitalized interest on a portion of the Series 2012 C Bonds, and (iii) pay the costs and expenses of issuing and delivering the Series 2012 C Bonds. The Series 2012 C Revenue Bonds mature from 2017 to 2042 at an interest rate of 3.0% to 5.0%.

Interest on the Series 2012 C Revenue Bonds is payable semi-annually on April 1 and October 1, and the principal is payable annually on October 1. The Government is responsible for all principal and interest payments on the Series 2012 C Revenue Bonds. The principal and interest payments on October 1 are funded by the Gross Receipts Taxes, and the required investment to meet the April 1 interest payment is determined and deposited into the debt service reserve accounts, which is also funded by Gross Receipts Taxes.

The Series 2012 C Revenue Bonds maturing after the dates below are redeemable at the option of PFA, at prescribed redemption prices expressed as a percentage of the principal amount, as follows:

Series 2012 C Revenue Bonds	Price
October 1, 2030 and thereafter	100%

Series 2006 A Revenue Bonds

On September 28, 2006, PFA issued the Series 2006 A Revenue Bonds, the proceeds of which amounted to $219,490,000. These bonds are secured by a pledge of the Trust estate, which includes certain funds established under the original Indenture, the Seventh Supplemental Indenture and the 2006 Gross Receipts Taxes Loan Note, Series issued by the Government. The proceeds were loaned to the Government under the same terms as the Bonds. The bonds are limited special obligations of PFA. The bonds bear interest at 3.5% to 5.0% and mature from 2007 to 2029.

The proceeds of the bonds were issued to: (i) refund a portion of PFA's Revenue Bonds, Series 1999 A, (ii) pay the cost of a termination fee in connection with an outstanding swap option agreement, (iii) fund certain capital projects, (iv) fund the Debt Service Reserve Account, (v) pay certain costs of issuing the Series 2006 A Revenue Bonds and (vi) fund a net payment reserve account for a new swap agreement. The Series 2006 A Revenue Bonds maturing on or before October 1, 2016 are not subject to optional redemption. The advance refunding of the 2024 and 2029 maturities of the Series 1999 A Bonds was made in order to obtain lower interest rates.

The economic gain obtained by this advance refunding is the difference between the present value of old debt service requirements and the new debt service. This refunding resulted in a debt service saving of approximately $40.8 million and an economic gain of approximately $25.6 million.

The proceeds of the Series 2006 A Revenue Bonds related to the refunding were placed in a trust account to provide for all future debt service payments on the 2024 to 2029 maturities of the Series 1999 A Bonds. Approximately $175,125,168 of funds was deposited into the Escrow Fund accounts. At September 30, 2017, the Series 1999A Revenue Bonds were fully defeased.

Interest on the Series 2006 A Revenue Bonds is payable semi-annually on April 1 and October 1, and principal is payable annually on October 1. The Government is responsible for all principal and interest payments on the Series 2006 A Revenue Bonds. The principal and interest payments on October 1 are funded by Gross Receipts taxes, and the required investment to meet the April 1 interest payment is determined and deposited into the debt service reserve accounts, which is also funded by Gross Receipts taxes.

The Series 2006 A Revenue Bonds maturing after the dates below are redeemable at the option of PFA, at prescribed redemption prices expressed as a percentage of the principal amount, as follows:

Series 2006 A Revenue Bonds	Price
October 1, 2016 and thereafter	100%

Pledged Funds

The Government has pledged Gross Receipts Taxes subject to the annual moderate income housing fund deposit, as well as any prior lien or pledge, to the timely payment of the principal and interest on the Series 2018 A Revenue Bonds, Series 2016 A Notes, Series 2014 E Revenue Note, Series 2014 D Revenue Bonds, Series 2014 C Revenue and Refunding Bonds, Series 2014 B Revenue Notes, Series 2014 A Revenue Bonds, Series 2013 A Revenue Notes, Series 2012 C Revenue Bonds, Series 2012 A and B Revenue and Refunding Bonds, and the Series 2006 A Revenue Bonds. The Government has contracted an independent certified public accounting firm to provide quarterly verification of gross receipts deposits made to the collecting agent, in accordance with bond covenants.

In fiscal year 2018, pledged gross receipts tax revenues represented 45.7% of total gross receipt tax revenues. Payment of Gross Receipts Revenue Bonds and Notes principal and interest from pledged gross receipts taxes amounted to $48.2 million and $36.7 million, respectively.

Tobacco Settlement Bonds

2006 Series A, B, C & D Tobacco Turbo and Capital Appreciation Bonds

On March 15, 2006, TSFC issued the 2006 Tobacco Settlement Financing Corporation Asset-Backed Bonds, Subordinated Series 2006 (Turbo Capital Appreciation Bonds) amounting to $48,145,000, with an issue value of $7,290,009 net of accretion of $40,854,991. The bonds are secured and payable from collections including all Tobacco Settlement Revenues to be received by TSFC, reserves, amounts held in other accounts established by the indenture and TSFC's rights under the purchase agreement. The proceeds have been used for the purpose of (i) to finance several capital, hospital and health development projects for the benefit of the Virgin Islands and its residents, (ii) to pay certain costs of issuing the Series 2006 Bonds, and (iii) to fund operating costs associated with the Series 2006 Bonds.

Interest on the Series 2006 Bonds is not paid currently but accretes from the date of delivery, compounded every May 15 and November 15, commencing May 15, 2006, and is paid at maturity or upon prior redemption, provided however that the 2001 Series Bonds have been paid in full.

2001 Series A Tobacco Bonds

On November 20, 2001, TSFC issued the 2001 Tobacco Settlement Financing Corporation Asset-Backed Bonds (Term and Capital Appreciation Bonds) amounting to $23,685,000, with an issue value of $21,709,862 net of accretion of $1,975,138. The bonds are secured and payable from collections including all Tobacco Settlement Revenues to be received by TSFC, reserves, amounts held in other accounts established by the indenture, and TSFC's rights under the purchase agreement. The proceeds have been used for the purpose of (i) purchasing all rights, title, and interest in certain litigation awards under the MSA entered into by participating cigarette manufacturers, (ii) issuing Tobacco Settlement Asset-Backed Bonds to pay the purchase price for the rights, and (iii) providing funds for hospital and healthcare projects in the United States Virgin Islands.

Interest on the Series 2001 Bonds is payable semi-annually on each May and November 15, beginning with May 2002 for the Term Bonds. The Corporation is responsible for all principal and interest payments on the bonds. The convertible Capital Appreciation Bonds will accrete interest prior to November 15, 2007 and will accrue interest subsequent to that date. Interest will compound on May and November 15.

Federal-Aid Highway Bonds

On December 15, 2015, PFA issued the Series 2015 Federal-Aid Highway Bonds (the "Series 2015 Bonds"), the proceeds of which amounted to $89,880,000. These bonds are secured by a lien on a security interest in, the Trust Estate, which includes, all rights and interests in (i) the Federal Highway Grant Revenues, (ii) subject to the limitations set forth in the Indenture, the Transportation Trust Fund and the Pledged Transportation Trust Fund Revenues, (iii) the amounts on deposit in certain funds and accounts created under the Indenture, including Debt Service Reserve Fund and (iv) the Loan Agreement and the Loan Note. The bonds are limited special obligations of PFA. The Series 2015 Bonds were issued to (i) finance costs of certain highway capital projects, (ii) establish debt service reserves, and (iii) pay the costs of issuance related to the Series 2015 Bonds. The Series 2015 Bonds mature from 2016 to 2033 at an interest rate of 3.0% to 5.0%.

Interest on the Series 2015 Bonds is payable semi-annually on March 1 and September 1, and principal is payable annually on September 1. The Government is responsible for all principal and interest payments on the Series 2015 Bonds. The principal and interest payments on September 1 are funded by the Federal Highway Grant Revenues, and the required investment to meet the March 1 interest payment is determined and deposited into the debt service reserve accounts, which is also funded by the Federal Highway Grant Revenues.

The Series 2015 Bonds maturing after the dates below are redeemable at the option of PFA, at prescribed redemption prices expressed as a percentage of the principal amount, as follows:

Series 2015 Bonds	Price
September 1, 2025 and thereafter	100%

Pledged Funds

The Government has pledged the Federal Highway Grant Revenues, as described below, to the timely payment of principal and interest on the Series 2015 Bonds. The Federal Highway Administration's Puerto Rico Division and the Government's Department of Public Works and PFA, have entered into a Memorandum of Understanding, dated December 9, 2015, documenting the procedures, roles, and responsibilities for (i) programming and authorizing the Approved Projects, (ii) supervising the construction of the Approved Projects, (iii) paying debt service on the Bonds and other Bond Related Charges, and (iv) establishing the funding, transfer, and disbursement process for the proceeds of the Bonds.

Advance Refunding/Defeasances

On June 15, 1992, PFA issued the Series 1992 Revenue Bonds. The proceeds of the Series 1992 Revenue Bonds were placed in an irrevocable trust to provide for all future debt service payments on the Series 1989 Revenue Bonds. At September 30, 2018, $2.2 million of the 1989 defeased bonds were outstanding. Assets held by irrevocable trusts for refunding of prior outstanding debt and the corresponding liabilities are not included in the Government's basic financial statements.

Future debt service requirements for bonds for which matching funds have been pledged are as follows (expressed in thousands):

	Governmental Activities - Matching Funds Revenue Bonds									
	2009 Series A Revenue Bonds (Diageo)		2009 Series A1 & A2 Revenue Bonds		2009 Series B Revenue Bonds		2009 Series C Revenue Bonds		2009 Series A Revenue Bonds (Cruzan)	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Maturity Year:										
2019	$ 5,600	$ 15,022	$ 1,915	$ 3,563	$ 21,500	$ 6,413	$ 8,860	$ 2,005	$ 780	$ 2,013
2020	5,990	14,631	2,000	3,481	22,600	5,311	9,145	1,555	820	1,973
2021	6,405	14,216	2,090	3,388	23,760	4,152	8,415	1,116	865	1,926
2022	6,845	13,777	2,195	3,286	24,975	2,934	10,345	647	920	1,872
2023	7,315	13,308	2,300	3,179	9,650	2,068	7,770	194	975	1,815
2024-2028	44,800	58,301	13,320	14,079	36,535	3,102	-	-	5,875	8,092
2029-2033	62,485	40,622	17,085	10,312	-	-	-	-	7,930	6,036
2034-2038	87,530	15,567	21,935	5,459	-	-	-	-	10,700	3,262
2039-2043	-	-	10,430	528	-	-	-	-	5,265	321
Total	$ 226,970	$ 185,444	$ 73,270	$ 47,275	$ 139,020	$ 23,980	$ 44,535	$ 5,517	$ 34,130	$ 27,310

	Governmental Activities - Matching Funds Revenue Bonds											
	2010 Series A Revenue Bonds		2010 Series B Revenue Bonds		2012 Series A Revenue Bonds		2013 Series A Revenue Bond		2013 Series B Revenue Bonds		Total Matching Excise Tax Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Maturity Year:												
2019	$ 2,660	$ 14,514	$ -	$ 4,833	$ 950	$ 6,890	$ 7,905	$ 1,028	$ -	$ 2,052	$ 50,170	$ 58,333
2020	2,800	14,377	-	4,833	1,000	6,851	2,335	770	6,035	1,902	52,725	55,684
2021	2,955	14,233	1,050	4,811	1,100	6,809	2,460	645	6,335	1,592	55,435	52,888
2022	3,115	14,082	-	4,789	1,150	6,764	2,590	515	6,655	1,267	58,790	49,933
2023	19,890	13,507	2,705	4,721	1,250	6,716	2,725	377	6,985	927	61,565	46,812
2024-2028	159,950	48,636	61,065	15,881	7,500	32,566	5,900	310	15,035	761	349,980	181,728
2029-2033	100,235	5,074	29,230	1,555	126,315	21,849	-	-	-	-	343,280	85,448
2034-2038	-	-	-	-	-	-	-	-	-	-	120,165	24,288
2039-2043	-	-	-	-	-	-	-	-	-	-	15,695	849
Total	$ 291,605	$ 124,423	$ 94,050	$ 41,423	$ 139,265	$ 88,445	$ 23,915	$ 3,645	$ 41,045	$ 8,501	$ 1,107,805	$ 555,963

Future debt service requirements for bonds for which gross receipts taxes have been pledged are as follows (expressed in thousands):

	Governmental Activities - Gross Receipts Revenue Bonds											
	2006 Series A Revenue Bonds		2012 Series A Revenue Bonds		2012 Series B Revenue Bonds		2012 Series C Revenue Bonds		2014 Series A Revenue Bonds		2014 Series C Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Maturity Year:												
2019	$ 3,485	$ 9,252	$ 11,835	$ 6,725	$ 1,855	$ 1,200	$ 1,600	$ 1,367	$ 1,720	$ 2,205	$ 5,510	$ 11,416
2020	3,615	9,075	12,380	6,241	1,955	1,100	1,685	1,284	1,810	2,117	5,790	11,134
2021	15,865	8,667	800	5,977	2,065	994	1,770	1,198	1,900	2,024	6,065	10,837
2022	16,295	7,943	1,140	5,939	2,175	883	1,860	1,107	2,000	1,927	6,385	10,526
2023	16,895	7,113	1,430	4,581	2,290	2,072	1,955	1,012	2,100	1,824	6,705	10,199
2024-2028	94,300	22,006	40,420	23,888	13,445	2,527	2,385	4,529	12,240	7,390	35,215	45,754
2029-2033	42,775	1,913	76,750	10,000	-	78	3,680	3,820	15,720	3,912	112,645	31,116
2034-2038	-	-	-	-	-	-	5,775	2,606	7,475	378	39,340	4,905
2039-2043	-	-	-	-	-	-	7,420	964	-	-	7,555	2,482
2044-2048	-	-	-	-	-	-	-	-	-	-	7,050	322
Total	$ 193,230	$ 65,969	$ 144,755	$ 63,351	$ 23,785	$ 8,854	$ 28,130	$ 17,887	$ 44,965	$ 21,777	$ 232,260	$ 138,691

	Governmental Activities - Gross Receipts Revenue Bonds									
	2014 Series D Revenue Bonds		2018 Series A-1 Revenue Bonds		2018 Series A-2 Revenue Bonds		2018 Series A-3 Revenue Bonds		Total Gross Receipts Tax Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Maturity Year:										
2019	$ 200	$ 310	$ -	$ -	$ -	$ -	$ -	$ -	$ 26,205	$ 32,475
2020	215	297	-	4,189	-	468	-	909	27,450	36,814
2021	225	284	-	4,189	-	468	-	820	28,690	35,458
2022	240	270	-	4,189	-	468	-	819	30,095	34,071
2023	255	255	2,983	6,655	187	738	840	1,193	35,640	35,642
2024-2028	1,535	1,016	23,074	20,005	2,109	2,321	5,890	3,673	230,613	133,109
2029-2033	2,075	475	32,016	14,625	3,083	1,752	6,532	2,581	295,276	70,272
2034-2038	490	15	86,927	6,380	10,553	801	14,328	1,080	164,888	16,165
2039-2043	-	-	-	-	-	-	-	-	14,975	3,446
2044-2048	-	-	-	-	-	-	-	-	7,050	322
Total	$ 5,235	$ 2,922	$ 145,000	$ 60,232	$ 15,932	$ 7,016	$ 27,590	$ 11,075	$ 860,882	$ 397,774

Future debt service requirements for bonds for which tobacco settlement revenues have been pledged are as follows (expressed in thousands):

Maturity Year	Principal	Interest
2019	$ -	$ 266
2020	-	266
2021	-	266
2022	-	266
2023	-	265
2024-2028	-	1,329
2029-2033	5,315	797
2034-2038	7,290	-
Plus future accretion	9,038	-
Total	$ 21,643	$ 3,455

Future debt service requirements for bonds for which federal-aid highway grant revenues have been pledged are as follows (expressed in thousands):

Maturity Year	Principal	Interest
2019	$ 3,645	$ 3,931
2020	3,825	3,748
2021	4,015	3,557
2022	4,220	3,356
2023	4,430	3,145
2024-2028	25,685	12,175
2029-2033	32,790	5,079
Total	$ 78,610	$ 34,991

(b) Loans and Notes Payable

2016 A Notes

On October 1, 2016, PFA issued two Surbordinate Lien Revenue Notes, Series 2016 A (Virgin Islands Gross Receipts Taxes Loan Notes-Emergency First Responder Project), collectively the "Series 2016 A Notes" in an aggregate amount of up to $10,000,000 to: (i) finance the acquisition of public safety vehicles and related equipment (the "Series 2016A-1 Project"), and (ii) to finance certain consulting services for the improvement of public safety and security in the Virgin Islands, (the "Series 2016A-2 Project"), and (iii) to pay certain costs incidental to the issuance of the Series 2016 A Notes. The Series 2016 A Notes matures in 2021 with variable interest rates based on the 90-day London Inter-bank Offered Rate ("LIBOR") plus 375 basis points. The Series 2016 A Notes are subject to prepayment by PFA in whole or in part at any time upon 100% payment of the outstanding principal plus interest accrued to the prepayment date. As of September 30, 2018, the outstanding balance was $6.6 million.

Future debt service requirements for the 2016 A Notes are as follows (expressed in thousands):

Maturity Year	Principal	Interest
2019	$ 2,136	$ 275
2020	2,136	170
2021	2,137	65
2022	178	1
Total	$ 6,587	$ 511

Series 2014 E Revenue Notes

On December 4, 2014, PFA issued the Subordinate Lien Revenue Anticipation Notes Series 2014 E (Virgin Islands Gross Receipts Taxes Loan Note), in the aggregate amount of $40,000,000 (the "2014 E Revenue Notes"). The purpose of the 2014 E Revenue Notes is to provide a loan to the Government to (i) provide funds for any purpose for which the Government is authorized to use and expend monies, including but not limited to current expenses, capital expenditures, and discharge of any obligations of the Government, and (ii) pay the costs of issuance of the Series 2014 E Revenue Notes. As of September 30, 2018, the outstanding balance was $5.0 million.

Future debt service requirements for the 2014 E Revenue Notes are as follows (expressed in thousands):

Maturity Year	Principal
2019	$ 5,000

2014 B Revenue Notes

On September 12, 2014, PFA issued the Subordinate Lien Revenue Notes, Series 2014 B (Virgin Islands Gross Receipts Taxes Loan Note) in the aggregate amount of $14,000,000 (the "2014 B Revenue Notes"). The proceeds of the Series 2014 B Revenue Notes were loaned to the Government under the same terms, for the purposes of (i) financing general obligations of the Government and (ii) paying certain costs of issuing the 2014 B Notes. Principal is payable in eighty-four (84) consecutive monthly principal installments commencing on November 1, 2014. Interest is assessed at 375 points above the 90-day LIBOR rate. As of September 30, 2018, the outstanding balance was $6.0 million.

Future debt service requirements for the 2014 B Revenue Notes are as follows (expressed in thousands):

Maturity Year	Principal	Interest
2019	$ 2,000	$ 314
2020	2,000	177
2021	2,000	62
Total	$ 6,000	$ 553

2013 A Revenue Notes

On May 14, 2013, PFA issued the Subordinate Lien Revenue Notes, Series 2013 A (Virgin Islands Gross Receipts Taxes Loan Note) in the aggregate amount of $6,700,000 (the "2013 A Revenue Notes"). The proceeds of the Series 2013 A Revenue Notes were loaned to the Government under the same terms, for the purposes of (i) financing the acquisition of a fleet of vehicles for the Virgin Islands Police Department and (ii) paying certain costs of issuing the 2013 A Revenue Notes. Principal and interest are paid in monthly installments following each respective draw and continuing thereafter for thirty-five (35) consecutive monthly principal installments. Interest is assessed at 375 points above the 90-day LIBOR rate. At September 30, 2018, PFA had drawn $6.7 million of loan funds all of which had been repaid.

2012 A TIF Notes

On September 25, 2009, PFA entered into a Bond Anticipation Note Purchase Agreement with a local bank. Under the terms of the Note Purchase Agreement, the bank will purchase up to $15,700,000 in federally taxable Bond Anticipation Notes (the "2009 A TIF Notes") issued by PFA. The purpose of the Series 2009 A TIF Notes is to provide a loan to the Government (the "Series 2009 A Tax Increment Revenue Loan Note") to finance the development of a shopping complex on the island of St. Croix. The financing is provided under Tax Increment Financing legislation enacted in October 2008 by the Government. Both the 2009 A TIF Notes and the Series 2009 Tax Increment Revenue Loan Note have a term of three years, maturing on October 1, 2012 with interest of 300 points above the J.P. Morgan Chase Prime Rate or 6.25%, whichever is higher.

Under the terms of the 2009 A TIF Notes, PFA may issue Tax Increment Revenue Bonds to defease the debt prior to that date. The proceeds were used to: (i) fund a capitalized interest account, (ii) pay costs of issuance, and (iii) fund the first phase of the development of the shopping complex. On December 5, 2016, a redemption of $1.0 million of the Series 2012 A TIF Notes was made directly by the Government, pursuant to the Series 2012A Term Loan Indenture of Trust.

On September 24, 2012, PFA authorized an extension of the maturity date on the Series 2009 A TIF Notes, from October 1, 2015 to October 1, 2017, which was then converted to the Series 2012 A term loan note (the "2012 A TIF Notes"). PFA sold $13,700,000 in 2012 A TIF Notes to the local bank and loaned that amount to the Government. The Government has pledged Island Crossings Incremental Tax Revenue and proceeds of the anticipated Tax Increment Revenue Bond Anticipation Note to the timely payment of the principal and interest on the 2012 A TIF Notes. Incremental Tax Revenue will be deposited into the Island Crossing Tax Increment Trust account in accordance with the Loan Agreement.

Future debt service requirements for the 2012 A TIF Notes are as follows (expressed in thousands):

Maturity Year	Principal	Interest
2019	$ 241	$ 856
2020	10,939	-
Total	$ 11,180	$ 856

2011 B Revenue Anticipation Notes

On November 14, 2011, PFA entered into a Property Tax Revenue Anticipation Note Loan Agreement (the "2011 B Revenue Anticipation Notes"). Under the terms of the Loan Agreement, the Employees' Retirement System of the Government will loan PFA up to $13,000,000. The purpose of the 2011 B Revenue Anticipation Notes is secured by property tax revenue up to and including tax year 2005 to provide a loan to the Government to finance (i) payments made by the Government to government employees who elected to retire under the Retirement Incentive Program, (ii) expenses incurred by the Office of the Lieutenant Governor related to processing, issuing and collecting property tax bills, and (iii) loan issuance costs. The financing is provided under the 2011 Economic Stability Act enacted in July 2011 by the Government. Surplus property tax receipts will be deposited into the Special Real Property Tax Receipts Fund account in accordance with the Loan Agreement.

The 2011 B Revenue Anticipation Notes have a term of five years, with interest rate of 4.9% and a maturity date of December 15, 2016. After the five-year term of the 2011 B Revenue Anticipation Notes, the loan converted to a term loan.

Future debt service requirements for the 2011 B Revenue Anticipation Notes are as follows (expressed in thousands):

Maturity Year	Principal	Interest
Total	$ 643	$ 6

(c) Loan Payable – U.S. Treasury

In August 2009, the Territory reserve balance of the Unemployment Trust Fund (UTF) became inadequate to cover expenditures for unemployment compensation (UC) benefits. UC benefits are an entitlement program administered through the U.S. Treasury and the PG is legally liable to pay benefits even if the UTF becomes insolvent. As of September 30, 2018, the PG owed $68.6 million to the U.S. Treasury.

The loan was subject to interest at federal rates of 2.2124% through December 31, 2017 and 2.2153% after January 1, 2018. During 2018, the PG paid $1.6 million in interest to the U.S. Treasury on the UTF loans and additional borrowing of $15.6 million. The additional borrowing was due to claims for Disaster Unemployment Assistance (DUA) that was extended following two Category 5 hurricanes in 2017.

(d) Loan Payable – The West Indian Company Limited

In July 2017, WICO consolidated various loans with Banco Popular de Puerto Rico in the amount of $42,697,836 at a fixed interest rate of 5.25% per annum, amortized on a 25-year term with a final maturity date of July 2022. Upon maturity, should WICO stay in compliance with the current terms of the loan, it may refinance the loan for a term not to exceed twenty (20) years, subject to new terms and conditions.

WICO may prepay the loan, however there is a prepayment penalty of 2.0% of the outstanding principal of the loan. Security and collateral for the loan include a first-priority security interest in WICO's assets and a pledge of WICO's revenues. WICO must also maintain insurance on its facilities at full replacement cost value and business interruption insurance equal to one year's net revenues. WICO is required to pay all payments in lieu of taxes (PILOT) to PG.

Future principal payments on the loan are as follows:

Maturity Year	Principal	Interest	Total
2019	$ 820,377	$ 2,250,013	$ 3,070,390
2020	858,914	2,211,476	3,070,390
2021	911,978	2,158,412	3,070,390
2022	40,055,303	1,931,573	41,986,876
Total	$ 42,646,572	$ 8,551,474	$ 51,198,046

(e) Insurance Guaranty Fund Minimum Balance Requirement

Under Title 22, Chapter 10 of the VIC, the Virgin Islands Insurance Guaranty Fund is required to maintain a minimum balance of $50.0 million for claimant payments in the event of a failure of an insurance carrier. On February 10, 2012, legislation was enacted authorizing a reduction in the minimum balance to be held by the Virgin Islands Insurance Guaranty Fund from $50.0 million to $10.0 million. Effective September 30, 2019, in the event the balance in the Insurance Guaranty Fund equals or exceeds $50.0 million, amounts in excess thereof shall be deposited, at the direction of the Commissioner of Finance, into the General Fund.

Component Units

Bonds payable of discretely presented component units are those liabilities that are paid out of resources pledged by such entities. Bonds payable, outstanding at September 30, 2018, are as follows (expressed in thousands):

	Maturity	Interest Rate (%)	Balance
Bonds Payable			
Virgin Islands Water and Power Authority (Electric System):			
Bond Anticipation of 2017	2020	10.00	$ 14,765
Bond Anticipation of 2016	2019	5.50	33,960
Revenue Bonds of 2015	2035	1.62	12,671
Revenue Bonds of 2012	2025	4.00 - 6.06	53,115
Revenue Bonds of 2010	2035	4.00 - 6.85	50,255
Revenue Bonds of 2007	2031	4.50 - 5.00	57,585
Revenue Bonds of 2003	2028	4.00 – 5.00	42,615
Virgin Islands Water and Power Authority (Water System):			
Revenue Bonds of 2018	2033	2.30 – 2.90	75,000
Virgin Islands Port Authority:			
Series A Revenue Bonds of 2014	2033	4.00 – 5.00	23,025
Series B Revenue Bonds of 2014	2044	3.00 – 5.00	12,820
Series C Revenue Bonds of 2014	2025	2.00 – 5.00	3,920
Subtotal			379,731
Plus unamortized premium			4,990
Bonds payable, net			384,721
Less amount due within one year			(16,050)
Bonds payable, due in more than one year			$ 368,671

The changes in bonds payable for discretely presented component units are as follows for the year ended September 30, 2018 (expressed in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year	Due Thereafter
Virgin Islands Water and Power Authority:						
Electric System	$ 265,165	$ 14,765	$ (12,491)	$ 267,439	$ 13,485	$ 253,954
Water System	3,665	75,000	(3,665)	75,000	-	75,000
Virgin Islands Port Authority	45,356	-	(3,074)	42,282	2,565	39,717
Total	$ 314,186	$ 89,765	$ (19,230)	$ 384,721	$ 16,050	$ 368,671

The changes in notes payable, line of credit payable, and other long-term liabilities for discretely presented component units are as follows for the year ended September 30, 2018 (expressed in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year	Due Thereafter
Notes payable						
Virgin Islands Housing Authority	$ 435	$ -	$ (435)	$ -	$ -	$ -
Virgin Islands Port Authority	873	4,196	(4,178)	891	891	-
University of the Virgin Islands	81,989	2,541	(2,402)	82,128	2,712	79,416
Other component units*	10,667	-	(108)	10,559	1,306	9,253
Total	$ 93,964	$ 6,737	$ (7,123)	$ 93,578	$ 4,909	$ 88,669
Line of credit payable						
Virgin Islands Water and Power Authority:						
Electric System	$ 27,128	$ 194	$ -	$ 27,322	$ 27,322	$ -
Water System	2,500	22	-	2,522	2,522	-
Total	$ 29,628	$ 216	$ -	$ 29,844	$ 29,844	$ -

**University of the Virgin Islands Research and Technology Park Corporation (unaudited)*

	Restated Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year	Due Thereafter
Other long-term liabilities:						
Virgin Islands Housing Authority	$ 5,645	$ 3,570	$ (2,324)	$ 6,891	$ 4,139	$ 2,752
Virgin Islands Port Authority	2,382	2,225	(1,007)	3,600	982	2,618
Virgin Islands Water and Power Authority:						
Electric System	162,655	-	(7,832)	154,823	9,137	145,686
Water System	-	1,559	-	1,559	1,559	-
Hospital and Health Facilities Corporation:						
Schneider Regional Medical	3,346	-	(74)	3,272	3,272	-
Juan F. Luis Hospital	8,554	-	-	8,554	8,554	-
University of the Virgin Islands	5,504	239	(617)	5,126	453	4,673
Other component units*	11,585	567	(498)	11,654	1,104	10,550
Total	$ 199,671	$ 8,160	$ (12,352)	$ 195,479	$ 29,200	$ 166,279

**University of the Virgin Islands Research and Technology Park Corporation (unaudited)*

(a) Bonds Payable

Virgin Islands Water and Power Authority – Electric System Bond Anticipation of 2017

In August 2017, the Electric System closed on financing for an additional $14.8 million as part of the authorized $85.0 million BANs (Series 2017A BAN) to fund startup costs for the acquisition and construction of six high efficiency power generating units with a certain vendor. The funding provides for (1) the design, engineering, procurement, construction, startup and testing of the new power generating units (2) the financing of two centralized control rooms and operational centers on the islands of St. Thomas and St. Croix, (3) financing of capitalized interest, and (4) payment of costs of issuance. The rate on the BANs was 10.0%, maturing July 1, 2020.

Virgin Islands Water and Power Authority – Electric System Bond Anticipation of 2016

In November 2016, the Electric System closed on financing for $33.9 million to fund the Streetlight conversion project (Series 2016A BAN). The funding provides for (1) acquisition, assembly, and installation of the light-emitting diode (LED) and solar panels, (2) engineering and project management, and (3) integration with the Electric System's Tantalus "smart meter" network or automated metering infrastructure (AMI). The Electric System issued the BANs to fund the project since long term rates have trended higher with the recent rating agency downgrades. The rate on the BANs was 5.5%, maturing November 15, 2018.

Virgin Islands Water and Power Authority – Electric System Rural Utilities Services Series 2015A

In November 2015, the Electric System obtained a term loan with the RUS in the principal amount of S13.0 million. The proceeds of the loan were used to finance and refinance the acquisition and installation of an automated metering system and other costs related thereto.

Virgin Islands Water and Power Authority – Electric System Revenue Bonds of 2012

In May 2012, the Electric System issued $69.1 million in bonds made up as, $17.4 million in 2012A Electric System Revenue Refunding Bonds, $19.7 million in 2012B Electric System Subordinated Revenue Bonds, and $32.0 million in 2012C Electric System Subordinated Revenue Bonds. The proceeds of the Series 2012A Bonds were used to (1) refund the Electric System's Electric System Revenue Refunding Bonds, Series 1998 and (2) pay certain costs of issuance of the Series 2012A Bonds. The proceeds of the Series 2012B Bonds were used to (1) refinance a portion of the Electric System's Electric System Term Loan, (2) make a deposit into the Subordinated Debt Service Reserve Fund sufficient to satisfy the Series 2012B Subordinated Debt Service Reserve Fund Requirement, and (3) pay certain costs of issuance of the Series 2012B Bonds. The proceeds of the Series 2012C Bonds were used to (1) refinance all or a portion of the Electric System Working Capital Lines of Credit and Overdraft Credit Facility, (2) make a deposit into the Series 2012C Subordinated Debt Service Reserve Fund sufficient to satisfy the Subordinated Debt Service Reserve Fund Requirement, and (3) pay certain costs of issuance of the Series 2012C Bonds.

Virgin Islands Water and Power Authority – Electric System Revenue Bonds of 2010

In March 2010, the Electric System issued $85.3 million in bonds made up as, $39.1 million in 2010A Electric System Revenue Refunding Bonds, $8.9 million in 2010B Electric System Revenue Bonds, and $37.3 million in 2010C Electric System Revenue Bonds. The proceeds of the Series 2010A Bonds were used to (1) refund a portion of the Electric System Revenue Refunding Bonds, Series 1998 and (2) pay certain costs of issuance of the Series 2010A Bonds. The proceeds of the Series 2010B Bonds were used to finance certain capital expenditures temporarily funded through draws on a line of credit ($9.0 million) and to make certain deposits into the Debt Service Revenue Fund sufficient to satisfy the Debt Service Reserve Fund requirement. The proceeds of the Series 2010C Bonds were used to fund a portion of the costs of certain capital improvements to the Electric System and to make certain deposits into the Debt Service Revenue Fund sufficient to satisfy the Debt Service Revenue Fund Requirement. The proceeds of the three series were also used to pay certain costs of issuance of the 2010A, 2010B, and 2010C Bonds.

Virgin Islands Water and Power Authority – Electric System Revenue Bonds of 2007

In June 2007, the Electric System issued $57.6 million in 2007A Electric System Subordinated Revenue Bonds. The proceeds of the Series 2007A Bonds were used to (1) finance costs of certain capital improvements, (2) refinance certain costs of capital improvements funded through draws on a Line of Credit and reinstallation of $10.0 million to the line of credit allocable to the Electric System, (3) make certain required deposits to the subordinated Debt Service Reserve Fund, and (4) pay certain costs of issuance of the Series 2007A Bonds.

Virgin Islands Water and Power Authority – Electric System Revenue Bonds of 2003

In June 2003, the Electric System issued $69.9 million in Electric System Revenue Bonds, Series 2003. The proceeds from the bonds were used to finance capital improvements, repay $18.0 million of then outstanding lines of credit, cover underwriters' costs, and establish a debt service fund. The Series 2003 Bonds maturing on or after July 1, 2013, shall be subject to redemption prior to their stated maturity date, at the option of the Electric System, on or after July 1, 2013, as a whole or in part at any time, at a redemption price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption.

For the year ended June 30, 2018, the Electric System's Debt Service Coverage ratio was (-1.23) for total Debt Coverage. Section 606(2) of the Resolution provided that if the Electric System fails to achieve such 1.00 coverage in a particular year, the Electric System must "take whatever steps it can to produce the amount of net electric revenues required in the following fiscal year …" Section 701 (3) of the Resolution relates to covenant defaults and makes them an event of default if such covenant default continues for 60 days after notice unless the Electric System is proceeding with diligence to cure such default.

The Electric System has notified the Trustees regarding the non-compliance with the covenants as required under the bond resolutions. The Electric System is taking all necessary actions to comply with its rate covenant under the bond resolutions inclusive of filing a revised base rate to increase the rates combined with the implementation of the Electric System's Transformation Plan to allow the Electric System to collect increased revenues. Since the 2017 hurricanes, the Electric System continues working diligently to cure each instance of default and anticipates that all such defaults will be cured as the Electric System's long-term Transformation Plan is implemented. The Electric System's revised base rate and LEAC petitions were approved on January 9, 2020. However, the Electric System cannot yet determine how long it will take to generate Electric Revenues in amounts necessary to comply with the provisions of the bond resolutions. As of June 30, 2020, the Authority has made all required debt service payments to date, and all required bond reserves are adequately funded.

Virgin Islands Water and Power Authority – Water System Revenue Bonds of 1998

In December 1998, the Water System issued $44.2 million principal amount of 1998 Series Water System Revenue and Refunding Bonds. The proceeds from the bonds were used to repay the 1990 Series A Water System Revenue Bonds at a redemption price of 100% and to refund the 1992 Series B Water System Revenue Bonds, repay outstanding lines of credit balances, pay underwriters' costs, provide funding for a Renewal and Replacement Reserve Fund, and to purchase obligations of the United States government, which were placed in an irrevocable trust with an escrow agent to provide all future debt service on the remaining principal amount of the 1992 Series B Bonds which have since been paid off.

Payment of principal and interest on the 1998 Series Bonds is secured by an irrevocable lien on the Water System's net revenues (exclusive of any funds that may be established pursuant to the Bond Resolution for certain other specified purposes) and funds established under the Bond Resolution, including investment securities. To provide additional security, the Water System has conveyed to the bond trustee a subordinate lien and security interest in the Water System's net revenues. The Water System is also required to make deposits in a debt service reserve fund in accordance with the Bond Resolution. The 1998 Series Bonds maturing on or after July 1, 2010, are subject to redemption prior to their stated maturity date, at the option of the Water System, as a whole or in part at any time.

The Water System Revenue Bonds are subject to mandatory redemption if (i) any significant part of the Water System shall be damaged, destroyed, taken, or condemned or (ii) any for-profit, nongovernmental investor shall acquire an ownership interest in some or all assets of the Water System. The Water System's Bond Resolution requires the Water System under Section 606(1), for as long as the bonds are outstanding, to establish rates "so that in each fiscal year the net water revenues shall at all times be at least 1.25 the aggregate debt service requirement for such fiscal year." For the year ended June 30, 2018, the bonds were fully repaid.

Virgin Islands Water and Power Authority – Water System Revenue Bonds of 2018

In November 2017, in order to fund its working capital needs in the aftermath of the hurricanes, the Water System obtained $31.0 million under the Community Disaster Loan program administered by FEMA. In March 2018, the Water System entered into another loan for $44.0 million and refinanced the existing $31.0 million for a combined loan of $75.0 million, secured now as a first lien of the Water System's revenues. The proceeds of these loans were used to provide working capital mostly for fuel invoices, payroll, and other critical operating expenses. While the loan is reflected under the Water System, the payment of principal and interest is subject to an intercompany agreement whereby 17% will be allocated to the Water System and 83% to the Electric System. The Water System may request draw-downs periodically. The interest rate varies with each draw-down, ranging from 2.3% to 2.9%. The first interest payment is due July 1, 2019 with subsequent payments due semiannually. The first principal payment is due January 1, 2022 with subsequent payments due semiannually.

Virgin Islands Port Authority – Series A, B, and C Revenue Bonds of 2014

In October 2014, VIPA issued the 2014 Series Revenue Bonds A, B & C amounting to $48.6 million, with an average interest rate of 4.7%. A portion of the proceeds was used to refund the outstanding bond series 2003 A and C amounting to $24.5 million, which included accrued interest as of the redemption date for October 27, 2014. The proceeds from the issuance of the 2014 Series used in the refunding were deposited in an escrow account, held by the Trustee on behalf of the holders of the refunded bonds, and applied to such redemption contemporaneously with the issuance of the Series 2014 Bonds.

As a result, the 2003 A & C Bonds were paid off. The 2003 Series B Marine Revenue Bonds were also paid off. VIPA reduced its total debt service requirement by $1.7 million, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of $2.4 million. In addition, VIPA recognized a deferred charge on debt refunding amounting to $0.4 million. The proceeds of the 2014 Bonds, together with certain other available funds of VIPA, were used for: (i) refunding $24.5 million in 2003 Series A Marine Revenue bonds and pay off the 2003 Series bonds; (ii) for the financing of various capital projects; (iii) to fund a deposit to the debt service fund; (iv) to fund a deposit to the operation, maintenance, renewal and replacement reserve account; and (v) to pay the cost of issuance of the 2014 Bonds.

The 2014 bonds issued by VIPA contain certain bond indentures. The bonds' indentures contain certain account restrictions and funding covenants to cover interest, debt service, maintenance and other costs specified in the corresponding indentures. The bonds' indentures also specify certain debt service coverage requirements determined from Net Available Revenues (as defined) of the Marine Division.

Future debt service requirements for discretely presented component units' bonds payable are as follows (expressed in thousands):

Maturity Year	Principal	Interest
2019	$ 16,050	$ 12,713
2020	68,127	14,299
2021	19,989	13,563
2022	20,760	12,809
2023	21,441	15,075
2024-2028	108,881	43,441
2029-2033	97,570	15,650
2034-2038	22,913	2,592
2039-2043	3,500	37
2044-2048	500	-
Total	379,371	$ 130,179
Plus unamortized premium	4,990	
Bonds payable, net	$ 384,721	

(b) Notes Payable

Virgin Islands Housing Authority

In July 2012, VIHA signed an interest free non-recourse repayment agreement in the amount of $3.2 million with the PG for the misuse of disaster related expenditures related to Hurricane Marilyn which occurred in 1995. The note was fully repaid during the December 31, 2017 fiscal year.

Virgin Islands Port Authority

In April 2018, VIPA obtained a short-term note for $3.5 million with interest at a 4.2% annual rate. This note has a 9-month maturity and is due in January 2019. This note was used to finance VIPA's insurance premiums. The outstanding balance of $0.9 million as of September 30, 2018, was paid off in December 2018.

In November 2017, VIPA obtained a short-term note for $0.6 million with interest at a 3.7% annual rate and 9-month maturity. This note was used to finance VIPA's insurance premiums and was paid off in June 2018.

University of the Virgin Islands

During fiscal year 2015, UVI entered into two capital project loan agreements, the Series 2015 3-1 and Series 2015 3-2 Notes, for the construction of a medical school on the island of St. Thomas. UVI received advances amounting to $2.5 million related to the Series 2015 3-1 Note. UVI also entered into a loan agreement with First Bank of Puerto Rico for the construction of the medical school. A variable rate was assigned to all the loans.

In June 2011, UVI entered into two capital project loan agreements (the Series 2011-2 and Series 2011-3 Notes) in the amounts of $44.0 million and $16.0 million, with Rice Capital Access Program, LLC. The purpose of the capital project loans was to: (i) advance refund the University's 1999 Series A Bonds and 2004 Series A Bonds; and (ii) to pay for construction costs of a 100-bed student residence facility and other improvements on the St. Thomas and St. Croix campuses. Interest payments are due February and August. Interest on the Series 2011-2 Note is 3.48% and interest on the Series 2011-3 Note is variable based on the U.S. Treasury Rate plus 22.5 basis points. The Notes have maturity dates through August 1, 2040.

UVI Research and Technology Park Corporation (2017 balances presented)

In February 2013, RTPark obtained a $3.0 million loan from a member. A portion of the loan proceeds were used to repay a previous loan from UVI to complete construction on 64 West Center. This loan has a 6.75% interest rate and is payable over 15 years. At September 30, 2017, the note payable amount was $1.9 million. The loan is secured by RTPark's tangible and intangible property.

(c) Line of Credit Payable

The Electric System of WAPA has available bank lines of credit for $13.0 million for capital projects and $20.0 million for working capital purposes. Interest on amounts borrowed is payable quarterly at a variable interest rate of prime plus 1%, London Interbank Offered Rate (LIBOR) plus 1.5% or 1.5% above the interest rate on three-year United States Government treasury notes.

The Electric System has the option to select the variable interest rate to utilize for any borrowings on these notes. At June 30, 2018, there was $27.3 million outstanding under the lines of credit. The due dates of the lines have been extended several times with a current due date of July 30, 2020.

The Water System of WAPA has available bank lines of credit of $2.5 million for the Water System. Interest on amounts borrowed is payable quarterly at a variable interest rate of prime plus 1.0%, London Inter-Bank Offer Rate (LIBOR) plus 1.75%, or 175 basis points above the interest rate on three-year United States Government treasury notes. The Water System has the option to select the variable interest rate to utilize for any borrowings on these notes. At June 30, 2018, there was $2.5 million outstanding under the lines of credit for the Water System.

11. General Tax Revenue

For the year ended September 30, 2018, general tax revenue of the PG consisted of the following (expressed in thousands):

	General	PFA Debt Service	PFA Capital Projects	Other Governmental	Total
Income taxes	$ 377,042	$ -	$ -	$ -	$ 377,042
Real property taxes	46,148	-	-	5,169	51,317
Gross receipts taxes	22,038	162,702	754	250	185,744
Excise taxes	144,458	108,529	-	4,745	257,732
Other taxes	57,189	-	-	6,407	63,596
	$ 646,875	$ 271,231	$ 754	$ 16,571	935,431
Tax revenue not recognized on the full accrual basis					(854)
Total tax revenue – government-wide					$ 934,577

12. Governmental Fund Balances

Following is a detail of the aggregated fund balances presented in the Balance Sheet – Governmental Funds as of September 30, 2018, (expressed in thousands):

	General	PFA Debt Services	PFA Projects	Federal Funds	Other Governmental	Total
Restricted for:						
Debt service	$ -	$ 282,327	$ -	$ -	$ -	$ 282,327
Capital projects	-	-	153,871	-	-	153,871
General government	-	-	-	-	38,564	38,564
Total	$ -	$ 282,327	$ 153,871	$ -	$ 38,564	$ 474,762
Committed to:						
General government	$ 30,669	$ -	$ -	$ -	$ 78,809	$ 109,478
Public safety	-	-	-	-	7	7
Public housing and welfare	-	-	-	-	223	223
Transportation and communication	-	-	-	-	12,930	12,930
Culture and recreation	-	-	-	-	327	327
Total	$ 30,669	$ -	$ -	$ -	$ 92,296	$ 122,965
Assigned to:						
General government	$ 1,001	$ -	$ -	$ -	$ 69,157	$ 70,158
Public safety	-	-	-	-	1,531	1,531
Health	-	-	-	-	2,729	2,729
Public housing and welfare	-	-	-	-	1,877	1,877
Transportation and communication	-	-	-	-	6,102	6,102
Culture and recreation	-	-	-	-	1,152	1,152
Total	$ 1,001	$ -	$ -	$ -	$ 82,548	$ 83,549
Unassigned	$ (72,428)	$ -	$ -	(88,182)	$ (66,192)	$ (226,802)
Total Fund Balances	$ (40,758)	$ 282,327	$ 153,871	$ (88,182)	$ 147,216	$ 454,474

The committed and assigned fund balances include approximately $141.8 million in unexpended encumbrances. Encumbrances are utilized to determine commitments related to unperformed (executor) contracts for goods and services and to prevent the over-spending of an appropriation.

13. Commitments and Contingencies

Primary Government

(a) Collective Bargaining Agreements

Currently, the Government has entered into union contracts with thirteen (13) distinct labor organizations representing government employees in various bargaining units. Collectively, these bargaining units have approximately thirty-nine (39) collective bargaining agreements in existence. Nine (9) bargaining units have not negotiated a collective bargaining agreement with the Government.

Employees in the various bargaining units are not under a single pay plan. Consequently, it is common to have employees performing the same classification of work in different departments and agencies. Of the approximately nine thousand (9,000) government workers, approximately seven thousand (7,000) are union members. Virgin Islands statutes governing bargaining with unions requires arbitration in the event an impasse is reached in negotiations. Under this process, each side chooses an arbitrator and a third impartial arbitrator is selected by the chosen arbitrators. The arbitration panel investigates and reviews the issues in dispute and renders a final and binding decision.

As of September 30, 2018, the Government has contractual liabilities for retroactive union arbitration salary payments estimated at $195.3 million accruing from fiscal years 1993 through 2010, as established by the Virgin Islands Retroactive Wage Commission. Under Title 24, Section 374(h) of the V.I. Code, the PG may not make any payments of retroactive salaries until there is an appropriation of funds by the Legislature.

(b) Federal Assistance Programs

The Government receives financial assistance from the federal government in the form of loans, grants, and entitlements. Monetary and nonmonetary federal financial assistance to governmental funds amounted to approximately $1.1 billion and $88.7 million, respectively, for the year ended September 30, 2018.

Receipt of grants and loss reimbursements is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of resources for eligible purposes. Substantially all grants are subject to audit under U.S. Office of Management and Budget's *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Disallowances as a result of these audits may become liabilities of the Government.

As discussed in Note 18, the Government is a recipient of disaster recovery funds due to the September 2017 hurricanes. Audits of disaster recovery funds may continue for decades, and federal reimbursements may be required to be repaid as a result of federal audits.

Management of the Government believes that the future outcome of any changes in federal financial assistance programs will not have a material adverse effect on the basic financial statements.

(c) U.S. Department of Education Special Conditions

Since 2006, in accordance with special conditions imposed by the U.S. Department of Education (USED), the Government has contracted with a third-party fiduciary agent to ensure that the Government manages and administers USED grants in accordance with applicable federal and financial management requirements.

The special conditions also require the Government to submit quarterly reports on progress in improving all aspects of the fiscal management of federal education grants. The Virgin Islands has implemented a Self-Contained Model known as the Federal Grants Specialized Processing Unit to address the special conditions and as the approach for reassuming management of the grant funds.

(d) U.S. Department of Labor Designation

On February 3, 2017, the Virgin Islands Department of Labor was placed on high-risk grantee status by the U.S. Department of Labor. High-risk grantee status is an administrative designation used by federal agencies to indicate unsatisfactory performance in the management of federal grants. Management is currently working with the U.S. Department of Labor to implement corrective action.

(e) Legal Proceedings and Litigation Claims

The Government is a defendant in numerous legal proceedings pertaining to matters incidental to the performance of routine governmental operations. Under Title 33, Section 3411(c) of the V.I. Code, no judgment shall be awarded against the Government that exceeds $25,000 for tort claims filed under Government statutes. In cases involving several survivors, each award must be construed separately for purposes of applying the limitation upon recovery imposed by the Tort Claims Act. Under Title 27, Section 166(e) of the V.I. Code, the Government's waiver of immunity is expanded to $250,000 for medical malpractice actions, including actions for wrongful death based on malpractice. Under certain circumstances, as provided in Title 33, Section 3414 of the V.I. Code, the Government may assume the payment of a judgment entered against an officer or employee who acted reasonably and within the scope of his employment. The Government may pay up to a maximum amount of $100,000 of the settlement. With respect to pending and threatened litigation, the Government has accrued a provision for legal claims and judgments of approximately $21.0 million for awarded and anticipated unfavorable judgments as of September 30, 2018.

Changes in the reported provision for legal claims during September 30, 2018, resulted from the following activity (expressed in thousands):

	Beginning Balance at October 1, 2017	New Claims and Changes in Estimates	Claims Payments	Ending Balance at September 30, 2018
Provision for legal claims	$ 16,145	$ 5,571	$ 500	$ 21,216

The breakdown of the provision for legal claims at September 30, 2018, as reflected in governmental activities, is as follows (expressed in thousands):

Current portion	$ 299
Long-term portion	20,917
	$ 21,216

(f) Landfill Closure and Post-Closure Costs

Federal laws and regulations, including the Clean Air Act, 42 U.S.C. § 7401 et seq. (CAA), and regulations promulgated thereunder, including the federal standards set forth in 40 C.F.R. Part 62, Subpart GGG (Federal Plan), and the National Emission Standards for Hazardous Air Pollutants for Municipal Landfill Maximum Achievable Control Technology, set forth in 40 C.F.R. Part 63, Subpart AAAA (Landfill MACT), and the Solid Waste Disposal Act, 42 U.S.C. § 6901 et seq. (RCRA), and regulations promulgated thereunder, including federal municipal solid waste landfill operating, closure, and post-closure criteria set forth in 40 C.F.R. Part 258, and three EPA administrative orders issued pursuant to RCRA § 7003(a), 42 U.S.C. § 6973(a), and Territorial laws and regulations, including V.I. Code Title 19, Chapter 56 (Solid and Hazardous Waste Management), Title 12, Chapter 9 (Air Pollution Control), and Title 12, Chapter 21 (Virgin Islands Coastal Zone Management), and regulations promulgated thereunder, require the Government 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. Compliance costs during the operational phase will be paid prior to closure.

Although closure and post-closure costs will be paid only near or after the date that the landfill stops accepting waste, the Government reports a portion of these closure and post-closure care costs as an operating expense in each period based on landfill capacity used as of each statement of net position date. The $102.1 million reported as landfill compliance, closure, and post-closure care liability at September 30, 2018, represents the cumulative amount reported to date based on the use of the estimated capacity of each landfill. The Government will recognize the remaining estimated cost of closure and post-closure care as the remaining estimated capacities are filled. These amounts are based on what it would cost to perform all closure and post-closure care as of September 30, 2018.

The estimated used capacity and expected closure of each of the Government landfills is as follows:

Landfill	Estimated Used capacity	Estimated Closure date
Bovoni	98%	2022
Anguilla	97%	2021
Susannaberg	100%	Closed

The actual cost to perform closure and post-closure may be higher due to inflation, changes in technology, or changes in regulations. The Government is required by state and federal laws and regulations to make annual contributions to a trust to finance closure and post-closure care. The Government began making annual contributions to a trust in fiscal year 2007 to finance closure and post-closure costs. The Government expects that future inflation costs will be paid from interest earnings on these annual contributions and other financing measures.

However, if interest earnings and financing measures should prove to be inadequate, or additional post-closure care requirements are determined due to changes in technology or applicable laws or regulations, these costs may need to be recovered through charges to future landfill users.

(g) Wastewater Treatment Plant Consent Decree

Since 1985, the Government has been subject to a consent decree issued by the Virgin Islands District Court, governing the operation of its wastewater treatment plants. The consent decree was amended in 1996 and further modified with the 2002 Stipulation to the Amended Consent Decree (the Stipulation) to establish deadlines for the construction of new secondary treatment facilities, including the replacement of the existing St. Croix and Airport Lagoon (Charlotte Amalie) wastewater treatment plants. The Stipulation required that the new St. Croix wastewater treatment plants be completed by the end of 2006 and the new Charlotte Amalie wastewater treatment plants be completed by the end of 2007. The cost of both facilities was estimated at approximately $50.0 million. In January 2004, the Government's Legislature authorized the creation of the VIWMA for the purpose of meeting environmental requirements of wastewater treatment in the U.S. Virgin Islands. On December 2004, PFA issued revenue bonds amounting to $94.0 million for the purpose of constructing and rehabilitating wastewater treatment plants. The treatment facilities were completed in July 2007 and January 2008 at a cost of approximately $27.0 million and $29.0 million for the St. Croix and the St. Thomas treatment facilities, respectfully.

The Stipulation also establishes certain interim deadlines and performance standards that must be met by the Government pending completion of the new facilities. In addition, the Stipulation establishes specified penalties for violation of any of the deadlines or performance standards set forth therein. As of the date of the basic financial statements, the Government is current on all of its outstanding obligations pursuant to the stipulation.

(h) Memorandum of Understanding – EPA

On August 21, 2002, the Government and the United States Environmental Protection Agency (EPA) entered into a memorandum of understanding documenting the EPA's agreement to support the renewal of the Territorial Pollutant Discharge Elimination System (TPDES) permit for its St. Croix distillery operations provided that the Government make certain funding available to (i) conduct treatability studies regarding the Virgin Islands Rum Industries, Ltd. (Cruzan Rum) effluent and the means to mitigate its potential environmental effects in the vicinity of the discharge; (ii) identify practicable, available, reliable, and cost-effective potential mitigation measures; and (iii) implement (or assist in the implementation of) such mitigation measures in the event such measures are determined by the Virgin Islands Department of Planning and Natural Resources after consultation with EPA to be necessary and appropriate.

Pursuant to the memorandum of understanding, the Government's obligation to fund such activities is limited to $6.0 million in the aggregate, commencing on October 13, 2003. Subsequently, the Government entered into a three-year contract with a locally licensed environmental consulting firm to facilitate the Government's commitments with the memorandum of understanding with the EPA. At the conclusion of the MOU treatability study period, the PG agreed to reissue the TPDES permit to Cruzan Rum in 2008 with the requirement that the rum distillery design and construct a treatment facility for the rum distillery effluent within three years. PFA issued the Series 2009 Cruzan Bonds to fund the treatment facility which is currently operating under a 2013 TPDES permit.

(i) Workers' Compensation Liability

The Government is exposed to risk of loss related to workers' compensation claims. The Government is self-insured for this risk. Self-insured risk liabilities are reported when it is probable that a loss has occurred, and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend upon such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

Changes in the worker's compensation liability amount in fiscal year 2018 and 2017, as recorded in the Government Insurance Fund, are as follows (expressed in thousands):

September 30,	**2018**	2017
Claims payable, beginning of year	**$ 40,462**	$ 38,459
Incurred claims and changes in estimates	**-**	5,760
Payments for claims and adjustments expenses	**(4,468)**	(3,757)
Claims payable, end of year	**$ 35,994**	$ 40,462

(j) Bond Credit Ratings

In August 2017, Fitch Ratings downgraded the Government's Matching Fund Revenue and Gross Receipts Tax debt to B from BB-. In the same month, the PG stopped providing information to Standard & Poor's necessary to evaluate the PG's liquidity, and that rating agency withdrew its credit ratings for the Virgin Islands in October 2018. In January 2018, Moody's Investors Service downgraded the Government's Matching Fund Revenue Bonds as follows: Senior Lien Bonds to Caa2 from Caa1; Subordinate Lien Bonds to Caa3 from Caa2; Subordinated Indenture (Diageo) Bonds to Caa3 from Caa2; and Subordinated Indenture (Cruzan) Bonds to Caa3 from Caa2.

(k) Operating Agreement – Limetree Bay Terminals, LLC

In January 2012, Hess Oil Virgin Islands Corporation (Hess Oil) announced that it would close its oil refinery on the island of St. Croix and the facility would serve as a storage terminal. The company amended tax returns for the three years before the closing, and a legal dispute arose with the Government over amounts due to, or from, the company in connection with the amended returns and other requirements of Hess Oil's agreement with the Government.

On December 1, 2015, the Government settled its dispute with Hess Oil. The company agreed to transfer to the Government 330 acres of land near the oil terminal (estimated value $21.0 million), 130 housing units at the oil terminal (estimated value $27.0 million), and a vocational school and a community center (both estimated at a value of $1.0 million) for a payment in lieu of taxes (PILOT) valued at $50.0 million.

On December 1, 2015, the Government entered into an operating agreement with the new operator of the oil terminal, Limetree Bay Terminals, LLC (Limetree). Limetree agreed to investigate refurbishing and reopening the terminal, with an investment of $125.0 million. In December 2015, Limetree paid $220.0 million as a payment in lieu of taxes, $9.0 million as a reimbursement for contingent claims, and agreed to invest $6.0 million in the construction of a bitumen tank at the facility. As part of the operating agreement Limetree receives exemption from property taxes, income taxes, and local taxes. Limetree will be subject to a concession payment of 10.0% of terminal revenues.

Should the oil refinery reopen, Limetree will be required to pay concession fees of 17.5% of refinery income to the Government on a quarterly basis. If there is a change in the control of Limetree, the Government is to receive 10.0% of the transaction value of the exchange, not to be less than $25.5 million.

In December 2018, Limetree obtained $1.3 billion in financing to reopen the oil refinery operation. Upon closing, the Government received $40.0 million in short-term financing and $30.0 million in payment for the 130 housing units, vocational school and community center at the oil refinery.

(l) Professional Services for Recovery Efforts

In November 2017 and on behalf of the Government, PFA entered into a professional services contract to coordinate recovery efforts with FEMA and other federal agencies following the two Category 5 hurricanes in September 2017. The initial contract provided for annual compensation not to exceed $5.0 million, a term of five years from November 30, 2017, and provisions for the parties to extend the contract in two-year increments by mutual agreement. In February 2018, the contract was amended to revise the scope of work and increase the compensation of the contract to $10.0 million annually, retroactive to November 2017. In August 2018, a second amendment was added to the contract of HUD riders containing provisions required by federal regulations for Community Development Block Grants – Disaster Relief Program. Also see Note 18.

Also, in November 2017 and on behalf of the Government, PFA entered into a second professional services contract to coordinate recovery efforts. The competitive bid contract was for a term of five (5) years following the effective date of the contract and may be extended in two (2) two-year increments for a maximum term of nine (9) years. Compensation under the agreement was capped at $15.0 million annually including out-of-pocket expenses. In April 2018, the contract was amended to increase the compensation amount to $50.0 million annually, retroactive to November 2017. The increase is described in the amendment as due to an increase in the demands of the Government's aggressive campaign to identify, access, secure and manage a larger percentage of the available federal resources and funding from FEMA and other federal agencies. In September 2018, the contract was amended a second time to increase the compensation amount to $80.0 million annually, retroactive to November 30, 2017. The increase is described in the amendment as due to the exhaustion of the $50.0 million, and the continuing aggressive campaign to obtain federal funding following the hurricanes. Also see Note 18. For the year ended September 30, 2018, the total amount due to the disaster recovery consultants related to this contract was $40,784,331.

On May 4, 2018, PFA entered into Memorandums of Understanding (MOU) WAPA and with the Virgin Islands Housing Finance Authority (VIHFA), autonomous instrumentalities of the Government for disaster recovery consulting. The MOUs terminate at the expiration of the contract between PFA and the disaster recovery consultants. Invoices from the disaster recovery consultants are received by PFA, provided to WAPA and VIHFA for approval, and remitted back to PFA for submittal to federal grantors and payment.

(m) Molasses Subsidy Fund

The Government maintains a program, established pursuant to law, in which it provides a subsidy to stabilize the cost of molasses to the Virgin Islands rum producers to ensure the competitive pricing of rum produced in the Virgin Islands. The effect of the molasses payments is to maintain the competitive position of the Virgin Islands rum producers relative to the rum producers in other countries in which local molasses supplies are readily available. The molasses subsidy is administered by the Commissioner of Finance through the establishment of a legislatively mandated Molasses Subsidy Fund. In the event of a deficiency in the Molasses Subsidy Fund, the Commissioner of Finance could seek legislative appropriation of additional funds, as required, from the Legislature of the Virgin Islands. The Legislature, however, is not obligated to appropriate such amounts.

Notwithstanding the Government's past financial difficulties, the Legislature of the United States Virgin Islands has not yet waived or reduced the Molasses subsidy. If such an event should occur, the rum producers could experience a decrease in their operations, and therefore result in a reduction of the federal excise taxes returned to the Government by the United States Government. The collectability of the loans receivable from the Government is highly dependent on the ability of the Government in collecting these taxes.

On December 18, 2015, Congress retroactively extended the $13.25 per proof gallon rum excise tax rate from January 1, 2015 through December 31, 2016 with the Protecting Americans from Tax Hikes ("PATH") Act. The Tax Cuts and Jobs Act passed by Congress in December 2017 retroactively extended the $13.25 per proof gallon rum excise tax rate from January 1, 2017 to December 31, 2022.

Pension Trust Fund

(a) Pension Reform

In response to a recommendation in a September 27, 2011, audit report from the Office of the Inspector General and U.S. Department of Interior, the PG formed a Pension Reform Joint Task Force (the Task Force) to address the declining fiscal condition of the GERS. The Office of the Inspector General's audit report had concluded that, due to insufficient contribution levels and an unbalanced ratio of active to retired members, the retirement system of the U.S. Virgin Islands may default as soon as the year 2025.

The Task Force has submitted recommendations to the Legislature to: (i) increase government and employee contributions towards pension benefits; (ii) raise contribution rates for senators and judges; (iii) reduce retiree current benefits by 10 percent; (iv) increase the early retirement age from fifty (50) to fifty-five (55) and the regular retirement age from sixty (60) to sixty-five (65); (v) limit the cost of living increase; and (vi) change the formula used to calculate benefits.

On February 5, 2015, GERS increased employee contribution rates by 1.0% to be implemented over a three-year period and to be effective for three years. At September 30, 2018, the Government's contributions to the system had increased to 20.5%.

In March 2016, the Office of the Virgin Islands Inspector General issued a report on the alternative investment program administered by GERS. The report concluded that the non-traditional investments of the retirement system were subject to higher risks than other GERS assets.

In September 2016, GERS sponsored a public summit to present projections of investment returns and future benefit payments for the system. Actuarial reports indicate that the assets of the system may be fully depleted by the year 2023.

In December 2019, GERS increased employer contributions to the pension plan by 3.0% from 20.5% to 23.5%.

Component Units

(a) Virgin Islands Waste Management Authority

On October 26, 2016, the VIWMA entered into a Memorandum of Understanding ("MOU"), to comply with a September 28, 2016 order by the District Court to establish a Landfill/Solid Waste Remediate Fund (the Fund) to pay for urgent projects at the landfills required under Consent Decrees entered into with the Environmental Protection Agency.

The order by the District Court stipulates that the Fund be managed by the VIWMA through a separately established escrow account in the amount of $3,103,909, and that all landfill projects be completed on or before September 30, 2018. As of September 30, 2018, the amount remaining in the escrow account was $1,885,473.

(b) Virgin Islands Water and Power Authority – Electric System

At June 30, 2018, the WAPA Electric System recorded a liability of $4.1 million for amounts owed to FEMA related to questioned costs from Hurricane Hugo in 1989. Currently FEMA and its subrecipient, the PG, do not have a mechanism for recovering overpayment of disaster-related funds. FEMA has not made a request for repayment of the funds and in WAPA's opinion, the matter will not have a material effect on WAPA's changes in financial position or cash flows.

In October 2008, WAPA Electric facilities were impacted by Hurricane Omar. The majority of the damage was inflicted to the electric distribution system on the island of St. Croix with minimal damage on St. Thomas, St. John, and Water Island. The Electric System expended $2.7 million for storm cleanup and system restoration as of June 2010. The Territory was declared a federal disaster after the hurricane and was eligible for reimbursement of 75% of what was expended according to the category of the damage. Both at June 30, 2018 and 2017, the Electric System has recorded a grant receivable from FEMA amounting to approximately $1.0 million.

In August 2010, WAPA Electric facilities were damaged by Hurricane Earl. The damage was inflicted on the electric distribution system on all the islands. The Electric System has expended over $2.0 million for storm clean-up and restoration, which was completed the end of October 2010. The Territory was declared a Federal disaster area after the Hurricane and was eligible for reimbursement of 75% - 80% of what was expended according to the category of the damage. Both at June 30, 2018 and 2017, the Electric System has recorded a grant receivable from FEMA amounting to approximately $1.3 million.

In April 2012, WAPA leased a temporary 22-megawatt mobile power plant for $14.6 million for eighteen (18) months through October 2013. In November 2013, management and the vendor extended the original lease agreement for an additional twelve months through November 2014 for $7.8 million. The lease term was extended for an additional twenty-four months through November 2016. The lease has since been reevaluated and extended for 2 to 6-month short term periods through November 1, 2018 and was further extended through December 31, 2020. Total lease payments for 2018 and 2017 were $10.8 million and $6.1 million, respectively. During the normal course of business, the Electric System leases additional and various property and equipment to support Electric System operations. The leases are generally short term in nature and lease payments are not significant to the overall operations of the Electric System.

WAPA has signed purchase power agreements with several companies to integrate a combined 18MW of solar electricity into the WAPA's electrical grid system. The agreements expire between 2022 and 2027. WAPA will not own the solar assets but will be able to purchase solar generated electricity at contracted rates.

(c) Virgin Islands Water and Power Authority – Water System

In 2011, the Water System of WAPA entered into two agreements with Seven Seas Corporation to build, operate and maintain two reverse osmosis facilities, one on St. Croix and one on St. Thomas, and sell the water from the facilities to WAPA. The agreements both have twenty (20) year terms expiring through 2032. The amount paid to Seven Seas Corporation by the Water System in fiscal year 2018 (through June 30, 2018) amounted to $8.8 million.

(d) Virgin Islands Port Authority

The Federal Aviation Administration (FAA) conducted an onsite wildlife evaluation of the landfill, nearby airport, and surrounding area of the Anguilla Landfill of St. Croix. Flocks of birds nesting at the landfill had created environmental and navigational concerns at the Henry E. Rohlsen airport. FAA threatened to force VIPA to repay federal grants amounting to $9.3 million if remediation steps were not taken. The landfill is under the jurisdiction of the Virgin Islands Waste Management Authority (VIWMA). VIPA and VIWMA proposed a compliance and mitigation plan in 2013 which was accepted by FAA and VIPA is eligible for FAA grants.

(e) Governor Juan F. Luis Hospital & Medical Center

The Governor Juan F. Luis Hospital and Medical Center previously held an equity ownership with a radiology practice within the hospital. The radiology practice paid rent to the hospital and the hospital paid for service to hospital patients. As of September 30, 2018, the hospital owed the radiology practice $8.6 million in unpaid invoices for hospital patients.

(f) Other

Various discretely presented component units are presently defendants or codefendants in various lawsuits. The financial managers of the component units have advised the PG that any adverse outcome involving a material claim is expected to be substantially covered by insurance. Government property is exempt from lien, levy, or sale due to court judgments under the V.I. Code.

During the year ended September 30, 2018, the Schneider Regional Medical Center recognized $1.7 million as an expense in connection with a legal dispute with the general contractor of the Charlotte Kimelman Cancer Institute. The hospital was required to pay the amount in connection with an arbitration settlement subsequent to year-end.

14. Retirement Systems

Primary Government

Following is a description of the pension plan and accounting for pension expense, liabilities, and deferred outflows/inflows of resources. As required, the Government follows the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68* and GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73.*

(a) Plan Description and Benefits

Full time employees of the Government are members of Government Employees' Retirement System of the U.S. Virgin Islands (GERS), a cost sharing, multiple-employer, defined benefit pension plan (the plan) established as of October 1, 1959 Title 3, Chapter 27 of the V.I. Code to provide retirement, death, and disability benefits. Benefits may be extended to beneficiaries of plan members. The plan covers all employees of the Government except employees compensated on a contract fee basis, casual, per diem or provisional and part time employees who work less than twenty (20) hours per week. Persons over the age of fifty-five (55) may opt out of the plan by providing formal notification to the plan. Vesting of benefits occurs after ten (10) years of service. Benefits may be extended to beneficiaries of plan members.

There are two tiers within the plan:

Tier 1: Employees hired prior to September 30, 2005
Tier 2: Employees hired on or after October 1, 2005

Regular Tier I employees who have completed thirty (30) years of credited service or have attained age sixty (60) with at least ten (10) years of credited service are eligible for a full-service retirement annuity. Regular Tier II employees who have attained age sixty-five (65) with at least ten (10) years of service are eligible for a full-service retirement annuity. Members who are considered "safety employees " as defined in the Code are eligible for full-service retirement benefits under Tier I when they have earned at least twenty (20) years of government service or have reached the age of fifty-five (55) with at least ten (10) years of credited service.

Under Tier II, safety employees are eligible for full retirement when they have earned at least twenty-five (25) years of government service and have reached age fifty-eight (58) or have reached age (60) with at least ten (10) years of service.

Members of the Legislature and Judges may receive a retirement annuity when they have attained age fifty (50) and upon completion of six (6) years of credited service as a member of the legislature or at any age with at least twenty (20) years of service. Judges are eligible for full retirement benefits when they have attained age fifty (50) and have completed six (6) years of service.

The monthly annuity benefit payment is determined by applying a stipulated benefit ratio to the member's average compensation. Average compensation for regular and safety Tier I members is determined by averaging the five highest years of credited service within the last ten years of service, subject to the maximum salary limitations in effect during such service. Average compensation for regular and safety Tier II members is based on career average salary, subject to the maximum salary limitations in effect during the service. The maximum annual salary that can be used in this computation for regular and safety employees is $65,000. For members of the legislature and judges, the average compensation varies based on the year of service.

In 1995, the Early Retirement Incentive Training and Promotion Act was amended by the Legislature to allow a member with a combined aggregate number of years of service and age of at least seventy-five (75) years to retire without a reduction in their annuity. Early retirement benefits provided under the Act vary depending upon age of retirement, type of employment, and credited years of service.

GERS is a separate and independent agency that is included for financial reporting purposes as a blended pension trust fund of the PG. GERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Employees' Retirement System of the Government of the Virgin Islands, 3438 Kronprindsens Gade, St. Thomas, Virgin Islands 00802.

(b) Funding and Contribution Policy

Contributions to GERS are established by the Board of Trustees of GERS. The Government's required contribution for Tier 1 and Tier 2 members was 20.5% of the member's annual salary during the fiscal year ended September 30, 2018. Effective January 1, 2020, the Government's required contribution will increase to 23.5% of the Tier 1 and Tier 2 member's annual salary.

Employee contribution rates (as a percentage of payroll) were as follows during fiscal year 2018:

	Tier 1	Tier 2
Regular Employees	11.0%	11.5%
Public Safety Employees	13.0%	13.625%
Members of the Legislature	12.0%	14.0%
Judges	14.0%	15.0%

The defined benefit pension plan administered by GERS, and the PG have a fiscal year that ends on September 30th. The following time frames are used to measure and report the PG's pension liability:

Valuation Date:	October 1, 2017
Measurement Date:	September 30, 2017
Measurement Period:	October 1, 2016 – September 30, 2017

The PG is considered an employer of the plan with a proportionate share of 76.5852% as of September 30, 2017, which was an increase of 0.1681% from its proportionate share measured as of September 30, 2016. The PG's percentage was estimated by management based on the average of each employer's contributions during the period October 1, 2013 through September 30, 2017. The PG's proportionate share of employer contributions recognized by GERS was $77.8 million for the plan's fiscal year ended September 30, 2017.

(c) Pension Liabilities, Expense, and Deferred Outflows/Inflows of Resources

As of September 30, 2018, the actuarially calculated net pension liability of the PG was $3.4 billion. The net pension liability is measured as of September 30, 2017, and the total pension liability is actuarially computed as of October 1, 2017.

For the year ended September 30, 2018, the Government recognized $245.3 million of pension expense, inclusive of amortization of deferred outflows of pension related items.

Following is a schedule of deferred outflows and deferred inflows allocated to the Government in the computation of the net pension liability for the year ended September 30, 2018, (expressed in thousands):

Governmental Activities	Deferred Outflows	Deferred Inflows
Difference between expected and actual experience	$ 101,498	$ -
Net difference between projected and actual investment earnings on pension plan investments	19,033	-
Changes in assumptions	553,305	237,410
Changes in proportion and differences between contributions and proportional share of contributions	33,876	1,872
Contributions made subsequent to measurement date	77,839	-
Total	$ 785,551	$ 239,282

Amounts reported as deferred outflows and inflows, exclusive of contributions made after the measurement date, will be recognized in pension expense as follows (expressed in thousands):

Year Ending September 30,	
2019	$ 148,153
2020	167,649
2021	153,295
2022	21,941
2023	23,488
Thereafter	(46,096)
Total	$ 468,430

(d) Actuarial Assumptions

A summary of the actuarial assumptions and methods used to calculate the total pension liability as of the measurement date at September 30, 2017, is provided below. Refer to the October 1, 2017, actuarial valuation report for a complete description of all other assumptions, which can be found on GERS' website at http://www.usvigers.com/Benefits/ActuarialReports.aspx.

September 30,	2017
Inflation Rate	2.50%
Salary Increases	3.25% including inflation
Actuarial Cost Method	Entry age normal
Expected Rate of Return	7.00%
Municipal Bond Yield	3.64%
Discount Rate	3.74%
Mortality Table	RP-2014 Blue Collar

The demographic assumptions for the 2017 actuarial valuation are based on the results of an actuarial experience study for the period October 1, 2011 through September 30, 2015.

(e) Investment Rate of Return

The long-term expected rate of return of 7.00% on pension plan investments was determined using the building-block method in which best-estimate ranges of expected future real rates of returns (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class.

These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of the measurement date of September 30, 2017, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	29%	6.21%
International equity	12%	7.21%
Fixed income	27%	1.56%
Cash	2%	0.91%
Alternatives	30%	5.50%
Total	100%	

(f) Discount Rate

The discount rate used to measure total pension liability was 3.74% as of September 30, 2017, which was an increase of 0.54% from the discount rate as of September 30, 2016. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate, including the future increases in the employee contribution rates legislated. Using the above assumptions, GERS fiduciary net position is not projected to be available to make all projected future benefit payments to current plan members.

The plan's long-term expected rate of return on pension plan investments of 7.0% was applied to all periods of projected benefit payments that are covered by projected assets. For periods where projected future benefit payments are not covered by projected assets, the yield on a twenty (20) year AA Municipal Bond Index was applied. As of September 30, 2017, that rate was 3.64%.

(g) Sensitivity of Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

Following is a schedule of net pension liability for the Government calculated using the discount rate of 3.74%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate for the year ended September 30, 2018, (expressed in thousands):

	1% Decrease (2.74%)	Current Discount (3.74%)	1% Increase (4.74%)
Net pension liability	$ 3,891,932	$ 3,354,768	$ 2,911,508

(h) Early Retirement Incentive Program

In August 1994, legislation providing an early retirement incentive was passed. The legislation was subsequently amended on October 13, 1994, December 30, 1994, and December 5, 1995. Among other matters, the legislation allows a member of GERS who has a combined aggregate number of years of credited service plus number of years of age, equal to at least seventy-five (75) years as of the date of the legislation, to retire without reduction of annuity. Members, who have attained the age of fifty (50) with at least ten (10) but less than thirty (30) years of credited service, may add an additional three (3) years to their age for this computation. Members with thirty (30) years of service or who can retire without penalty under the V.I. Code shall have their average compensation increased by 4 percentage points.

For each employee electing to retire pursuant to Section 8(a) of the Early Retirement Act of 1994 (the Act), the Government contributes to GERS, on a quarterly basis, an amount equal to the employer and employee contributions that would have been made until the employee reached the age of 62 had the employee not elected to retire under this provision.

For employees electing to retire under Section 8(b) of the Act, the Government contributes to GERS a sum equal to the additional contribution the employer and employee would have made had the employee received a salary 4.0% higher during the three years used to compute the employee's average compensation figure, plus a sum of $5,000.

Based on this calculation, the amount due to GERS was $26.9 million and has been remitted to GERS. The actuaries of GERS have determined that the specific funding provided under the Act is inadequate to cover the costs of the program. GERS is seeking to recover any unfunded costs of the program under a newly enacted provision of the retirement law, which provides that the Government will compensate GERS for the costs of any special early retirement program.

(i) Additional Information Regarding the Pension Plan

To obtain additional information regarding the pension plan, requests for information may be submitted to GERS at www.usvigers.com. Actuarial reports of GERS are available at http://www.usvigers.com/Benefits/ActuarialReport.aspx. Detailed information about the pension plan's fiduciary net position is available in the separately issued GERS audited financial statements available at www.usvigers.com/Reports/Audited FinancialReports.aspx.

WICO Employee Retirement Plan

WICO sponsors a defined contribution retirement and savings plan (the "Plan") for its employees. Under the provisions of the Plan, employees must contribute at least 3.0% of their gross compensation but may also contribute up to 7.0%. WICO matches 3.0% of the employees' contribution plus a non-elective distribution at the discretion of WICO, which is divided among eligible employees, proportionate to compensation. Required contributions to the pension and savings plan made and charged to operations were approximately $117,000 for the year ended September 30, 2018. WICO does not offer other post-retirement benefits to its employees.

viNGN Employee Retirement Plan

viNGN sponsors a defined contribution retirement plan for its employees. Employees who receive a salary of at least $5,000 are eligible to participate in the plan. viNGN matches the employee's contribution up to a maximum of 2% of the eligible employee's compensation. viNGN contributed $18,368 in matching employer contributions for the year ended September 30, 2018. viNGN does not offer other post-retirement benefits to its employees.

University TIAA-CREF Defined-Contribution Plan

The University has two retirement plans in which all eligible employees are required to participate, the Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF) and GERS. The TIAA-CREF is a defined-contribution pension plan covering participating, full-time faculty members and other exempt employees, under which the contributions, including employees' contributions, are used to purchase annuities. There are no unfunded past service costs, and vested benefits are equal to the annuities purchased under TIAA-CREF. Total contributions made by the University and plan members to TIAA-CREF for the fiscal year ended September 30, 2018 amounted to $2.5 million. Contributions to GERS by the University amounted to $1.5 million for the fiscal year ended September 30, 2018.

15. Other Postemployment Benefits

In addition to the pension benefits described above, the Government provides other postemployment benefits (OPEB) of healthcare, prescription, dental and life insurance coverage. These benefits are provided in accordance with Title 3, Chapter 25, Subchapter VIII of the V.I. Code as part of a multiple employer defined benefit OPEB plan, in which most component units of the PG participate and contribute. All employees who retire from government service after attaining age fifty-five (55) with at least thirty (30) years of service, except for policemen and firemen who can retire with at least twenty (20) years of service, are eligible for these benefits.

During the year ended September 30, 2018, the PG has implemented the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This standard requires the reporting and disclosure of costs and liabilities associated with postemployment benefits provided to retirees of the Government, its component units and certain eligible nonpublic corporations, other than pensions.

Plan Description and Benefits

The Health Insurance Board of Trustees of the PG (the Board) administers the defined benefit health and life insurance plan for eligible active and retired employees of the PG, the component units of the Government, and certain nonpublic corporations that receive allotments from the PG. The Board determines the eligibility criteria of the plan and recommends insurance contracts to the Legislature. The Group Health Insurance Office of the Department of Personnel maintains the accounting and personnel records for the health and life insurance plan. Eligible retired employees visit the Group Health Insurance Office within 30 days following retirement and complete a new insurance enrollment form. An eligible retiree is one that retires through the Government Employees Retirement System (GERS) or who is placed on disability and is eligible for retirement benefits.

The Government's OPEB plan is a multiple employer defined benefit plan created in accordance with Title 3, Ch. 25, Subchapter VIII of the Virgin Islands Code. The plan is a pay as-you-go, no assets have been accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No.75, and expenses are paid as the come due. There are five participating employers in the plan: the primary Government, University of the Virgin Islands, Virgin Islands Port Authority, East End Medical Center and Frederiksted Health Care, Inc.

The primary Government has a special funding arrangement with the following component units: VI Lottery, Magens Bay Authority, VI Economic Development Authority, VI Waste Management Authority, VI Housing Finance Authority, Juan Luis Hospital and Medical Center, Roy L. Schneider Medical Center, VI Public Finance Authority and the VI Public Broadcasting System. Under the special funding arrangement, the primary Government pays 100% of the employer costs.

Retirees participate in the same health benefit programs as active employees until reaching Medicare eligibility. After attaining Medicare eligibility, retirees participate in a Medicare Advantage prescription drug plan and an AARP Supplemental Plan. Four types of health plans were offered to eligible participants during the fiscal year:

- Group health and life insurance coverage through the Cigna Health and Life Insurance Company
- Group life and accidental death and dismemberment through ALIC Life Insurance Company
- Medicare Advantage and AARP Medicare Supplement through United Healthcare Insurance
- Vision care through Standard Insurance Company

Contributions

Contribution percentages are enacted by the Legislature of the Virgin Islands based on recommendations of the Board. Changes in percentages are implemented by the Department of Personnel. Active and retired employees are responsible for 35% of the cost of group insurance costs. The employee share is withheld from salaries or pension benefits. Retirees receive a noncontributory life insurance benefit of $5,000 and may elect to increase this coverage to $75,000 at their own expense.

Employees Covered by the Plan

As of the valuation date of October 1, 2017, the following employees were covered by the Government's postemployment benefits plan:

Valuation Date of October 1, 2017	Primary Government	Component Units	Total
Active employees	8,451	786	9,237
Retired employees	7,890	119	8,009
Deferred vested retirees	210	-	210
Disability retirees	226	3	229
Total	16,777	908	17,685

Primary Government	15,304
Component units included in primary Government's OPEB expense under special funding arrangement	1,473
Total	16,777

OPEB Liability

The PG's proportionate share of the total liability was 95.6078% as of October 1, 2017, which was a decrease of 0.1193% from its proportionate share measured as of October 1, 2016, The PG's percentage was determined based on its respective census information provided to the actuary. The PG's total OPEB liability amounted to $783.4 million which includes the PG's share of the component unit liabilities under the special funding arrangement of $52.1 million.

Following is the total OPEB liability at September 30,2018 (expressed in thousands):

	September 30, 2018
Primary Government	$ 783,373
Component units	33,717
Total OPEB Liability	$ 817,090

Actuarial Assumptions

The postemployment benefit plan is an unfunded plan. An actuarial valuation was conducted of the amount required to fund the plan, involving assumptions about the probability of the occurrence of events in the future. Actuarial assumptions used in the computation of the total OPEB liability are as follows:

Valuation date:	October 1, 2017
Measurement date:	October 1, 2017
Report date:	September 30, 2018
Actuarial cost method:	Entry Age Normal Cost Method
Amortization method:	Recognition Period of 6 Years
Salary increases:	Payroll Growth of 3.25% per year
Discount rate:	Beginning of Year Rate of 2.89% End of Year Rate of 3.35% S&P Municipal Bond 20-Year High Grade Rate Index as of September 30, 2017
Healthcare cost trend rates:	Pre-Medicare Increases of 7.00% in 2018 to 4.50% in 2023 Medicare Increases of 5.50% in 2018 to 4.50% in 2023 Dental Increases of 5.50% in 2018 to 4.50% in 2023
Inflation:	2.25% Implicit Rate in Healthcare Trend Analysis
Retirees share of costs:	35% of Medical and Dental Premiums and Noncontributory Life Insurance Coverage. Retirees of UVI 403(b) plan pay 100% of coverage.
Mortality:	RP-2014 Blue Collar Mortality Generational Table Adjusted 110% with Scale MP-2015 for Healthy Lives. For Disability Retirees, RP-2014 Disabled Mortality Generational Table Adjusted 125% with Scale MP-2015
Marital status:	Assumed 50% of Future Male Retirees and 25% of Future Female Retirees Cover Spouses in Retirement Husbands Assumed to be 3 Years Older Than Spouse Subsidized Coverage of Spouses and Dependents Ceases Upon Death.
Actuarial Experience Study	The actuarial assumptions used in the October 1, 2017, valuation were based on the results of an actuarial experience study for the period October 1, 2014 – September 30, 2015.

Changes in Assumptions

- The discount rate changed from 2.50% in the prior valuation to 2.89% and 3.35% as of September 30, 2016 and 2017, respectively.
- The base mortality tables and mortality improvement sales were update to RP-2014 Blue Collar Mortality table (110% adjustment) projected forward using the M-2015 scale.
- Future participation in the retiree health plan decreased from 100% to 85%.

Changes in Total OPEB Liability

Following are the components of change in the proportionate OPEB liability for the year ended September 30, 2018 (expressed in thousands):

	Primary Government	Component Units	Total
Beginning balances	$ 812,955	$ 33,985	$ 846,940
Changes for the year:			
Service cost	28,216	1,861	30,077
Interest	23,904	1,028	24,932
Changes in assumptions or other input	(53,422)	(2,576)	(55,998)
Expected benefit payments	(28,280)	(581)	(28,861)
Net changes	(29,582)	(268)	(29,850)
Ending balances	$ 783,373	$ 33,717	$ 817,090

Primary Government	$ 731,251
Component Units Included in Primary Government's OPEB liability under special funding arrangement	52,122
Total OPEB Liability at September 30, 2018	$ 783,373

OPEB Expense and Deferred Inflows of Resources Related to OPEB

For the fiscal year ended Septembesr 30, 2018, the OPEB expense of the PG amounted to $43.8 million as follows (expressed in thousands):

	Primary Government	Component Units	Total
Service cost	$ 28,215	$ 1,861	$ 30,076
Interest on the total OPEB liability and net cash flow	23,904	1,028	24,932
Current period effect in change in assumptions	(8,334)	(402)	(8,736)
Total OPEB Expense	$ 43,785	$ 2,487	$ 46,272

Primary Government	$ 38,821
Component Units Included in Primary Government's OPEB expense under special funding arrangement	4,964
Total OPEB Expense	$ 43,785

At September 30, 2018, the PG reported deferred inflows of resources related to OPEB (expressed in thousands) as follows:

	Primary Government	Component Units	Total
Changes in assumptions or other inputs	$ 45,088	$ 2,174	$ 47,262
Primary Government	$ 41,165		
Component Units Included in Primary Government's deferred inflows of resources under special funding arrangement	3,923		
Total OPEB Expense	$ 45,088		

Amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows (expressed in thousands):

Fiscal Year Ended September 30	Primary Government	Component Units	Total
2019	$ 8,334	$ 402	$ 8,736
2020	8,334	402	8,736
2021	8,334	402	8,736
2022	8,334	402	8,736
2023	8,334	402	8,736
2024 and after	3,418	164	3,582
Total OPEB Deferred Inflows	$ 45,088	$ 2,174	$ 47,262

Sensitivity of OPEB Liability to Changes in the Discount Rate

The following sensitivity analysis shows the impact to the total OPEB liability if the discount rate was 1.00% higher or 1.00% lower than the current discount rate (expressed in thousands):

	1% Decrease 2.35%	Current Discount 3.35%	1% Increase 4.35%
Primary Government	$ 907,033	$ 783,373	$ 684,134
Component Units	39,683	33,717	28,944
Total OPEB Liability	$ 946,716	$ 817,090	$ 713,078

Sensitivity of OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following sensitivity analysis shows the impact of the total OPEB liability if the healthcare cost trend rates were 1.00% higher or 1.00% lower than the current healthcare cost trend rate.

	1% Decrease - Health Cost Trend Rate 6.00%	Current Health Cost Trend Rate 7.00%	1% Increase - Health Cost Trend rate 8.00%
Primary Government	$ 677,795	$ 783,373	$ 918,135
Component Units	28,263	33,717	40,795
Total OPEB Liability	$ 706,058	$ 817,090	$ 958,930

Component Units

Other OPEB Plans

WAPA offers a medical, dental, and vision benefit plan, and reported a net OPEB liability of $55.8 million, deferred outflows of resources of $0.5 million and deferred inflows of resources of $8.7 million as of June 30, 2018.

VIHFA offers certain health care benefits including healthcare and prescription drug, dental, vision and life insurance to qualified retired employees and their dependents. VIHFA reported a net OPEB obligation of $11.6 million as of December 31, 2017.

16. Liquidity

Primary Government

At September 30, 2018, the Government reported a total net deficit in governmental activities amounting to $4.8 billion. The net deficit is mainly due to the adoption of accounting standards that required the reporting of pension and other post-employment liabilities and related expenses based on actuarial computations.

Following is a summary of the Government's unrestricted net deficit for governmental activities for fiscal years 2016 through 2018:

Fiscal Year	Governmental Unrestricted Net Deficit	(Increase)/ Decrease
2016	$ (4,247,570)	$ ($95,234)
2017	(4,797,101)	(549,531)
2018	(5,352,571)	(555,470)

Following is a summary of the general fund deficit. At September 30, 2018, the Government reported a fund deficit in the general fund of $40.8 million. This fund deficit balance represents a decrease in the deficit by $167.1 million from the preceding fiscal year. This increase was due mainly to the reduction in spending, an increase in tax revenues, and receipt of the bonds issued.

Fiscal Year	Committed	Assigned	Unassigned	Total
2016	$ 16,513	$ -	$ (89,599)	$ (73,086)
2017	16,667	552	(225,060)	(207,841)
2018	30,669	1,001	(72,248)	(40,758)

Non-major Funds Deficit

Primary Government

The following non-major funds have a net fund deficit as of September 30, 2018, (expressed in thousands):

Governmental Funds			
Rural Library Extension	$ 572	Water & Electric System Projects	$ 1,698
Employment Security Administration	2,152	Sewer System Fund	175
Federally Aided Education Program	9,599	District Potable Water Fund	4,962
Air & Water Pollution Control	7,104	Paternity And Child Support	11,572
Virgin Islands Planning Board Projects	3,000	District Street Light Fund	27,075
Highway Safety	4,600	Virgin Islands Law Enforcement	4,094
Virgin Islands Energy Office	3,655	Forensic Science	74
Virgin Islands National Guard Federal		Vocational Rehabilitation	1,848
and State Agreement	2,760	Hurricane Hugo Insurance Claims	3,908
Food Stamp Welfare	2,434	Virgin Islands Army National Guard	2,266
Federal Programs/Department		Emergency Drought Relief	153
Conservation	3,974	Outdoor Recreation Program	32
Federal Aided Community Action Agency	187	Narcotics Strike Force Forfeiture	1
Commission on Aging	50	Small Business Development	
Elementary/Secondary Education	19	Administration Managerial And	
Job Training Partnership		Technical Assistance	8
Act Of 1983-1984	8,614	Juvenile Detention Center Fund	
Civil Defense Protection	849	Non-Lapsing	14
Health Information Council Assistance	18	Natural Resource Reclamation	2,205
Drug Education Training Program	123	Section 12 Bond Proceeds	24,547
Federal Health Program Not on Federal		Road Fund	6,330
Letter of Credit System	489	Major Repair And Improvement	58
Boating Safety Program	584	Fishery and Wildlife Projects	27
Fish and Game	285	Disaster Relief Fund-Hugo	14,444
The Motorcycle Safety Ed. Prog.	9	WAPA Generating & Infrastructure	3
		Net fund deficit	$ 156,571

Proprietary Funds	
Frederiksted Small Business Fund	$ 164
Altona Community Development Fund	3
Housing Construction Revolving	7,653
Emergency Housing Fund	82
Virgin Islands ID Registration Fund	20
Virgin Islands Elections Fund	195
Consumer Protection Fund	200
Government Insurance Fund	35,324
Virgin Islands Housing Finance Authority	2,898
Homestead and Home Revolving Fund	344
Net fund deficit	$ 46,883

The Government expects structural deficits following the 2017 hurricanes to be offset by the economic activity related to construction and federal recovery assistance. The post-hurricane construction economy is strong as residents replace damaged property along with the influx of federal workers and construction firms. Airbnb properties have increased to replace hotel rooms damaged by the storms. The Government has successfully negotiated the direct withholding of hotel tax by Airbnb.

In fiscal year 2019, cruise ship calls returned to near normal levels. The Government has experienced an increase in tax collections reported by the Virgin Islands Bureau of Internal Revenue. The Government has also continued to receive its annual matching fund rum excise tax advance from the U.S. Department of Interior.

New sources of revenue streams expected in fiscal years 2019 and 2020 include the settlement with the Secretary of the Treasury on amounts related to the *Disaster Tax Relief and Airport and Airway Extension Act of 2017* and increasing revenues from the Limetree Bay Terminal concessioner. Additionally, immediately following the hurricanes of 2017, the federal government acted to provide relief to the U.S. Virgin Islands through legislation and supplemental appropriations for disaster recovery assistance. The Government expects to receive approximately $8.0 billion in federal assistance through fiscal year 2025. The Government has also participated in the Federal Emergency Management Agency's (FEMA) Community Disaster Loan (CDL) program.

The CDL program provides operational funding for local governments to continue to operate after a substantial revenue loss (greater than 5.0%) caused by a disaster. The term of the CDL loans is five (5) years and can be extended to ten (10) years. The Government's ability to access the CDL facility allowed it to remain current in its obligations. The Government has pledged gross receipts taxes for the timely payment of the CDLs and entered into a bond agreement with FEMA in July 2018. The Government has also been the recipient of insurance recoveries and private donations.

While the Government has certain revenues pledged for debt service on various bonds and notes, to date, revenues pledged for debt service have not been significantly impacted by the hurricanes. The Government does not anticipate the issuance of additional bonds in the immediate future.

All payments on bonds and notes obligations have been remitted as required. Other significant liabilities of the Government, mainly consisting of benefits due to the Government's workforce and landfill closure costs, represent obligations of the Government that do not require the use of current resources.

WICO

WICO is a component unit of PFA. WICO is in a negative working capital position as of September 30, 2018 due to legislation requiring WICO to remit $700 thousand annually to the primary Government as a payment in lieu of taxes (PILOT). As of September 30, 2018, WICO owes the primary Government $7.4 million in PILOT payments.

viNGN

viNGN is also a component unit of PFA. The start-up of viNGN was funded by a loan advance from PFA amounting to $36.8 million as of September 30, 2018. As of September 30, 2018, no repayments of the loan advance have been made by viNGN.

Component Units

(a) Virgin Islands Water and Power Authority – Electric System

Management of the Electric System (the System) has been attempting to stabilize and solidify its financial condition. The System has successfully petitioned the Virgin Islands Legislature to increase its debt ceiling limit and is working with an external financial team to restructure debt and gain access to additional financing to sustain operations and fund capital projects.

Management of the System is also preparing a comprehensive base rate petition and semi-annual LEAC filings for submission to the Public Service Commission prior to the end of calendar year 2019, which will produce additional liquidity and allow the System to build working capital reserves. The plan also includes a strategy to right-size and streamline the System's processes. The System continues to aggressively pursue federal funding for the acquisition of new high efficiency generation and renewables which will improve reliability, resiliency, and efficiency and reduce operating costs.

(b) Virgin Islands Government Hospital and Health Facilities Corporation

The Schneider Regional Medical Center on St. Thomas and the Juan F. Luis Hospital and Medical Center incurred significant structural damages related to the September 2017 hurricanes. The full impact of the hurricanes continues to be evaluated as the hospitals seek grants and federal assistance to continue operations.

At September 30, 2018, the Schneider Regional Medical Center's current liabilities exceeded current assets by $19.8 million including $4.2 million owed to the PG, payments owed to the PG of $10.7 million, payments due to GERS of $9.0 million, and payments due to WAPA of $10.2 million. The hospital is economically dependent on the continued financial support of the PG. In fiscal year 2018, the allotment from the PG for salaries and benefits amounted to $21.9 million.

At September 30, 2018, the Juan F. Luis Hospital and Medical Center's current liabilities exceeded current assets by $39.3 million including $2.8 million due from the PG. The hospital is economically dependent on the continued financial support of the PG. In fiscal year 2018, the allotment from the PG for salaries and benefits amounted to $20.4 million.

The PG has assumed responsibility for the repayment of the two hospital's Community Disaster Loans (CDLs). At September 30, 2018, the Schneider Regional Medical Center CDLs amounted to $15.9 million and the Juan F. Luis Hospital and Medical Center's CDLs amounted to $27.6 million. Interest payments on both loans have been deferred by FEMA through October 1, 2022, when the first principal payment is due. The loans mature October 1, 2037 with interest rates ranging from 2.5% to 3.1%.

17. Restatements to Beginning Net Position/Deficit

Governmental Activities – Statement of Net Position

Beginning net deficit of governmental activities in the government-wide financial statements was restated as follows due to the implementation of GASB Statement No. 75 (expressed in thousands):

	Net Position		
Governmental Activities	As Previously Reported	Adjustments	As Restated
Unrestricted net deficit	$ (4,443,600)	$ (335,512)	$ (4,779,112)

Business-type Activities and Proprietary Funds – Statement of Net Position

Beginning net position (deficit) in the business-type activities and WICO proprietary fund was restated as follows to reflect an adjustment for compensated absences payable not previously recorded in the financial statements (expressed in thousands):

	Net Position		
	As Previously Reported	Adjustments	As Restated
Business-type activities	$ (40,015)	$ (1,817)	$ (41,832)
Proprietary fund - WICO	$ 5,493	$ (1,817)	$ 3,676

Component Units

Beginning net position of certain discretely presented component units was restated due to the implementation of GASB Statement No. 75 and the implementation of new reporting standards for other postemployment benefits (expressed in thousands):

	Net Position		
Component Units	As Previously Reported	Adjustments	As Restated
Virgin Islands Port Authority	$ 102,948	$ (23,362)	$ 79,586
Virgin Islands Water and Power Authority:			
Electric System	(208,739)	(1,835)	(210,574)
Water System	16,757	(466)	16,291
University of the Virgin Islands	(10,611)	(10,622)	(21,233)
Net deficit	$ (99,645)	$ (36,285)	$ (135,930)

In addition, the beginning net position of the other component units' was reduced by $18.8 million as a result of the adjustments related to unaudited amounts reported in the prior year.

18. Subsequent Events

Primary Government

(a) Hurricane Recovery

The Government is making significant progress towards restoring its facilities which were damaged by Hurricanes Irma and Maria in September 2017. The Government continues the process of tabulating the associated costs and expenses with respect to remediation, clean-up, mitigation, and the restoration of services.

To close potential shortfalls and to serve returning citizens, the Government continues to work closely with federal agencies, such as FEMA, HUD, SBA, etc. to maximize its recovery from all available sources, subject to any sub-limits and retentions.

Through May 2020, federal assistance awarded to the Territory included $87.2 million in FEMA Individual Assistance grants, $2.2 billion in FEMA Public Assistance grants, $38.4 million in Federal Highway grants, $65.7 million in FEMA Hazard Mitigation grants, and $1.0 billion in Community Development Block Grants for a total of $3.4 billion dollars. Other federal grants awarded by various federal agencies amounted to $111.3 million, for a total of approximately $3.5 billion.

(b) Global Pandemic and Economic Relief Legislation

In March 2020, the Governor of the U.S. Virgin Islands declared a state of emergency due to the coronavirus pandemic known as COVID-19. The Governor of the PG issued an executive order to close nonessential businesses, certain government offices and schools to reduce the transmission of the disease. The Secretary of the Treasury authorized the Internal Revenue Service to delay income tax payments and tax filings to July 15, 2020. The state of emergency was approved by the President of the United States under the provisions of the Stafford Act and the National Emergencies Act. A federally approved state of emergency activates federal assistance to states in the form of financial, logistical, and technical assistance.

Also, in March 2020, the President of the United States signed into law the "Coronavirus Aid, Relief, and Economic Security (CARES) Act." The CARES Act, among other things, appropriated funds for the Coronavirus Relief Fund to be used to make payments for specified uses to state, territorial, local, and tribal governments. The Government's allocation of the Coronavirus Relief Fund is $74.8 million.

In April 2020, the Virgin Islands was declared a major disaster area by the President of the United States. The Presidential declaration enables the Territory to receive Federal funding for emergency protective measures, including direct Federal assistance. Through May 2020, the PG and its blended and discretely presented component units have been awarded $168.4 million in federal pandemic recovery assistance including the Coronavirus Relief Fund.

The extent of the impact of COVID-19 on the operational and financial performance of the Government will depend on certain developments, including the duration and spread of the outbreak. Prolonged travel and social gathering restrictions could negatively impact the fiscal outlook for the Government. Management is actively monitoring the impact of COVID-19 on its financial condition, liquidity, operations and industry. However as of the report date, it is unknown what effect, if any, the COVID-19 pandemic will have on the Government and its component units.

(c) Court Orders Payment to GERS

In April 2020, the District Court of the Virgin Islands ordered the PG to pay $63.0 million to GERS related to a dispute over unpaid funds owed to the retirement system from 1991-2009. The PG has appealed this decision with the federal appellate court.

(d) Other Financing and Payments

In November 2018, Limetree Bay Ventures obtained $1.3 billion in financing to reopen the former HOVENSA oil refinery operation on the island of St. Croix. As part of the financing agreement, the Government received $40.0 million in short-term financing and a $30.0 million payment for 130 housing units, a vocational school, and community center located at the facility.

Component Units

(a) Virgin Island Public Finance Authority

In December 2018, the first professional services contract was amended to retroactively increase the annual compensation to $16.0 million through November 30, 2018. The temporary increase of $6.0 million was due to the Government's aggressive campaign to identify, assess, secure, and manage a larger percentage of the available resources and funding from FEMA and other federal agencies through November 30, 2018. Effective December 1, 2018, the contract amount was returned to $10.0 million.

Also in December 2018, the second professional services contract was amended a third time to increase the contract amount temporarily to $85.0 million through November 30, 2018. Effective December 1, 2018, the contract amount returned to the $80.0 million as specified in the second amendment.

Subsequent to September 30, 2018 and through June 30, 2020, PFA reported outstanding invoices from the two professional consulting services firms amounting to $12,021,266 and $63,987,729, respectively. Invoices submitted by the consultants are reviewed by PFA and submitted to the Government, Office of Disaster Recovery, the Virgin Islands Housing Finance Authority, or WAPA for approval. Upon completion of the review and approval process, invoices are then submitted for reimbursement to the appropriate federal grantor.

In February 2019, the Virgin Islands Office of Disaster Recovery (ODR) was established as a business unit of PFA, through a $3.0 million grant from the Office of Insular Affairs of the Department of Interior. ODR is tasked with managing an anticipated $8.0 billion of federal disaster recovery grants, while providing coordination and training across all departments and agencies of the Government.

In November 2019, PFA entered into the Series 2019 A Virgin Islands Tax Increment Revenue Loan Note-Island Crossings Shopping Center loan with a local bank in the amount of $12.0 million and the TIF Project Developer Loan Note payable to CDP, LLC in the amount of $1.6 million. The proceeds of the loans were used to: 1) defease the Series 2012A TIF Notes with outstanding principal of approximately $11.0 million and accrued interest of $104,000, 2) make a settlement payment to the developer of the Island Crossings Shopping Center in the amount of $2.1 million, 3) fund certain debt service reserves, and 4) pay the costs of the issuance.

In December 2019, Standard & Poor's Global Ratings revised its outlook from negative to stable and affirmed its A rating on the outstanding grant anticipation revenue bonds (GARVEE Series 2015A bonds) of PFA.

In January 2020, Moody's Investors Service confirmed as "stable" the Caa3 rating of PFA's bonds.

(b) Virgin Islands Water and Power Authority

In August 2018, WAPA closed on an additional allocation of the Community Disaster Loan program of up to $16.0 million. This loan is structured as a Senior Electric System Bond Anticipation Note (BAN) which will convert to Senior Electric System Bonds upon the delivery of a consulting engineer's report. However, on November 14, 2018, WAPA adopted the Ninth Supplementary Bond Resolution, which authorized the issuance of its Electric System Revenue BAN, Series 2018C in a principal amount to include, among other things, a Community Disaster Loan allocation of $19.5 million approved by FEMA, which amount includes $16.0 million to refund the Series 2018A Notes and $3.5 million of additional Community Disaster Loan allocation to be subsequently drawn upon by WAPA (the Series 2018C Senior Notes).The Series 2018A Senior Notes are expected to be exchanged by FEMA for the Series 2018C Senior Notes, which will mature on July 1, 2021.

FEMA's Public Assistance Grant Program (PA) provides federal support to include assistance for debris removal, life-saving emergency protective measures, and the repair, replacement, or restoration of disaster-damaged facilities. As of June 2020, WAPA has been approved for approximately $529.5 million in grant funding for emergency restoration work.

Additionally, as of June 2020, FEMA has approved approximately $500.9 million in grant funding for permanent and hazard mitigation projects. WAPA intends to seek funding for the local match from the U.S. Department of Housing and Urban Development's Community Development Block Grants (CDBG-DR).

The Department of Housing and & Urban Development (HUD) has also obligated funding towards WAPA's recovery efforts through its CDBG-DR program. In Tranche 1 and Tranche 2 of the Territory's Disaster Recovery Action Plan (Action Plan), there is a combined $90.0 million allocated to the Electrical Power Systems Enhancement and Improvement. WAPA has received the approval to proceed with the Territory's first CDBG-DR project which will add approximately 40MW of new generation to the Randolph Harley Power Plant on St. Thomas. The Action Plan contains a combined $168.8 million in Tranche 1 and Tranche 2 for local cost match.

In addition to incurring significant storm related expenses, recurring operating revenues of the WAPA have been reduced. In the interim, WAPA has revised its fiscal years 2019 and 2020 budgets. In a further effort to close potential shortfalls and to serve returning citizens, WAPA continues to work closely with Federal agencies, to maximize its recovery from all available sources. While inflows of Federal and private funds continue to bolster the reconstruction activity, the eventual amount and timing for receipt of such funds cannot be predicted at this time.

As the maturity date of the Series 2016A Subordinated BANs approached in the aftermath of Hurricanes Irma and Maria, WAPA decided to reissue another short-term note to keep rates low until a long-term financing option became available. Accordingly, on November 14, 2018, WAPA and the beneficial owners of the Series 2016A Subordinated BANs entered into an agreement to extend the original maturity date of the Series to no later than December 7, 2018.

Further, on November 14, 2018, WAPA's Board authorized the issuance of the 2018B Senior BANs. WAPA anticipates refinancing the Series 2016A Subordinated BANs with its Series 2018B Senior BANs, in the principal amount of $33.9 million. The Series 2018B BANs will mature on July 1, 2020. WAPA currently has two notes (2017A and 2018B) coming due July 1, 2020. The 2017A BANs with an outstanding par value of $14.8 million will be retired on or before maturity. Fuel taxes and debt service funds already on deposit with the Trustee are available to fully retire these notes. WAPA intends to refinance the 2018B BANs with an outstanding par of $33.9 million before maturity and WAPA is in negotiations with investors/lenders.

(c) Virgin Islands Port Authority

VIPA is restoring its facilities, which were damaged by Hurricanes Irma and Maria in September 2017. Rebuilding the air and seaports has taken precedence over other activities, and VIPA continues to tabulate the associated costs and expenses with respect to remediation, clean-up, mitigation, and the restoration of services. VIPA engaged a construction management and design-build firm to provide engineering and construction services and has received approximately $20.0 million in insurance recoveries related to the hurricanes.

In January 2019, new fees pursuant to the airline use and lease agreement were instituted and VIPA and its airline partners are working towards the full execution of the agreement.

In April 2019, in a case filed against the United States CBP for the recovery of wharfage and tonnage, a summary judgement was issued in favor of the United States CBP. As such, no revenue is expected to be recovered.

In March 2020, VIPA signed a settlement agreement with FAA and agreed to remit payment of a $1.5 million civil penalty in four installments. The first installment of $0.4 million was paid in March 2020. However, due to the COVID-19 pandemic, the other installment payments have been deferred.

In April 2020, VIPA executed a CARES Act grant with the FAA for a total of $38.9 million.

(d) Virgin Islands Government Hospital and Health Facilities Corporation

In May 2019, the Governor Juan F. Luis Hospital & Medical Center was approved for funding of $8.0 million by FEMA to cover the cost of replacing the Hospital. The Hospital will utilize modular units installed following the 2017 hurricanes while the new building is constructed.

In June 2019, the Schneider Regional Medical Center received retroactive Medicaid payments for fiscal years 2011 to 2013 in the amount of $11.9 million. Of this amount, $10.5 million was paid to WAPA for outstanding invoices of the hospital. In July 2019, the PG paid approximately $11.7 million in outstanding invoices owed to WAPA by the Governor Juan F. Luis Hospital & Medical Center.

In April 2020, the Schneider Regional Medical Center received a federal grant in the amount of $5.5 million in connection with the CARES Act. The funds support the detection of COVID-19 and/or prevention, diagnosis, and treatment of COVID-19, including maintaining or increasing hospital capacity and staffing levels during the COVID-19 public health emergency as outlined in the CARES Act.

(e) University of the Virgin Islands

In January 2018, the University commenced repairs related to the 2017 hurricanes. Through June 2019, the University had spent $5.1 million on campus restoration. The University's insurance provider advanced $5.0 million related to an ongoing claim related to the hurricanes.

(f) The West Indian Company Limited

Subsequent to year end, WICO received a reimbursement of $547,941 as part of the Territory's FEMA disaster recovery grant. Additionally, WICO has received a total of approximately $4.0 million in connection with its insurance claims related to the damages incurred; this amount is inclusive of $3.5 million for business income losses.

In May 2020, WICO was notified by Banco Popular de Puerto Rico that monthly payments on the outstanding loan payable would be deferred for 90 days as a result of the COVID-19 pandemic.

In March 2020, WICO's management agreement with GERS was terminated. As a result of the termination of the agreement, WICO reduced its workforce by thirty-eight (38) employees, resulting in a one-time separation charge of approximately $1.2 million.

(g) viNGN, INC. d/b/a Virgin Islands Next Generation Network

Subsequent to year end, viNGN received a reimbursement of $526,589 as part of the Territory's FEMA disaster recovery grant. Additionally, viNGN has received approximately $3.3 million in connection with its insurance claims related to the damages incurred.

In April 2019, viNGN entered into mediation with one of its customers to resolve a contractual dispute regarding wholesale rates for broadband bandwidth. This dispute was settled on January 24, 2020, and as part of the settlement agreement, viNGN issued an account credit to the customer in the amount of $531,516.

In April 2020, viNGN amended its MOA with WAPA. As part of the original agreement, viNGN has an exclusive use of certain underground fiber and infrastructure owned by WAPA. Following Hurricanes Irma and Maria in 2017, as WAPA has obtained certain federal funding for the hardening of its infrastructure, the MOA was amended to provide viNGN a continued and exclusive right to use all future telecommunications fiber and spare underground or subsea conduit owned by WAPA.

(h) Other Component Units

Various components units insure all of their properties and were able to secure advance funding for some of the needed repairs of the damages caused by Hurricanes Irma and Maria.

Management's Evaluation

Management has evaluated events and transactions occurring after September 30, 2018, the statement of net position date, and through June 30, 2020, the date the financial statements were available to be issued and noted that there have been no additional events or transactions which would require adjustments to or disclosure in the Government's financial statements for the year ended September 30, 2018.

Required Supplementary Information

Government of the United States Virgin Islands

Schedule of Changes in Total OPEB Liability and Related Ratios

Postemployment Benefits Other Than Pensions

Measurement year ending September 30,	2018
	Primary Government
Total OPEB Liability:	
Service cost	$ 28,216
Interest	23,904
Changes in assumptions or other inputs	(53,422)
Expected benefit payments	(28,280)
Net Change in Total OPEB Liability	$ (29,582)
Total OPEB Liability – September 30, 2017	812,955
Total OPEB Liability – September 30, 2018	$ 783,373
Covered-Employee Payroll	$ 323,158
Total OPEB Liability as a Percentage of Covered-Employee Payroll	242.41%

This schedule is intended to show a 10-year trend. Additional years will be reported as they become available.

Notes to Required Supplementary Information - OPEB

The Government does not have assets accumulated in a trust that meets the criteria of Paragraph 4 of GASB Statement No. 75 to pay related benefits.

The Primary Government, by statute, pays 100% of the employer cost-share of the postemployment health, dental, and life insurance of the retirees of the following semi-autonomous agencies: 1) Employee's Retirement System of the Government of the Virgin Islands, 2) Virgin Islands Economic Development Authority, 3) Virgin Islands Housing Finance Authority, 4) Juan F. Luis Hospital & Medical Center, 5) Magens Bay Authority, 6) Virgin Islands Public Broadcasting System, 7) Roy L. Schneider Hospital, and 8) Virgin Islands Waste Management Authority. The Primary Government also reports the OPEB liabilities associated with these benefits.

The discount rate changed from 2.89% for the opening balance as of September 30, 2017, to the discount rate of 3.35% as of September 30, 2018. This change resulted in a decrease in total OPEB liability.

The base mortality tables and mortality improvement sales were update to RP-2014 Blue Collar Mortality table (110% adjustment) projected forward using the M-2015 scale.

Future participation in the retiree health plan decreased from 100% to 85%.

Government of the United States Virgin Islands

Schedule of Net Pension Liability

September 30, (in thousands)	2018	2017	2016	2015
Primary Government's proportion of the NPL	**76.5852%**	76.4171%	75.2916%	75.2803%
Primary Government's proportionate share of the NPL	**3,354,768**	$ 3,535,517	$ 3,065,617	$ 2,323,163
Primary Government's covered-employee payroll	**$ 307,132**	$ 300,909	$ 277,091	$ 267,698
Primary Government's proportionate share of the NPL as a percentage of its covered payroll	**1,092%**	1,175%	1,106%	868%
Plan fiduciary net position as a percentage of the total pension liability	**16.18%**	16.54%	19.58%	27.26%

This schedule is intended to show a 10-year trend. Additional years will be reported as they become available. The amounts presented for each fiscal year are as of the measurement date (September 30 of the previous year).

Government of the United States Virgin Islands

Schedule of Pension Contributions

September 30, (in thousands)	**2018**	2017	2016	2015
Actuarially required contributions of the Primary Government	**$ 205,052**	$ 191,481	$ 186,089	$ 150,628
Contributions in relation to the statutorily required contributions	**$ 77,840**	$ 61,759	$ 68,291	$ 64,357
Contribution deficiency	**$ 127,212**	$ 129,722	$ 117,798	$ 86,271
Primary Government covered payroll	**$ 309,998**	$ 307,132	$ 300,909	$ 277,091
Contributions as a percentage of covered payroll	**25.11%**	20.11%	22.69%	23.23%

This schedule is intended to show a 10-year trend. Additional years will be reported as they become available. The amounts presented for each fiscal year are as of the latest fiscal year.

Government of the United States Virgin Islands

Schedule of Revenues and Expenditures – Budget and Actual
Budgetary Basis – General Fund

(in thousands)

Year Ended September 30, 2018	Original Budget	Revised Budget	Actual	Variance
Revenues				
Taxes	$ 741,557	$ 741,557	$ 665,664	$ (75,893)
Payment in lieu of taxes	-	-	11,141	11,141
Federal grants and contributions	-	-	9,940	9,940
Charges for services	73,349	73,349	7,396	(65,953)
Interest and other	121,415	121,415	21,036	(100,379)
Total revenues	936,321	936,321	715,177	(221,144)
Expenditures				
Current:				
General government	484,341	401,760	445,813	(44,053)
Public safety	133,434	130,689	73,632	57,057
Health	48,348	37,221	24,229	12,992
Public housing and welfare	69,554	69,552	56,590	12,962
Education	174,563	172,379	159,457	12,922
Transportation and communication	28,409	27,639	17,573	10,066
Culture and recreation	18,798	18,397	5,246	13,151
Debt service:				
Principal	-	-	17,492	(17,492)
Interest	-	-	1,563	(1,563)
Loan issuance costs	-	-	1,733	(1,733)
Total expenditures	957,447	857,637	803,328	54,309
Excess (deficiency) of revenues over expenditures	(21,126)	78,684	(88,151)	(166,835)
Other financing sources (uses)				
Bonds issued	-	-	188,522	188,522
Debt service	(155,010)	-	-	-
New resource initiative	-	-	-	-
Transfers from other funds	67,400	67,400	85,212	17,812
Transfer to other funds	(63,785)	(1,469)	(4,872)	(3,403)
Transfers to component units	(31,847)	(108,354)	-	108,354
Total other financing sources, net	(183,242)	(42,423)	268,862	311,285
Excess (deficiency) of revenues and net other financing sources over expenditures	$ (204,368)	$ 36,261	$ 180,711	$ 144,450

See accompanying notes to the Schedule.

Notes to Schedule of Revenues and Expenditures - Budget and Actual Budgetary Basis – General Fund

1. Budgetary Process and Control

The V.I. Code requires the Governor to submit an annual balanced executive budget to be adopted by the Legislature for the ensuing fiscal year. The Governor is required by law to submit to the Legislature the annual balanced executive budget no later than May 30. The annual balanced executive budget is prepared on a budgetary basis. If the annual executive budget has not been approved before the commencement of any fiscal year, then the appropriations for the preceding fiscal year, insofar as they may be applicable, are automatically deemed re-appropriated item by item. The annual balanced executive budget, which includes those funds of the Government subject to appropriation pursuant to law, is composed of all proposed expenditures and estimated revenue for the Government. The Legislature enacts the annual executive budget through passage of lump-sum appropriations for each department. The Legislature may add, change, or delete any items in the annual executive budget proposed by the Governor. Upon passage by the Legislature, the annual executive budget is submitted to the Governor, who may veto the budget partially or in its entirety and return it to the Legislature with his objections. A veto by the Governor can be overridden only by a two-thirds majority of all members of the Legislature. The Legislature is obligated by law to pass a final annual executive budget no later than September 30, the last day of the fiscal year. Supplemental budgetary appropriations bills that are signed into law may be created during the year without the identification of a specific revenue source to finance them. In August 1999, the Legislature enacted the Financial Accountability Act (Act No. 6289). The purpose of the Financial Accountability Act is to require by law that the budget of the Government be balanced each year, and the appropriations in each fiscal year not exceed a verifiable revenue source.

Once the budget has been enacted, fiscal control over expenditures made pursuant thereto is exercised by the Governor through the Director of OMB. During any fiscal year in which the resources available to the Government are not sufficient to cover the appropriations approved for such year, the Governor, through the Director of OMB, may take administrative measures to reduce expenditures. The Governor may also make recommendations to the Legislature for new taxes or any other necessary action to meet the estimated deficiency.

Budgetary control is exercised at the department level through an allotment process. Encumbrances and expenditures cannot exceed total allotment amounts. The Government's department heads may make transfers of appropriations within the department. Appropriation transfers between departments and supplemental appropriations require executive and legislative branch approval. Unencumbered and unexpended appropriations, not designated, lapse at fiscal year-end. Also, encumbrances are established at fiscal year-end to pay certain expenditures for travel and utility costs payable against current year appropriation authority, but to be expended in the subsequent year.

2. Budget/GAAP Reconciliation

The following schedule presents a comparison of the general fund legally adopted budget with actual data on a budgetary basis. Because accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of timing and entity difference of the excess (deficiency) of revenue and net other financing sources over expenditures for the year ended September 30, 2018, is presented below (expressed in thousands):

Excess of revenues and net other financing sources over expenditures	$ 180,711
Entity difference – deficiency of revenues and net other financing sources over expenditures – activities with budgets not legally adopted	(13,628)
Excess of revenues and net other financing sources over expenditures – GAAP basis (net change in fund balance)	$ 167,083

Controls over spending in special revenue funds and non-appropriated funds are maintained at the Department of Finance by use of budgets and available resources (revenues). The Government makes appropriations to authorize expenditures for various capital projects. Budgets for capital projects normally remain available until completion of the project unless modified or rescinded.

Government of the United States Virgin Islands

Schedule of Expenditures of Federal Awards and Reports Required by *Government Auditing Standards* and the Uniform Guidance

Year Ended September 30, 2018

The report accompanying these financial statements was issued by BDO USA, LLP, a Delaware limited liability partnership and the U.S. member of BDO International Limited, a UK company limited by guarantee.

Government of the United States Virgin Islands

Schedule of Expenditures of Federal Awards and Reports Required by *Government Auditing Standards* and the Uniform Guidance

Year Ended September 30, 2018

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Government of the United States Virgin Islands

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

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

We have audited, in accordance with 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, 2018, and the related notes to the financial statements, which collectively comprise the Government's basic financial statements, and have issued our report thereon dated June 30, 2020. 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), Government Employees' Retirement System of the of the U.S. Virgin Islands (GERS), and Virgin Islands Lottery (V.I. Lottery), 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), the Virgin Islands Public Broadcasting System (VIPBS), the Virgin Islands Public Finance Authority (PFA), The West Indian Company Limited (WICO), viNGN, INC. d/b/a Virgin Islands Next Generation Network (viNGN), and Tobacco Settlement Financing Corporation (TSFC). 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, VIPBS, PFA, WICO, viNGN, and TSFC which is reported on separately by us.

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.

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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 the accompanying schedule of findings and questioned costs, 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 the accompanying schedule of findings and questioned costs to be material weaknesses.

Finding #	Nature of Finding
2018-001	Financial Position
2018-002	Year-End Close Process
2018-003	Revenue and Receivables
2018-004	Grants Management
2018-005	Capital Assets and Related Expenditures
2018-006	Recording of Liabilities
2018-007	Management of the Medicaid Program
2018-008	Unemployment Insurance Trust Fund
2018-009	Workers Compensation Program
2018-010	Other Postemployment Benefits Obligation
2018-011	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 the accompanying schedule of findings and questioned costs to be significant deficiencies.

Finding #	Nature of Finding
2018-012	Bank Accounts
2018-013	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 the accompanying schedule of findings and questioned costs.

Finding #	Nature of Finding
2018-014	Landfill Consent Decrees
2018-015	Establishment of a Medical Malpractice Trust Fund
2018-016	Procurement Regulations
2018-017	Casino Control Commission

The Government's Responses to Findings

The Government's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. 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

June 30, 2020

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Independent Auditor's Report on Compliance For Each Major Federal Program, Report on Internal Control Over Compliance, and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

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

Report on Compliance for Each Major Federal Program

We have audited the Government of the United States Virgin Islands' (the Government) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the Government's major Federal programs for the year ended September 30, 2018. The Government's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

The Government's basic financial statements include the operations of 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), Government Employees' Retirement System of the of the Virgin Islands (GERS), Virgin Islands Lottery (V.I. Lottery), University of the Virgin Islands Research and Technology Park Corporation (RTPark), and Tobacco Settlement Financing Corporation (TSFC). The financial statements of RTPark have not been audited, and we were not engaged to audit the financial statements as part of our audit of the Government's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards and our audit described below do not include the federal expenditures of these organizational units. As may be applicable, these organizational units of the Government have a separate independent audit performed in accordance with Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. The accompanying Schedule of Expenditures of Federal Awards and our audit described below also do not include the federal expenditures of the Virgin Islands Public Finance Authority (VIPFA), the West Indian Company Limited (WICO), Virgin Islands Next Generation Network (viNGN), 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). As may be applicable, the results of our testing of compliance for VIPFA, WICO, viNGN, WAPA, VIPA, UVI, and VIPBS is reported on separately by us.

Management's Responsibility

Management is responsible for compliance with Federal statutes, regulations, and the terms and conditions of its Federal awards applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Government's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

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Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the Government's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our unmodified and modified opinions on compliance for each major federal program. However, our audit does not provide a legal determination of the Government's compliance.

Basis for Adverse Opinions on the Four Major Federal Programs Identified in Table I

As described in the accompanying schedule of findings and questioned costs, and as identified in Table I below, the Government did not comply with requirements regarding the following:

Table I – Material Noncompliance Resulting in Adverse Opinions

Federal Awarding Agency	CFDA Number (s)	Major Program	Compliance Requirement	Finding Number
Agriculture	10.551, 10.561	Supplemental Nutrition Assistance Program Cluster (SNAP)	Allowable Costs/Cost Principles – Non-Payroll Activities	2018-018
Agriculture	10.551, 10.561	Supplemental Nutrition Assistance Program Cluster (SNAP)	Allowable Costs/Cost Principles - Payroll Activities	2018-019
Agriculture	10.551, 10.561	Supplemental Nutrition Assistance Program Cluster (SNAP)	Cash Management	2018-021
Agriculture	10.551, 10.561	Supplemental Nutrition Assistance Program Cluster (SNAP)	Equipment/Real Property Management	2018-022
Agriculture	10.551, 10.561	Supplemental Nutrition Assistance Program Cluster (SNAP)	Matching, Level of Effort, Earmarking	2018-023
Agriculture	10.551, 10.561	Supplemental Nutrition Assistance Program Cluster (SNAP)	Period of Performance	2018-024
Agriculture	10.551, 10.561	Supplemental Nutrition Assistance Program Cluster (SNAP)	Procurement/Suspension and Debarment	2018-025
Agriculture	10.551, 10.561	Supplemental Nutrition Assistance Program Cluster (SNAP)	Reporting	2018-026
Agriculture	10.551, 10.561	Supplemental Nutrition Assistance Program Cluster (SNAP)	Special Tests and Provisions – ADP System for SNAP - Recertifications	2018-027
Agriculture	10.551, 10.561	Supplemental Nutrition Assistance Program Cluster (SNAP)	Special Tests and Provisions – EBT Reconciliation	2018-028

Table I – Material Noncompliance Resulting in Adverse Opinions				
Federal Awarding Agency	**CFDA Number (s)**	**Major Program**	**Compliance Requirement**	**Finding Number**
Agriculture	10.551, 10.561	Supplemental Nutrition Assistance Program Cluster (SNAP)	Special Tests and Provisions – EBT Card Security	2018-029
Labor	17.225	Unemployment Insurance (UI)	Activities Allowed or Unallowed	2018-038
Labor	17.225	Unemployment Insurance (UI)	Cash Management	2018-039
Labor	17.225	Unemployment Insurance (UI)	Eligibility	2018-040
Labor	17.225	Unemployment Insurance (UI)	Matching, Level of Effort, Earmarking	2018-041
Health and Human Services	93.778	Medicaid Cluster	Allowable Costs/Cost Principles – Non-Payroll Activities	2018-057
Health and Human Services	93.778	Medicaid Cluster	Allowable Costs/Cost Principles - Payroll Activities	2018-058
Health and Human Services	93.778	Medicaid Cluster	Cash Management	2018-059
Health and Human Services	93.778	Medicaid Cluster	Eligibility	2018-060
Health and Human Services	93.778	Medicaid Cluster	Matching, Level of Effort, Earmarking	2018-061
Health and Human Services	93.778	Medicaid Cluster	Period of Performance	2018-062
Health and Human Services	93.778	Medicaid Cluster	Procurement/Suspension and Debarment	2018-063
Health and Human Services	93.778	Medicaid Cluster	Reporting	2018-064
Health and Human Services	93.778	Medicaid Cluster	Special Tests and Provisions - Utilization Control and Program Integrity	2018-065
Health and Human Services	93.778	Medicaid Cluster	Special Tests and Provisions - Inpatient Hospital and Long-Term Care Facility Audits	2018-066
Health and Human Services	93.778	Medicaid Cluster	Special Tests and Provisions - ADP Risk Analysis and System Security Review	2018-067

Table I – Material Noncompliance Resulting in Adverse Opinions				
Federal Awarding Agency	**CFDA Number (s)**	**Major Program**	**Compliance Requirement**	**Finding Number**
Health and Human Services	93.778	Medicaid Cluster	Special Tests and Provisions – Provider Eligibility	2018-068
Health and Human Services	93.778	Medicaid Cluster	Special Tests and Provisions - Medicaid Fraud Control Unit	2018-069
Health and Human Services	93.778	Medicaid Cluster	Special Tests and Provisions - Federal Financial Participation Refunds	2018-070
Homeland Security	97.030	Community Disaster Loans	Activities Allowed or Unallowed and Allowable Costs/Cost Principles, Period of Performance	2018-071
Homeland Security	97.030	Community Disaster Loans	Cash Management	2018-072
Agriculture	10.551, 10.561	Supplemental Nutrition Assistance Program Cluster (SNAP)	Data Collection Form and Single Audit Reporting Package	2018-074
Labor	17.225	Unemployment Insurance (UI)	Data Collection Form and Single Audit Reporting Package	2018-074
Health and Human Services	93.778	Medicaid Cluster	Data Collection Form and Single Audit Reporting Package	2018-074
Homeland Security	97.030	Community Disaster Loans	Data Collection Form and Single Audit Reporting Package	2018-074

Compliance with such requirements is necessary, in our opinion, for the Government to comply with the requirements applicable to those programs.

Adverse Opinions on the Four Major Federal Programs Identified in Table I

In our opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion paragraph, the Government did not comply in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal programs identified in Table I for the year ended September 30, 2018.

Basis for Qualified Opinions on the Three Major Federal Programs Identified in Table II

As described in the accompanying schedule of findings and questioned costs, and as identified in Table II below, the Government did not comply with requirements regarding the following:

Table II - Material Noncompliance Resulting in Qualified Opinions				
Federal Awarding Agency	**CFDA Number (s)**	**Major Program**	**Compliance Requirement**	**Finding Number**
Agriculture	10.555, 10.559	Child Nutrition Cluster	Cash Management	2018-031
Agriculture	10.555, 10.559	Child Nutrition Cluster	Equipment/Real Property Management	2018-032
Agriculture	10.555, 10.559	Child Nutrition Cluster	Matching, Level of Effort, Earmarking	2018-033
Agriculture	10.555, 10.559	Child Nutrition Cluster	Period of Performance	2018-034
Health and Human Services	93.600	Head Start	Allowable Costs/Cost Principles - Payroll Activities	2018-047
Health and Human Services	93.600	Head Start	Cash Management	2018-048
Health and Human Services	93.600	Head Start	Equipment/Real Property Management	2018-049
Health and Human Services	93.767	Children's Health Insurance Program (CHIP)	Activities Allowed or Unallowed	2018-053
Health and Human Services	93.767	Children's Health Insurance Program (CHIP)	Cash Management	2018-054
Health and Human Services	93.767	Children's Health Insurance Program (CHIP)	Matching, Level of Effort, Earmarking	2018-055
Health and Human Services	93.767	Children's Health Insurance Program (CHIP)	Reporting	2018-056

Compliance with such requirements is necessary, in our opinion, for the Government to comply with the requirements applicable to those programs.

Qualified Opinions on the Three Major Federal Programs Identified in Table II

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph above, the Government complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal programs identified in Table II for the year ended September 30, 2018.

Unmodified Opinions on Each of the Other Major Federal Programs

In our opinion, the Government complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended September 30, 2018.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs, and as identified in Tables III, IV and V below. Our opinion on each major federal program is not modified with respect to these matters.

Table III - Other Instances of Noncompliance Noted in Programs with Adverse Opinions				
Federal Awarding Agency	**CFDA Number (s)**	**Major Program**	**Compliance Requirement**	**Finding Number**
Agriculture	10.551, 10.561	Supplemental Nutrition Assistance Program Cluster (SNAP)	Allowable Costs/Cost Principles - Indirect Cost Activities	2018-020

Table IV - Other Instances of Noncompliance Noted in Programs with Qualified Opinions				
Federal Awarding Agency	**CFDA Number (s)**	**Major Program**	**Compliance Requirement**	**Finding Number**
Agriculture	10.555, 10.559	Child Nutrition Cluster	Allowable Costs/Cost Principles - Indirect Cost Activities	2018-030
Agriculture	10.555, 10.559	Child Nutrition Cluster	Procurement/Suspension and Debarment	2018-035
Health and Human Services	93.600	Head Start	Matching, Level of Effort, Earmarking	2018-050
Health and Human Services	93.600	Head Start	Period of Performance	2018-051
Health and Human Services	93.600	Head Start	Reporting	2018-052
Agriculture	10.555, 10.559	Child Nutrition Cluster	Data Collection Form and Single Audit Reporting Package	2018-074
Health and Human Services	93.600	Head Start	Data Collection Form and Single Audit Reporting Package	2018-074
Health and Human Services	93.767	Children's Health Insurance Program (CHIP)	Data Collection Form and Single Audit Reporting Package	2018-074

Table V – Other Instances of Noncompliance				
Federal Awarding Agency	CFDA Number (s)	Major Program	Compliance Requirement	Finding Number
Agriculture	10.557	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	Equipment/Real Property Management	2018-036
Agriculture	10.557	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	Procurement/Suspension and Debarment	2018-037
Transportation	20.205	Highway Planning and Construction Cluster	Equipment/Real Property Management	2018-042
Transportation	20.205	Highway Planning and Construction Cluster	Procurement/Suspension and Debarment	2018-043
Education	84.027	Special Education – Grants to States (IDEA, Part B)	Matching, Level of Effort, Earmarking	2018-044
Education	84.403	Consolidated Grant to the Outlying Areas	Allowable Costs/Cost Principles - Payroll Activities	2018-045
Education	84.403	Consolidated Grant to the Outlying Areas	Subrecipient Monitoring	2018-046
Homeland Security	97.036	Disaster Grants – Public Assistance (Presidentially Declared Disasters)	Reporting	2018-073
Agriculture	10.557	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	Data Collection Form and Single Audit Reporting Package	2018-074
Transportation	20.205	Highway Planning and Construction Cluster	Data Collection Form and Single Audit Reporting Package	2018-074
Education	84.027	Special Education – Grants to States (IDEA, Part B)	Data Collection Form and Single Audit Reporting Package	2018-074
Education	84.403	Consolidated Grant to the Outlying Areas	Data Collection Form and Single Audit Reporting Package	2018-074
Homeland Security	97.036	Disaster Grants – Public Assistance (Presidentially Declared Disasters)	Data Collection Form and Single Audit Reporting Package	2018-074

The Government's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs and corrective action plan. The Government's responses were not subjected to our auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

Management of the Government is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Government's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Government's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, and as identified in Table VI below, to be material weaknesses:

Table VI – Material Weaknesses in Internal Control over Compliance

Federal Awarding Agency	CFDA Number (s)	Major Program	Compliance Requirement	Finding Number
Agriculture	10.551, 10.561	Supplemental Nutrition Assistance Program Cluster (SNAP)	Allowable Costs/Cost Principles – Non-Payroll Activities	2018-018
Agriculture	10.551, 10.561	Supplemental Nutrition Assistance Program Cluster (SNAP)	Allowable Costs/Cost Principles – Payroll Activities	2018-019
Agriculture	10.551, 10.561	Supplemental Nutrition Assistance Program Cluster (SNAP)	Cash Management	2018-021
Agriculture	10.551, 10.561	Supplemental Nutrition Assistance Program Cluster (SNAP)	Equipment/Real Property Management	2018-022
Agriculture	10.551, 10.561	Supplemental Nutrition Assistance Program Cluster (SNAP)	Matching, Level of Effort, Earmarking	2018-023

Table VI – Material Weaknesses in Internal Control over Compliance				
Federal Awarding Agency	**CFDA Number (s)**	**Major Program**	**Compliance Requirement**	**Finding Number**
Agriculture	10.551, 10.561	Supplemental Nutrition Assistance Program Cluster (SNAP)	Period of Performance	2018-024
Agriculture	10.551, 10.561	Supplemental Nutrition Assistance Program Cluster (SNAP)	Procurement/Suspension and Debarment	2018-025
Agriculture	10.551, 10.561	Supplemental Nutrition Assistance Program Cluster (SNAP)	Reporting	2018-026
Agriculture	10.551, 10.561	Supplemental Nutrition Assistance Program Cluster (SNAP)	Special Tests and Provisions – ADP System for SNAP - Recertifications	2018-027
Agriculture	10.551, 10.561	Supplemental Nutrition Assistance Program Cluster (SNAP)	Special Tests and Provisions – EBT Card Security	2018-029
Agriculture	10.555, 10.559	Child Nutrition Cluster	Cash Management	2018-031
Agriculture	10.555, 10.559	Child Nutrition Cluster	Equipment/Real Property Management	2018-032
Agriculture	10.555, 10.559	Child Nutrition Cluster	Matching, Level of Effort, Earmarking	2018-033
Agriculture	10.555, 10.559	Child Nutrition Cluster	Period of Performance	2018-034
Agriculture	10.557	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	Equipment/Real Property Management	2018-036
Agriculture	10.557	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	Procurement/Suspension and Debarment	2018-037
Labor	17.225	Unemployment Insurance	Activities Allowed or Unallowed	2018-038
Labor	17.225	Unemployment Insurance (UI)	Cash Management	2018-039
Labor	17.225	Unemployment Insurance (UI)	Eligibility	2018-040
Labor	17.225	Unemployment Insurance (UI)	Matching, Level of Effort, Earmarking	2018-041
Transportation	20.205	Highway Planning and Construction Cluster	Equipment/Real Property Management	2018-042
Education	84.403	Consolidated Grant to the Outlying Areas	Allowable Costs/Cost Principles – Payroll Activities	2018-045
Education	84.403	Consolidated Grant to the Outlying Areas	Subrecipient Monitoring	2018-046
Health and Human Services	93.600	Head Start	Allowable Costs/Cost Principles – Payroll Activities	2018-047

Table VI – Material Weaknesses in Internal Control over Compliance				
Federal Awarding Agency	**CFDA Number (s)**	**Major Program**	**Compliance Requirement**	**Finding Number**
Health and Human Services	93.600	Head Start	Cash Management	2018-048
Health and Human Services	93.600	Head Start	Equipment/Real Property Management	2018-049
Health and Human Services	93.767	Children's Health Insurance Program (CHIP)	Activities Allowed or Unallowed	2018-053
Health and Human Services	93.767	Children's Health Insurance Program (CHIP)	Cash Management	2018-054
Health and Human Services	93.767	Children's Health Insurance Program (CHIP)	Matching, Level of Effort, Earmarking	2018-055
Health and Human Services	93.767	Children's Health Insurance Program (CHIP)	Reporting	2018-056
Health and Human Services	93.778	Medicaid Cluster	Allowable Costs/Cost Principles - Non-Payroll Activities	2018-057
Health and Human Services	93.778	Medicaid Cluster	Allowable Costs/Cost Principles – Payroll Activities	2018-058
Health and Human Services	93.778	Medicaid Cluster	Cash Management	2018-059
Health and Human Services	93.778	Medicaid Cluster	Eligibility	2018-060
Health and Human Services	93.778	Medicaid Cluster	Matching, Level of Effort, Earmarking	2018-061
Health and Human Services	93.778	Medicaid Cluster	Period of Performance	2018-062
Health and Human Services	93.778	Medicaid Cluster	Reporting	2018-064
Health and Human Services	93.778	Medicaid Cluster	Special Tests and Provisions - Utilization Control and Program Integrity	2018-065

Table VI – Material Weaknesses in Internal Control over Compliance				
Federal Awarding Agency	**CFDA Number (s)**	**Major Program**	**Compliance Requirement**	**Finding Number**
Health and Human Services	93.778	Medicaid Cluster	Special Tests and Provisions - Inpatient Hospital and Long-Term Care Facility Audits	2018-066
Health and Human Services	93.778	Medicaid Cluster	Special Tests and Provisions – ADP Risk Analysis and System Security Review	2018-067
Health and Human Services	93.778	Medicaid Cluster	Special Tests and Provisions – Provider Eligibility	2018-068
Health and Human Services	93.778	Medicaid Cluster	Special Tests and Provisions - Medicaid Fraud Control Unit	2018-069
Health and Human Services	93.778	Medicaid Cluster	Special Tests and Provisions – Federal Financial Participation Refunds	2018-070
Homeland Security	97.030	Community Disaster Loans	Activities Allowed or Unallowed and Allowable Costs/Cost Principles, Period of Performance	2018-071
Homeland Security	97.030	Community Disaster Loans	Cash Management	2018-072

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, and as identified in Table VII below, to be significant deficiencies:

Table VII – Significant Deficiencies in Internal Control over Compliance				
Federal Awarding Agency	**CFDA Number (s)**	**Major Program**	**Compliance Requirement**	**Finding Number**
Agriculture	10.551, 10.561	Supplemental Nutrition Assistance Program Cluster (SNAP)	Allowable Costs/Cost Principles – Indirect Cost Activities	2018-020
Agriculture	10.551, 10.561	Supplemental Nutrition Assistance Program Cluster (SNAP)	Special Tests and Provisions – EBT Reconciliation	2018-028
Agriculture	10.555, 10.559	Child Nutrition Cluster	Allowable Costs/Cost Principles – Indirect Cost Activities	2018-030
Education	84.027	Special Education – Grants to States (IDEA, Part B)	Matching, Level of Effort, Earmarking	2018-044

Table VII – Significant Deficiencies in Internal Control over Compliance				
Federal Awarding Agency	**CFDA Number (s)**	**Major Program**	**Compliance Requirement**	**Finding Number**
Health and Human Services	93.600	Head Start	Matching, Level of Effort, Earmarking	2018-050
Health and Human Services	93.600	Head Start	Period of Performance	2018-051
Health and Human Services	93.600	Head Start	Reporting	2018-052
Health and Human Services	93.778	Medicaid Cluster	Procurement/Suspension and Debarment	2018-063
Homeland Security	97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	Reporting	2018-073
Agriculture	10.551, 10.561	Supplemental Nutrition Assistance Program Cluster (SNAP)	Data Collection Form and Single Audit Reporting Package	2018-074
Agriculture	10.555, 10.559	Child Nutrition Cluster	Data Collection Form and Single Audit Reporting Package	2018-074
Agriculture	10.557	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	Data Collection Form and Single Audit Reporting Package	2018-074
Labor	17.225	Unemployment Insurance (UI)	Data Collection Form and Single Audit Reporting Package	2018-074
Transportation	20.205	Highway Planning and Construction Cluster	Data Collection Form and Single Audit Reporting Package	2018-074
Education	84.027	Special Education – Grants to States (IDEA, Part B)	Data Collection Form and Single Audit Reporting Package	2018-074
Education	84.403	Consolidated Grant to the Outlying Areas	Data Collection Form and Single Audit Reporting Package	2018-074
Health and Human Services	93.600	Head Start	Data Collection Form and Single Audit Reporting Package	2018-074
Health and Human Services	93.767	Children's Health Insurance Program (CHIP)	Data Collection Form and Single Audit Reporting Package	2018-074
Health and Human Services	93.778	Medicaid Cluster	Data Collection Form and Single Audit Reporting Package	2018-074

Table VII – Significant Deficiencies in Internal Control over Compliance				
Federal Awarding Agency	**CFDA Number (s)**	**Major Program**	**Compliance Requirement**	**Finding Number**
Homeland Security	97.030	Community Disaster Loans	Data Collection Form and Single Audit Reporting Package	2018-074
Homeland Security	97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	Data Collection Form and Single Audit Reporting Package	2018-074

The Government's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs and corrective action plan. The Government's responses were not subjected to the auditing procedures applied in the audit of compliance and accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited 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, 2018, and the related notes to the financial statements, which collectively comprise the Government's basic financial statements. We issued our report thereon dated June 30, 2020, which 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 audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements.

The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements.

The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, except for the effects on the Schedule of Expenditures of Federal Awards of the circumstances noted above, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

BDO USA, LLP

July 31, 2020

Schedule of Expenditures of Federal Awards

Government of the United States Virgin Islands

Schedule of Expenditures of Federal Awards

Year ended September 30, 2018

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	*Federal CFDA Number*	*Pass-Through Entity Identifying Number*	*Passed Through to Subrecipients*	*Total Federal Expenditures*
U.S. Department of Agriculture				
Plant and Animal Disease, Pest Control, and Animal Care	10.025			$ 102,692
Specialty Crop Block Grant Program	10.170		$ 32,793	73,388
SNAP Cluster				
Supplemental Nutrition Assistance Program	10.551			88,653,448
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561			4,652,539
Total SNAP Cluster				93,305,987
Child Nutrition Cluster				
National School Lunch Program	10.555			3,332,741
Summer Food Service Program for Children	10.559			214,527
Total Child Nutrition Cluster				3,547,268
Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	10.557			4,179,396
Child and Adult Care Food Program	10.558			893,789
State Administrative Expenses for Child Nutrition	10.560			265,233
Food Distribution Cluster				
Emergency Food Assistance Program (Administrative Costs)	10.568			25,268
WIC Farmers' Market Nutrition Program (FMNP)	10.572			3,000
Fresh Fruit and Vegetable Program	10.582			(924)
Cooperative Forestry Assistance	10.664			66,176
Urban and Community Forestry Program	10.675		6,886	35,129
Forest Legacy Program	10.676			41,331
Forest Stewardship Program	10.678			140,547
Total U.S. Department of Agriculture			39,679	102,678,280
U.S. Department of Commerce				
Economic Development Cluster				
Economic Adjustment Assistance	11.307			42,125
Interjudisdictional Fisheries Act of 1986	11.407			3,201
Coastal Zone Management Administration Awards	11.419			887,949
Financial Assistance for National Centers for Coastal Ocean Science	11.426			950
Marine Fisheries Initiative	11.433			15,839
Cooperative Fishery Statistics	11.434			191,829
Southeast Area Monitoring and Assessment Program	11.435			53,388
Meteorologic and Hydrologic Modernization Development	11.467			160,174
Coral Reef Conservation Program	11.482			327,631
State and Local Implementation Grant Program	11.549			120,878
Total U.S. Department of Commerce				1,803,964
U.S. Department of Defense				
National Guard Military Operations and Maintenance (O&M) Projects	12.401			2,469,498
U.S. Department of Housing and Urban Development				
Supporting Housing Program	14.235			9,000
U.S. Department of the Interior				
Fish and Wildlife Cluster				
Sport Fish Restoration Program	15.605			856,256
Wildlife Restoration and Basic Hunter Education	15.611			607,592
Total Fish and Wildlife Cluster				1,463,848
Cooperative Endangered Species Conservation Fund	15.615			2,712
State Wildlife Grants	15.634			35,337
Economic, Social, and Political Development of the Territories	15.875		88,013	2,660,253
Historic Preservation Fund Grants-In-Aid	15.904		165,397	425,150
Total U.S. Department of the Interior			253,410	4,587,300

Government of the United States Virgin Islands

Schedule of Expenditures of Federal Awards

Year ended September 30, 2018

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	*Federal CFDA Number*	*Pass-Through Entity Identifying Number*	*Passed Through to Subrecipients*	*Total Federal Expenditures*
U.S. Department of Justice				
Juvenile Accountability Block Grants	16.523			1,466
Juvenile Justice and Delinquency Prevention - Allocation to States	16.540			79,184
Crime Victim Assistance	16.575		902,435	922,236
Crime Victim Compensation	16.576			41,277
Crime Victim Assistance/Discretionary Grant	16.582		3,040	3,040
Violence Against Women Formula Grants	16.588		320,913	588,975
Residential Substance Abuse Treatment for State Prisoners	16.593			46,842
Public Safety Partnership and Community Policing Grants	16.710			1,151,924
Edward Byrne Memorial Justice Assistance Grant Program	16.738		23,560	284,918
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742			72,485
Support for Adam Walsh Act Implementation Grant Program	16.750			442,844
Total U.S. Department of Justice			1,249,948	3,635,191
U.S. Department of Labor				
Labor Force Statistics	17.002			278,382
Compensation and Working Conditions	17.005			40,200
Employment Service Cluster				
Employment Service/Wagner-Peyser Funded Activities	17.207			1,343,291
Disabled Veterans' Outreach Program (DVOP)	17.801			8,635
Total Employment Service Cluster				1,351,926
Unemployment Insurance (UI)	17.225			40,251,655
Senior Community Service Employment Program	17.235			876,773
WIOA Cluster				
WIA/WIOA Adult Program	17.258			546,328
WIA/WIOA Youth Activities	17.259			439,163
WIA/WIOA Dislocated Worker Formula Grant	17.278			667,518
Total WIA/WIOA Cluster				1,653,009
Work Opportunity Tax Credit Program (WOTC)	17.271			1,844
Temporary Labor Certification for Foreign Workers	17.273			68,845
WIOA National Dislocated Worker Grant/WIA National Emergency Grant				1,648,609
WIA/WIOA Dislocated Worker National Reserve Technical Assistance and Training	17.281			4,461
Occupational Safety and Health-State Program	17.503			289,875
Total U.S. Department of Labor				46,465,579
U.S. Department of Transportation				
Highway Planning and Construction Cluster				
Highway Planning and Construction	20.205			34,670,570
Motor Carrier Safety Assistance	20.218			151,163
Federal Transit Cluster				
Federal Transit - Formula Grants	20.507			1,694,720
Highway Safety Cluster				
State and Community Highway Safety	20.600			357,514
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703			1,738
Total U.S. Department of Transportation				36,875,705
National Endowment for the Arts				
Promotion of the Arts - Partnership Agreements	45.025		355,760	355,760
Grants to States	45.310			86,826
Total National Endowment for the Arts			355,760	442,586

Government of the United States Virgin Islands

Schedule of Expenditures of Federal Awards

Year ended September 30, 2018

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	*Federal CFDA Number*	*Pass-Through Entity Identifying Number*	*Passed Through to Subrecipients*	*Total Federal Expenditures*
U.S. Environmental Protection Agency				
Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act	66.034			6,143
Multipurpose Grants to States and Tribes	66.204			7,994
Construction Grants for Wastewater Treatment Works	66.418			171,272
Water Quality Management Planning	66.454			67,612
NonPoint Source Implementation Grant	66.460			8,220
Drinking Water State Revolving Fund Cluster				
Capitalization Grants for Drinking Water State Revolving Funds	66.468		2,013,167	2,221,679
Beach Monitoring and Notification Program Implementation Grants	66.472			240,311
Performance Partnership Grants	66.605			1,662,817
Underground Storage Tank Prevention, Detection and Compliance Program	66.804			62,562
Leaking Underground Storage Tank Trust Fund Corrective Action Program	66.805			35,376
State and Tribal Response Program Grants	66.817			86,447
Total U.S. Environmental Protection Agency			2,013,167	4,570,433
U.S. Department of Energy				
State Energy Program	81.041			167,428
Weatherization Assistance for Low-Income Persons	81.042			125,372
Total U.S. Department of Energy				292,800
U.S. Department of Education				
Adult Education - Basic Grants to States	84.002			145,957
Special Education Cluster (IDEA)				
Special Education - Grants to States (IDEA, Part B)	84.027			7,433,682
Impact Aid	84.041			40,515
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126			1,312,698
Rehabilitation Services - Independent Living Services for Older Individuals Who Are Blind	84.177			8,344
Special Education - Grants for Infants and Families	84.181			618,906
School Safety National Activities (formerly Safe and Drug-Free Schools and Communities-National Programs)	84.184			810,451
Supported Employment Services for Individuals with the Most Significant Disabilities	84.187			3,890
Territories and Freely Associated States Education Grant Program	84.256			199,039
Comprehensive Literary Development	84.371			46,481
Statewide Longitudinal Data Systems	84.372			310,830
Consolidated Grant to the Outlying Areas	84.403		435,751	9,186,585
Disaster Recovery Assistance for Education	84.938			13,887
Total U.S. Department of Education			435,751	20,131,265
U.S. Department of Health and Human Services				
Special Programs for the Aging - Title VII, Chapter 3				
Programs for Prevention for Elder Abuse, Neglect, and Exploitation	93.041			17,759
Special Programs for the Aging - Title VII, Chapter 2				
Long Term Care Ombudsman Services for Older Individuals	93.042			14,939
Aging Cluster				
Special Programs for the Aging - Title III, Part B				
Grants for Supportive Services and Senior Centers	93.044			480,526
Special Programs for the Aging - Title III, Part C				
Nutrition Services	93.045			2,332,751
Nutrition Services Incentive Program	93.053			8,128
Total Aging Cluster				2,821,405
National Family Caregiver Support, Title III, Part E	93.052			196,220
Public Health Emergency Preparedness	93.069			97,259
Birth Defects and Developmental Disabilities - Prevention and Surveillance	93.073			47,373
Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements	93.074			662,760

Government of the United States Virgin Islands

Schedule of Expenditures of Federal Awards

Year ended September 30, 2018

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	*Federal CFDA Number*	*Pass-Through Entity Identifying Number*	*Passed Through to Subrecipients*	*Total Federal Expenditures*
U.S. Department of Health and Human Services (continued)				
Affordable Care Act (ACA) Personal Responsibility Education Program	93.092			87,323
Maternal and Child Health Federal Consolidated Programs	93.110			44,907
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116			75,745
Emergency Medical Services for Children	93.127			75,524
Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	93.130			162,152
Injury Prevention and Control Research and State and Community Based Programs	93.136			1,220
Projects for Assistance in Transition from Homelessness (PATH)	93.150			50,000
Family Planning-Services	93.217			814,967
Substance Abuse and Mental Health Services-Projects of Regional and National Significance	93.243			262,834
Early Hearing Detection and Intervention	93.251			225,015
Immunization Cooperative Agreements	93.268			1,058,943
Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	93.323			1,416,449
Behavioral Risk Factor Surveillance System	93.336			26,199
Maternal, Infant, and Early Childhood Home Visiting Cluster				
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505			285,473
Maternal, Infant and Early Home Visiting Grant Program	93.870			472,171
Total Maternal, Infant, and Early Childhood Home Visiting Cluster				757,644
The Affordable Care Act: Building Epidemiology, Laboratory, and Health Information Systems Capacity in the Epidemiology and Laboratory Capacity for Infectious Diseases (ELC) and Emerging Infections Program (EIP) Cooperative Agreements; PPHF	93.521			591,658
Marylee Allen Promoting Safe and Stable Families Program	93.556			607,508
TANF Cluster				
Temporary Assistance for Needy Families State Programs	93.558			2,479,467
Payments to Territories- Adults	93.560			716,830
Child Support Enforcement	93.563			2,558,031
Low-Income Home Energy Assistance	93.568			542,983
Community Services Block Grant	93.569			333,453
CCDF Cluster				
Child Care and Development Block Grant	93.575			1,804,748
State Court Improvement Program	93.586			65,668
Community Based Child Abuse Prevention Grant	93.590			63,532
Grants to States for Access and Visitation Programs	93.597			35,005
Head Start	93.600			7,308,286
Developmental Disabilities Basic Support and Advocacy Grants	93.630			117,465
Children's Justice Grants to States	93.643			30,000
Stephanie Tubbs Jones Child Welfare Services Program	93.645			341,465
Social Services Block Grant	93.667			52,665
Child Abuse and Neglect State Grants	93.669			590,903
Family Violence Prevention and Services/Domestic Violence Shelter and Supportive Services	93.671			90,031
Preventive Health and Health Services Block Grant funded solely with Prevention and Public Health Funds (PPHF)	93.758			138,647
Children's Health Insurance Program (CHIP)	93.767			11,754,240
Medicare-Prescription Drug Coverage	93.770			478,514

Government of the United States Virgin Islands

Schedule of Expenditures of Federal Awards

Year ended September 30, 2018

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	*Federal CFDA Number*	*Pass-Through Entity Identifying Number*	*Passed Through to Subrecipients*	*Total Federal Expenditures*
U.S. Department of Health and Human Services (continued)				
Medicaid Cluster				
Medical Assistance Program	93.778			62,019,384
Opioid STR	93.788			30,161
Domestic Ebola Supplement to the Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	93.815			251,882
Hospital Preparedness program (HPP) Ebola Preparedness and Responsive Activities	93.817			16,364
Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations	93.898			9,257
HIV Care Formula Grants	93.917			1,035,472
HIV Prevention Activities-Health Department Based	93.940			604,448
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944			32,797
Assistance Programs for Chronic Disease Prevention and Control	93.945			368,996
Block Grants for Community Mental Health Services	93.958			436,283
Block Grants for Prevention and Treatment of Substance Abuse	93.959			96,129
The Zika Health Care Services Program	93.966			35,450
Preventive Health Services-Sexually Transmitted Diseases Control Grants	93.977			122,419
Mental Health Disaster Assistance and Emergency Mental Health	93.982			441,840
Maternal and Child Health Services Block Grant to the States	93.994			1,425,754
Total U.S. Department of Health and Human Services			-	106,544,372
Corporation for National and Community Service				
Retired and Senior Volunteer Program	94.002			11,119
Foster Grandparent/Senior Companion Cluster				
Foster Grandparent Program	94.011			107,225
Total Corporation for National and Community Service				118,344
Executive Office of the President				
High Intensity Drug Trafficking Areas Program	95.001			80,869
U.S. Department of Homeland Security				
Boating Safety Financial Assistance	97.012			478,891
Community Disaster Loan	97.030		43,522,218	188,522,218
Crisis Counseling	97.032			401,705
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036		493,592,718	605,477,367
Hazard Mitigation Grant	97.039			311,926
Emergency Management Performance Grants	97.042			953,595
Pre-Disaster Mitigation	97.047			1,051,923
Homeland Security Grant Program	97.067		3,674	509,749
Staffing for Adequate Fire and Emergency Response (SAFER)	97.083			1,104,081
Total U.S. Department of Homeland Security			537,118,610	798,811,455
Total Expenditures of Federal Awards			$ 541,466,325	$ 1,129,516,641

See accompanying notes to the schedule of expenditures of federal awards.

Notes to Schedule of Expenditures of Federal Awards

1. Reporting Entity

The Schedule of Expenditures of Federal Awards (the Schedule) includes the activity of all federal award programs administered by the Government of the United States Virgin Islands (the Government or the PG) as of and for the year ended September 30, 2018, except that certain organizational units (as defined previously) are excluded as they contract for separate audits in accordance with the requirements of Title 2 U.S. Code of Federal Regulations, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Accordingly, the accompanying Schedule presents the federal financial assistance programs administered by the primary Government for the year ended September 30, 2018.

Further, because the Schedule presents only a selected portion of the operations of the Government, it is not intended to and does not present the financial position and changes in net position of the Government.

2. Basis of Presentation

Federal award programs include direct expenditures, monies passed through to nonstate agencies (i.e., payments to subrecipients) and nonmonetary assistance. The Schedule presents total federal awards expended for each individual federal program in accordance with Office of Management and Budget (OMB) Circular A-133 and the Uniform Guidance. Federal award program titles are reported as presented in the Catalog of Federal Domestic Assistance (CFDA). Federal award program titles not presented in the Catalog are identified by the federal awarding agency's two digit prefix (or 99) followed by (contract number or UNKNOWN).

3. Basis of Accounting

The expenditures for each of the Federal award programs are presented in the Schedule on a modified accrual basis, except for nonmonetary programs, which are presented based on the fair value of the food stamps (CFDA No. 10.551 in the amount of $88,653,448) and the food cost (CFDA No. 10.557 in the amount of $2,552,606) distributed during the year. The modified accrual basis of accounting incorporates an estimation approach to determine the amount of expenditures incurred if not yet billed by a vendor. The Government's accounting system provides the primary information from which the Schedule is prepared.

4. Matching Costs

Matching costs, such as the non-federal share of certain program costs, are not included in the accompanying Schedule, except Unemployment Insurance (CFDA No. 17.225), as indicated in Note 8.

5. Indirect Cost Rate

The Government has not elected to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

6. Relationship to Federal Financial Reports

The regulations and guidelines governing the preparation of federal financial reports vary by federal agency and among programs administered by the same agency. Accordingly, the amounts reported in the federal financial reports do not necessarily agree with the amounts reported in the accompanying Schedule, which are prepared on the basis explained in Note 3.

7. Rebates from the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)

During fiscal year 2018, the Government received cash rebates from infant formula manufacturers in the amount of approximately $406,000 on sales of formula to participants in the WIC program (CFDA No. 10.557), which are netted against total expenditures included in the Schedule. Rebate contracts with infant formula manufacturers are authorized by 7 CFR 246.16(m) as a cost containment measure. Rebates represent a reduction of expenditures previously incurred for WIC food benefit costs.

8. Unemployment Insurance (UI)

The U.S. Department of Labor in consultation with the Office of Management and Budget officials has determined that for the purpose of audits and reporting under the Uniform Guidance, State or Territory Unemployment Insurance (UI) funds as well as federal funds should be considered federal awards for determining Type A programs. A State or Territory receives federal funds for administrative purposes. State or Territory unemployment taxes must be deposited to a state (territory) account in the Federal Unemployment Trust Fund, used only to pay benefits under the federally approved state law. State or Territory UI funds as well as Federal funds are included on the Schedule. The following table provides a breakdown of the Territory and federal portions of the total amount expended under CFDA No. 17.225.

Territory UI Benefits (Trust Fund)	$ 37,684,515
Federal UI Benefits (Administration)	2,567,140
Total	$ 40,251,655

9. Outstanding Loan

The Government received proceeds from a Community Disaster Loan (CFDA No. 97.030). The Government passed-through $43,522,218 to the Virgin Islands Government Hospital and Health Facilities Corporation (Roy L. Schneider Hospital and Governor Juan F. Luis Hospital and Medical Center). There is a provision in the FEMA regulations that permits FEMA to cancel all or a portion of this loan. Amounts outstanding at the beginning of the year and activity during the year are included within the expenditures of federal awards reported in the Schedule. At September 30, 2018, the balance of the Community Disaster Loan was $188,522,218 of which $43,522,218 was passed-through to component units.

10. Contingencies

The Government is subject to audit examination by funding sources to determine compliance with grant conditions. In the event that expenditures would be disallowed, repayment could be required. Management believes that the impact of any disallowed grant expenditures would not have a material adverse effect on the Government's financial position, changes in net position, or liquidity.

11. Subsequent Events

Hurricane Recovery

The Government is making significant progress towards restoring its facilities which were damaged by Hurricanes Irma and Maria in September 2017. The Government continues the process of tabulating the associated costs and expenses with respect to remediation, clean-up, mitigation, and the restoration of services.

To close potential shortfalls and to serve returning citizens, the Government continues to work closely with federal agencies, such as FEMA, HUD, SBA, etc. to maximize its recovery from all available sources, subject to any sub-limits and retentions.

Through May 2020, federal assistance awarded to the Territory included $87.2 million in FEMA Individual Assistance grants, $2.2 billion in FEMA Public Assistance grants, $38.4 million in Federal Highway grants, $65.7 million in FEMA Hazard Mitigation grants, and $1.0 billion in Community Development Block Grants for a total of $3.4 billion dollars. Other federal grants awarded by various federal agencies amounted to $111.3 million, for a total of approximately $3.5 billion.

Administration and Management of Hurricane Recovery Funds

The Government through the Virgin Islands Public Finance Authority (PFA), a blended component unit of the Government, engaged the services of two international firms, to assist with the administration and management of recovery funds. The firms are charged with providing oversight and direction of the disaster emergency response and with executing all necessary documents on behalf of the Territory.

In December 2018, the first services contract was amended to retroactively increase the annual compensation to $16.0 million through November 30, 2018. The temporary increase of $6.0 million was due to the Government's aggressive campaign to identify, assess, secure, and manage a larger percentage of the available resources and funding from FEMA and other federal agencies through November 30, 2018. Effective December 1, 2018, the contract amount was returned to $10.0 million. Also, in December 2018, the second professional services contract was amended a third time to increase the contract amount temporarily to $85.0 million through November 30, 2018. Effective December 1, 2018, the contract amount decreased to the $80.0 million as specified in the second amendment.

In February 2019, the Virgin Islands Office of Disaster Recovery (ODR) was established as a business unit of PFA, through a $3.0 million grant from the Office of Insular Affairs of the Department of Interior. ODR is tasked with managing an anticipated $8.0 billion of federal disaster recovery grants, while providing coordination and training across all departments and agencies of the Government.

Subsequent to September 30, 2018 and through June 30, 2020, PFA reported outstanding invoices from the two consulting services firms amounting to $12,021,266 and $63,987,729, respectively. Invoices submitted by the consultants are reviewed by PFA and submitted to the Government, Office of Disaster Recovery, the Virgin Islands Housing Finance Authority, or the Virgin Islands Water and Power Authority for approval. Upon completion of the review and approval process, invoices are then submitted for reimbursement to the appropriate federal grantor.

Global Pandemic and Economic Relief Legislation

In March 2020, the Governor of the U.S. Virgin Islands declared a state of emergency due to the coronavirus pandemic known as COVID-19. The Governor of the PG issued an executive order to close nonessential businesses, certain government offices and schools to reduce the transmission of the disease. The Secretary of the Treasury authorized the Internal Revenue Service to delay income tax payments and tax filings to July 15, 2020.

The state of emergency was approved by the President of the United States under the provisions of the Stafford Act and the National Emergencies Act. A federally approved state of emergency activates federal assistance to states in the form of financial, logistical, and technical assistance.

Also, in March 2020, the President of the United States signed into law the "Coronavirus Aid, Relief, and Economic Security (CARES) Act." The CARES Act, among other things, appropriated funds for the Coronavirus Relief Fund to be used to make payments for specified uses to state, territorial, local, and tribal governments. The Government's allocation of the Coronavirus Relief Fund is $74.8 million.

In April 2020, the Virgin Islands was declared a major disaster area by the President of the United States. The Presidential declaration enables the Territory to receive federal funding for emergency protective measures, including direct federal assistance. Through May 2020, the PG and its blended and discretely presented component units have been awarded $168.4 million in federal pandemic recovery assistance including the Coronavirus Relief Fund.

The extent of the impact of COVID-19 on the operational and financial performance of the Government will depend on certain developments, including the duration and spread of the outbreak. Prolonged travel and social gathering restrictions could negatively impact the fiscal outlook for the Government. Management is actively monitoring the impact of COVID-19 on its financial condition, liquidity, operations and industry. However as of the report date, it is unknown what effect, if any, the COVID-19 pandemic will have on the Government and its component units.

Schedule of Findings and Questioned Costs

Government of the United States Virgin Islands

Schedule of Findings and Questioned Costs
Year Ended September 30, 2018

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with generally accepted accounting principles:

Governmental Activities	Qualified
Business-Type Activities	Disclaimer
General Fund	Qualified
Debt Service Fund	Unmodified
Capital Projects Fund	Unmodified
Federal Grants Fund	Qualified
West Indian Company-Enterprise Fund	Unmodified
Unemployment Insurance-Enterprise Fund	Disclaimer
viNGN, INC - Enterprise Fund	Unmodified
Aggregate Remaining Fund Information	Disclaimer
Aggregate Discretely-Presented Component Units	Qualified

Internal control over financial reporting:

- Material weakness(es) identified? X Yes ____ No
- Significant deficiency(ies) identified? X Yes ____ None reported

Noncompliance material to financial statements noted? X Yes ____ No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? X Yes ____ No
- Significant deficiency(ies) identified? X Yes ____ None reported

Type of auditor's report issued on compliance for major federal programs:

CFDA Number	Name of Federal Program or Cluster	Opinion
10.551, 10.561	Supplemental Nutrition Assistance Program Cluster (SNAP)	Adverse
10.555, 10.559	Child Nutrition Cluster	Qualified
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	Unmodified
17.225	Unemployment Insurance (UI)	Adverse
20.205	Highway Planning and Construction Cluster	Unmodified

Government of the United States Virgin Islands

Schedule of Findings and Questioned Costs
Year Ended September 30, 2018

CFDA Number	Name of Federal Program or Cluster	Opinion
84.027	Special Education – Grants to States (IDEA, Part B)	Unmodified
84.403	Consolidated Grant to the Outlying Areas	Unmodified
93.600	Head Start	Qualified
93.767	Children's Health Insurance Program (CHIP)	Qualified
93.778	Medicaid Cluster	Adverse
97.030	Community Disaster Loan	Adverse
97.036	Disaster Grants- Public Assistance (Presidentially Declared Disasters)	Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? X Yes _____ No

Identification of major federal programs:

CFDA Number	Name of Federal Program or Cluster
10.551, 10.561	Supplemental Nutrition Assistance Program Cluster (SNAP)
10.555, 10.559	Child Nutrition Cluster
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)
17.225	Unemployment Insurance (UI)
20.205	Highway Planning and Construction Cluster
84.027	Special Education – Grants to States (IDEA, Part B)
84.403	Consolidated Grant to the Outlying Areas
93.600	Head Start
93.767	Children's Health Insurance Program (CHIP)
93.778	Medicaid Cluster
97.030	Community Disaster Loan
97.036	Disaster Grants- Public Assistance (Presidentially Declared Disasters)

Dollar threshold used to distinguish between Type A and Type B programs: $3,388,549

Auditee qualified as low-risk auditee? _____ Yes X No

Section II - Financial Statement Findings

Finding 2018-001: Financial Position

The Government is in a difficult financial position based primarily on operating losses, outstanding debt, bond downgrades, the 2017 hurricanes, pension obligation, and other postemployment obligation issues. In addition, subsequent to September 30, 2018, the Government's operations were impacted by the global coronavirus pandemic.

In addition, 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, 2018, 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, pension and other postemployment benefits 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. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

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 postemployment benefits (OPEB) for healthcare, prescriptions, dental, and life insurance coverage.

We noted that the Government has not adequately funded the Retirement System and the OPEB plan for several years.

- As per the most recent GERS actuarial valuation report as of October 1, 2017, the Retirement System is 23.06% funded for the year ended September 30, 2018. The same report also disclosed a net pension liability of $3.4 billion which represents a long-term obligation the Government has to fund.

- As per the most recent OPEB actuarial valuation report as of October 1, 2017, the OPEB plan reflects a total OPEB obligation of $783.4 million which represents the long-term medical, dental, and other obligation that the Government has to fund.

Management may consider embarking on an advisory path to study other alternatives to ensure that these long-term obligations are being addressed. 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. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

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 both of the years ended September 30, 2018 and 2017, the ratio of expenditures to income has been 128%. 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.

Views of Responsible Officials – The Government concurs with the auditor's findings and recommendations. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Finding 2018-002: 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.

Timeliness and Methodology of Close Process

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 addition, we also noted certain transactions with various component units which have not been reflected accurately on the Government's books and records.

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. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

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. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Finding 2018-003: 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. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Optimum Usage of the Real Property Tax System

Finding and Recommendation:

It appears that the CAVU system, as currently designed, is not adequately meeting the financial and reporting needs of the Government. There exists a limitation to produce aged outstanding receivable and revenue reports, as well as a lack of ability to generate a cut-off balance as of any given point in time.

Additionally, the adjustments made in the billings as a result of the implementation of the new real property tax bill were not properly reflected in the revenue reports generated from the CAVU system. As a result, knowledge of the composition and quality of the Government's revenue billings is significantly impaired, and this has a direct effect on the accuracy of financial reporting and financial decision-making.

Management may consider contacting the vendor of the CAVU system to request the development of and/or the capability of producing accurate aged receivable and revenue reports as well as a functionality or reporting tool to produce cut-off balances at any given point in time. This would assist the Government in establishing a system that produces timely and accurate financial information.

Views of Responsible Officials – The Government concurs with the auditor's findings and recommendations. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Real Property Tax

Finding and Recommendation:

- We noted two (2) 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.

- We noted thirteen (13) sampled real properties for which the Government was unable to provide sufficient supporting documentation for the basis of the percentage adjustments made on final assessed property values.

- With respect to alternative procedures performed related to verification of tax appeals filed by property owners that resulted in adjustments to the assessed values of the properties, we noted three (3) transactions for which the Government was unable to provide the supporting tax appeals which had been filed as a basis for the adjustments or changes.

- 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 Government concurs with the auditor's findings and recommendations. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Other Revenues

Finding and Recommendation:

The Government was unable to provide readily available supporting documentation for 5% of the sampled items for charges for services and 28% 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.

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. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Finding 2018-004: 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:

- Expenses had been charged to grants without sufficient grant award funding availability.
- Significant transactions paid to or transferred to various departments of the Government were erroneously reported as subrecipient transactions.
- Approximately $8.8 million in expenditures had erroneously been reflected as expenditures in CFDA Number 17.225, *Unemployment Insurance*.
- Approximately $874,900 in expenditures had erroneously been recorded to CFDA Number 93.778, *Medical Assistance Program* but belonged to CFDA Number 93.575, *Child Care and Development Block Grant*.

These issues also impact the roll-forward schedule for the general ledger account entitled 'Due from Federal government.'

While we noted a significant improvement in fiscal year 2018, communication and reconciliation mechanisms should continue 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. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

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.

Views of Responsible Officials – The Government concurs with the auditor's findings and recommendations. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Finding 2018-005: 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:

- Three (3) highway infrastructure project additions in fiscal year 2018 had not been reflected in the initial additions listing.
- Forty (40) invoices related to assets capitalized in fiscal year 2018 were incurred in fiscal year 2017.
- Four (4) invoices disbursed by a component unit in fiscal year 2019 but pertaining to Government assets purchased during fiscal year 2018 had not been reflected in the initial additions listing.

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. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Reconciliation and Review of Subsidiary Registers

Finding and Recommendation:

The Government maintains a subsidiary asset register for the purpose of calculating depreciation for all assets. Based on our review of the subsidiary asset registers, we noted the following:

- Subsidiary registers for land contained a significant number of properties that are grouped into only few asset numbers instead of being recorded as individual properties.

- Certain machinery and equipment that had been purchased in bulk in the past was grouped together into one asset code and others did not contain tagging information to physically identify the items.

- Certain depreciable assets in the asset registers had inaccurate depreciation start dates and useful lives.

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.

Additionally, 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 formal transfer of the title(s) has occurred, as applicable.

Views of Responsible Officials – The Government concurs with the auditor's findings and recommendations. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

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:

    - One hundred and eighty-six (186) CIP projects initially did not have a confirmed status at year-end.

- Four (4) projects were confirmed to be complete but had not been closed out and transferred to the completed assets category.

- One (1) project addition recorded during the year related to a damaged school property which had not been closed out and/or expensed.

- One (1) project was confirmed to be an asset of a component unit but was initially reflected in the Government's CIP listing.

- 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 completed and placed in service. For instance, one road infrastructure project was completed and transferred out to the infrastructure asset class as of the end of September 2018 but the 'release of claims' had not yet been provided by the contractor until February 2019. In another instance, a project with 'release of claims' in October 2018 for a project completed as of September 2018 had not yet been transferred out to the building account.

  - 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 and as the depreciation start dates.

With the increase in activity in the number of CIP projects 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. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

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:

- While an annual impairment assessment was performed by the Department of Property and Procurement (DPP), the process to ensure completeness of the impairment assessments across the asset classes was not readily addressed. Moreover, conclusions reached by DPP should be processed and accounted for by the Department of Finance and adjustments recorded in the asset registers, as necessary.

- We noted that certain vehicles were auctioned and disposed during the year. However, most of these assets were not readily traceable to the asset registers due to incomplete tagging information. This may result in improper accounting of the transaction(s) with respect to the gain/loss on the sale and the derecognition of the assets from the books.

- 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.

We recommend that the Government implement a standard, 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. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Capital Assets - Business-Type Activities

The Government is currently utilizing an excel worksheet to monitor capital assets within its business-type activities. During fiscal year 2017, 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 for these assets 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. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Finding 2018-006: 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.

Retroactive Pay Liability

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 million retroactive pay liability reflected on the books and records; however, the supporting schedules can only confirm $184 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. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

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, 2018, 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. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

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. In addition, during our review and inquiry of subsequent disbursements, we noted that the accounts payable did not include accrual of invoices for services performed as of year-end.

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. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Income Tax Refunds Payable

Finding and Recommendation:

We noted that the Government establishes its year-end liability for income tax refunds through a manually intensive process, which is based on consolidating two sets of reports that includes the following information (1) tax returns from various refund batches which exist, but have not been processed or paid as of year-end and (2) tax returns that were processed and paid subsequent to year-end. Based on our review of the schedules, we noted that there were several tax returns that were included in both reports. During the audit process, the Government revisited its database and a significant adjustment was required in order to establish the income tax refunds payable at year-end.

Views of Responsible Officials – The Government concurs with the auditor's findings and recommendations. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

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 2018 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 37 years of monitoring versus the required 30 years.

Views of Responsible Officials – The Government concurs with the auditor's findings and recommendations. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

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. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Finding 2018-007: 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.

Cost Report Audits and System Security Review

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, 2018, 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. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

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. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Finding 2018-008: 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, 2018, 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. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Finding 2018-009: 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).

Plan Valuation Methodology

Finding and Recommendation:

The Government has not obtained the required annual actuarial valuation for its worker's compensation liability in order to determine the projected liability for inclusion in its financial statements. 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 may have been impacted, as of and for the year ended September 30, 2018, thereby effecting the auditor's ability to opine on said opinion unit.

We recommend that the Government consider engaging an actuarial service provider to calculate the worker's compensation liability and 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.
- Monitor 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.

Views of Responsible Officials – The Government concurs with the auditor's findings and recommendations. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Finding 2018-010: Other Postemployment Benefits Obligation

During fiscal year 2018, the Government implemented the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This standard requires the reporting and disclosure of costs and liabilities associated with postemployment benefits provided to retirees of the Government.

Administration and Recordkeeping

Finding and Recommendation:

The Division of Personnel, through the Virgin Islands Health Insurance Board, is responsible for administering health insurance and related benefits for retirees.

- The V.I. Code states that the Government, the University of the Virgin Islands, the Virgin Islands Waste Management Authority, the Virgin Islands Port Authority, and any not-for-profit corporation which has been funded 75% or more each year from federal or local government funds, are legally responsible for providing health benefits to active and retired service personnel. It is noted that the component units and organizations referenced above have paid the aforementioned benefit costs for active employees only; the Government has accepted and assumed the responsibility for the payment of benefit costs for retirees. We recommend that the Government formalize the current practice or ensure that benefit payments for the component units and organizations referenced above include retirees.

- Many of the special accounting issues for postemployment retirement plans have become increasingly complex and require extensive expertise to ensure that the accounting and reporting are accurate and in accordance with applicable standards. We recommend that the Government and/or Division of Personnel consider hiring or contracting an employee with specific accounting and plan administration knowledge, possibly even on a part-time basis, to provide the needed higher-level accounting role consistently throughout the year. We believe this change in the Division of Personnel will help clarify the transactions actually occurring, provide stronger internal controls, reduce confusion regarding the numerous transfers and transactions occurring between funds and component units along with providing articulacy when working with actuaries and insurers.

Views of Responsible Officials – The Government concurs with the auditor's findings and recommendations. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Finding 2018-011: 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 first several months of the fiscal year. Manual timesheets, in lieu of system generated timesheets, were provided. 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.

Views of Responsible Officials – The Government concurs with the auditor's findings and recommendations. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

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. For employees who were paid under the "Straight 80" payroll process, manual timesheets were utilized by the employees and approved by the respective supervisors. However, we noted that the manual timesheet process was not consistently followed. During our testing, we noted two (2) employees under the "Straight 80" payroll process where the Government was not able to provide the corresponding manual timesheets.

It is also noted that a formal written emergency procedures manual should 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.

Views of Responsible Officials – The Government concurs with the auditor's findings and recommendations. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Transactions with Personnel

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. In addition, we recommend that the Government ensure documentation is readily available to support the purpose of and approval of employee recognition gifts purchased.

Views of Responsible Officials – The Government concurs with the auditor's findings and recommendations. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Supporting Documentation and Reporting for Expenditures

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 thirteen (13) 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.

- During our sampled procedures, we identified seven (7) items in which the expenditure tested was not recorded in the proper period. It is recommended that the Government adhere to its established written policies and procedures related to the proper recording and reporting of expenditures. The timely review and reconciliation of expenditures will allow for recording expenditures in the correct period.

Views of Responsible Officials – The Government concurs with the auditor's findings and recommendations. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Finding 2018-012: 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 2018, we noted some instances where the bank reconciliation variances were not properly explained or investigated. We continue to recommend that bank reconciliations be prepared and reviewed for accuracy and completeness on a timely basis. In addition, there was insufficient documentation to support the reconciliations had been reviewed. There is no capability within the accounting system to formally approve or indicate review of the bank reconciliations. We recommend that management implement a process to track when bank reconciliations are reviewed and approved. 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 and were eventually reclassed to accounts payable at year-end. Alternatively, we also noted $7.4 million in outstanding checks over one year old that had not properly reclassed to accounts payable. 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 that cleared the bank in fiscal year 2018 was improperly included on the September 30, 2018 outstanding check list. This error resulted in a $552,000 adjustment to cash. We recommend that management perform a more detailed review of reconciling items on the bank reconciliations to avoid adjustments after the year-end close.

- We noted $24.0 million in checks that were printed in fiscal year 2018 but had not been mailed prior to year-end. These checks were properly reclassified to due to other government. 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. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

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. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Finding 2018-013: 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 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 administration 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
  - MMIS
  - RawData
  - CAVU
  - CAMA
  - Property Information System
  - CARIBS
  - VIBES

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.

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
  - VIBES
  - MMIS
  - VIDOLA$

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. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Finding 2018-014: 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. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Finding 2018-015: 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. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Finding 2018-016: 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, purchase orders, and solicitations. Per the Procurement Manual, all requisitions must be created following the regulatory guidelines of the Department of Property and Procurement, then in effect. When creating a requisition or purchase order, all necessary supporting documentation must be attached in the ERP system; this includes the required quotes and a justification letter signed by the User Agency head and approved by the Commissioner of Property and Procurement, if required.

We noted the following during our procedures:

- Nine (9) instances where the contract files did not contain the requisite documentation such as purchase orders or requisitions from the agencies, evaluation committee recommendations, and approved justification letters, to provide evidence that the procurement met the stated requirements.

- Two (2) instances where a single invoice quotation from a vendor appeared to be split into two separate purchase orders.

- Four (4) vendors with twenty-one (21) purchase orders in total that used the same vendor invoice quotation multiple times as support.

We recommend that the Government obtain all necessary supporting documentation for contract 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. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Finding 2018-017: 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. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Section III – Federal Award Findings and Questioned Costs

Finding Number: **2018-018**
Prior Year Finding Number: **N/A**
Compliance Requirement: **Allowable Costs/Cost Principles – Non-Payroll Activities**

Program:
U.S. Department of Agriculture

Government Department/Agency:
Department of Human Services (DHS)

Supplemental Nutrition Assistance Program Cluster (SNAP)
CFDA #: 10.551, 10.561
Award #: 1VI430457, 1VI400408
Award Year: 10/01/2016 – 09/30/2018
10/01/2017 – 09/30/2018

Criteria – The Uniform Guidance in 2 CFR Section 200.303, *Internal Control,* requires the non-federal entity to establish and maintain effective internal control over federal awards that provides reasonable assurance that the non-federal entity is managing federal awards in compliance with federal statutes, regulations, and other terms and conditions.

In addition, per 2 CFR Section 200.403, "Except where otherwise authorized by statute, costs must meet the following general criteria in order to be allowable under federal awards:

a. Be necessary and reasonable for the performance of the federal award and be allocable thereto under these principles.

b. Conform to any limitations or exclusions set forth in these principles or in the federal award as to types or amounts of cost items.

c. Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the non-federal entity.

d. Be accorded consistent treatment. A cost may not be assigned to a federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the federal award as an indirect cost.

e. Be determined in accordance with generally accepted accounting principles (GAAP), except, for state and local governments and Indian tribes only, as otherwise provided for in this part.

f. Not be included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program in either the current or a period period.

g. Be adequately documented."

Condition – We sampled and selected 60 non-payroll expenditures and noted 9 expenditures were charged to the grant without sufficient grant award funding. As a result, DHS subsequently adjusted such expenditures from the total expenditures in the SEFA.

The amount represents 12% of the total sampled items related to the 60 sampled items $1,432,722.

Questioned Costs – Not determinable.

Context – This is a condition identified per review of DHS' compliance with the specified requirements using a statistically valid sample. Total amount of non-payroll expenditures charged to the program in fiscal year 2018 were $1,705,638.

Effect - DHS is not in compliance with the stated provisions. Failure to properly review and support expenditures can result in noncompliance with laws and regulations along with loss of funding.

Cause – DHS does not appear to have adequate policies and procedures in place to ensure compliance with applicable cost principles including procedures with respect to pre-award costs.

Recommendation – We recommend that DHS improve internal controls to ensure adherence to federal regulations related to the fiscal and administrative requirements for expending and accounting for non-payroll expenditures.

Views of Responsible Officials - The Government concurs with the auditor's findings and recommendations. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Finding Number: **2018-019**
Prior Year Finding Number: **2017-025**
Compliance Requirement: **Allowable Costs/Cost Principles – Payroll Activities**

Program:
U.S. Department of Agriculture

Government Department/Agency:
Department of Human Services (DHS)

Supplemental Nutrition Assistance Program Cluster (SNAP)
CFDA #: 10.551, 10.561
Award #: 1VI430457, 1VI400408
Award Year: 10/01/2016 – 09/30/2018
10/01/2017 – 09/30/2018

Criteria – The Uniform Guidance in 2 CFR Section 200.303, *Internal Control,* requires the non-federal entity to establish and maintain effective internal control over federal awards that provides reasonable assurance that the non-federal entity is managing federal awards in compliance with federal statutes, regulations, and other terms and conditions.

Additionally, the Uniform Guidance in 2 CFR Section 200.430(i) states that charges to federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must also support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one federal award; a federal award and non-federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity.

Condition – We sampled and selected 60 payroll transactions and noted the following:

- 9 Notices of Personnel Action (NOPA) were not available for review.
- 1 transaction had salary rate per payroll register that is different from the salary rate stated in NOPA.
- 1 transaction had overtime hours charged to the federal grant award at 100% instead at 50%.
- 8 transactions had regular hours charged to the federal grant award at 100% instead at 50%.
- 3 fringe benefit calculations utilized an incorrect salary base.

The amount represents 26% of the total sampled items related to the 60 sampled items $20,718.

Questioned Costs – Below reporting threshold.

Context – This is a condition identified per review of DHS' compliance with the specified requirements using a statistically valid sample. Total amount of payroll expenditures charged to the program in fiscal year 2018 were $2,219,278.

Effect - DHS is not in compliance with the stated provisions. Failure to properly review and support expenditures can result in noncompliance with laws and regulations along with loss of funding.

Cause – DHS does not appear to have adequate policies and procedures in place to ensure compliance with applicable cost principles and maintenance of underlying documentation.

Recommendation – We recommend that DHS improve internal controls to ensure adherence to federal regulations related to the fiscal and administrative requirements for expending and accounting for payroll expenditures. Where employees work solely on a single federal program, charges for their salaries and wages should be supported by periodic certifications. Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages should be supported by personnel activity reports (time and attendance) or equivalent documents. Such information should also be monitored, retained, and approved by a responsible official of DHS in a timely manner.

Views of Responsible Officials - The Government concurs with the auditor's findings and recommendations. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Finding Number: **2018-020**
Prior Year Finding Number: **2017-026**
Compliance Requirement: **Allowable Costs/Cost Principles – Indirect Cost Activities**

Program:
U.S. Department of Agriculture

Government Department/Agency:
Department of Human Services (DHS)

Supplemental Nutrition Assistance Program Cluster (SNAP)
CFDA #: 10.551, 10.561
Award #: 1VI430457, 1VI400408
Award Year: 10/01/2016 – 09/30/2018
10/01/2017 – 09/30/2018

Criteria – Actual conditions must be taken into account in selecting the base to be used in allocating the expenses in each grouping to the benefitted functions. When an allocation can be made by assignment of a cost grouping directly to the function benefitted, the allocation must be made in that manner. When the expenses in a grouping are more general in nature, the allocation should be made using a selected base which produces results that are equitable to both the federal Government and the governmental unit.

Condition – DHS did not reconcile and record indirect costs accurately in the accounting system and did not accurately allocate the share of indirect costs to the program. It appears that there was no true-up analysis performed in indirect costs for fiscal year 2018 which resulted in an understatement of indirect costs claimed for the period.

Questioned Costs – Not determinable.

Context – This condition was identified per review of DHS' compliance with the specified requirements. DHS has an approved indirect cost rate agreement of 24.55%.

Effect – Reimbursable amounts were understated.

Cause – Indirect costs were not properly calculated and captured in the accounting system.

Recommendation – We recommend that DHS should review and reconcile cost allocations to ensure accuracy. DHS may also consider revising its future cost allocations for any understatements.

Views of Responsible Officials - The Government concurs with the auditor's findings and recommendations. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Finding Number: **2018-021**
Prior Year Finding Number: **2017-027**
Compliance Requirement: **Cash Management**

Program:
U.S. Department of Agriculture

Government Department/Agency:
Department of Human Services (DHS)

Supplemental Nutrition Assistance Program Cluster (SNAP)
CFDA #: 10.551, 10.561
Award #: 1VI430457, 1VI400408
Award Year: 10/01/2016 – 09/30/2018
10/01/2017 – 09/30/2018

Criteria – The Uniform Guidance in 2 CFR Section 200.303 requires that non-federal entities receiving federal awards (i.e. auditee management) establish and maintain internal control designed to reasonably ensure compliance with federal statues, regulations, and the terms and conditions of the federal award.

Condition – We reviewed 8 out of 22 drawdowns made during fiscal year 2018, totaling $2,914,838, and noted there are no agency level controls in place to review journal entries to record receipt of reimbursements. Further, all month-end cash drawdown reconciliations were not provided for audit.

Questioned Costs – Not determinable.

Context – This is a condition identified per review of DHS' compliance with the specified requirements using a statistically valid sample. Total fiscal year 2018 drawdown requests were $4,894,024.

Effect – DHS is not in compliance with the stated provisions. There is a risk that drawdowns are not properly reconciled to the general ledger.

Cause – DHS did not appear to have adequate controls over recording and reconciling drawdowns received from the federal government.

Recommendation - We recommend for DHS to institute controls over reviewing journal entries to record drawdowns and ensure that month-end reconciliation of drawdowns against the general ledger are properly filed and available for audit.

Views of Responsible Officials - The Government concurs with the auditor's findings and recommendations. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Finding Number: **2018-022**
Prior Year Finding Number: **2017-028**
Compliance Requirement: **Equipment/Real Property Management**

Program:
U.S. Department of Agriculture

Government Department/Agency:
Department of Human Services (DHS)

Supplemental Nutrition Assistance Program Cluster (SNAP)
CFDA #: 10.551, 10.561
Award #: 1VI430457, 1VI400408
Award Year: 10/01/2016 – 09/30/2018
10/01/2017 – 09/30/2018

Criteria – Per the Uniform Guidance in 2 CFR Section 200.313, property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, cost of the property, percentage of federal participation in the cost of the property, the location, use and conditions of the property, and any ultimate disposition data including the date of disposal and sale price of the property.

Further, a physical inventory of equipment should be taken at least once every 2 years and reconciled to the equipment records along with the usage of an appropriate control system to safeguard and maintain equipment.

Condition – The Government's Department of Property and Procurement (DPP) maintains the equipment register for DHS. DPP was unable to provide complete property records which met the stated requirements. Further, no physical inventory of equipment was taken in fiscal year 2018.

Questioned Costs – Not determinable.

Context – This is a condition identified per review of DHS' compliance with the specified requirements.

Effect – There is a risk that inadequate recordkeeping of equipment could lead to misappropriation of assets and noncompliance with federal regulations resulting in a return of federal awards received.

Cause – The Government does not appear to have a process in place to adequately monitor equipment acquired with federal funds.

Recommendation – We recommend that DHS and DPP improve internal controls to ensure adherence to federal regulations related to equipment and its related maintenance. There should be timely coordination and communication amongst all Government departments and/or agencies that are responsible for handling and managing such assets.

Views of Responsible Officials - The Government concurs with the auditor's findings and recommendations. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Finding Number: **2018-023**
Prior Year Finding Number: **N/A**
Compliance Requirement: **Matching, Level of Effort, Earmarking**

Program:
U.S. Department of Agriculture

Government Department/Agency:
Department of Human Services (DHS)

Supplemental Nutrition Assistance Program Cluster (SNAP)
CFDA #: 10.551, 10.561
Award #: 1VI430457, 1VI400408
Award Year: 10/01/2016 – 09/30/2018
10/01/2017 – 09/30/2018

Criteria – In accordance with the Uniform Guidance in 2 CFR Section 200.306, *Cost Sharing or Matching*, and the requirements of the grant agreements, the program is required to contribute matching funds through cash, in-kind contributions, and/or other non-cash support.

Condition – We sampled and selected 40 matching expenditures and noted that:

- DHS is unable to provide evidence of review and approval of the matching calculation on all sampled expenditures.
- DHS is unable to provide 29 of 40 payroll matching expenditures such as timesheets, payroll reports and employment agreements.

In addition, DHS was unable to provide evidence of review of the monthly financial reports from the accounting system and payroll reports, as well as reconciling the amount to the quarterly percentages, to ensure compliance with the matching requirement.

The amount represents 57% of the total sampled items related to the 40 sampled items $348,081.

Questioned Costs – $197,045.

Context – This is a condition identified per review of DHS' compliance with the specified requirements using a statistically valid sample.

Effect – DHS is in not in compliance with the stated provisions.

Cause – DHS did not appear to exercise due diligence in following internal procedures over reconciliation and reviews of monthly match. DHS also did not have proper procedures to ensure that support for expenditures are filed and available for audit.

Recommendation – We recommend that DHS deploy resources that are given the responsibility to ensure periodic monitoring and compliance of the match requirements throughout the fiscal year and ensure that supporting documents are available to support local match.

Views of Responsible Officials - The Government concurs with the auditor's findings and recommendations. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Finding Number: **2018-024**
Prior Year Finding Number: **2017-029**
Compliance Requirement: **Period of Performance**

Program:
U.S. Department of Agriculture

Government Department/Agency:
Department of Human Services (DHS)

Supplemental Nutrition Assistance Program Cluster (SNAP)
CFDA #: 10.551, 10.561
Award #: 1VI430457, 1VI400408
Award Year: 10/01/2016 – 09/30/2018
10/01/2017 – 09/30/2018

Criteria – Per the Uniform Guidance in 2 CFR Section 200.309, a non-Federal entity may charge to the Federal award only allowable costs incurred during the period of performance and any costs incurred before the Federal awarding agency or pass-through entity made the Federal award that were authorized by the Federal awarding agency or pass-through entity.

Per the Uniform Guidance in 2 CFR Section 200.343(b), unless the federal awarding agency or pass-through entity authorized an extension, a non-Federal entity must liquidate all obligations incurred under the Federal award not later than 90 calendar days after the end date of the period of performance as specified in the terms and conditions of the Federal award.

Condition – We sampled and selected 156 transactions totaling $1,576,388, and noted that:

- DHS is unable to provide support for all 25 payroll transactions, which includes timesheets, payroll records and employment agreements;
- 1 non-payroll transaction was charged outside the grant award period;
- 1 instance of control over project initiation set up, no support was available to show that the project set up in the system was reviewed;
- 7 instances where the expenditures were liquidated beyond the allowable liquidation period;
- 11 expenditures were incurred before the date of the grant award and charged to the grant without pre-award cost approval;
- 22 transactions did not have evidence of review and approval; and
- 4 transactions did not have proper review and approval by the Director of Financial Services to ensure that expenditures are within the period of performance as they relate to the project period when NOPAs were not updated.

It was further noted that the agency reported federal expenditures under several grants in excess of the grant award funding; thus lacks control over review of the period of performance.

Questioned Costs – Not determinable.

Context – This is a condition identified per review of DHS' compliance with the specified requirements using a statistically valid sample.

Effect – DHS is not in compliance with the stated provisions. Failure to properly review and support expenditures can result in noncompliance with laws and regulations along with loss of funding.

Cause – DHS did not appear to have adequate policies and procedures in place to ensure compliance with the required period of performance stipulations such as review and approval of expenditures and maintenance of records.

Recommendation – We recommend that DHS strengthen its processes with respect to setting up and charging expenditures between various grant awards. We also recommend that DHS enhance its review process to properly determine the activities of each grant relative to the appropriate period of performance. Such information should also be monitored, retained, and approved by a responsible official of DHS in a timely manner.

Views of Responsible Officials - The Government concurs with the auditor's findings and recommendations. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Finding Number: **2018-025**
Prior Year Finding Number: **2017-030**
Compliance Requirement: **Procurement/Suspension and Debarment**

Program:
U.S. Department of Agriculture

Government Department/Agency:
Department of Human Services (DHS)

Supplemental Nutrition Assistance Program Cluster (SNAP)
CFDA #: 10.551, 10.561
Award #: 1VI430457, 1VI400408
Award Year: 10/01/2016 – 09/30/2018
10/01/2017 – 09/30/2018

Criteria – Recipients of Federal awards must have adequate policies and controls in place to ensure that the procedures are properly documented in the entity's files, provide full and open competition supported by a cost or price analysis, provide a vendor debarment or suspension certification, provide for retention of files, and that supporting documentation corroborate compliance with these requirements.

Condition – The Government's Department of Property and Procurement (DPP) is primarily responsible for procurement transactions. In our review of 7 out of 95 procurement transactions, we noted the following:

- 1 procurement file did not have sufficient supporting documents available to validate the procurement decisions made, such as verification of the contractors' exclusion from the Excluded Parties List System, method of procurement, support indicating full and open competition, rationale to limit competition and cost price analysis.
- 1 procurement file showed DHS entered to a contract with a vendor despite the vendor being excluded in System for Award Management System.

Questioned Costs – Not determinable.

Context – This is a condition identified per review of DHS' compliance with the specified requirements using a statistically valid sample. We reviewed 7 procurement files with expenditures totaling to $239,316, for fiscal year 2018.

Effect – DHS could inadvertently contract with or make sub-awards to parties that are suspended or debarred from doing business with the Federal government as well as award contracts to vendors whose contract prices are unreasonable. In addition, contracts may be executed to unqualified vendors.

Cause – DHS does not appear to have a process in place to adequately monitor and maintain completed contract files comprising of all supporting documents.

Recommendation – We recommend that DHS and DPP improve internal controls to ensure adherence to Federal regulations relating to the procurement of goods and services and review current records retention policies. There should be timely coordination and communication amongst all Government departments and/or agencies that are responsible for handling and managing procurement tasks.

Views of Responsible Officials - The Government concurs with the auditor's findings and recommendations. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Finding Number: **2018-026**
Prior Year Finding Number: **N/A**
Compliance Requirement: **Reporting**

Program:
U.S. Department of Agriculture

Government Department/Agency:
Department of Human Services (DHS)

Supplemental Nutrition Assistance Program Cluster (SNAP)
CFDA #: 10.551, 10.561
Award #: 1VI430457, 1VI400408
Award Year: 10/01/2016 – 09/30/2018
10/01/2017 – 09/30/2018

Criteria – In accordance with the Compliance Supplement, the State or Territory is required to submit SF-425, *Federal Financial Report*, FNS-46, *SNAP Issuance Reconciliation Report*, and FNS-209, *Status of Claims Against Households*.

Condition – We reviewed 8 of 21 reports submitted during the fiscal year and noted there were no evidence of a review or approval prior to submission.

Questioned Costs – Not determinable.

Context – This is a condition identified per review of DHS' compliance with the specified requirements using a statistically valid sample.

Effect – DHS is not in compliance with stated provisions and inaccurate information may have been reported to the Federal government.

Cause – It appears that policies and procedures, including review over reporting procedures were not functioning as intended for financial reports. Further, DHS does not have policies and procedures to ensure review and approval is in place on program reports.

Recommendation – We recommend that DHS reevaluate its policies and procedures to ensure proper monitoring and review of the required reports by an appropriate official who would ensure the information submitted is complete, accurate, consistent, and submitted within the required timeframe.

Views of Responsible Officials - The Government concurs with the auditor's findings and recommendations. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Finding Number: **2018-027**
Prior Year Finding Number: **2017-033**
Compliance Requirement: **Special Tests and Provisions – ADP System for SNAP - Recertifications**

Program:
U.S. Department of Agriculture

Government Department/Agency:
Department of Human Services (DHS)

Supplemental Nutrition Assistance Program Cluster (SNAP)
CFDA #: 10.551, 10.561
Award #: 1VI430457, 1VI400408
Award Year: 10/01/2016 – 09/30/2018
10/01/2017 – 09/30/2018

Criteria – Per the Uniform Guidance in 2 CFR Section 272.10(a), All State or Territory agencies are required to sufficiently automate their SNAP operations and computerize their systems for obtaining, maintaining, utilizing, and transmitting information concerning SNAP.

Per the Uniform Guidance in 7 CFR Sections 272.10 and 277.18, State agencies are required to automate their SNAP operations and computerize their systems for obtaining, maintaining, utilizing, and transmitting information concerning SNAP. This includes: (1) processing and storing all case file information necessary for eligibility determination and benefit calculation, identifying specific elements that affect eligibility, and notifying the certification unit of cases requiring notices of case disposition, adverse action and mass change, and expiration; (2) providing an automatic cutoff of participation for households which have not been recertified at the end of their certification period by reapplying and being determined eligible for a new period (7 CFR sections 272.10(b)(1)(iii) and 273.10(f) and (g)); and (3) generating data necessary to meet Federal issuance and reconciliation reporting requirements.

Condition – We sampled 60 out of 1,611 recertifications and noted that 57 recertification decisions of case workers did not have evidence of review and approval by an appropriate individual or supervisor.

Questioned Costs – Not determinable.

Context – This is a condition identified per review of DHS' compliance with the specified requirements.

Effect – Without an established review and approval process, ineligible beneficiaries may receive benefits under the SNAP grant and DHS may make payments on behalf of those beneficiaries resulting in noncompliance.

Cause – DHS does not appear to have adequate policies and procedures in place to ensure that review and approval of case officer decisions are in place.

Recommendation – We recommend that DHS perform regular reviews of the data in its participant case files to ensure accuracy and completeness and confirming that only eligible participants are receiving the entitled benefits. Additional levels of review by a supervisor or manager can provide more timely quality assurance oversight over the eligibility process.

Views of Responsible Officials - The Government concurs with the auditor's findings and recommendations. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Finding Number: **2018-028**
Prior Year Finding Number: **2017-032**
Compliance Requirement: **Special Tests and Provisions – EBT Reconciliation**

Program:
U.S. Department of Agriculture

Government Department/Agency:
Department of Human Services (DHS)

Supplemental Nutrition Assistance Program Cluster (SNAP)
CFDA #: 10.551, 10.561
Award #: 1VI430457, 1VI400408
Award Year: 10/01/2016 – 09/30/2018
10/01/2017 – 09/30/2018

Criteria - Per the Uniform Guidance 7 CFR Sections 274.3(a)(1) and 274.4(a)), the State or Territory must have systems in place to reconcile all of the funds entering into, exiting from, and remaining in the system each day with the State or Territory's benefit account with Treasury and EBT contractor records. This includes a reconciliation of the State or Territory's issuance files of postings to recipient accounts with the EBT contractor.

Condition – During our tests of the monthly EBT card reconciliations, we noted that:

- 1 of 4 monthly reconciliations selected for the food stamp issuance information in the CARIBS system was not properly reviewed and approved.
- 1 of 4 monthly reconciliations selected for the reconciliation indicated a discrepancy and was not subsequently resolved.

Questioned Costs – Not determinable.

Context – This is a condition identified per review of DHS' compliance with the specified requirements using a statistically valid sample.

Effect – Noncompliance with program requirements could result in disallowances of costs.

Cause – DHS does not appear to have adequate policies and procedures in place to ensure a consistent and systematic review of the data in its files.

Recommendation – We recommend that DHS perform regular reviews of the data and reconciliations to ensure accuracy and completeness. Additional levels of review by a supervisor or manager can provide more timely quality assurance oversight over the process.

Views of Responsible Officials - The Government concurs with the auditor's findings and recommendations. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Finding Number: **2018-029**
Prior Year Finding Number: **2017-031**
Compliance Requirement: **Special Tests and Provisions – EBT Card Security**

Program:
U.S. Department of Agriculture

Government Department/Agency:
Department of Human Services (DHS)

Supplemental Nutrition Assistance Program Cluster (SNAP)
CFDA #: 10.551, 10.561
Award #: 1VI430457, 1VI400408
Award Year: 10/01/2016 – 09/30/2018
10/01/2017 – 09/30/2018

Criteria - Per the Uniform Guidance in 7 CFR Section 274.8(b)(3), as an addition to or component of the Security Program required of Automated Data Processing (ADP) systems, the State or Territory agency shall ensure that the certain electronic benefits transfer (EBT) security requirements are established. As such, DHS is required to maintain adequate security over, and documentation/records for EBT cards, to prevent their theft, embezzlement, loss damage, destruction, unauthorized transfer, negotiation, or use.

Condition – DHS contracted with Fidelity National Information Service (FIS) for the issuance and security of the EBT cards; however, it is DHS' ultimate responsibility to ensure the contractor has controls in place to maintain adequate security over, and documentation/records of EBT cards.

During our review, we noted the following:

- For 9 of 9 monthly card reconciliation, DHS did not have a process in place to review and approve monthly EBT cards reconciliation
- 9 out of the 9 monthly EBT cards reconciliation selected, cards destroyed did not have signed status reports to verify that the cards returned were actually destroyed or shredded.

Questioned Costs – Not determinable.

Context – This is a condition identified per review of DHS' compliance with the specified requirements using a statistically valid sample.

Effect – Without adequate internal controls to ensure compliance with EBT card security requirements, there is an increased risk that the inventory of EBT cards will not be properly maintained and accounted for.

Cause – DHS does not have adequate policies and procedures in place to ensure adequate safeguarding and documentation of EBT cards.

Recommendation - We recommend that DHS implement formal policies and procedures to maintain adequate security over, and documentation and records for EBT Cards.

Views of Responsible Officials - The Government concurs with the auditor's findings and recommendations. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Finding Number: **2018-030**
Prior Year Finding Number: **2017-019**
Compliance Requirement: **Allowable Costs/Cost Principles – Indirect Cost Activities**

Program:
U.S. Department of Agriculture

Government Department/Agency:
Department of Education (DOE)

Child Nutrition Cluster
CFDA #: 10.555, 10.559
Award #: 1V1300308
Award Year: 10/01/2017 – 09/30/2018

Criteria – Actual conditions must be taken into account in selecting the base to be used in allocating the expenses in each grouping to the benefitted functions. When an allocation can be made by assignment of a cost grouping directly to the function benefitted, the allocation must be made in that manner. When the expenses in a grouping are more general in nature, the allocation should be made using a selected base which produces results that are equitable to both the Federal Government and the governmental unit.

Condition – DOE did not reconcile and record indirect costs accurately in the accounting system and did not accurately allocate the share of indirect costs to the program. It appears that indirect costs of approximately $264,458 were excluded and this resulted in an understatement of indirect costs claimed for the period.

Questioned Costs – Not applicable.

Context – This condition was identified per review of DOE's compliance with the specified requirements. For fiscal year 2018, DOE has an approved indirect cost rate agreement of 25.14% from 10/1/2017 – 12/13/2017 and of 21.65% from 12/14/2017 – 9/30/2018.

Effect – Reimbursable amounts were understated.

Cause – Indirect costs were not properly calculated and captured in the accounting system.

Recommendation – We recommend that DOE should review and reconcile cost allocations to ensure accuracy. DOE may also consider revising its future cost allocations for any understatements.

Views of Responsible Officials - The Government concurs with the auditor's findings and recommendations. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Finding Number: **2018-031**
Prior Year Finding Number: **2017-020**
Compliance Requirement: **Cash Management**

Program:
U.S. Department of Agriculture

Government Department/Agency:
Department of Education (DOE)

Child Nutrition Cluster
CFDA #: 10.555, 10.559
Award #: 1V1300308
Award Year: 10/01/2017 – 09/30/2018

Criteria – The Uniform Guidance in 2 CFR Section 200.303 requires that non-federal entities receiving federal awards (i.e. auditee management) establish and maintain internal control designed to reasonably ensure compliance with federal statues, regulations, and the terms and conditions of the federal award.

Condition – We reviewed 12 out of 122 drawdowns made during fiscal year 2018, totaling $446,802 and noted that none of the 12 sampled drawdowns contained evidence of review of monthly reconciliation.

Questioned Costs – Not determinable.

Context – This is a condition identified per review of DOE's compliance with specified requirements using a statistically valid sample. Total fiscal year 2018 drawdown requests were $3,832,523.

Effect – DOE is not in compliance with the stated provisions. Inaccurate information may have been reported to the federal government in the absence of required reviews.

Cause – DOE did not appear to have adequate controls over reconciling drawdowns received from the federal government.

Recommendation – We recommend that DHS continue to be vigilant in following internal procedures over reviews and authorizations.

Views of Responsible Officials - The Government concurs with the auditor's findings and recommendations. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Finding Number: **2018-032**
Prior Year Finding Number: **2017-021**
Compliance Requirement: **Equipment/Real Property Management**

Program:	***Government Department/Agency:***
U.S. Department of Agriculture	Department of Education (DOE)

Child Nutrition Cluster
CFDA #: 10.555, 10.559
Award #: 1V1300308
Award Year: 10/01/2017 – 09/30/2018

Criteria – Per the Uniform Guidance in 2 CFR section 200.313, property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, cost of the property, percentage of Federal participation in the cost of the property, the location, use and conditions of the property, and any ultimate disposition data including the date of disposal and sale price of the property.

Further, a physical inventory of equipment should be taken at least once every 2 years and reconciled to the equipment records along with the usage of an appropriate control system to safeguard and maintain equipment.

Condition – The Government's Department of Property and Procurement (DPP) maintains the equipment register for DOE. DPP was unable to provide complete property records which met the stated requirements.

Questioned Costs – Not determinable.

Context – This is a condition identified per review of DOE's compliance with the specified requirements.

Effect – There is a risk that inadequate recordkeeping of equipment could lead to misappropriation of assets and noncompliance with Federal regulations resulting in a return of Federal awards received.

Cause – The Government does not appear to have a process in place to adequately monitor equipment acquired with Federal funds.

Recommendation – We recommend that DOE and DPP improve internal controls to ensure adherence to Federal regulations related to equipment and its related maintenance. There should be timely coordination and communication amongst all Government departments and/or agencies that are responsible for handling and managing such assets.

Views of Responsible Officials - The Government concurs with the auditor's findings and recommendations. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Finding Number: **2018-033**
Prior Year Finding Number: **2017-022**
Compliance Requirement: **Matching, Level of Effort, Earmarking**

Program:
U.S. Department of Agriculture

Government Department/Agency:
Department of Education (DOE)

Child Nutrition Cluster
CFDA #: 10.555, 10.559
Award #: 1V1300308
Award Year: 10/01/2017 – 09/30/2018

Criteria – In accordance with the Uniform Guidance in 2 CFR Section 200.306, *Cost Sharing or Matching*, the State or Territory is required to contribute State-appropriated funds amounting to at least 30 percent of funds it received under Section 4 of the National School Lunch Act (NSLA) in the school year beginning July 1, 1980, unless otherwise exempted by 7 CFR section 210.17. In the fall of each year, the Food and Nutrition Service (FNS) furnishes each State or Territory with a report giving data for use in determining its matching requirements. However, the State or Territory revenues derived from the operation of the NSLP and State or Territory revenues expended for salaries and administrative expenses of the NSLP at the State or Territory level are not considered in this computation. In States or Territories with per capita income lower than the national average, the 30 percent match is proportionately reduced (sections 7(a)(1) and (2) of the NSLA, and 7 CFR section 210.17(a)).

Condition – We sampled and selected 40 transactions totaling $5,074, and noted 16 transactions were not available for review to ascertain proper review and approval.

Questioned Costs – Not determinable.

Context – This is a condition identified per review of DOE's compliance with the specified requirements using a statistically valid sample.

Effect – DOE is not in compliance with the stated provisions.

Cause – DOE did not have proper procedures to ensure that support for expenditures are filed and available for audit.

Recommendation – We recommend that DOE deploy resources that are given the responsibility to ensure periodic monitoring and compliance of the match requirements throughout the fiscal year and ensure that supporting documents are available to support local match.

Views of Responsible Officials - The Government concurs with the auditor's findings and recommendations. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Finding Number: **2018-034**
Prior Year Finding Number: **2017-023**
Compliance Requirement: **Period of Performance**

Program:
U.S. Department of Agriculture

Government Department/Agency:
Department of Education (DOE)

Child Nutrition Cluster
CFDA #: 10.555, 10.559
Award #: 1V1300308
Award Year: 10/01/2017 – 09/30/2018

Criteria – Per the Uniform Guidance in 2 CFR Section 200.309, a non-Federal entity may charge to the Federal award only allowable costs incurred during the period of performance and any costs incurred before the Federal awarding agency or pass-through entity made the Federal award that were authorized by the Federal awarding agency or passthrough entity

Per the Uniform Guidance in 2 CFR Section 200.343(b), unless the federal awarding agency or pass-through entity authorized an extension, a non-Federal entity must liquidate all obligations incurred under the Federal award not later than 90 calendar days after the end date of the period of performance as specified in the terms and conditions of the Federal award.

Condition – We analyzed all project codes and noted that a total of 8 transactions for 1 project were paid outside of period of performance.

Questioned Costs – Not determinable.

Context – This is a condition identified per review of DOE's compliance with the specified requirements. Total amount of payroll expenditures charged to the project code in fiscal year 2018 were $15,008.

Effect – DOE is not in compliance with the stated provisions.

Cause – DOE did not appear to adequate policies and procedures in place to ensure to ensure consistent compliance with the required period of performance stipulations.

Recommendation – We recommend that DOE strengthen its processes with respect to setting up and charging expenditures between various grant awards. We also recommend that DOE enhance its review process to properly determine the activities of each grant relative to the appropriate period of performance. Such information should also be monitored, retained, and approved by a responsible official of DOE in a timely manner.

Views of Responsible Officials - The Government concurs with the auditor's findings and recommendations. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Finding Number: **2018-035**
Prior Year Finding Number: **2017-024**
Compliance Requirement: **Procurement/Suspension and Debarment**

Program:
U.S. Department of Agriculture

Government Department/Agency:
Department of Education (DOE)

Child Nutrition Cluster
CFDA #: 10.555, 10.559
Award #: 1V1300308
Award Year: 10/01/2017 – 09/30/2018

Criteria – Recipients of Federal awards must have adequate policies and controls in place to ensure that the procedures are properly documented in the entity's files, provide full and open competition supported by a cost or price analysis, provide a vendor debarment or suspension certification, provide for retention of files, and that supporting documentation corroborate compliance with these requirements.

Condition – The Government's Department of Property and Procurement (DPP) is primarily responsible for procurement transactions. In our review of 6 out of 40 procurement transactions, we noted 2 procurement contracts that did not have complete procurement provisions required.

Questioned Costs – Not determinable.

Context – This is a condition identified per review of DOE's compliance with the specified requirements using a statistically valid sample. We reviewed 6 procurement files with expenditures totaling $144,093, for fiscal year 2018.

Effect – DOE is not in compliance with the stated provisions. DOE could inadvertently contract with or make sub-awards to parties that are not in compliance with the specified requirements.

Cause – DOE does not appear to have a process in place to ensure all required provisions are included and maintain completed contract files comprising of all supporting documents.

Recommendation – We recommend that DOE and DPP re-evaluate its policies and procedures and implement the necessary changes to ensure that the required provisions are included in the before execution of the contracts.

Views of Responsible Officials - The Government concurs with the auditor's findings and recommendations. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Finding Number: **2018-036**
Prior Year Finding Number: **2017-036**
Compliance Requirement: **Equipment/Real Property Management**

Program:
U.S. Department of Agriculture

Government Department/Agency:
Department of Health (DOH)

Special Supplemental Nutrition Program for Women,
Infants, and Children (WIC)
CFDA #: 10.557
Award #: 1VI700708
Award Year: 10/01/2017 – 09/30/2018

Criteria – Per the Uniform Guidance in 2 CFR Section 200.313, property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, cost of the property, percentage of Federal participation in the cost of the property, the location, use and conditions of the property, and any ultimate disposition data including the date of disposal and sale price of the property.

Further, a physical inventory of equipment should be taken at least once every 2 years and reconciled to the equipment records along with the usage of an appropriate control system to safeguard and maintain equipment.

Condition – The Government's Department of Property and Procurement (DPP) maintains the equipment register for DOH. DPP was unable to provide complete property records which met the stated requirements. Further, no physical inventory of equipment was taken in fiscal year 2018.

Questioned Costs – Not determinable.

Context – This is a condition identified per review of DOH's compliance with the specified requirements.

Effect – There is a risk that inadequate recordkeeping of equipment could lead to misappropriation of assets and noncompliance with Federal regulations resulting in a return of Federal awards received.

Cause – The Government does not appear to have a process in place to adequately monitor equipment acquired with Federal funds.

Recommendation – We recommend that DPP and DOH improve internal controls to ensure adherence to Federal regulations related to equipment and its related maintenance. There should be timely coordination and communication amongst all Government departments and/or agencies that are responsible for handling and managing such assets.

Views of Responsible Officials - The Government concurs with the auditor's findings and recommendations. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Finding Number: **2018-037**
Prior Year Finding Number: **2017-037**
Compliance Requirement: **Procurement/Suspension and Debarment**

Program:
U.S. Department of Agriculture

Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)
CFDA #: 10.557
Award #: 1VI700708
Award Year: 10/01/2017 – 09/30/2018

Government Department/Agency:
Department of Health (DOH)

Criteria – Recipients of Federal awards must have adequate policies and controls in place to ensure that the procedures are properly documented in the entity's files, provide full and open competition supported by a cost or price analysis, provide a vendor debarment or suspension certification, provide for retention of files, and that supporting documentation corroborate compliance with these requirements.

Condition – The Government's Department of Property and Procurement (DPP) is primarily responsible for procurement transactions. In our review of 13 out of 133 procurement transactions, we noted 12 procurement files that did not have sufficient supporting documents to support that vendor checks have been performed before entering into an agreement with the vendors.

Questioned Costs – Not determinable.

Context – This is a condition identified per review of DOH's compliance with the specified requirements using a statistically valid sample. We reviewed 13 procurement files with expenditures totaling $27,025, for fiscal year 2018.

Effect – DOH could inadvertently contract with or make sub-awards to parties that are suspended or debarred from doing business with the Federal government as well as award contracts to vendors whose contract prices are unreasonable. In addition, contracts may be executed to unqualified vendors.

Cause – DOH does not appear to have a process in place to adequately monitor and maintain completed contract files comprising of all supporting documents.

Recommendation – We recommend that DOH and DPP improve internal controls to ensure adherence to federal regulations relating to the procurement of goods and services and review current records retention policies. There should be timely coordination and communication amongst all Government departments and/or agencies that are responsible for handling and managing procurement tasks.

Views of Responsible Officials - The Government concurs with the auditor's findings and recommendations. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Finding Number: **2018-038**
Prior Year Finding Number: **2017-071**
Compliance Requirement: **Activities Allowed or Unallowed**

Program:
U.S. Department of Labor

Government Department/Agency:
Department of Labor (VIDOL)

Unemployment Insurance (UI)
CFDA #: 17.225
Award #: Various
Award Period: 10/01/2012 – 12/31/2020

Criteria – In accordance with the Uniform Guidance in 2 CFR Section Part 200, a State or Territory must adopt its own written fiscal and administrative requirements for expending and accounting for all funds, which are consistent with the provisions of the Uniform Guidance and extend such policies to all sub-recipients. These fiscal and administrative requirements must be sufficiently specific to ensure that: funds are used in compliance with all applicable Federal statutory and regulatory provisions, costs are reasonable and necessary for operating these programs, and funds are not used for general expenses required to carry out other responsibilities of a State or Territory or its sub-recipients.

Condition – VIDOL was unable to provide reconciled accounting information relating to the majority of the Unemployment Insurance Trust Fund accounts. As such, we were unable to conclude on the fiscal and administrative requirements with respect to expending and accounting for all funds related to the Unemployment Insurance program.

Questioned Costs – Not determinable.

Context – This is a condition identified per review of VIDOL's compliance with the specified requirements.

Effect – 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 Federal reports. A lack of timely preparation of complete and accurate reconciliations results in the absence of adequate control over both cash receipts and disbursements.

Cause – VIDOL does not appear to have adequate policies and procedures in an effort to adequately administer the expending and accounting for all funds.

Recommendation – We recommend that VIDOL improve internal controls to ensure adherence to Federal regulations related to the fiscal and administrative requirements for expending and accounting for all funds. In order to prevent significant errors in the financial records 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.

Views of Responsible Officials - The Government concurs with the auditor's findings and recommendations. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Finding Number: **2018-039**
Prior Year Finding Number: **2017-072**
Compliance Requirement: **Cash Management**

Program:
U.S. Department of Labor

Government Department/Agency:
Department of Labor (VIDOL)

Unemployment Insurance (UI)
CFDA #: 17.225
Award #: Various
Award Period: 10/01/2012 – 12/31/2020

Criteria – The Uniform Guidance in 2 CFR Section 200.303 requires that non-federal entities receiving federal awards (i.e. auditee management) establish and maintain internal control designed to reasonably ensure compliance with federal status, regulations, and the terms and conditions of the federal award.

Condition – We reviewed 60 out of 264 drawdowns made during fiscal year 2018, totaling $1,839,169 and noted that 2 out of the 60 sampled drawdowns did not have evidence for review and approval.

Questioned Costs – Not determinable.

Context – This is a condition identified per review of VIDOL's compliance with the specified requirements using a statistically valid sample. Total fiscal year 2018 drawdown requests were $2,577,283.

Effect – VIDOL is not in compliance with the stated provisions. Inaccurate information may have been reported to the Federal government in the absence of required reviews.

Cause – VIDOL did not appear to exercise due diligence in requesting federal funds by not following internal procedures over review and authorization.

Recommendation – We recommend that VIDOL continue to be vigilant in following internal procedures over reviews and authorizations.

Views of Responsible Officials - The Government concurs with the auditor's findings and recommendations. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Finding Number: **2018-040**
Prior Year Finding Number: **2017-073**
Compliance Requirement: **Eligibility**

Program:
U.S. Department of Labor

Government Department/Agency:
Department of Labor (VIDOL)

Unemployment Insurance (UI)
CFDA #: 17.225
Award #: Various
Award Period: 10/01/2012 – 12/31/2020

Criteria – Public Law 112-96 Sec. 2101 requires that as a condition of eligibility for regular compensation, a claimant must be able to work, available to work, legally authorized to work in the United States, and actively seeking work.

Further, the Uniform Guidance in 2 CFR Section 200.303, *Internal Control*, requires the non-federal entity to establish and maintain effective internal control over Federal awards that provides reasonable assurance that the non-federal entity is managing Federal awards in compliance with Federal statues, regulations, and other terms and conditions.

Condition – In our review of 60 unemployment claimant files, we noted 9 instances where VIDOL was not able to provide evidence that the claimant met the criteria for participating in the UI program, but had received benefits during the year.

Questioned Costs – Not determinable.

Context – This is a condition identified per review of VIDOL's compliance with specified requirements using statistically valid sample.

Effect – Noncompliance with program requirements could result in disallowances of costs and claimants could be receiving benefits that they are not entitled to receive under the program.

Cause – VIDOL does not appear to have adequate policies and procedures in place to ensure a consistent and systematic review of the data in its claimant files.

Recommendation - We recommend that VIDOL perform regular reviews of the data in its claimant files to ensure accuracy and completeness and confirming that only eligible claimants are receiving the entitled benefits. Additional levels of review by a supervisor or manager can provide more timely quality assurance oversight over the eligibility process.

Views of Responsible Officials - The Government concurs with the auditor's findings and recommendations. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Finding Number: **2018-041**
Prior Year Finding Number: **N/A**
Compliance Requirement: **Matching, Level of Effort, Earmarking**

Program:
U.S. Department of Labor

Government Department/Agency:
Department of Labor (VIDOL)

Unemployment Insurance (UI)
CFDA #: 17.225
Award #: Various
Award Period: 10/01/2012 – 12/31/2020

Criteria – In accordance with the Compliance Supplement, the State or Territory is required a matching on *Shareable Compensation Program* (EB). From its UI tax revenues, the State is required to pay zero percent (UCFE, UCX), 50 percent (EB), or 100 percent (regular compensation) of the UC paid by the SWA to eligible claimants. The State is required to provide 50 percent of the amounts paid to the majority of eligible EB claimants (those not covered by Federal law or special provisions of State law) (20 CFR sections 615.2 and 615.14(a)). Those EB amounts paid by the SWA, and that are not the responsibility of the State, are reimbursable to the State from the UTF (20 CFR section 615.14). The first week of EB is reimbursable to the State only if, in addition to other requirements, the State requires the first week of an individual's benefit year to be an "unpaid waiting week" (EUCA section 204; 20 CFR section 615.14). The 50 percent share of EB for which the State is responsible is prorated for those claimants whose base period includes wages from both public and private sector employment.

Further, the Uniform Guidance in 2 CFR Section 200.303, *Internal Control*, requires the non-federal entity to establish and maintain effective internal control over Federal awards that provides reasonable assurance that the non-federal entity is managing Federal awards in compliance with Federal statues, regulations, and other terms and conditions.

Condition – VIDOL was unable to provide matching population and documentation that VIDOL met the stated requirements.

Questioned Costs – Not determinable.

Context – This is a condition identified per review of VIDOL's compliance with the specified requirements.

Effect – VIDOL is not in compliance with the stated provisions.

Cause – VIDOL does not appear to have adequate policies and procedures in pace to ensure a consistent and systematic monitoring of requirements.

Recommendation – We recommend that VIDOL deploy resources that are given the responsibility to ensure periodic monitoring and compliance of the matching requirements throughout the fiscal year.

Views of Responsible Officials - The Government concurs with the auditor's findings and recommendations. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Finding Number: **2018-042**
Prior Year Finding Number: **2017-070**
Compliance Requirement: **Equipment/Real Property Management**

Program:
U.S. Department of Transportation

Government Department/Agency:
Department of Public Works (DPW)

Highway Planning and Construction Cluster
CFDA #: 20.205
Award #/Name: Territorial Highway Program Implementation and Stewardship Agreement
Award Period: 10/01/2016 - 09/30/2020

Criteria – Per the Uniform Guidance in 2 CFR Section 200.313, property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, cost of the property, percentage of Federal participation in the cost of the property, the location, use and conditions of the property, and any ultimate disposition data including the date of disposal and sale price of the property.

Further, a physical inventory of equipment should be taken at least once every 2 years and reconciled to the equipment records along with the usage of an appropriate control system to safeguard and maintain equipment.

Condition – The Government's Department of Property and Procurement (DPP) maintains the equipment register for DPW. DPP was unable to provide complete property records which met the stated requirements. Further, no physical inventory of equipment was taken in fiscal year 2018.

Questioned Costs – Not determinable.

Context – This is a condition identified per review of DPW's compliance with the specified requirements.

Effect – There is a risk that inadequate recordkeeping of equipment could lead to misappropriation of assets and noncompliance with Federal regulations resulting in a return of Federal awards received.

Cause – The Government does not appear to have a process in place to adequately monitor equipment acquired with Federal funds.

Recommendation – We recommend that DPW and DPP improve internal controls to ensure adherence to Federal regulations related to equipment and its related maintenance. There should be timely coordination and communication amongst all Government departments and/or agencies that are responsible for handling and managing such assets.

Views of Responsible Officials - The Government concurs with the auditor's findings and recommendations. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Finding Number: **2018-043**
Prior Year Finding Number: **N/A**
Compliance Requirement: **Procurement/Suspension and Debarment**

Program:
U.S. Department of Transportation

Government Department/Agency:
Department of Public Works (DPW)

Highway Planning and Construction Cluster
CFDA #: 20.205
Award #/Name: Territorial Highway Program Implementation and Stewardship Agreement
Award Period: 10/01/2016 - 9/30/2020

Criteria – Recipients of Federal awards must have adequate policies and controls in place to ensure that the procedures are properly documented in the entity's files, provide full and open competition supported by a cost or price analysis, provide a vendor debarment or suspension certification, provide for retention of files, and that supporting documentation corroborate compliance with these requirements.

Condition – The Government's Department of Property and Procurement (DPP) is primarily responsible for procurement transactions. We reviewed 8 out of 83 procurement transactions during fiscal year 2018 and noted 1 out of 8 procurement files did not have sufficient supporting documents available to validate the procurements decision made to engage contactors.

Questioned Costs – Not determinable.

Context – This is a condition identified per review of DPW's compliance with the specified requirements using a statistically valid sample. We reviewed 8 procurement files with expenditures totaling $1,425,659 for fiscal year 2018.

Effect – DPW could inadvertently contract with or sub-awards to parties that are suspended or debarred from doing business with the Federal government as well as award contracts to vendors whose contract prices are unreasonable. In addition, contracts may be executed to unqualified vendors.

Cause – DPW does not appear to have a process in place to adequately monitor and maintain completed contract files comprising of all supporting documents.

Recommendation – We recommend that DPW and DPP improve internal controls to ensure adherence to Federal regulations relating to the procurement of goods and services and review current record retention policies. There should be timely coordination and communication amongst all Government departments and/or agencies that are responsible for handling and managing procurement tasks.

Views of Responsible Officials - The Government concurs with the auditor's findings and recommendations. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Finding Number: **2018-044**
Prior Year Finding Number: **N/A**
Compliance Requirement: **Matching, Level of Effort, Earmarking**

Program:
U.S. Department of Education

Government Department/Agency:
Department of Education (DOE)

Special Education – Grants to States (IDEA, Part B)
CFDA #: 84.027
Award #: H027A150004-15A, H027A160004, H027A170004, H027A180004
Award Periods: 07/01/2015 – 09/30/2016
07/01/2016 – 09/30/2017
07/01/2017 – 09/30/2018
07/01/2018 – 09/30/2019

Criteria – In accordance with the Uniform Guidance in 2 CFR Section 200.306, a State may not reduce the amount of State financial support for special education and related services for children with disabilities (or State financial support otherwise made available because of the excess costs of educating those children) below the amount of State financial support provided for the preceding fiscal year. The Secretary reduces the allocation of funds under 20 USC 1411 for any fiscal year following the fiscal year in which the State fails to comply with this requirement by the amount by which the State failed to meet the requirement.

Condition – We recalculated the dollar amount of financial support for 2018 as well as financial support on the per child basis for 2018 and noted both were lower than prior year based on the reduction of the per capita amount which is not in accordance to the requirement of the program. In addition, DOE failed to provide evidence of review of the calculation and the control activity failed to detect the exception of compliance requirement for level of effort.

Questioned Costs – Not determinable.

Context – This is a condition identified per review of DOE's compliance with the specified requirements.

Effect – DOE is in not in compliance with the stated provisions.

Cause – DOE did not appear to exercise due diligence in following internal procedures over review and authorization.

Recommendation – We recommend that DOE deploy resources that are given the responsibility to ensure periodic monitoring and compliance of the match requirements throughout the fiscal year.

Views of Responsible Officials - The Government concurs with the auditor's findings and recommendations. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Finding Number: **2018-045**
Prior Year Finding Number: **N/A**
Compliance Requirement: **Allowable Costs/Cost Principles – Payroll Activities**

Program:
U.S. Department of Education

Government Department/Agency:
Department of Education (DOE)

Consolidated Grant to the Outlying Areas
CFDA #: 84.403
Award #: S403A150007, S403A160004, S403A170004, S403A180004
Award Periods: 07/01/2015 – 09/30/2016
07/01/2016 – 09/30/2017
07/01/2017 – 09/30/2018
07/01/2018 – 09/30/2019

Criteria – The Uniform Guidance in 2 CFR Section 200.303, *Internal Control,* requires the non-federal entity to establish and maintain effective internal control over Federal awards that provides reasonable assurance that the non-federal entity is managing Federal awards in compliance with Federal statutes, regulations, and other terms and conditions.

Additionally, the Uniform Guidance in 2 CFR Section 200.430(i) states that charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must also support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity.

Condition – We sampled and selected 25 payroll transactions and noted that the following:

- Timesheet was not provided for 1 out of the 25 payroll transactions reviewed.
- For 1 of the 25 payroll transactions, the salary amount from the Notice of Personnel Action (NOPA) did not agree with the salary amount on the payroll register.
- One employee was on unpaid leave for the pay period, however, based on the employee's check stub for the pay period, the employee was paid their regular salary amount.

The amount represents 15% of the total sampled items related to the 25 sampled items $32,556.

Questioned Costs – Below reporting threshold.

Context – This is a condition identified per review of DOE compliance with the specified requirements using a statistically valid sample. Total amount of payroll expenditures charged to the program in fiscal year 2018 were $4,821,690.

Effect - DOE is not in compliance with the stated provisions. Failure to properly review and support expenditures can result in noncompliance with laws and regulations along with loss of funding.

Cause – DOE does not appear to have adequate policies and procedures in place to ensure compliance with applicable cost principles and maintenance of underlying documentation.

Recommendation – We recommend that DOE improve internal controls to ensure adherence to Federal regulations related to the fiscal and administrative requirements for expending and accounting for payroll expenditures. Where employees work solely on a single Federal program, charges for their salaries and wages should be supported by periodic certifications. Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages should be supported by personnel activity reports (time and attendance) or equivalent documents. Such information should also be monitored, retained, and approved by a responsible official of DOE in a timely manner.

Views of Responsible Officials - The Government concurs with the auditor's findings and recommendations. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Finding Number: **2018-046**
Prior Year Finding Number: **N/A**
Compliance Requirement: **Subrecipient Monitoring**

Program:
U.S. Department of Education

Government Department/Agency:
Department of Education (DOE)

Consolidated Grant to the Outlying Areas
CFDA #: 84.403
Award #: S403A150007, S403A160004, S403A170004, S403A18
Award Periods: 07/01/2015 – 09/30/2016
07/01/2016 – 09/30/2017
07/01/2017 – 09/30/2018
07/01/2018 – 09/30/2019

Criteria – The Uniform Guidance in 2 CFR Section 200.303, *Internal Control,* requires the non-federal entity to establish and maintain effective internal control over Federal awards that provides reasonable assurance that the non-federal entity is managing Federal awards in compliance with Federal statutes, regulations, and other terms and conditions.

In accordance with §200.331(a) Requirements for Pass-Through Entities requires that pass-through entities must ensure that every sub-award is clearly identified to the subrecipient as a sub-award and includes certain information at the time of the subaward, and if any of the required data elements change, the pass-through entity must include the changes in subsequent subaward modifications.

In accordance with §200.331(b), §200.331(d), and §200.331(f), Requirements for Pass-Through Entities, pass-through entities must evaluate each subrecipient's risk of noncompliance with federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring. Pass-through entities must also monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with federal statues, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved.

Pass-through entity monitoring of the subrecipient must include: (1) reviewing financial and performance reports required by the pass-through entity; (2) following-up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the federal award provided to the subrecipient from the pass-through entity detected through audits, on-site reviews, and other means; and (3) issuing a management decision for audit findings pertaining to the federal award provided to the subrecipient from the pass-through entity. Additionally, pass-through entities must verify that every subrecipient is audited as required by Subpart F – Audit Requirements when it is expected that the subrecipient's Federal awards expended during the respective fiscal year equaled or exceeded the threshold set forth in §200.501 audit requirements

Condition – We sampled and selected 2 out of 8 subrecipients and were not able to substantiate compliance by DOE of the below stated provisions relating to subrecipient monitoring:

- Whether DOE determined and verified that subrecipients were expected to be audited as required by 2 CFR par 200, subpart F, met this requirement and issued management decisions on audit findings within 6 months after receipt of the subrecipient's audit report;

- Whether DOE has follow-up procedures to determine if corrective action was implemented on deficiencies noted, if any, during-the subaward monitoring; and

- In cases of continued inability or unwillingness of a subrecipient to have the required audits, whether DOE took appropriate action using sanctions.

Questioned Costs – Not determinable.

Context – This is a condition identified per review of DOE's compliance with the specified requirements using a statistically valid sample. Total amount of expenditures by subrecipients charged to the program in fiscal year 2018 were $435,751.

Effect - DOE is not in compliance with the stated provisions. Failure to properly review and support expenditures and a lack of or inadequate subrecipient monitoring follow up can result in noncompliance with laws and regulations due unallowable expenses being charged to the program by the subrecipients resulting in loss of funding.

Cause – DOE does not appear to have adequate policies and procedures and in place to monitor subrecipients to ensure they are following applicable federal regulations including expending federal awards for allowable expenditures.

Recommendation – We recommend that DOE improve its policies and procedures and internal controls to ensure adequate monitoring of subrecipients to ensure that federal awards are being expended in adherence to Federal regulations related to the fiscal and administrative requirements.

Views of Responsible Officials - The Government concurs with the auditor's findings and recommendations. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Finding Number: **2018-047**
Prior Year Finding Number: **2017-039**
Compliance Requirement: **Allowable Costs/Cost Principles – Payroll Activities**

Program:
U.S. Department of Health and Human Services

Government Department/Agency:
Department of Human Services (DHS)

Head Start
CFDA #: 93.600
Award #: 02CH3011-04, 02CH3011-05, 02CH010576-01
Award Year: 07/01/2016 – 06/30/2017
07/01/2017 – 06/30/2018
07/01/2018 – 06/30/2019

Criteria – The Uniform Guidance in 2 CFR Section 200.303, *Internal Control,* requires the non-federal entity to establish and maintain effective internal control over Federal awards that provides reasonable assurance that the non-federal entity is managing Federal awards in compliance with Federal statutes, regulations, and other terms and conditions.

Additionally, the Uniform Guidance in 2 CFR Section 200.430(i) states that charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must also support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity.

Condition – We sampled and selected 60 payroll transactions and noted the following:

- Supporting timesheets for 10 transactions had no evidence of review and approval
- 3 instances where the time charges per the timesheet did not agree with the payroll register

The amount represents 26% of the total sampled items related to the 60 sampled items $110,581.

Questioned Costs – $27,738.

Context – This is a condition identified per review of DHS' compliance with the specified requirements using a statistically valid sample. Total amount of payroll expenditures charged to the program in fiscal year 2018 were $6,097,107.

Effect - DHS is not in compliance with the stated provisions. Failure to properly review and support expenditures can result in noncompliance with laws and regulations along with loss of funding.

Cause – DHS does not appear to have adequate policies and procedures in place to ensure compliance with applicable cost principles and maintenance of underlying documentation.

Recommendation – We recommend that DHS improve internal controls to ensure adherence to Federal regulations related to the fiscal and administrative requirements for expending and accounting for payroll expenditures. Where employees work solely on a single Federal program, charges for their salaries and wages should be supported by periodic certifications. Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages should be supported by personnel activity reports (time and attendance) or equivalent documents. Such information should also be monitored, retained, and approved by a responsible official of DHS in a timely manner.

Views of Responsible Officials - The Government concurs with the auditor's findings and recommendations. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Finding Number: **2018-048**
Prior Year Finding Number: **2017-040**
Compliance Requirement: **Cash Management**

Program:
U.S. Department of Health and Human Services

Government Department/Agency:
Department of Human Services (DHS)

Head Start
CFDA #: 93.600
Award #: 02CH3011-04, 02CH3011-05, 02CH010576-01
Award Year: 07/01/2016 – 06/30/2017
07/01/2017 – 06/30/2018
07/01/2018 – 06/30/2019

Criteria – The Uniform Guidance in 2 CFR Section 200.303 requires that non-federal entities receiving federal awards (i.e. auditee management) establish and maintain internal control designed to reasonably ensure compliance with federal statues, regulations, and the terms and conditions of the federal award.

Condition – We reviewed 13 out of 58 drawdowns made during fiscal year 2018, totaling $3,840,268 and noted the following:

- 3 instances where the request for funds did not have evidence of review and approval;
- 2 instances where the month-end reconciliation were not properly reviewed and approved.

Moreover, there are no agency level controls in place to review journal entries to record receipt of reimbursements. Such lack of control resulted into 2 instances where receipt were not posted at fiscal year 2018 in the accounting system, aggregating to $390,123.

Questioned Costs – Not determinable.

Context – This is a condition identified per review of DHS' compliance with the specified requirements using a statistically valid sample. Total fiscal year 2018 drawdown requests were $8,043,590.

Effect – DHS is not in compliance with the stated provisions. There is a risk that drawdowns are not properly reconciled to the general ledger.

Cause – DHS did not appear to have adequate controls over recording and reconciling drawdowns received from the federal government.

Recommendation - We recommend for DHS to institute controls over reviewing journal entries to record drawdowns and ensure that month-end reconciliation of drawdowns against the general ledger are properly filed and available for audit.

Views of Responsible Officials - The Government concurs with the auditor's findings and recommendations. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Finding Number: **2018-049**
Prior Year Finding Number: **2017-041**
Compliance Requirement: **Equipment/Real Property Management**

Program:
U.S. Department of Health and Human Services

Government Department/Agency:
Department of Human Services (DHS)

Head Start
CFDA #: 93.600
Award #: 02CH3011-04, 02CH3011-05, 02CH010576-01
Award Year: 07/01/2016 – 06/30/2017
07/01/2017 – 06/30/2018
07/01/2018 – 06/30/2019

Criteria – Per the Uniform Guidance in 2 CFR Section 200.313, property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, cost of the property, percentage of Federal participation in the cost of the property, the location, use and conditions of the property, and any ultimate disposition data including the date of disposal and sale price of the property.

Further, a physical inventory of equipment should be taken at least once every 2 years and reconciled to the equipment records along with the usage of an appropriate control system to safeguard and maintain equipment.

Condition – The Government's Department of Property and Procurement (DPP) maintains the equipment register for DHS. DPP was unable to provide complete property records which met the stated requirements. Further, no physical inventory of equipment was taken in fiscal year 2018.

Questioned Costs – Not determinable.

Context – This is a condition identified per review of DHS' compliance with the specified requirements.

Effect – There is a risk that inadequate recordkeeping of equipment could lead to misappropriation of assets and noncompliance with Federal regulations resulting in a return of Federal awards received.

Cause – The Government does not appear to have a process in place to adequately monitor equipment acquired with Federal funds.

Recommendation – We recommend that DHS and DPP improve internal controls to ensure adherence to Federal regulations related to equipment and its related maintenance. There should be timely coordination and communication amongst all Government departments and/or agencies that are responsible for handling and managing such assets.

Views of Responsible Officials - The Government concurs with the auditor's findings and recommendations. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Finding Number: **2018-050**
Prior Year Finding Number: **2017-042**
Compliance Requirement: **Matching, Level of Effort, Earmarking**

Program:
U.S. Department of Health and Human Services

Government Department/Agency:
Department of Human Services (DHS)

Head Start
CFDA #: 93.600
Award #: 02CH3011-04, 02CH3011-05, 02CH010576-01
Award Year: 07/01/2016 – 06/30/2017
07/01/2017 – 06/30/2018
07/01/2018 – 06/30/2019

Criteria – In accordance with the Uniform Guidance in 2 CFR Section 200.306, *Cost Sharing or Matching*, and the requirements of the grant agreements, the program is required to contribute matching funds through cash, in-kind contributions, and/or other non-cash support.

Condition – We sampled and selected 40 matching expenditures and noted 1 instance in which the federal funds were used for the local share of the expenditures. This also reflects the lack of control on the proper review and separate budget and accounting codes established to track compliance with the matching requirement.

In addition, we sampled and tested 3 out of 12 Administrative/matching reports and noted that all sampled reports did not have evidence of review and approval.

Questioned Costs – Not determinable.

Context – This is a condition identified per review of DHS' compliance with the specified requirements using statistically valid sample.

Effect – DHS is in not in compliance with the stated provisions.

Cause – DHS did not appear to exercise due diligence in following internal procedures over review and authorization.

Recommendation – We recommend that DHS deploy resources that are given the responsibility to ensure periodic monitoring and compliance of the match requirements throughout the fiscal year.

Views of Responsible Officials - The Government concurs with the auditor's findings and recommendations. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Finding Number: **2018-051**
Prior Year Finding Number: **2017-043**
Compliance Requirement: **Period of Performance**

Program:
U.S. Department of Health and Human Services

Government Department/Agency:
Department of Human Services (DHS)

Head Start
CFDA #: 93.600
Award #: 02CH3011-04, 02CH3011-05, 02CH010576-01
Award Year: 07/01/2016 – 06/30/2017
07/01/2017 – 06/30/2018
07/01/2018 – 06/30/2019

Criteria – Per the Uniform Guidance in 2 CFR Section 200.309, a non-Federal entity may charge to the Federal award only allowable costs incurred during the period of performance and any costs incurred before the Federal awarding agency or pass-through entity made the Federal award that were authorized by the Federal awarding agency or passthrough entity

Per the Uniform Guidance in 2 CFR Section 200.343(b), unless the federal awarding agency or pass-through entity authorized an extension, a non-Federal entity must liquidate all obligations incurred under the Federal award not later than 90 calendar days after the end date of the period of performance as specified in the terms and conditions of the Federal award.

Condition – We sampled and selected 60 non-payroll expenditures and noted 1 instance where the expenditure was incurred outside the period of performance.

Questioned Costs – Not determinable.

Context – This is a condition identified per review of DHS' compliance with the specified requirements using statistically valid sample. Total amount of non-payroll expenditures charged to the program in fiscal year 2018 were $1,211,179.

Effect - DHS is not in compliance with the stated provisions. Failure to properly review and support expenditures can result in noncompliance with laws and regulations along with loss of funding.

Cause – DHS does not appear to have adequate policies and procedures in place to ensure consistent and systematic review of its transactions.

Recommendation – We recommend that DHS improve internal controls to ensure adherence to Federal regulations related to the fiscal and administrative requirements for expending and accounting for non-payroll expenditures.

Views of Responsible Officials - The Government concurs with the auditor's findings and recommendations. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Finding Number: **2018-052**
Prior Year Finding Number: **N/A**
Compliance Requirement: **Reporting**

Program:
U.S. Department of Health and Human Services

Government Department/Agency:
Department of Human Services (DHS)

Head Start
CFDA #: 93.600
Award #: 02CH3011-04, 02CH3011-05, 02CH010576-01
Award Year: 07/01/2016 – 06/30/2017
07/01/2017 – 06/30/2018
07/01/2018 – 06/30/2019

Criteria – In accordance with the Uniform Guidance in 2 CFR Section 200, Appendix XI for this program, each State or Territory must file various financial, programmatic and special reports. Additionally, the requirements necessitate that all submitted reports should be supported by the underlying performance records and presented in accordance with program requirements.

Condition – We reviewed 3 out of 4 reports, due for existing projects, as submitted by DHS in fiscal year 2018, and noted 1 instance where there were no evidence of review and approval.

Questioned Costs – Not determinable.

Context – This is a condition identified per review of DHS' compliance with the specified requirements using statistically valid sample.

Effect – DHS is not in compliance with the stated provisions. Failure to properly review the report may pose inaccurate information reported to the Federal government.

Cause – It appears that policies and procedures, including a review over reporting procedures were not functioning as intended.

Recommendation – We recommend that DHS re-evaluate its policies and procedures to ensure proper monitoring and review of the required reports by an appropriate official who would ensure that information submitted is complete, accurate, consistent and submitted within the required timeframe.

Views of Responsible Officials - The Government concurs with the auditor's findings and recommendations. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Finding Number: **2018-053**
Prior Year Finding Number: **N/A**
Compliance Requirement: **Activities Allowed or Unallowed**

Program:
U.S. Department of Health and Human Services

Government Department/Agency:
Department of Human Services (DHS)

Children's Health Insurance Program (CHIP)
CFDA #: 93.767
Award #: 1705VQ5R21, 1805VQ5R21
Award Year: 10/01/2016 – 09/30/2017
10/01/2017 – 09/30/2018
10/01/2017 – 09/30/2019

Criteria – The Uniform Guidance in 2 CFR Section 200.302(a), *Financial Management*, states that each state must expend and account for the federal award in accordance with state laws and procedures for expending and accounting for the state's own funds. In addition, the state's and the other non-federal entity's financial management systems, including records documenting compliance with federal statutes, regulations, and the terms and conditions of the federal award, must be sufficient to permit the preparation of reports required by general and program-specific terms and conditions; and the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the federal statutes, regulations, and the terms and conditions of the federal award.

The Uniform Guidance in 2 CFR Section 200.303, *Internal Control*, requires the non-federal entity to establish and maintain effective internal control over Federal awards that provides reasonable assurance that the non-federal entity is managing Federal awards in compliance with Federal statutes, regulations, and other terms and conditions.

Condition – We noted an unreconciled difference of $771,951 between the amount of CHIP claims processed in the Medicaid Management Information System (MMIS) and the amount recorded in the Munis Accounting System. As a result, DHS subsequently adjusted such expenditures from the total expenditures in the SEFA.

Questioned Costs – Not determinable.

Context – This is a condition identified per review of DHS' compliance with the specified requirements. Total claims paid in fiscal year 2018 were $10,596,303.

Effect – Noncompliance with program requirements could result in disallowances of costs.

Cause – DHS does not appear to have adequate policies and procedures in place to ensure the proper Federal Medical Assistance Percentages (FMAP) rate is correctly applied to CHIP claims.

Recommendation – We recommend that DHS apply the correct FMAP rates when processing CHIP claims. Additionally, we recommend that DHS perform a periodic reconciliation for CHIP claims processed in the MMIS and recorded in the MUNIS. Furthermore, levels of review by a supervisor or manager can provide more timely quality assurance oversight over the process.

Views of Responsible Officials - The Government concurs with the auditor's findings and recommendations. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Finding Number: **2018-054**
Prior Year Finding Number: **2017-057**
Compliance Requirement: **Cash Management**

Program:
U.S. Department of Health and Human Services

Government Department/Agency:
Department of Human Services (DHS)

Children's Health Insurance Program (CHIP)
CFDA #: 93.767
Award #: 1705VQ5R21, 1805VQ5R21
Award Year: 10/01/2016 – 09/30/2017
10/01/2017 – 09/30/2018
10/01/2017 – 09/30/2019

Criteria **-** The Uniform Guidance in 2 CFR Section 200.303 requires that non-federal entities receiving federal awards (i.e. auditee management) establish and maintain internal control designed to reasonably ensure compliance with federal statues, regulations, and the terms and conditions of the federal award.

Condition – We reviewed 5 out of 11 drawdowns made during fiscal year 2018, totaling $5,452,410, and noted that all the selections did not contain proper evidence of review and approval.

Questioned Costs – Not determinable.

Context – This is a condition identified per review of DHS' compliance with the specified requirements using statistically valid sample. Total fiscal year 2018 drawdown requests were $11,754,555.

Effect – DHS is not in compliance with the stated provisions. Inaccurate information may have been reported to the Federal government in the absence of required reviews.

Cause – DHS did not appear to exercise due diligence in requesting federal funds by not following internal procedures over review and authorizations.

Recommendation – We recommend that DHS continue to be vigilant in following internal procedures over reviews and authorizations.

Views of Responsible Officials - The Government concurs with the auditor's findings and recommendations. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Finding Number: **2018-055**
Prior Year Finding Number: **2017-058**
Compliance Requirement: **Matching, Level of Effort, Earmarking**

Program:
U.S. Department of Health and Human Services

Government Department/Agency:
Department of Human Services (DHS)

Children's Health Insurance Program (CHIP)
CFDA #: 93.767
Award #: 1705VQ5R21, 1805VQ5R21
Award Year: 10/01/2016 – 09/30/2017
10/01/2017 – 09/30/2018
10/01/2017 – 09/30/2019

Criteria – In accordance with the Compliance Supplement, the State matching rate for its CHIP expenditures is determined in accordance with the Federal matching rate for such expenditures, referred to as the enhanced Federal medical assistance percentage (Enhanced FMAP) for a State. That is, the CHIP State matching rate is calculated by subtracting the Medicaid FMAP rate from 100, taking 30 percent of the difference, and then adding it to the Medicaid FMAP rate. The Enhanced FMAP is calculated in accordance with 42 USC 1397ee(b), which provides that the Enhanced FMAP for a State shall never exceed 85 percent.

Condition – We sampled and selected 2 matching calculations form the CMS-21, *Quarterly CHIP Expenditures* reports and noted that 2 of 2 samples selected did not contain evidence of review and approval. We also tested 61 claims totaling $804,054, and noted the following:

- 9 out of 61 claims tested required matching contribution was not met. DHS did not apply the 91.5% FMAP for CHIP claims. Subsequent adjustment applied the FMAP rate at 100%.
- 8 out of 60 claims tested were missing from the VIFIN007 report, therefore, we could not verify whether the required matching contribution was met.

Questioned Costs – Not determinable.

Context – This is a condition identified per review of DHS' compliance with the specified requirements using statistically valid sample. In addition, the CHIP program would incur a higher percentage of costs when the appropriate FMAP rate is not applied.

Effect – DHS is in not in compliance with the stated provisions.

Cause – DHS did not appear to exercise due diligence in following internal procedures over reviews and authorizations, as well as ensuring compliance with the matching requirement.

Recommendation – We recommend that DHS deploy resources that are given the responsibility to ensure periodic monitoring and compliance of the matching requirements throughout the fiscal year.

Views of Responsible Officials - The Government concurs with the auditor's findings and recommendations. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Finding Number: **2018-056**
Prior Year Finding Number: **2017-059**
Compliance Requirement: **Reporting**

Program:
U.S. Department of Health and Human Services

Government Department/Agency:
Department of Human Services (DHS)

Children's Health Insurance Program (CHIP)
CFDA #: 93.767
Award #: 1705VQ5R21, 1805VQ5R21
Award Year: 10/01/2016 – 09/30/2017
10/01/2017 – 09/30/2018
10/01/2017 – 09/30/2019

Criteria – In accordance with the Compliance Supplement, the State or Territory is required to submit CMS-21, *Quarterly Children's Health Insurance Program Statement of Expenditures for Title XXI for the Children's Health Insurance Program*, thirty days after the end of the quarter.

Condition – We reviewed 2 out of the 4 quarterly CMS-21 reports submitted during the fiscal year and noted that the report's financial information did not agree with the underlying records. We noted a difference of $1,358,121 between the expenses reported on the CMS-21 of $10,396,119 compared to the expenses reported on the SEFA amounting to $11,754,240. We also noted that there was no evidence of review or approval prior to submission of reports.

In addition, DHS reported expenses totaling $1,086,833 in FY17 but incurred the expenses in FY18. The funds were provided under a FY17 redistribution grant that ended September 30, 2017. Grant funds provided via a redistribution grant are only valid for the period of the grant, therefore, instead of DHS losing those grant funds, they reported them as expensed in FY17 but actually incurred the expense in FY18.

Questioned Costs – Not determinable.

Context – This is a condition identified per review of DHS' compliance with the specified requirements.

Effect – DHS is not in compliance with stated provisions and inaccurate information may have been reported to the Federal government.

Cause – It appears that policies and procedures, including review over reporting procedures were not functioning as intended. Further, DHS does not have adequate control over maintenance of the underlying documentation used in preparing various reports.

Recommendation – We recommend that DHS reevaluate its policies and procedures to ensure proper monitoring and review of the required reports by an appropriate official who would ensure the information submitted is complete, accurate, consistent, and submitted within the required timeframe.

Views of Responsible Officials - The Government concurs with the auditor's findings and recommendations. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Finding Number: **2018-057**
Prior Year Finding Number: **N/A**
Compliance Requirement: **Allowable Costs/Cost Principles – Non-Payroll Activities**

Program:
U.S. Department of Health and Human Services

Government Department/Agency:
Department of Human Services (DHS)

Medicaid Cluster
CFDA #: 93.778
Award #: Various
Award Period: 10/01/2015 – 09/30/2022

Criteria – The Uniform Guidance in 2 CFR Section 200.303, *Internal Control,* requires the non-federal entity to establish and maintain effective internal control over federal awards that provides reasonable assurance that the non-federal entity is managing federal awards in compliance with federal statutes, regulations, and other terms and conditions.

In addition, per 2 CFR Section 200.403, "Except where otherwise authorized by statute, costs must meet the following general criteria in order to be allowable under federal awards:

a. Be necessary and reasonable for the performance of the federal award and be allocable thereto under these principles.

b. Conform to any limitations or exclusions set forth in these principles or in the federal award as to types or amounts of cost items.

c. Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the non-federal entity.

d. Be accorded consistent treatment. A cost may not be assigned to a federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the federal award as an indirect cost.

e. Be determined in accordance with generally accepted accounting principles (GAAP), except, for state and local governments and Indian tribes only, as otherwise provided for in this part.

f. Not be included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program in either the current or a prior period.

g. Be adequately documented."

Condition – We reviewed 44 out of 680 expenses charged to the Medicaid program totaling $11,752,973 and noted the following:

- 4 out of the 44 expenses, there was insufficient documentation to support the expense.
- 5 out of the 44 expenses, we noted that DHS made advance payments to vendor and requested drawdowns before the funds were fully expensed.
- 1 out of the 44 expenses, DHS paid monthly fee for a storage trailer to store excess furniture and other administrative items that the Medicaid staff no longer needs. This expense totaling $5,082 does not appear to be necessary to operate the Medicaid program.
- 1 out of 44 expense samples were overpaid due to incorrect Federal Medicaid Assistance Percentage rate used in Medicaid Management Information System.

The amount represents 8% of the total sampled items related to the 44 sampled items $11,752,973.

Questioned Costs – Below reporting threshold.

Context - This is a condition identified per review of DHS' compliance with the specified requirements using a statistically valid sample.

Effect - DHS is not in compliance with regulations requiring them to incur expenses that are reasonable and necessary to operate the Medicaid program. Incurring unreasonable and unnecessary expenses could result in unallowed expenses.

Cause - DHS does not have adequate policies and procedures in place to ensure that expenses are adequately supported and that expenses are reviewed and approved to ensure they are reasonable and necessary.

Recommendation - We recommend that DHS comply with the specified requirements and establish adequate policies and procedures to ensure that documentation is maintained to adequately support expenses charged to the Medicaid program. In addition, we recommend that DHS establish adequate review and approval procedures to ensure that expenses are reasonable and necessary to operate the Medicaid program.

Views of Responsible Officials - The Government concurs with the auditor's findings and recommendations. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Finding Number: **2018-058**
Prior Year Finding Number: **N/A**
Compliance Requirement: **Allowable Costs/Cost Principles – Payroll Activities**

Program:
U.S. Department of Health and Human Services

Government Department/Agency:
Department of Human Services (DHS)

Medicaid Cluster
CFDA #: 93.778
Award #: Various
Award Period: 10/01/2015 – 09/30/2022

Criteria – The Uniform Guidance in 2 CFR Section 200.303, *Internal Control,* requires the non-federal entity to establish and maintain effective internal control over Federal awards that provides reasonable assurance that the non-federal entity is managing Federal awards in compliance with Federal statutes, regulations, and other terms and conditions.

Additionally, the Uniform Guidance in 2 CFR Section 200.430(i) states that charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must also support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity.

Condition – Payroll charges for an employee on a paid administrative leave due to pending investigation totaling $59,162 were charged to Medicaid program.

Questioned Costs – $59,162

Context – This is a condition identified per review of DHS's payroll charges to the Medicaid program and DHS's compliance with the specified requirements.

Effect – DHS is not in compliance with the stated provisions. Failure to properly review and support expenditures can result in noncompliance with laws and regulations along with loss of funding.

Cause – DHS did not appear to exercise due diligence in following internal procedures over reviews and authorizations.

Recommendation – We recommend that DHS discontinue to charge the payroll expense to the Medicaid program while the person is on paid administrative leave. In addition, we recommend that DHS continue to be vigilant in following internal procedures over reviews and authorizations for payroll charges.

Views of Responsible Officials - The Government concurs with the auditor's findings and recommendations. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Finding Number: **2018-059**
Prior Years Finding Number: **2017-045**
Compliance Requirement: **Cash Management**

Program:
U.S. Department of Health and Human Services

Government Department/Agency:
Department of Human Services (DHS)

Medicaid Cluster
CFDA #: 93.778
Award #: Various
Award Period: 10/01/2015 – 09/30/2022

Criteria – The Uniform Guidance in 2 CFR Section 200.303 requires that non-federal entities receiving federal awards (i.e. auditee management) establish and maintain internal control designed to reasonably ensure compliance with federal statues, regulations, and the terms and conditions of the federal award.

Condition - We reviewed 17 out of 108 drawdowns made during fiscal year 2018, totaling $36,726,249 and noted that 16 out of the 17 drawdowns did not contain evidence of proper review and approval.

In addition, we noted that DHS advanced funds totaling $350,000 to a travel company to transport Medical Assistance patients to off island hospitals for medical services not available in the U.S. Virgin Islands. However, DHS does not reconcile the funds that were advanced to the travel company to ensure the funds were reasonable. In addition, DHS requests reimbursement of these funds before they were fully spent.

Questioned Costs – Not determinable.

Context – This is a condition identified per review of DHS' compliance with the specified requirements using a statistically valid sample. Total fiscal year 2018 drawdown requests were $64,434,785

Effect – DHS is not in compliance with the stated provisions. Inaccurate information may have been reported to the Federal government in the absence of required reviews.

Cause – DHS did not appear to exercise due diligence in requesting federal funds by not following internal procedures over review and authorizations.

Recommendation – We recommend that DHS continue to be vigilant in following internal procedures over reviews and authorizations. Also, we recommend that DHS discontinue the practice of advancing funds to vendors and requesting reimbursement before the funds are fully spent. Furthermore, we recommend that DHS calculate the interest owed to CMS based on the amount of funds advanced.

Views of Responsible Officials - The Government concurs with the auditor's findings and recommendations. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Finding Number: **2018-060**
Prior Year Finding Number: **2017-046**
Compliance Requirement: **Eligibility**

Program:
U.S. Department of Health and Human Services

Government Department/Agency:
Department of Human Services (DHS)

Medicaid Cluster
CFDA #: 93.778
Award #: Various
Award Period: 10/01/2015 – 09/30/2022

Criteria – Plan and eligibility requirements must comply with various Federal requirements.

The Uniform Guidance in 2 CFR Section 200.303, *Internal Control,* requires the non-federal entity to establish and maintain effective internal control over Federal awards that provides reasonable assurance that the non-federal entity is managing Federal awards in compliance with Federal statutes, regulations, and other terms and conditions.

Additionally, in accordance with the State Plan under Title XIX of the Social Security Act, Section 4.7, *Maintenance of Records,* the Medicaid agency maintains or supervises the maintenance of records necessary for the proper and efficient operation of the plan, including records regarding applications, determination of eligibility, the provisions of medical assistance, and administrative costs, statistical, fiscal and other records necessary for reporting and accountability.

Condition – DHS is responsible for determining participant eligibility. During the current fiscal year, DHS was under a Public Health Emergency that provided flexibility for enrolling applicants. DHS used flexibility of presumptive eligibility which allows the applicant to complete an application and self-attest to the requirements of the Medicaid program. For new applicants, DHS could enroll participants so they could receive emergency medical services, however, DHS was required to perform a post-enrollment verification. During our review of the enrollments, we noted that DHS did not perform the required post enrollment verifications. In addition, we were unable to determine that the eligibility population was complete.

Questioned Costs – Not determinable.

Context – This is a condition identified per review of DHS' compliance with the specified requirements.

Effect – Noncompliance with program requirements could result in disallowances of costs and participants could be receiving benefits that they are not entitled to receive.

Cause – DHS does not appear to have adequate policies and procedures in place to ensure a consistent and systematic review of the data in its participant case files.

Recommendation – We recommend that DHS perform post enrollment verifications for applicants enrolled under the Presumptive Eligibility method. We also recommend that DHS perform regular reviews of the data in its participant case files to ensure accuracy and completeness and confirming that only eligible participants are receiving the entitled benefits.

Views of Responsible Officials - The Government concurs with the auditor's findings and recommendations. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Finding Number: **2018-061**
Prior Year Finding Number: **2017-047**
Compliance Requirement: **Matching, Level of Effort, Earmarking**

Program:
U.S. Department of Health and Human Services

Government Department/Agency:
Department of Human Services (DHS)

Medicaid Cluster
CFDA #: 93.778
Award #: Various
Award Period: 10/01/2015 – 09/30/2022

Criteria – In accordance with the Compliance Supplement, the State or Territory is required to pay part of the costs of providing health care to the poor and part of the costs of administering the program. Different participation rates apply to medical assistance payments. There are also different Federal financial participation rates for the different types of costs incurred in administering the entitlement program, such as administration (including administration of family planning services), training, computer, and other costs (42 CFR sections 433.10 and 433.15).

Condition – We sampled and selected 2 matching calculations from the CMS-64, *Quarterly Statement of Expenditures for the Medicaid Assistance Program* reports and noted that the 2 sampled reports did not contain evidence of review and approval.

Questioned Costs – Not determinable.

Context – This is a condition identified per review of DHS' compliance with the specified requirements using a statistically valid sample.

Effect – DHS is in not in compliance with the stated provisions.

Cause – DHS did not appear to exercise due diligence in following internal procedures over reviews and authorizations.

Recommendation – We recommend that DHS deploy resources that are given the responsibility to ensure periodic monitoring and compliance of the matching requirements throughout the fiscal year.

Views of Responsible Officials - The Government concurs with the auditor's findings and recommendations. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Finding Number: **2018-062**
Prior Year Finding Number: **N/A**
Compliance Requirement: **Period of Performance**

Program:
U.S. Department of Health and Human Services

Government Department/Agency:
Department of Human Services (DHS)

Medicaid Cluster
CFDA #: 93.778
Award #: Various
Award Period: 10/01/2015 – 09/30/2022

Criteria – Per the Uniform Guidance in 2 CFR Section 200.309, a non-Federal entity may charge to the Federal award only allowable costs incurred during the period of performance and any costs incurred before the Federal awarding agency or pass-through entity made the Federal award that were authorized by the Federal awarding agency or pass-through entity.

Per the Uniform Guidance in 2 CFR Section 200.343(b), unless the federal awarding agency or pass-through entity authorized an extension, a non-Federal entity must liquidate all obligations incurred under the Federal award not later than 90 calendar days after the end date of the period of performance as specified in the terms and conditions of the Federal award.

Condition – We sampled and tested 44 out of 680 transactions and noted that 2 did not have evidence of review and approval that the expenses were reasonable and to ensure expenses were within the period of performance.

Questioned Costs – Not determinable.

Context – This is a condition identified per review of DHS' compliance with the specified requirements using a statistically valid sample.

Effect – DHS is not in compliance with the stated provisions. Failure to properly review and support expenditures can result in noncompliance with laws and regulations along with loss of funding.

Cause – DHS did not appear to have adequate policies and procedures in place to ensure compliance with the required period of performance stipulations such as review and approval of expenditures and maintenance of records.

Recommendation – We recommend that DHS strengthen its processes with respect maintaining expenditure supporting documentation.

Views of Responsible Officials - The Government concurs with the auditor's findings and recommendations. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Finding Number: **2018-063**
Prior Year Finding Number: **2017-048**
Compliance Requirement: **Procurement/Suspension and Debarment**

Program:
U.S. Department of Health and Human Services

Government Department/Agency:
Department of Human Services (DHS)

Medicaid Cluster
CFDA #: 93.778
Award #: Various
Award Period: 10/01/2015 – 09/30/2022

Criteria – Recipients of Federal awards must have adequate policies and controls in place to ensure that the procedures are properly documented in the entity's files, provide full and open competition supported by a cost or price analysis, provide a vendor debarment or suspension certification, provide for retention of files, and that supporting documentation corroborate compliance with these requirements.

Condition – The Government's Department of Property and Procurement (DPP) is primarily responsible for procurement transactions. In our review of 9 out of 92 procurement transactions, we noted that 2 out of 9 procurement files for procurement transactions less than $5,000 on an on-island vendor, did not obtain the minimum number of quotation requirement.

Questioned Costs – Not determinable.

Context – This is a condition identified per review of DHS' compliance with the specified requirements using a statistically valid sample. We reviewed 9 procurement files with expenditures totaling $7,276,537, for fiscal year 2018.

Effect – DHS could inadvertently contract with or make sub-awards to parties that are suspended or debarred from doing business with the Federal government as well as award contracts to vendors whose contract prices are unreasonable. In addition, contracts may be executed to unqualified vendors.

Cause – DHS does not appear to have a process in place to adequately monitor and maintain completed contract files comprising of all supporting documents.

Recommendation – We recommend that DHS and DPP improve internal controls to ensure adherence to Federal regulations relating to the procurement of goods and services and review current records retention policies. There should be timely coordination and communication amongst all Government departments and/or agencies that are responsible for handling and managing procurement tasks.

Views of Responsible Officials - The Government concurs with the auditor's findings and recommendations. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Finding Number: **2018-064**
Prior Year Finding Number: **2017-049**
Compliance Requirement: **Reporting**

Program:
U.S. Department of Health and Human Services

Government Department/Agency:
Department of Human Services (DHS)

Medicaid Cluster
CFDA #: 93.778
Award #: Various
Award Period: 10/01/2015 – 09/30/2022

Criteria – In accordance with the Compliance Supplement, the State or Territory is required to submit CMS-64, *Quarterly Statement of Expenditures for the Medicaid Assistance Program*, thirty days after the end of the quarter.

Condition – We reviewed 2 out of the 4 quarterly CMS-64 reports submitted during the fiscal year and noted that the report's financial information did not agree with the underlying records. We also noted there was no evidence of a review or approval prior to submission.

Questioned Costs – Not determinable.

Context – This is a condition identified per review of DHS' compliance with the specified requirements using a statistically valid sample.

Effect – DHS is not in compliance with stated provisions and inaccurate information may have been reported to the Federal government.

Cause – It appears that policies and procedures, including review over reporting procedures were not functioning as intended. Further, DHS does not have adequate control over maintenance of the underlying documentation used in preparing various reports.

Recommendation – We recommend that DHS reevaluate its policies and procedures to ensure proper monitoring and review of the required reports by an appropriate official who would ensure the information submitted is complete, accurate, consistent, and submitted within the required timeframe.

Views of Responsible Officials - The Government concurs with the auditor's findings and recommendations. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Finding Number: **2018-065**
Prior Year Finding Number: **2017-055**
Compliance Requirement: **Special Tests and Provisions - Utilization Control and Program Integrity**

Program:
U.S. Department of Health and Human Services

Government Department/Agency:
Department of Human Services (DHS)

Medicaid Cluster
CFDA #: 93.778
Award #: Various
Award Period: 10/01/2015 – 09/30/2022

Criteria – The State or Territory plan must provide methods and procedures to safeguard against unnecessary utilization of care and services, including long-term care institutions. The State or Territory must have: (1) methods or criteria for identifying suspected fraud cases; (2) methods for investigating these cases; and (3) procedures, developed in cooperation with legal authorities, for referring suspected fraud cases to law enforcement officials (42 CFR parts 455, 456, and 1002). Suspected fraud should be referred to the State or Territory Medicaid Fraud Control Unit (42 CFR part 1007).

The State or Territory Medicaid agency must establish and use written criteria for evaluating the appropriateness and quality of Medicaid services. The agency must have procedures for the ongoing post-payment review, on a sample basis, of the need for and the quality and timeliness of Medicaid services. The State or Territory Medicaid agency may conduct this review directly or may contract with a quality improvement organization (QIO).

Condition – DHS does not have the necessary controls or procedures to safeguard against unnecessary utilization of care and services and to identify, investigate, and refer suspected fraud cases.

Questioned Costs – Not determinable.

Context – This is a condition identified per review of DHS' compliance with the specified requirements.

Effect – There may be prolonged, ongoing cases of unnecessary utilization and fraud which may be unnoticed and remain unreported by the program. Funds available are possibly being used inappropriately, with no methodology of properly identifying or tracking the amounts.

Cause – DHS does not have an effective system in place to address the program's requirements.

Recommendation – DHS should reconsider whether it would like to be directly responsible for Utilization Control and Program Integrity, or if the use of a QIO would better suit current needs. Once this is decided, DHS should take the necessary steps to ensure compliance with this requirement. The written procedures should reflect the actual actions to be taken. In the event a QIO is used, DHS should be involved throughout, so that it is aware of the program's vulnerabilities and has the opportunity to make the necessary changes for improvement in a timely manner.

Views of Responsible Officials - The Government concurs with the auditor's findings and recommendations. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Finding Number: **2018-066**
Prior Year Finding Number: **2017-052**
Compliance Requirement: **Special Tests and Provisions - Inpatient Hospital and Long-Term Care Facility Audits**

Program:
U.S. Department of Health and Human Services

Government Department/Agency:
Department of Human Services (DHS)

Medicaid Cluster
CFDA #: 93.778
Award #: Various
Award Period: 10/01/2015 – 09/30/2022

Criteria – The State or Territory Medicaid agency pays for inpatient hospital services and long-term care facility services through the use of rates that are reasonable and adequate to meet the costs that must be incurred by efficiently and economically operated providers. The State or Territory Medicaid agency must provide for the filing of uniform cost reports for each participating provider. These cost reports are used to establish payment rates. The State or Territory Medicaid agency must provide for the periodic audits of financial and statistical records of participating providers. The specific audit requirements will be established by the State or Territory Plan (42 CFR section 447.253).

Condition – DHS provides Medicaid services to eligible Territory residents through inpatient hospitals and long-term care facilities. These hospitals and facilities include various Territory agencies and third-party service providers. The costs incurred by these facilities are summarized in a cost report that is submitted to DHS. DHS awarded a contract in August 2017 for the audit of these cost reports; however, we noted that DHS had not received any audited cost reports for fiscal year 2018.

Questioned Costs - Not determinable.

Context – This is a condition identified per review of DHS' compliance with the specified requirements.

Effect – Without timely audits of the cost reports, DHS has no assurance that the costs incurred by the medical facilities are actual costs incurred. Further, the difference between costs submitted for reimbursement and the costs actually reimbursed result in the use of local, rather than Federal, dollars to fund Medicaid expenditures.

Cause – DHS did not have sufficient time to obtain audited cost reports for fiscal year 2018, due to delays in awarding of the contract for the requisite services.

Recommendation – We recommend that DHS evaluate and develop policies and procedures to obtain and audit the cost reports. This will allow DHS to reduce the time between the Medicaid expenditures being incurred and the ultimate reimbursement from the Federal government.

Views of Responsible Officials - The Government concurs with the auditor's findings and recommendations. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Finding Number: **2018-067**
Prior Year Finding Number: **2017-054**
Compliance Requirement: **Special Tests and Provisions – ADP Risk Analysis and System Security Review**

Program:
U.S. Department of Health and Human Services

Government Department/Agency:
Department of Human Services (DHS)

Medicaid Cluster
CFDA #: 93.778
Award #: Various
Award Period: 10/01/2015 – 09/30/2022

Criteria – State or Territory agencies must establish and maintain a program for conducting periodic risk analyses to ensure that appropriate, cost effective safeguards are incorporated into new and existing systems. State or Territory agencies must perform risk analyses whenever significant system changes occur. State or Territory agencies shall review the ADP system security of installations involved in the administration of HHS programs on a biennial basis. At a minimum, the reviews shall include an evaluation of physical and data security operating procedures and personnel practices. The State or Territory agency shall maintain reports on its biennial ADP system security reviews, together with pertinent supporting documentation, for HHS on-site reviews (45 CFR section 95.621).

Condition – DHS did not perform the required ADP Risk Analysis and System Security Review for Virgin Islands Benefit Eligibility System (VIBES) that support the Medicaid Program.

Questioned Costs - Not determinable.

Context – This is a condition identified per review of DHS' compliance with the specified requirements.

Effect - The absence of policies to ensure these analyses and reviews are performed may lead to physical and data security issues and noncompliance with program requirements. Further, DHS' risk of incomplete or inaccurate data processing, or worse, the risk of fraud, increases.

Cause – DHS' records do not permit a determination as to the sufficiency of the design and operation of key controls surrounding the environment in which the Medicaid claims reside.

Recommendation - We recommend that management should perform and review a risk analysis and system security review for all systems that support the Medicaid program. All issues should be addressed by management. If management becomes aware that such a report will not be available, we recommend that management conduct its own review.

Views of Responsible Officials - The Government concurs with the auditor's findings and recommendations. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Finding Number: **2018-068**
Prior Year Finding Number: **2017-051**
Compliance Requirement: **Special Tests and Provisions – Provider Eligibility**

Program:
U.S. Department of Health and Human Services

Government Department/Agency:
Department of Human Services (DHS)

Medicaid Cluster
CFDA #: 93.778
Award #: Various
Award Period: 10/01/2015 – 09/30/2022

Criteria – In order to receive Medicaid payments, providers of medical services must be licensed in accordance with Federal, State, and local laws and regulations to participate in the Medicaid program. Moreover, in accordance with the disclosure requirements of 42 CFR 455 subpart B, *Disclosure of Information by Providers and Fiscal Agents*, providers that are not practitioners or a group of practitioners are required to disclose certain information when applying to participate in the Medicaid program.

Condition – During our review of 12 out of 123 providers receiving payments during the fiscal year, we noted the following:

- 11 out of the 12 providers agreement were not reviewed and approved by the provider relations staff.
- 3 out of the 12 providers were not approved by the Commissioners of both DHS and DPP.
- 2 out of the 12 providers did not have a current license on file.
- 1 out of the 12 providers agreement was not available for review.

Questioned Costs – Not determinable.

Context – This is a condition identified per review of DHS' compliance with the specified requirements using a statistically valid sample.

Effect - Noncompliance with program requirements could result in disallowances of costs and ineligible providers could be participating in the program.

Cause - DHS does not appear to have adequate policies and procedures in place to ensure a consistent and systematic review of documentation and file maintenance.

Recommendation - We recommend that DHS perform regular reviews of the data in its files to ensure accuracy and completeness. DHS should also review its records retention policies to ensure that complete documentation is maintained, safeguarded, and available for review.

Views of Responsible Officials - The Government concurs with the auditor's findings and recommendations. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Finding Number: **2018-069**
Prior Year Finding Number: **2017-053**
Compliance Requirement: **Special Tests and Provisions - Medicaid Fraud Control Unit**

Program:
U.S. Department of Health and Human Services

Government Department/Agency:
Department of Human Services (DHS)

Medicaid Cluster
CFDA #: 93.778
Award #: Various
Award Period: 10/01/2015 – 09/30/2022

Criteria – States or Territories are required as part of their Medicaid State plans to maintain a Medicaid Fraud Control Unit (MFCU), unless the Secretary of HHS determines that certain safeguards are met regarding fraud and abuse and waives the requirement.

Condition - The DHS Medical Assistance Program does not have in place a Medicaid Fraud Control Unit. Further, we were not provided with a list of violations of Medicaid laws and regulations.

Questioned Costs - Not determinable.

Context - This is a condition identified per review of DHS' compliance with the specified requirements.

Effect - There may be prolonged, ongoing cases of fraud which may be unnoticed and remain unreported by the program. Funds available are possibly being used inappropriately, with no methodology of properly identifying or tracking the amounts.

Cause - DHS does not have an effective system in place to address the program's requirements.

Recommendation - A Medicaid Fraud Control Unit needs to be implemented immediately, as it is a program requirement.

Views of Responsible Officials - The Government concurs with the auditor's findings and recommendations. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Finding Number: **2018-070**
Prior Year Finding Number: **2017-050**
Compliance Requirement: **Special Tests and Provisions – Federal Financial Participation Refunds**

Program:
U.S. Department of Health and Human Services

Government Department/Agency:
Department of Human Services (DHS)

Medicaid Cluster
CFDA #: 93.778
Award #: Various
Award Period: 10/01/2015 – 09/30/2022

Criteria or Specific Requirement - Title 42 CFR section 433.40(c), *Refund of Federal Financial Participation* (FFP) for uncashed checks states that if a check remains uncashed beyond a period of 180 days from the date it was issued (i.e., the date of the check), it will no longer be regarded as an allowable program expenditure. If the State has claimed and received FFP for the amount of the uncashed check, it must refund the amount of FFP received.

Condition - DHS is required to identify cancelled and uncashed checks beyond a period of 180 days of issuance at the end of each calendar quarter and refund all FFP received for uncashed checks by adjusting the CMS-64 report, *Quarterly Statement of Expenditures for the Medical Assistance Program*. We noted that DHS does not have a process in place to identify cancelled or uncashed checks over 180 days after issuance and refund the corresponding FFP in a timely manner.

Questioned Costs – Not determinable.

Context - This is a condition identified per review of DHS' compliance with the specified requirements.

Effect - DHS is not in compliance with regulations which result in untimely refunds of the FFP to the Federal government. There is also potential for disallowed costs that were never refunded due to checks remaining uncashed beyond a period of 180 days from the date of issuance.

Cause - DHS does not have adequate policies and procedures in place to request and review the cancelled and uncashed check report on a quarterly basis as required.

Recommendation - We recommend that DHS comply with the specified requirements and establish adequate policies and procedures to ensure that cancelled and uncashed checks over 180 days from the date of issuance are identified on a quarterly basis and all FFP received for uncashed checks are refunded to the Federal government in a timely manner.

Views of Responsible Officials - The Government concurs with the auditor's findings and recommendations. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Finding Number: **2018-071**
Prior Year Finding Number: **N/A**
Compliance Requirement: **Activities Allowed or Unallowed and Allowable Costs/Cost Principles, Period of Performance**

Program:
U.S. Department of Homeland Security

Government Department/Agency:
Department of Finance (DOF)

Community Disaster Loans
CFDA #: 97.030
Award #: 1660-0083 EMN-2018-TF-4335VI02, 1660-0083 EMN-2018-TF-4335VI03, 1660-0083 EMN-2018-TF-4335VI04
Award Year: 01/03/2018 – 10/01/2037

Criteria – Per 44 CFR 206.375 (b) (1), each local government with an approved Special Community Disaster Loan shall establish necessary accounting records, consistent with local government's financial management system, to account for loan funds received and disbursed and to provide an audit trail.

Condition – Upon review of the Government's accounting records, underlying details of expenditures that agree to the total loan amount were not reconciled and readily available. Expenditure documentation is maintained at a summary level. Documentation to support expenditure items selected at a more disaggregated level than the summary level documentation submitted to Federal Emergency Management Agency (FEMA), were not readily available.

We sampled and selected 60 payroll transactions with a total amount of $41,991 and 4 non-payroll transactions with a total amount of $3,561,585.

- We sampled and selected 60 payroll transactions and noted the following:
  - 24 Notice of Personnel Action (NOPA) was not available for review
  - 30 timesheets were not available in order to ascertain proper review and approval

- The population of payroll expenditures allocated to the loan program was not reconciled. Individual payroll transactions were not directly allocated to drawdown amounts.

- Disaggregated expenditure details beyond the summary level expenditure details on Advance Request forms submitted to FEMA were not maintained and reviewed by the Government. These summary level expenditure details included transfers to component units of the Government.

- Expenditure details that bifurcate amounts allotted to the Government's component units in order to identify loan amounts used for payroll transactions and non-payroll transactions at the Government's component units were not maintained or made available.

Questioned Costs – Not determinable.

Context – This is a condition identified per review of DOF's compliance with the specified requirements using a statistically valid sample. The total program expenditures related to the program for fiscal year 2018 amounted to $188,522,218, of which $86,302,548 and $102,219,670 pertain to payroll and non-payroll expenditures, respectively.

Effect – Underlying and supporting detail expenditures and documentation, beyond the summary level detail prepared for submission to FEMA is not maintained and reviewed by DOF.

Cause – Due to the varied components and entities for which loan funds are allocated and their separate accounting functions, inherent complexities exist in accumulating underlying details of expenditures. Due to the Advance Request template form accepted by FEMA for the Government to submit expenditures and drawdown loan funds, a summary level detail of expenditures is sufficient to complete an Advance Request form.

Recommendation – We recommend that DOF reevaluates its policies and procedures to ensure that underlying expenditure details are accumulated in order for DOF to review, reconcile and ensure allowability of activities, allowability of costs and accuracy of period of performance.

Views of Responsible Officials - The Government concurs with the auditor's findings and recommendations. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Finding Number: **2018-072**
Prior Year Finding Number: **N/A**
Compliance Requirement: **Cash Management**

Program:
U.S. Department of Homeland Security

Government Department/Agency:
Department of Finance (DOF)

Community Disaster Loans
CFDA #: 97.030
Award #: 1660-0083 EMN-2018-TF-4335VI02, 1660-0083 EMN-2018-TF·4335VI03, 1660-0083 EMN-2018-TF-4335VI04
Award Year: 01/03/2018 – 10/01/2037

Criteria – Per 44 CFR 206.375 (a) (1), FEMA will disburse funds to the local government when requested, generally in accordance with the Schedule of Loan Increments in the Promissory Note. Per the Department of Homeland Security Federal Emergency Management Agency Promissory Notes, FEMA shall specify the rules and procedures for determining the timing and amount of drawdowns and may specify the forms of drawdown requests.

Condition – We reviewed 5 out of 21 drawdowns made during fiscal year 2018, totaling $104,109,926, and noted that 2 out of 5 drawdowns did not contain evidence of proper review and approval.

Questioned Costs – Not determinable.

Context – This is a condition identified per review of DOF's compliance with the specified requirements using a statistically valid sample. Total fiscal year 2018 drawdown requests were $188,522,218.

Effect – There is a risk that a lack of DOF review and approval of loan drawdown request prior to submission to FEMA could result in failure to detect errors and noncompliance with laws and regulations along with ineligible uses of loan proceeds. Discrepancies in cash drawdown amounts per accounting records and underlying documents could result in non-compliance by DOF of the stated requirements by making excessive drawdowns and may result in loss of future funding.

Cause – DOF does not appear to have adequate policies and procedures and effective internal controls to process, review and approve loan drawdowns in accordance with funding techniques and clearance patterns for this program.

Recommendation – We recommend that DOF comply with the provisions of the Department of Homeland Security Federal Emergency Management Agency Promissory Notes and request Federal funds consistent with the Department of Homeland Security Federal Emergency Management Agency Promissory Notes' funding techniques and clearance patterns for this program. We also recommend that DOF improve internal controls to ensure adherence to the applicable provisions.

Views of Responsible Officials - The Government concurs with the auditor's findings and recommendations. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Finding Number: **2018-073**
Prior Year Finding Number: **N/A**
Compliance Requirement: **Reporting**

Program:
U.S. Department of Homeland Security

Disaster Grants - Public Assistance (Presidentially Declared Disasters)
CFDA #: 97.036
Award #: FEMA-4335-DR, FEMA-4340-DR-VI
Award Periods: 09/20/2017 – 09/07/2025
09/07/2017 – 09/16/2025

Government Department/Agency:
Virgin Islands Territorial Emergency Management Agency (VITEMA)

Criteria – In accordance with the U.S. Department of Homeland Security Federal Emergency Management Agency's Public Assistance Program and Policy Guide, it requires the submission of quarterly performance/progress report to track progress of the projects. Additionally, the requirements necessitate that all submitted reports should be supported by the underlying performance records and presented in accordance with program requirements.

Condition – We reviewed 4 out of the 16 reports submitted during the fiscal year and noted that 2 progress reports (OMB Form 1600-0017 PA) did not have evidence of review and approval prior to submission.

Questioned Costs – Not determinable.

Context – This is a condition identified per review of VITEMA's compliance with specified requirements using a statistically valid sample.

Effect – VITEMA is not in compliance with stated provisions and inaccurate information may have been reported to the Federal government.

Cause – It appears that policies and procedures, including review over reporting procedures were not functioning as intended.

Recommendation – We recommend that VITEMA reevaluate its policies and procedures to ensure proper monitoring and review of the required reports by an appropriate official who would ensure the information submitted is complete, accurate, consistent and submitted within the required timeframe.

Views of Responsible Officials - The Government concurs with the auditor's findings and recommendations. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Finding Number: **2018-074**
Prior Year Finding Number: **2017-088**
Compliance Requirement: **Data Collection Form and Single Audit Reporting Package**

Program:

CFDA # 10.551, 10.561	Supplemental Nutrition Assistance Program Cluster (SNAP)
CFDA # 10.555, 10.559	Child Nutrition Cluster
CFDA # 10.557	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)
CFDA # 17.225	Unemployment Insurance (UI)
CFDA # 20.205	Highway Planning and Construction Cluster
CFDA # 84.027	Special Education – Grants to States (IDEA, Part B)
CFDA # 84.403	Consolidated Grant to the Outlying Areas
CFDA # 93.600	Head Start
CFDA # 93.767	Children's Health Insurance Program (CHIP)
CFDA # 93.778	Medicaid Cluster
CFDA # 97.030	Community Disaster Loans
CFDA # 97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)

Criteria – The Uniform Guidance in 2 CFR Section 200.512, *Report Submission*, establishes that the audit shall be completed and the data collection form and reporting package shall be submitted to the Federal Audit Clearinghouse (FAC) within the earlier of 30 days after receipt of the auditor's report or nine (9) months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit.

Condition – The Government did not comply with the required submission date of the data collection form and reporting package to the FAC for the fiscal year ended September 30, 2018. The due date for this report was no later than June 30, 2019.

Questioned Costs – Not applicable.

Context – This is a condition identified per review of the Government's compliance with the specified requirements.

Effect – The Government could be exposed to a reduction or elimination of funds by the Federal awarding agencies.

Cause – The Government did not have controls in place to ensure that the reporting package was submitted to the FAC within the required timeframe.

Recommendation – We recommend that the Government establish controls to ensure the reporting package is submitted to the FAC annually within the required timeframe.

Views of Responsible Officials - The Government concurs with the auditor's findings and recommendations. The planned corrective actions are presented in the Government's Corrective Action Plan attached as Appendix B to the Single Audit Report.

Management's Appendices

GOVERNMENT OF
THE UNITED STATES VIRGIN ISLANDS
THE OFFICE OF MANAGEMENT AND BUDGET

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July 31, 2020

BDO USA, LLP
12505 Park Potomac Ave, Suite 700
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In connection with the Single Audit of the Government of the United States Virgin Islands (the Government) for the year ended September 30, 2018, transmitted herewith is the Fiscal Year 2018 Status of Prior Audit Findings and a Corrective Action Plan in accordance with 2 CFR §200.511, *Audit Findings Follow-Up*. These schedules provide the status of the *Government Auditing Standards* and the Single Audit findings for fiscal years 2018, 2017, 2016, 2015 and 2014.

The Government's Department of Finance (DOF) and Office of Management and Budget (OMB) have requested department heads to make the required follow-up. OMB has also advised and requested of department heads, a review of outstanding Single Audit findings and to cite 2 CFR §200.511(b)(3) as a means to close the respective audit findings, where applicable, to the respective grants.

DOF and OMB will continue to work with the departments to ensure audit resolution is received for the unresolved findings listed in the Status of Prior Audit Findings and Corrective Action Plan.

If you have any questions, please contact us.

Respectfully,

Ms. Jenifer O'Neal
Director, Office of Management and Budget
United States Virgin Islands

Mr. Kirk Callwood, Sr.
Commissioner of Finance
United States Virgin Islands

Ms. Clarina Modeste-Elliott
Executive Assistant Commissioner of Finance
United States Virgin Islands

Status of Prior Audit Findings

Government of the United States Virgin Islands

Appendix A: Status of Prior Audit Findings
Year Ended September 30, 2018

Section I – Financial Statement Findings

Finding 2017-001, 2016-009, 2015-009 and 2014-009: Financial Position

Deficits in Unrestricted Net Position

Current Status: Repeated. Finding 2018-001.

Reason for recurrence: The Government is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

Corrective 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.

Plan Funding Considerations

Current Status: Repeated. Finding 2018-001.

Reason for recurrence: The Government is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

Corrective 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 annual required contributions 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.

Government Insurance Fund

Current Status: Repeated. Finding 2018-001.

Reason for recurrence: The Government is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

Corrective 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.

Other Post-Employment Benefits Obligation

Current Status: Corrective action was taken. Finding not repeated in current year.

Finding 2017-002, 2016-004, 2015-004, 2014-005: Accounting in the Aftermath of Disasters

Capital Assets Impairment Process

Current Status: Repeated. Finding 2018-005

Reason for recurrence: The Government is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

Corrective 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 ERP system.

Formalize Emergency Payroll Procedures

Current Status: Repeated. Finding 2018-011

Reason for recurrence: The Government is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

Corrective 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."

Finding 2017-003, 2016-001, 2015-001 and 2014-001: Year-End Close Process

Timeliness and Methodology of Close Process

Current Status: Repeated. Finding 2018-002.

Reason for recurrence: The Government is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

Corrective Action Plan: In an effort to develop reliable and timely interim and year-end financial statements, continuous communication and trainings will be made available to all finance users on one consistent and comparable reconciliation process that will allow for any needed adjustments prior to the 13th period. In this way, all accounts, accruals, and reconciliations will be available. Any unreconciled differences will be identified and resolved, with any applicable journal entries, recorded in the financial system of the Government.

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.

Journal Entries

Current Status: Repeated. Finding 2018-002.

Reason for recurrence: The Government is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

Corrective 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.

Finding 2017-004, 2016-002, 2015-002 and 2014-003: Revenue and Receivables

Reconciliation of Subsidiary Registers

Current Status: Repeated. Finding 2018-003.

Reason for recurrence: The Government is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

Corrective Action Plan: For purposes of interim financial reporting, the Bureau of Internal Revenue and the Department of Finance has begun 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. On an ongoing basis, both agencies exchange those adjustments or corrections needed. This will be more evident in Fiscal Year 2020.

Allowance for Doubtful Accounts

Current Status: Corrective action was taken. Finding not repeated in current year.

Real Property Tax

Current Status: Repeated. Finding 2018-003.

Reason for recurrence: The Government is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

Corrective Action Plan: Department of Finance personnel will collaborate with the Office of the Lieutenant Governor to determine and consider the recommendations set forth. 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.

Other Revenues

Current Status: Repeated. Finding 2018-003.

Reason for recurrence: The Government is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

Corrective 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.

Finding 2017-005, 2016-003, 2015-003 and 2014-004: Grants Management

Control Systems Over the Schedule of Expenditures of Federal Awards

Current Status: Repeated. Finding 2018-004.

Reason for recurrence: The Government is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

Corrective 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. 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.

Changes begin to take effect for Fiscal Year 2019. The process began with the 2018 audit where the task to reconcile the SEFA was outsourced to a vendor to work with departments and agencies and develop a road map for continuation of reconciliation of data.

Federal Grants and Contributions

Current Status: Repeated. Finding 2018-004.

Reason for recurrence: The Government is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

Corrective Action Plan: In an effort to more accurately account for Federal receivables and related transactions, a private firm was contracted to work directly with the agencies to substantiate the Federal receivables. Once the road map to achieve this ongoing task is set, a meeting with all departments and agencies will be conducted to task this to someone at the agency level, where continuous collaboration and meetings will be held.

OMB will also 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.

Finding 2017-006, 2016-004, 2015-004 and 2014-005: Capital Assets and Related Expenditures

Record Keeping

Current Status: Repeated. Finding 2018-005.

Reason for recurrence: The Government is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

Corrective Action Plan: Department of Property and Procurement will work collaboratively with Department of Finance to provide trainings and work on the structuring of the entire process to include key personnel and policies. The Government will review and update the necessary manuals to address all of the recommendations set forth.

In addition, the Department of Finance, Capital Asset Coordinator continues to work collaboratively with Department of Property and Procurement, Internal Auditors, and external parties to ensure that from a financial reporting perspective, the information is available and supports the flow of the asset.

Reconciliation and Review of Subsidiary Registers

Current Status: Repeated. Finding 2018-005.

Reason for recurrence: The Government is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

Corrective 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.

Department of Finance met with Property and Procurement to discuss some new positions and the policy updates. Coordination for training is well on its way to have Capital Asset Coordinator at Department of Finance assist Property and Procurement new staff on the needs from a financial reporting standpoint.

Construction in Progress (CIP) Monitoring

Current Status: Repeated. Finding 2018-005.

Reason for recurrence: The Government is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

Corrective 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.

Capital Assets – Business-Type Activities

Current Status: Repeated. Finding 2018-005.

Reason for recurrence: The Government is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

Corrective 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 and Procurement will coordinate and communicate amongst all Government departments and/or agencies that are responsible for handling and managing capital assets. The Government will review the recommendations and collaborate with Benham and Hodge (B&H) to incorporate for the fiscal year 2020 audit year.

Finding 2017-007, 2016-005, 2015-005 and 2014-006: Recording of Liabilities

Retroactive Pay Liability

Current Status: Repeated. Finding 2018-006.

Reason for recurrence: The Government is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

Corrective 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.

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.

Medical Malpractice Liability

Current Status: Repeated. Finding 2018-006.

Reason for recurrence: The Government is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

Corrective 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.

Accounts Payable

Current Status: Repeated. Finding 2018-006.

Reason for recurrence: The Government is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

Corrective 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.

Conversation relative to the ERP functionality has began and Tyler Munis Tech and Support Team is gathering data for later review to see how the system can be more accommodating. However, another option is to utilize the Tyler Munis Vendor Self Service Module where vendors can upload their invoices for payment.

Landfill Closure and Post Closure Costs Liability

Current Status: Repeated. Finding 2018-006.

Reason for recurrence: The Government is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

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

Quality of Census Data

Current Status: Repeated. Finding 2018-006.

Reason for recurrence: The Government is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

Corrective 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.

Finding 2017-008, 2016-006, 2015-006 and 2014-007: Management of the Medicaid Program

Cost Report Audits and System Security Review

Current Status: Repeated. Finding 2018-007.

Reason for recurrence: The Government is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

Corrective Action Plan: Department of Finance has already begun conversations with the Department of Human Services on how the recommendations set forth can be achieved.

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. 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).

Utilization Control and Medicaid Fraud Control Unit

Current Status: Repeated. Finding 2018-007.

Reason for recurrence: The Government is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

Corrective Action Plan: Subsequent to fiscal year-end, 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.

Finding 2017-009, 2016-007, 2015-007 and 2014-008: Unemployment Insurance Trust Fund

Account Reconciliation Process

Current Status: Repeated. Finding 2018-008.

Reason for recurrence: The Government is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

Corrective 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.

Finding 2017-010, 2016-008, 2015-008 and 2014-011: Workers Compensation Program

Accuracy of the Program Loss Reserves

Current Status: Repeated. Finding 2018-009.

Reason for recurrence: The Government is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

Corrective Action Plan: Department of Finance will collaborate with the agency to consider the recommendations set forth.

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.

Finding 2017-011, 2016-011, 2015-011 and 2014-010: Payroll, Related Accruals, and Other Expenditures

Payroll Expenditures

Current Status: Repeated. Finding 2018-011.

Reason for recurrence: The Government is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

Corrective Action Plan: Department of Finance will collaborate with the Department of Human Resources to determine and consider the recommendations set forth. Will enhance monitoring of deactivating employees from the system and we will closely review reports for appropriate and accurate information.

Transactions with Personnel

Current Status: Repeated. Finding 2018-011.

Reason for recurrence: The Government is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

Corrective 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.

Supporting Documentation for Expenditures

Current Status: Repeated. Finding 2018-011.

Reason for recurrence: The Government is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

Corrective 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 will be closely reviewed to ensure expenditures are recorded in the proper period and are supported in the Accounts Payable module. Significant improvement has been made to ensure proper supporting documentation exist for all expenditures in the ERP system.

Finding 2017-012, 2016-010, 2015-010 and 2014-002: Bank Accounts

Strengthen Controls Over Bank Reconciliations

Current Status: Repeated. Finding 2018-012.

Reason for recurrence: The Government is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

Corrective 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.

Cash Pooling and Allocation(s)

Current Status: Repeated. Finding 2018-012.

Reason for recurrence: The Government is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

Corrective 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.

Finding 2017-013, 2016-012, 2015-012 and 2014-012: Information Technology Environment

Current Status: Repeated. Finding 2018-013.

Reason for recurrence: The Government is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

Corrective Action Plan: Several enhancements have been made in alignment with correspondences to end users. Continuation of improvements is well underway.

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. 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.

Finding 2017-014, 2016-013 and 2015-013: Landfill Consent Decrees

Current Status: Repeated. Finding 2018-014.

Reason for recurrence: The Government is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

Corrective 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.

Finding 2017-015, 2016-014 and 2015-014: Establishment of a Medical Malpractice Trust Fund

Current Status: Repeated. Finding 2018-015.

Reason for recurrence: The Government is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

Corrective 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.

Finding 2017-016 and 2016-015: Procurement Regulations

Current Status: Repeated. Finding 2018-016.

Reason for recurrence: The Government is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

Corrective 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.

Finding 2017-017: Casino Control Commission

Current Status: Repeated. Finding 2018-017.

Reason for recurrence: The Government is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

Corrective 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.

Section II - Federal Award Findings (By Program)

Program:
U.S. Department of Agriculture

Government Department/Agency:
Department of Education (DOE)

Child Nutrition Cluster
CFDA #: 10.555/10.559
Award #: 1VI300308
Award Year: 10/01/2016 – 09/30/2017

Finding 2017-018, 2016-067, 2015-067 and 2014-055: Allowable Cost/Cost Principles – Payroll Activities

Current Status: Corrective action was taken. Finding not repeated in current year.

Finding 2017-019, 2016-068, 2015-068 and 2014-058: Allowable Cost/Cost Principles – Indirect Cost Activities

Current Status: Repeated. Finding 2018-030.

Reason for Recurrence: The Government is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

Corrective Action Plan: The Special Nutrition Programs utilizes prevailing rates for prior years until the new rates are negotiated and received. There are instances where adjustments are done in-house or forwarded to the Department of Finance for processing. Considering that the expenditures reviewed fell within the fiscal year of Hurricanes Irma and Maria when the ERP was inoperable for some time, and most adjustments are completed towards the end of the fiscal year, this may have been an oversight. Nonetheless, the Program will ensure that the correct indirect cost rate is utilized once it is negotiated and received and will adjust as necessary. The Special Nutrition Programs will also follow-up with the Department of Finance with any adjustments that may have been forwarded for processing.

Finding 2017-020, 2016-069, 2015-069 and 2014-59: Cash Management

Current Status: Repeated. Finding 2018-031.

Reason for Recurrence: The Government is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

Corrective Action Plan: DOE will ensure that all drawdowns are reviewed, approved, and reconciled on a monthly basis.

Finding 2017-021, 2016-070, 2015-070 and 2014-060: Equipment/Real Property Management

Current Status: Repeated. Finding 2018-032.

Reason for Recurrence: The Government is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

Corrective Action Plan: The Special Nutrition Programs will maintain complete and accurate records pertaining to the location and distribution of all fixed assets in coordination with DPP.

Finding 2017-022: Matching, Level of Effort, and Earmarking

Current Status: Repeated. Finding 2018-033.

Reason for Recurrence: The Government is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

Corrective Action Plan: The Special Nutrition Programs will ensure that the responsible entity for the approval of employee timesheets under its supervision is cognizant that all timesheets must be signed and approved prior to submitting to the Payroll Division for processing. Additionally, the Payroll Division should ensure that signatures are affixed to all timesheets requesting payment.

Finding 2017-023, 2016-071: Period of Performance

Current Status: Repeated. Finding 2018-034.

Reason for Recurrence: The Government is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

Corrective Action Plan: The Program will work with the responsible entity to ensure that all expenditures are properly reviewed prior to approval to ensure that they occurred within the period of performance as stipulated by the applicable Grant Award Document.

Finding 2017-024: Procurement/Suspension and Debarment

Current Status: Repeated. Finding 2018-035.

Reason for Recurrence: The Government is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

Corrective Action Plan: The Special Nutrition Programs will work with both District School Food Authorities, as well as communicate with the DPP to ensure that all necessary language and attachments are included in all contracts prior to final approval.

Program:
U.S. Department of Agriculture

Government Department/Agency:
Department of Human Services (DHS)

Supplemental Nutrition Assistance Program Cluster
CFDA #: 10.561
Award #: 1VI400408, 1VI430457
Award Year: 10/01/2016 – 09/30/2017,
10/01/2016 – 09/30/2018

Finding 2017-025: Allowable Cost/Cost Principles – Payroll Activities

Current Status: Repeated. Finding 2018-019.

Reason for Recurrence: The Government is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

Corrective Action Plan: DHS is restructuring its internal operations to ensure reconciliations of the payroll cycles ensuring accuracy with charges to the Federal grants. Prior to Hurricane's Irma and Maria, time and attendance reports were approved and electronically transmitted in the ADI time and attendance management system requiring various levels of managerial/supervisory approvals. Additionally, payroll time continues to be uploaded into the ERP system, requiring several additional levels of internal approval inclusive of the CFO and the Commissioner, prior to the batches (files) being electronically released to the Department of Finance for final processing. After the passage of the hurricanes, the ADI system was completely disabled. Access to the system was impossible; stored information of data files was limited, with certain periods a total loss, due to a compromised file server. However, DHS has moved away from the ADI system and are in the process of implementing the Government's STATS system. DHS ensures accuracy with payroll charges to federal grants by implementing the NOPA changes, and implementing the STATS system which requires several levels of approval.

Finding 2017-026: Allowable Costs/Cost Principles – Indirect Cost Activities

Current Status: Repeated. Finding 2018-020.

Reason for Recurrence: The Government is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

Corrective Action Plan: Operations were severely disrupted for months in the 4th quarter of the Fiscal Year with the passage of Hurricane's Irma and Maria. DHS recently implemented a reconciliation process wherein an indirect cost analysis is performed at the end of each quarter ensuring accurate cost reporting on the Federal financial report.

Finding 2017-027, 2016-016, 2015-017 and 2014-015: Cash Management

Current Status: Repeated. Finding 2018-021.

Reason for Recurrence: The Government is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

Corrective Action Plan: While this is a common finding throughout Government, DHS continues to strive to ensure that proper financial controls are put in place to prevent further occurrences. Additionally, DHS is reorganizing the Fiscal office which further assures the separation of duties coupled with proper authorizations. DHS has instituted the Federal receivables reconciliation to ensure the proper controls over recording and reconciling drawdowns are properly filed.

Finding 2017-028, 2016-017, 2015-018 and 2014-016: Equipment/Real Property Management

Current Status: Repeated. Finding 2018-022.

Reason for Recurrence: The Government is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

Corrective Action Plan: While this is a common finding throughout Government, DHS continues to collaborate its efforts with DPP in ensuring Federal and Local regulations are met. The reconciliation of the asset listing is ongoing. Additional staff is being recruited to support the reconciliation process and correct these issues.

Finding 2017-029: Period of Performance

Current Status: Repeated. Finding 2018-024.

Reason for Recurrence: The Government is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

Corrective Action Plan: DHS is in the process of restructuring its Fiscal operations to include comprehensive reconciliations. The reconciliation process will include a liquidation journal to ensure compliance with period of performance requirements. DHS Fiscal office is committed to ensuring that staff is retrained to identify period of performance for transactions.

Finding 2017-030, 2016-018: Procurement/Suspension and Debarment

Current Status: Repeated. Finding 2018-025.

Reason for Recurrence: The Government is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

Corrective Action Plan: DPP now reviews vendor's debarment status on Sams.gov and prints a debarment of suspension certification to ensure that all contractors that are awarded government contracts using federal funds are not debarred. DPP now requires contractual services provide documentation to show that full and open competition was conducted with a cost or price analysis. These documents will then be stored in the contract file. DHS will work in tandem with DPP, requiring a review of documents to ensure compliance.

Finding 2017-031: Special Tests and Provisions – EBT Card Security

Current Status: Repeated. Finding 2018-029.

Reason for Recurrence: The Government is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

Corrective Action Plan: The Program Administrator will prepare an SOPP specific to the handling of the EBT cards. Staff will be trained and cross trained to ensure adherence to the policy. Additional level of approvals will be inserted in the process to adequately safeguard the EBT cards, and the issuance process is in full compliance with Federal mandates. Additionally, its noteworthy to state that cards provided by the vendor (FIS) remain inactive until it is activated in the contractor's system.

DHS is committed to maintaining adequate security over the EBT cards with the assistance of FIS and through the recruitment of additional staff. DHS continues to emphasize the importance of the reconciliations with the proper approvals, as well.

Finding 2017-032: Special Tests and Provisions – EBT Card Reconciliation

Current Status: Repeated. Finding 2018-028.

Reason for Recurrence: The Government is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

Corrective Action Plan: The Program Administrator will prepare an SOPP specific to the handling of the EBT cards inclusive of monthly reconciliations. Staff will be trained and cross trained to ensure adherence to the policy. DHS intends on hiring and Internal Auditor to assist in ensuring the reconciliation processes are completed in order to allow for full Federal compliance. The SNAP Administrator or Assistant Administrator are recruiting staff to build capacity to oversee the reconciliations.

Finding 2017-033: Special Tests and Provisions – ADP System for SNAP-Recertifications

Current Status: Repeated. Finding 2018-027.

Reason for Recurrence: The Government is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

Corrective Action Plan: The SNAP system will be moving to the implementation of the new Virgin Islands Benefits Eligibility System (VIBES). This process will improve monitoring and controls. This process will offer program changes for better oversite of electronic controls. The SNAP program is committed to ensuring that the enrollment and eligibility requirements are being met by recruiting staff to build capacity. The VIBES project is mobilizing to begin user testing.

Program:
U.S. Department of Agriculture

Government Department/Agency:
Department of Health (DOH)

Special Supplemental Nutrition Program for Women,
Infants, and Children (WIC)
CFDA #: 10.557
Award #: 1VI700708
Award Year: 10/01/2016 – 09/30/2017

Finding 2017-034: Cash Management

Current Status: Corrective action was taken. Finding not repeated in current year.

Appendix A: Status of Prior Audit Findings
Year Ended September 30, 2018

Finding 2017-035: Eligibility

Current Status: Corrective action was taken. Finding not repeated in current year.

Finding 2017-036: Equipment/Real Property Management

Current Status: Repeated. Finding 2018-036.

Reason for Recurrence: The Government is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

Corrective Action Plan: The program will address this finding with the appropriate DOH, DPP, and management officials for intervention to improve the policies and procedures for equipment and real property management.

VI WIC began dialogue in October 2019 with DPP staff responsible for equipment inventory to reconcile inventory shortfalls. Details continue to be worked out for the resolution of this condition.

Finding 2017-037: Procurement/Suspension and Debarment

Current Status: Repeated. Finding 2018-037.

Reason for Recurrence: The Government is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

Corrective Action Plan: The required justification documents will be obtained related to future pronouncements in accordance with established policies. Revamped procurement protocols disseminated to all departments and are addressing past discrepancies with the system. This intends to reduce the incidence of a program processing transactions without all the necessary documents.

Finding 2017-038: Special Tests and Provisions – Review of Redeemed Food Instruments and Cash-Value Vouchers

Current Status: Corrective action was taken. Finding not repeated in current year.

Program:
U.S. Department of Health and Human Services

Government Department/Agency:
Department of Human Services (DHS)

Head Start
CFDA #: 93.600
Award #: 02CH3011-04-00, 02CH3011-05-01
Award Year: 07/01/2013 – 06/30/2018

Finding 2017-039: Allowable Cost/Cost Principles – Payroll Activities

Current Status: Repeated. Finding 2018-047.

Reason for Recurrence: The Government is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

Corrective Action Plan: Prior to Hurricane's Irma and Maria, time and attendance reports were approved and electronically transmitted in the ADI time and attendance management system requiring various levels of managerial/supervisory approvals. Additionally, payroll time continues to be uploaded into the ERP system, requiring several additional levels of internal approval inclusive of the CFO and the Commissioner, prior to the batches (files) being electronically released to the Department of Finance for final processing. After the passage of the hurricanes, the ADI system was completely disabled. Access to the system was impossible; stored information of data files was limited, with certain periods a total loss, due to a compromised file server; However, DHS has moved away from the ADI system and are in the process of implementing the Government's STATS system. The STATS being implemented will ensure accuracy with timesheet approval.

Finding 2017-040, 2016-020, 2015-029 and 2014-026: Cash Management

Current Status: Repeated. Finding 2018-048.

Reason for Recurrence: The Government is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

Corrective Action Plan: DHS will enforce its policy with respect to review and approval of all drawdowns, and month-end reconciliations. Additionally, DHS will institute agency level of controls that address proper review of journal entries and receipt of reimbursements.

Finding 2017-041, 2016-021, 2015-030 and 2014-028: Equipment/Real Property Management

Current Status: Repeated. Finding 2018-049.

Reason for Recurrence: The Government is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and

procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

Corrective Action Plan: While this is a common finding throughout Government, DHS continues to collaborate its efforts with DPP in ensuring Federal and Local regulations are met. The reconciliation of the asset listing is ongoing. Additional staff is being recruited to support the reconciliation process and correct these issues.

Finding 2017-042: Matching, Level of Effort, and Earmarking

Current Status: Repeated. Finding 2018-050.

Reason for Recurrence: The Government is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

Corrective Action Plan: While this is a common finding throughout Government, DHS continues to collaborate its efforts with DPP in ensuring Federal and Local regulations are met.

Due to the intricacies of the Head Start program, the program's local funding has historically been heavily overmatched. Forty (40) internal reports were reviewed that included the matching/earmarking reports. While there may have been a lack of approval by the CFO and/or Director of Financial Services, all financial transactions relative to the actual spending of the federal and required local match dollars for the Head Start Program are reviewed and approved by the supervisor, with final approval by the Chief Financial Officer. All required Federal Financial Reports are submitted through the online portal and copies certified by the Chief Financial Officer or designated person are kept on file.

Finding 2017-043, 2016-022: Period of Performance

Current Status: Repeated. Finding 2018-051.

Reason for Recurrence: The Government is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

Corrective Action Plan: DHS is in the process of restructuring its policies and procedures to include comprehensive reconciliations. The reconciliation process will include a liquidation journal to ensure compliance with period of performance requirements. DHS Fiscal office is committed to ensuring that staff is retrained to identify period of performance for transactions.

Program:
U.S. Department of Health and Human Services

Government Department/Agency:
Department of Human Services (DHS)

Medicaid Cluster
CFDA #: 93.778
Award #: Various
Award Year: 07/01/2014 – 09/30/2022

Finding 2017-044: Activities Allowed or Unallowed

Current Status: Corrective action was taken. Finding not repeated in current year.

Finding 2017-045, 2016-023, 2015-034, 2014-031, 2013-009 and 2012-09: Cash Management

Current Status: Repeated. Finding 2018-059.

Reason for Recurrence: The Government is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

Corrective Action Plan: DHS will enforce its policy with respect to review and approval of all drawdowns, and month-end reconciliations. Additionally, DHS will institute agency level of controls that address proper review of journal entries and receipt of reimbursements.

Finding 2017-046, 2016-024 and 2015-035: Eligibility

Current Status: Repeated. Finding 2018-060.

Reason for Recurrence: The Government is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

Corrective Action Plan: The Virgin Islands Benefits Eligibility System (VIBES) was implemented which has improved monitoring and controls. Additionally, a SOPP is being developed requiring the Eligibility Supervisor's review of case files. Management will also conduct random case sampling to ensure compliance. It is noteworthy of stating that the passage of Hurricane's Irma and Maria severely impacted the ongoing process of scanning files into the electronic filing system. The MAP Eligibility unit suffered severe flooding causing extensive damage to a large majority of eligibility files that were stored in boxes. The implementation of the VIBES system will streamline the eligibility and enrollment process.

Finding 2017-047: Matching, Level of Effort, and Earmarking

Current Status: Repeated. Finding 2018-061.

Reason for Recurrence: The Government is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

Corrective Action Plan: DHS is in the process of restructuring its policies and procedures to include comprehensive reconciliations. The reconciliation process will include a matching journal to ensure compliance to the local match requirements. DHS continues to work closely with the MMIS contractors to ensure that the correct rates are used for all claims, and to ensure that it is updated in the system.

Finding 2017-048: Procurement/Suspension and Debarment

Current Status: Repeated. Finding 2018-063.

Reason for Recurrence: The Government is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

Corrective Action Plan: DPP now reviews vendor's debarment status on Sams.gov and prints a debarment of suspension certification to ensure that all contractors that are awarded government contracts using federal funds are not debarred. DPP now requires contractual services provide documentation to show that full and open competition was conducted with a cost or price analysis. These documents will then be stored in the contract file. DHS will work in tandem with DPP, requiring a review of documents to ensure compliance. The DPP Policy manual requires the fair and competitive bidding processes, and DHS adheres to these practices.

Finding 2017-049: Reporting

Current Status: Repeated. Finding 2018-064.

Reason for Recurrence: The Government is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

Corrective Action Plan: DHS is in the process of restructuring its fiscal operations to include comprehensive reconciliations. The process will include a process of ensuring Schedule of Expenditures of Federal Awards are reconciled to the Federal financial reports on a quarterly basis. The difference between the Schedule of Expenditures of Federal Awards and the CMS reports as MAP functions on the cash basis rather than the standard Government accrual basis. DHS is committed to building capacity to ensure that the resources exist to carry out the mandates in a timely manner.

Finding 2017-050: Special Tests and Provisions – Federal Financial Participation Refunds

Current Status: Repeated. Finding 2018-070.

Reason for Recurrence: The Government is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

Corrective Action Plan: DHS will continue to work with the Department of Finance's Treasury Division to allow for quarterly uncashed checks reports to be incorporated into the required reconciliation package. DHS is committed to building capacity to ensure the resources exist to track uncashed check at the end of each quarter.

Finding 2017-051: Special Tests and Provisions – Provider Eligibility

Current Status: Repeated. Finding 2018-068.

Reason for Recurrence: The Government is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

Corrective Action Plan: The program staff, inclusive of an Internal Auditor, will perform regularly scheduled sampling of claims to ensure that providers are paid based on the negotiated rate, allowing for corrections within a reasonable time. DHS will also ensure that providers who are required to provide disclosure information, do so before enrollment. Special attention will be given to cases that require out-of-state providers. The Program is seeking assistance from the claims processing contractor in rectifying deficiencies. Additionally, DHS has implemented a SharePoint consisting of various functions inclusive of a tracking feature for provider agreements. This feature flags expired Provider Agreements, alerting the Program for immediate action. If necessary, the provider's payments will be barred from processing until the agreement is renewed. DHS is committed to building capacity to ensure the resources exist internally to track provider eligibility requirements.

Finding 2017-052, 2016-025, 2015-036, 2014-035, 2013-019 and 12-16: Special Tests and Provisions - Inpatient Hospital and Long-Term Care Facility Audits

Current Status: Repeated. Finding 2018-066.

Reason for Recurrence: The Government is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

Corrective 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 audit was delayed due to the passage of 2 major hurricanes in September 2017. Presently, the auditor is wrapping up the audit inclusive of FY 2017 and anticipates completion by the end of calendar year 2019.

Finding 2017-053, 2016-026, 2015-038, 2014-034, 2013-022 and 12-21: Special Tests and Provisions - Medicaid Fraud Control Unit

Current Status: Repeated. Finding 2018-069.

Reason for Recurrence: The Government is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

Corrective 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.

The DHS Medicaid program Fraud Control Unit was created at DOJ in January 2019. The program is also in the process of staffing a quality control unit to oversee and mitigate fraud, waste and abuse. The Program Integrity Analyst was hired October 2018.

Finding 2017-054: Special Tests and Provisions – ADP Risk Analysis and System Security Review

Current Status: Repeated. Finding 2018-067.

Reason for Recurrence: The Government is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

Corrective Action Plan: With respect to VIBES, a contract was issued to Public Consulting Group (PCG) who has now tested the implementation, verification, and validation (IV&V) as mandated by the Centers for Medicare & Medicaid Services (CMS). DHS has implemented the VIBES system to streamline the eligibility and enrollment process. PCG has now tested the implementation, verification, and validation of the system mandated by CMS.

Finding 2017-055, 2016-028, 2015-040, 2014-033, 2013-018 and 12-15: Special Tests and Provisions - Utilization Control and Program Integrity

Current Status: Repeated. Finding 2018-065.

Reason for Recurrence: The Government is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

Corrective Action Plan: As the Medicaid Fraud Control Unit has been created, the program is in the process of developing its own internal controls 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. The review of services for utilization of care and services in long term care institutions are provided by the Special Services unit, and the Organ Transplant & Special Services Coordinator.

Program:
U.S. Department of Health and Human Services

Government Department/Agency:
Department of Human Services (DHS)

Children's Health Insurance Program (CHIP)
CFDA #: 93.767
Award #: Various
Award Year: 10/01/2015 – 09/30/2018

Finding 2017-056, 2016-029: Activities Allowed or Unallowed

Current Status: Corrective action was taken. Finding not repeated in current year.

Finding 2017-057, 2016-030: Cash Management

Current Status: Repeated. Finding 2018-054.

Reason for Recurrence: The Government is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

Corrective Action Plan: DHS will enforce its policy with respect to review and approval of all drawdowns, and month-end reconciliations. Additionally, DHS will institute agency level of controls that address proper review of journal entries and receipt of reimbursements.

Finding 2017-058, 2016-031: Matching, Level of Effort, Earmarking

Current Status: Repeated. Finding 2018-055.

Reason for Recurrence: The Government is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

Corrective Action Plan: DHS filing of the CMS 21 report is supported with documentation provided to the federal regulatory body. The matched rates report was prepared by DHS Fiscal as part of the support for the audit, and it will be maintained going forward. There is extensive collaboration between CMS the oversight body, the DHS Medicaid team of program and accountants, the MMIS facilitators, and other knowledgeable resources to ensure that the components of the CMS 21 reports are captured accurately. DHS will ensure that the supporting documentation reconciles to the CMS 21 reports.

Finding 2017-059, 2016-032: Reporting

Current Status: Repeated. Finding 2018-056.

Reason for Recurrence: The Government is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

Corrective Action Plan: DHS is in the process of restructuring its fiscal operations to include comprehensive reconciliations. The process will include a process of ensuring Schedule of Expenditures of Federal Awards are reconciled to the Federal Financial Reports on a quarterly basis. The difference between the Schedule of Expenditures of Federal Awards and the CMS reports as MAP functions on the cash basis rather than the standard Government accrual basis.

DHS is committed to building capacity to ensure that the resources exist to carry out the mandates in a timely manner. The preparer tries to ensure that the ERP system is reconciled to the MMIS to ensure that the supporting documentation is accurate.

Program:
U.S. Department of Health and Human Services

Epidemiology and Laboratory Capacity for Infectious Diseases
CFDA #: 93.323
Award #: CK000377-03
Award Year: 08/01/2014 – 07/31/2019

Government Department/Agency:
Department of Health (DOH)

Finding 2017-060: Cash Management

Current Status: On-going implementation. The Virgin Islands Department of Health (DOH) Office of Federal Grants Management (OFGM) have upgraded the Standard Operating Procedures (SOPs) to introduce stronger details to the procedures for the drawdown of funds, and to document the draws from the Treasury, into the Virgin Islands Department of Finance (DOF) as posting into the ERP. The OFGM has instituted trainings internally for process improvement. Procedural training has been held with the entire DOH Program Directorship staff for comprehension of the process, citing their role and responsibility to ensure comprehension of the improved process.

Finding 2017-061: Equipment/Real Property Management

Current Status: On-going implementation. The Department of Health's Program Directors will maintain an internal listing of all equipment purchased by Federal funds, respective to their Program(s). This listing will be shared with DPP upon their Department annual inspection. The DOH will utilize the Federal forms for equipment documentation, as they are required for Program Closeout.

Finding 2017-062: Reporting

Current Status: On-going implementation. The Virgin Islands Department of Health's program submitted an annual performance report within the agency portal. The signature confirmation was not included in review. The Virgin Islands Department of Health Deputy Commissioners will ensure programmatic reports are submitted by the Program Directors within the proper submission/confirmation standards. The report and confirmation will be printed and filed for proof of submission, within proper standard submission practices. The Virgin Islands Department of Health will educate staff by sending out a memo on standard programmatic report submission and enforce this practice by the up-coming fiscal year.

The Program Directors were informed of proper protocols for submission of reports; to include the official DOH letterhead that identifies the reporting agency. The Program Director were informed during the weekly Director's Conference call of the Identifying requirements to submit a program report. They are as follows:

- • Program Name
- • Program Identification
- • Project and Program Period
- • Reporting Period and Awarding Amount

Program:
U.S. Department of Health and Human Services

Government Department/Agency:
Department of Justice (DOJ)

Child Support Enforcement
CFDA #: 93.563
Award #: 1704VICSES, 1704VICEST
Award Year: 10/01/2016 – 09/30/2017

Finding 2017-063, 2016-038: Allowable Costs/Cost Principles – Payroll Activities

Current Status: On-going implementation. The Internal Standard Operating Procedures (SOP) Manual will be created to mirror some of the same stated Standard Operating Procedure and Polices (SOPP) from the Department of Finance and established internal control processes required to complete the entire process from start to finish. The SOPP Manual from the Department of Finance is available at PCSD. So far, the policies and procedures that govern these actions are being utilized by the PCSD Fiscal staff and we will make sure they are always followed.

The Government's NOPA process is followed and reviewed by the DOJ Director of Human Resources and all fiscal information on the NOPA is reconciled with the PSCD's records upon completion of the process.

The process is as follows:

a. PCSD fiscal staff fills out the Government of the Virgin Islands (GVI) Federal Request Form with the personnel budget and submit the document to the Department of Justice (DOJ) Human Resources Division so the document can be reviewed and signed by the Director of Human Resources and the Attorney General.
b. Federal Funds flow through Department of Finance (DOF). DOF creates the account for the Federal Funds and the project codes to use. After the GVI federal request Form is reviewed and signed by the DOJ Human Resources Director and Attorney General, the document is sent to DOF.
c. The Office of Management and Budget (OMB) receives a PRF Form, the form is returned to DOJ Human Resources Division.
d. When DOF submits the project number and application number, the document is returned to DOJ Human Resources Division and the Notification of Personnel Action Form (NOPA) is created with the DOF project number and application number.
e. The NOPA is signed by the DOJ Human Resources Director and the Attorney General and then the document is submitted to Division of Personnel, Department of Finance and Office of the Governor for their respective signatures and eventually processed in the Enterprise Resources Planning System (ERP).
f. The NOPA is returned to DOJ Human Resources Division for final processing and filing.
g. A copy of the final NOPA is sent to PCSD to be placed in the division's file.
h. DOJ Human Resources Division will give a copy of the NOPA to the respective employee for their personal file.
i. Note: All NOPA's fiscal information must be reconciled with the PSCD's record upon completion of the process.

Finding 2017-064: Allowable Costs/Cost Principles – Indirect Cost Activities

Current Status: On-going implementation. Once again, the Internal SOP Manual will be created to mirror some of the same stated SOPP from the Department of Finance and established internal control processes required to ensure reconciling cost allocations are followed to ensure accuracy. The SOPP Manual from the Department of Finance is available at PCSD. So far, the policies and procedures that govern these actions are being utilized by the PCSD Fiscal staff and we will make sure they are always followed.

Finding 2017-065, 2016-040, 2015-049 and 2014-047: Cash Management

Current Status: On-going implementation. The PCSD Director and Fiscal and Operations Director review, sign, and date all invoices and supporting documents before payments are processed in the ERP System. DOJ has complied with the CMIA Agreement and clearance pattern of 4 days or less.

Finding 2017-066, 2016-041, 2015-050 and 2014-048: Equipment/Real Property Management

Current Status: On-going implementation. The equipment and real property accountability is ongoing. An internal procedure is being carried out by the PCSD MIS Division. The internal procedure is as follows:

a. The equipment or real property located in each room on the premises is placed on a list of the respective room.
b. As soon as the list is completed with the current equipment and real property items, the Property Division of the Department of Property and Procurement (P&P) will be contacted to come on PCSD's premises and tag the equipment and real property with official P&P tags. Note: This is the procedure P&P follows. Their P&P personnel is the only personnel allowed to provide and place the official P&P tags. The tags P&P used will show the equipment or real property was purchased with Federal funds.
c. The information will be reconciled with the PCSD's list.
d. A copy will be on file and sent to P&P for their file.
e. Note: If equipment or real property is moved from one section to another in PCSD, the list will reflect all changes.
f. All rules set by P&P concerning the disposal of equipment and real property will be followed and the changes will be reflected on PCSD's list.

Finding 2017-067, 2016-042: Matching, Level of Effort, and Earmarking

Current Status: On-going implementation. PCSD will update its SOP by adding to its policies and procedures a written statement concerning the creation of a Matching Requirement Report to monitor the matching requirement. So far, calculations are conducted by the PCSD Fiscal Division to ensure they are adhered to by following the 66/34 percentage rule. Individual documentation can be provided but the actual report is pending to be created.

Finding 2017-068, 2016-044: Reporting

Current Status: On-going implementation. The policies and procedures will be put in place concerning monitoring and review of reports. A vendor will be hired to conduct the report. The process is as follows

a. The internal policy and procedures have been set up. The PCSD Director reviews, signs, and date the documentation. Parts of the PCSD's SOP must be updated.
b. A vendor has been hired to monitor the report process. When PCSD receives the report, it is reviewed by the PCSD's fiscal staff and the PCSD Director.

Program:
U.S. Department of Transportation

Government Department/Agency:
Department of Public Works (DPW)

Highway Planning and Construction Cluster
CFDA #: 20.205
Award #/Name: Territorial Highway Program
Implementation and Stewardship Agreement
Award Year: 10/01/2016 – 09/30/2020

Finding 2017-069, 2016-049, 2015-054, 2014-050, 2013-009 and 12-09: Cash Management

Current Status: Corrective action was taken. Finding not repeated in current year.

Finding 2017-070, 2016-050 and 2015-055: Equipment/Real Property Management

Current Status: Repeated. Finding 2018-042.

Reason for Recurrence: The Government is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

Corrective Action Plan: DPW is working with the Department of Property & Procurement so that all equipment is registered, properly tagged, and reviewed by DPP in a prescribed required timeframe. The Department is also implementing its own asset management system to facilitate the tracking of all its own assets internally.

As of March 2020, DPW has received approval from the Department of Property and Procurement to acquire its own asset management software. The contract is currently being executed with the provider to assess, set up and implement this system during this Fiscal Year.

Program:
U.S. Department of Labor

Government Department/Agency:
Department of Labor (VIDOL)

Unemployment Insurance
CFDA #: 17.225
Award #: Various
Award Year: 10/01/2012 – 12/31/2019

Finding 2017-071, 2016-057, 2015-065 and 2014-054: Activities Allowed or Unallowed

Current Status: Repeated. Finding 2018-038.

Reason for Recurrence: The Government is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

Corrective 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 Principles. 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.

Currently the VIDOL has contracted the services of Benham, Hodge &Upson to conduct the reconciliation for FY 18 and FY 19. VIDOL will continue with this arrangement until an accountant is hired to perform this duty.

Finding 2017-072, 2016-058: Cash Management

Current Status: Repeated. Finding 2018-039.

Reason for Recurrence: The Government is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

Corrective Action Plan: The VIDOL currently has an effective Cash Management and Drawdown Policy in place. A The guidelines outlined in the department's Cash Management and Draw Down Policy was reiterated to the accounting staff.

Finding 2017-073, 2016-059 and 2015-066: Eligibility

Current Status: Repeated. Finding 2018-040.

Reason for Recurrence: The Government is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

Corrective Action Plan: The VI Department of Labor (VIDOL) will implement a schedule for regular file review and work to strengthen its Benefits Payment Control Unit to prevent such discrepancies.

VIDOL began inserting work search forms in the claimants checks to ensure receipt. Management will conduct quarterly case reviews to ensure the proper documents are being collected. VIDOL is working to bring the UI claimant portal back on-line.

Government of the United States Virgin Islands

Appendix A: Status of Prior Audit Findings
Year Ended September 30, 2018

Program:
U.S. Department of the Interior

Government Department/Agency:
Various

Economic, Social, and Political Development
of the Territories
CFDA #: 15.875
Award #: Various
Award Year: Various

Finding 2017-074, 2015-062 and 2014-051: Cash Management

Current Status: On-going implementation. The Office of Management and Budget – Federal Grants Management Unit (OMB-FGMU) is continuously taking steps to comply with the stated guidelines of the CMIA agreement. Departments/agencies are continually reminded that drawdowns are on a reimbursable basis, therefore, draw requests will not be submitted for payment until the check has been issued by the Department of Finance, and the departments/agencies have a check number, and a check date.

OMB-FGMU will continue to be vigilant when request for reimbursements are submitted to DOI-OIA for processing and ensures the date indicated on the SF-270 (Request for Advance or Reimbursement) is not before the issuance of the check.

Finding 2017-075, 2015-063 and 2014-053: Equipment/Real Property Management

Current Status: On-going implementation. The OMB continues to work in collaboration with the various departments/agencies and the Department of Property and Procurement (DPP) in establishing and the adequate maintenance of the property and equipment record. This is to ensure that all equipment and/or real property purchased with federal funds are properly accounted for.

Finding 2017-076 and 2015-064: Procurement/Suspension and Debarment

Current Status: On-going implementation. The DPP revised and updated its Procurement Manual for use by all government's departments/agencies. All users are to utilize the guidelines outlined in the revised manual. OMB will continue to work with departments/agencies in collaboration with DPP to ensure that all the requirements for the procurement process are met.

Program:
U.S. Department of Defense

Government Department/Agency:
Office of the Adjutant General (OTAG)

National Guard Military Operations and Maintenance (O&M) Projects
CFDA #: 12.401
Award #: W9127P-15-2-1000
Award Year: 10/01/2016 - 09/30/2017

Finding 2017-077: Allowable Cost/Cost Principles – Payroll Activities

Current Status: On-going implementation. Office of the Adjutant General (OTAG) implemented new policies and procedures and restructured our organization. The OTAG employed additional staffing, particularly an Employee Relations Coordinator to enforce the development, validation, and endorsement of each transaction. The Employee Relations Coordinator generates requirements, the Director of Administration and Business Management validates, and the Adjutant General endorses the entitled disbursement.

Finding 2017-078, 2016-045 and 2015-051: Cash Management

Current Status: Corrective action was taken. The program was removed from the CMIA agreement.

Finding 2017-079, 2016-046 and 2015-052: Matching, Level of Effort, Earmarking

Current Status: On-going implementation. The Master Cooperative Agreement (MCA) through the appendices identifies the cost share and what is required by persons performing management functions. OTAG has developed a new policy and procedure manual that includes tracking the match fulfillment for each expenditure.

OTAG implemented new policies and procedures and restructured our organization. OTAG employed additional staffing, particularly Contract Specialist and Resource Specialist to enforce the development, validation, and endorsement of each transaction. The Contract Specialist is responsible to accurately log and generate requests for processing for the Resource Specialist to allocate the funding source based. Once this process is complete, the Director of Administration and Business Management validates, and the Adjutant General endorses each entitled expenditure.

Finding 2017-080, 2016-047: Period of Performance

Current Status: On-going implementation. OTAG implemented new policies and procedures and restructured our organization. OTAG employed additional staffing, particularly a Data Transcriber to input requisite information into the Enterprise Resource System (ERP) for Purchase Order processing and expenditure approval through the ERP approval chain. Agency will implement seize of all new transactions in conjunction with ERP System Fiscal Year closure. At the start of a new fiscal year's funding release, only emergency transactions will be authorized.

Finding 2017-081, 2016-048, 2015-053 and 2014-049: Reporting

Current Status: On-going implementation. OTAG implemented new policies and procedures and restructured our organization. OTAG employed additional staffing, particularly a Financial Control Officer to enforce development, validation, and endorsement of each expenditure for reimbursement. The Financial Control Officer is responsible to generates request for the Adjutant General or Director of Administration and Business Management to certify.

The Federal Program Manager will then validate the certified request for the United States Property and Fiscal Officer to endorse the entitled reimbursement. Once the disbursement occurs, allocation of reimbursed funds will be logged. This information logged will consist of the deposit number, description, amount, and account to deposit the reimbursement. The received batch number and receipt number will enable for monthly accountability of these transactions.

Program:
U.S. Environmental Protection Agency

Government Department/Agency:
Department of Planning and Natural Resources (DPNR)

Performance Partnership Grants
CFDA #: 66.605
Award #: Various
Award Year: 10/01/2009 – 3/31/2018

Finding 2017-082: Allowable Costs/Cost Principles – Indirect Cost Activities

Current Status: On-going implementation. The program will ensure that all indirect calculations are properly allocated and reviewed by senior staff to prevent this finding from reoccurring. The program continues to work closely with all the accountants and fiscal staff to ensure that the indirect cost calculations are properly allocated and thoroughly reviewed by the Grants Manager and Senior staff before submission to external parties.

Finding 2017-083: Cash Management

Current Status: On-going implementation. The program is in the process of requesting the removal of the DPNR and by extension the Environmental Protection Program from the Treasury State Agreement since it is resulting in a negative impact on the program due to its high-risk designation.

Finding 2017-084: Equipment/Real Property Management

Current Status: On-going implementation. The physical conditions of the vehicles were as a result of hurricanes Irma and Maria that were beyond DPNR's controls. The funding to repair the vehicles was issued to a Project Worksheet through VITEMA from FEMA, following a satisfactory review and approval of DPNR's documentation to support the claim. However, to date, the funding has not been released. The Program will continue to enhance its maintenance of vehicles by ensuring that funding is made more readily available to repair vehicles when damages occur. Vehicles are parked in an enclosed and locked facility with nightly security. The program has made intentional efforts to ensure its inventory is current and complete. The Program began its physical inventory in August 2019 and is working closely with the Department of Property and Procurement (DPP) to ensure that both agencies' inventory records are accurate, complete, and reconciled.

The Program continues to be intentional in the completion of its physical inventory. It is envisioned this process will be completed within the near future. Every effort is being made to ensure that all vehicles are properly maintained and secured.

Finding 2017-085: Matching, Level of Effort, Earmarking

Current Status: On-going implementation. The program continues to closely monitor its matching requirements and will strive to ensure that within the FY 2020 and beyond the matching dollar amounts of the grants are fulfilled.

Finding 2017-086: Procurement/Suspension and Debarment

Current Status: On-going implementation. The Program will ensure that the evidence is present indicating that it reviewed the Excluded Parties List System (EPLS). Moreover, the Department of Property and Procurement issued a Policy Memorandum No. 005-2019 relative to "Vendor Set-Up and Maintenance Required to Conduct Business with the Government of the Virgin Islands", and this policy will also assist in enhancing and enforcing the Program's availability of evidence for the actual review process.

Finding 2017-087: Reporting

Current Status: On-going implementation. Going forward, the Program will communicate with US EPA relative to this matter and formulate a plan of action relative to the evidence needed for review of reports and implement it in the immediate future. The Program has been in communication with EPA relative to signatures on reports once reviewed by the Director. Though this is not a requirement by USEPA, the Program is currently seeking ways of resolving this issue to prevent re-occurrence of this finding.

Appendix A: Status of Prior Audit Findings
Year Ended September 30, 2018

Program:	***Program Name***
CFDA # 10.555/10.559	Child Nutrition Cluster
CFDA # 10.557	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)
CFDA # 10.561	Supplemental Nutrition Assistance Program Cluster
CFDA # 12.401	National Guard Military Operations and Maintenance (O&M) Projects
CFDA # 15.875	Economic, Social, and Political Development of the Territories
CFDA # 17.225	Unemployment Insurance
CFDA # 20.205	Highway Planning and Construction Cluster
CFDA # 66.605	Performance Partnership Grants
CFDA # 93.323	Epidemiology and Laboratory Capacity for Infectious Diseases
CFDA # 93.563	Child Support Enforcement
CFDA # 93.600	Head Start
CFDA # 93.767	Children's Health Insurance Program (CHIP)
CFDA # 93.778	Medicaid Cluster

Finding 2017-088: Data Collection Form and Single Audit Reporting Package

Current Status: Repeated. Finding 2018-074

Reason for Recurrence: The Government is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

Corrective Action Plan: The Government was unable to transmit the Data Collection Package to FAC timely by the required submission date. It is expected that the Government will meet the next required submission date for the fiscal year 2020.

Program:
U.S. Department of Health and Human Services

Government Department/Agency:
Department of Human Services (DHS)

Aging Cluster
CFDA #: 93.044, 93.045, 93.053
Award #: 1601VISOSR, 1501VISOSR, 1401VISOSR
Award Year: 10/01/2015 - 09/30/2018
10/01/2014 – 09/30/2017,
10/01/2013 – 09/30/2016

Finding 2016-033: Allowable Costs/Cost Principles – Payroll Activities

Current Status: Resolved. DHS continues to strive to ensure that the time and effort certification reports are accurate by having the supervisors review and approve, while a copy is sent to HR and kept by Fiscal.

Finding 2016-034: Cash Management

Current Status: Ongoing implementation. Non-governmental emails are no longer being used. DHS continues to take corrective measures to resolve the cash management issue.

Finding 2016-035: Eligibility

Current Status: Ongoing implementation. DHS is committed to implementing internal policies and procedures to determine eligibility by developing a checklist of requirements and ensuring that it is consistently used.

Finding 2016-036: Matching, Level of Effort, Earmarking

Current Status: Resolved. DHS tracks the administrative costs separately, so this issue should be resolved.

Finding 2016-037: Subrecipient Monitoring

Current Status: Ongoing implementation. The subrecipient monitoring on subgrantees has been implemented with the requirements of reports submission and other performance requirements.

Program:
U.S. Environmental Protection Agency

Government Department/Agency:
Department of Public Works (DPW)

Construction Grants for Wastewater Treatment Works
CFDA #: 66.418
Award #: 78003201, 78003401, 78003501
Award Year: 10/01/2014 – 09/30/2018

Finding 2016-055 and 2015-060: Reporting

Current Status: Resolved. The Virgin Islands Waste Management Authority (VIWMA) submitted the quarterly reports to DPW on a timely basis and will continue to do so.

Finding 2016-056 and 2015-061: Special Tests and Provisions – Wage Rate Requirements

Current Status: Resolved. The Program Manager of Office of Highway Engineering has ensured that all Project Managers have completed the necessary documentation for review of the certified payrolls.

Government of the United States Virgin Islands

Appendix A: Status of Prior Audit Findings
Year Ended September 30, 2018

Program:
U.S. Department of Labor

Government Department/Agency:
Department of Labor (VIDOL)

Employment Service Cluster
CFDA #: 17.207, 17.801
Award #: ES260501455A78, ES275221555A78, ES294431655A78, ES275221555A78, ES260501455A78, ES246501355A78, DV64, 266241555578
Award Year: 07/01/2014 – 09/30/2017,
07/01/2015 – 09/30/2018,
07/01/2016 – 07/01/2019,
07/01/2015 – 09/30/2018,
07/01/2014 – 09/30/2017,
07/01/2013 – 09/30/2016,
10/01/2015 – 09/30/2016

Finding 2016-062: Allowable Costs/Cost Principles – Payroll Activities

Current Status: Resolved.

Finding 2016-063: Allowable Costs/Cost Principles – Indirect Cost Activities

Current Status: Resolved.

Finding 2016-064: Cash Management

Current Status: Ongoing implementation. DOL will enforce its policy that all drawdowns are thoroughly reviewed and approved before request is submitted.

Finding 2016-065: Eligibility

Current Status: Resolved.

Finding 2016-066: Reporting

Current Status: Resolved.

Program:
U.S. Department of Health and Human Services

Government Department/Agency:
Department of Human Services (DHS)

Temporary Assistance for Needy Families Cluster
CFDA #: 93.558
Award #: 1501VITANF
Award Year: 10/01/2014 - 09/30/2015

Finding 2015-020 and 2014-018: Activities Allowed or Unallowed

Current Status: Ongoing implementation. DHS continues to work with its Federal partners to rectify the issue of funding distribution. A complete historic reconciliation of the account is wrapping up as requested by our Federal partners. This will allow for the funding to be distributed according to the areas of need eliminating overspending in one area and underspending in the other.

Finding 2015-021: Allowable Costs/Cost Principles – Payroll Activities

Current Status: Resolved.

Finding 2015-022 and 2014-019: Cash Management

Current Status: Resolved.

Finding 2015-023 and 2014-020: Eligibility

Current Status: Ongoing implementation. The Department continues to reinforce policies and procedures with staff during regularly scheduled meetings. Additionally, periodic internal audits of the files are completed to ensure compliance.

Finding 2015-024: Equipment/Real Property Management

Current Status: Ongoing implementation. Processes were delayed with the passage of Hurricane's Irma and Maria at the latter part of FY2017. To compound the problem, there were severe staff displacement. Hence, the Department of Human Services continues to move forward in implementing its CAP.

Finding 2015-025 and 2014-021: Reporting

Current Status: Resolved.

Finding 2015-026 and 2014-022: Special Tests and Provisions - Child Support Non-Cooperation

Current Status: Ongoing implementation. The Department continues to reinforce policies and procedures with staff during regularly scheduled meetings. Additionally, periodic internal audits of the files are completed to ensure compliance.

Finding 2015-027 and 2014-023: Special Tests and Provisions - Penalty for Refusal to Work

Current Status: Ongoing implementation. The Department continues to reinforce policies and procedures with staff during regularly scheduled meetings. Additionally, periodic internal audits of the files are completed to ensure compliance.

Finding 2015-028, 2014-025, 2013-017 and 12-14: Special Tests and Provisions - Income Eligibility and Verification System

Current Status: Ongoing implementation. The passage of Hurricane's Irma and Maria severely delayed the implementation of the new eligibility system. However, the project is restarting with expected completion in FY2021. In the interim DHS staff are periodically retrained on policies and procedures relevant to programmatic rules and regulation.

Program:
U.S. Department of Commerce

Coastal Zone Management Administration Awards
CFDA #: 11.419
Award #: Various
Award Year: 10/01/2014 - 09/30/2015

Government Department/Agency:
Department of Planning and Natural Resources (DPNR)

Finding 2015-042 and 2014-040: Allowable Costs/Cost Principles - Payroll Activities

Current Status: Ongoing implementation. The Program continues to ensure that adjustment vouchers are processed on a bi-weekly basis.

Finding 2015-043 and 2014-041: Equipment/Real Property Management

Current Status: Ongoing implementation. With the impact of two category five (5) hurricanes - Irma and Maria at the end of FY 2017, numerous equipment was destroyed, and it was a challenge to keep abreast of the reconciliation of the equipment. However, concerted efforts were implemented to create a record of the equipment that were lost. Despite these challenges, the department continues to work towards updating its records and reconciling all new equipment purchases going forward.

Finding 2015-044 and 2014-042: Matching, Level of Effort, Earmarking

Current Status: Resolved.

Finding 2015-045: Reporting

Current Status: Ongoing implementation. DPNR continues to closely monitor the grantor's electronic system for reporting, so that accessibility issues can be noted early enough to allow for a resolution that will enable timely submission of financial, programmatic, and special reports.

Program:
U.S. Department of Commerce

Coral Reef Conservation Program
CFDA #: 11.482
Award #: NA11NOS4820004/NA13NOS4820011
Award Year: 10/01/2014 – 09/30/2015

Government Department/Agency:
Department of Planning and Natural Resources (DPNR)

Finding 2015-046 and 2014-044: Allowable Costs/Cost Principles - Payroll Activities

Current Status: Ongoing implementation. The Program's loss of administrative staff resulted in the incomplete reports of time and effort certifications.

Finding 2015-047: Equipment/Real Property Management

Current Status: Ongoing implementation. DPNR continues to collaborate with P&P staff to reconcile all equipment purchases within the department

Finding 2015-048 and 2014-045: Matching, Level of Effort, Earmarking

Current Status: Ongoing implementation. The Program continues to utilize the Time Distribution for the CZM Director, Accountant, and Grant Manager to track in-kind match associated with this award.

Corrective Action Plan

Appendix B: Corrective Action Plan
Year Ended September 30, 2018

Page Number	Finding	Contact	Estimated Completion Date	Corrective Action
	2018-001: Financial Position			
29	• Deficits in Unrestricted Net Position	Kirk Callwood, Commissioner, Department of Finance (DOF)	On-going	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.
29	• Plan Funding Considerations	Albert Bryan, Jr., Governor Jenifer O'Neal, Director, Office of Management and Budget (OMB) Kirk Callwood, Commissioner, DOF Austin Nibbs, Administrator, Government of the Virgin Islands Employees' Retirement System (GERS)	On-going	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.
30	• Government Insurance Fund	Albert Bryan Jr., Governor Kirk Callwood, Commissioner, DOF Novelle Francis, Jr. President, V.I. Legislature	On-going	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.

Page Number	Finding	Contact	Estimated Completion Date	Corrective Action
31	2018-002: Year-End Close Process • Timeliness and Methodology of Close Process	Kirk Callwood, Commissioner, DOF Clarina Modeste-Elliot, Executive Assistant Commissioner, DOF Ebony Serrano, Director of Accounting, DOF Calvert Birmingham, Director of Treasury, DOF Grace Fahie-Londo, Director of Payroll, DOF	Immediately	In an effort to develop reliable and timely interim and year-end financial statements, continuous communication and trainings will be made available to all finance users on one consistent and comparable reconciliation process that will allow for any needed adjustments prior to the 13th period. In this way, all accounts, accruals, and reconciliations will be available. Any unreconciled differences will be identified and resolved, with any applicable journal entries, recorded in the financial system of the Government. 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

Page Number	Finding	Contact	Estimated Completion Date	Corrective Action
				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.
32	• Journal Entries	Ebony Serrano, Director of Accounting, DOF	Immediately	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.
33	2018-003: Revenue and Receivables • Reconciliation of Subsidiary Registers	Davis Roosevelt, Assistant Chief of Processing, Bureau of Internal Revenue (IRB) Calvert Birmingham, Director of Treasury, DOF Ebony Serrano, Director of Accounting, DOF	Fiscal Year 2020	For purposes of interim financial reporting, the Bureau of Internal Revenue and the Department of Finance has begun 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.

Appendix B: Corrective Action Plan
Year Ended September 30, 2018

Page Number	Finding	Contact	Estimated Completion Date	Corrective Action
33	• Optimum Usage of the Real Property Tax System	Ebony Serrano, Director of Accounting, DOF Ira Mills, Tax Assessor, Lieutenant Governor's Office (LGO) Monica Williams Carbon, Chief of Staff, LGO	Fiscal Year 2021	Department of Finance personnel will collaborate with the Lieutenant Governor's office to determine possible modifications to the system to achieve the necessary data for financial reporting.
34	• Real Property Tax	Ira Mills, Tax Assessor, LGO Monica Williams Carbon, Chief of Staff, LGO	Fiscal Year 2020	Department of Finance personnel will collaborate with the Office of the Lieutenant Governor to determine and consider the recommendations set forth.
34	• Other Revenues	Calvert Birmingham, Director of Treasury, DOF Clarina Modeste-Elliot, Executive Assistant Commissioner, DOF	Fiscal Year 2020	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.
	2018-004: Grants Management			
36	• Control Systems Over the Schedule of Expenditures of Federal Awards	Jenifer O'Neal, Director, OMB (for the Grants Management Module) Kirk Callwood, Commissioner, DOF (for SEFA)	Immediately	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.

Page Number	Finding	Contact	Estimated Completion Date	Corrective Action
				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.
37	• Federal Grants and Contributions	Jenifer O'Neal, Director, OMB Ebony Serrano, Director of Accounting, DOF	Fiscal Year 2020	In an effort to more accurately account for Federal receivables and related transactions, a private firm was contracted to work directly with the agencies to substantiate the Federal receivables.

Appendix B: Corrective Action Plan
Year Ended September 30, 2018

Page Number	Finding	Contact	Estimated Completion Date	Corrective Action
	2018-005: Capital Assets and Related Expenditures			
38	• Record Keeping	Anthony Thomas, Commissioner, Department of Property & Procurement, (DPP)	Immediately	Department of Property and Procurement will work collaboratively with Department of Finance to provide trainings and work on the structuring of the entire process to include key personnel and policies. The Government will review and update the necessary manuals to address all of the recommendations set forth.
39	• Reconciliation and Review of Subsidiary Registers	Anthony Thomas, Commissioner, DPP Nelson Perry, Jr., Commissioner, Department of Public Works (DPW)	Fiscal Year 2020	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.
39	• Construction in Progress (CIP) Monitoring	Anthony Thomas, Commissioner, DPP Nelson Perry, Jr., Commissioner, DPW	Immediately	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.

Appendix B: Corrective Action Plan
Year Ended September 30, 2018

Page Number	Finding	Contact	Estimated Completion Date	Corrective Action
41	• Capital Assets Impairment Process	Anthony Thomas, Commissioner, DPP Nelson Perry, Jr., Commissioner, DPW	Immediately	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 ERP system.
41	• Capital Assets – Business-Type Activities	Clarina Modeste-Elliot, Executive Assistant Commissioner, DOF Ebony Serrano, Director of Accounting, DOF Nazareen Stephen, Capital Asset Coordinator	Fiscal Year 2020	The Government will review the recommendations and collaborate with Benham and Hodge (B&H) to incorporate for the fiscal year 2020 audit year.
43	2018-006: Recording of Liabilities • Retroactive Pay Liability	Cordell Rhymer, Information Technology Manager, Department of Personnel (DOP) Joss Springette, Chief Negotiator, Office of Collective Bargaining Jenifer O'Neal, Director, OMB	Fiscal Year 2020	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.

Page Number	Finding	Contact	Estimated Completion Date	Corrective Action
				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. 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.
44	• Medical Malpractice Liability	Justa Encarnacion, Commissioner, Department of Health (DOH)	Fiscal Year 2020	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.

Appendix B: Corrective Action Plan
Year Ended September 30, 2018

Page Number	Finding	Contact	Estimated Completion Date	Corrective Action
44	• Accounts Payable	Clarina Modeste-Elliot, Executive Assistant Commissioner, DOF Ebony Serrano, Director of Accounting, DOF	Immediately	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.
45	• Income Tax Refunds Payable	Tamarah Smalls, Chief Counsel, IRB	Fiscal Year 2020	The Bureau of Internal Revenue will revise its methodology in establishing the year-end liability and will continue to monitor the reports to avoid any duplication of reporting.

Appendix B: Corrective Action Plan
Year Ended September 30, 2018

Page Number	Finding	Contact	Estimated Completion Date	Corrective Action
45	• Landfill Closure and Post Closure Costs Liability	Adrian Taylor, Executive Director, Virgin Islands Waste Management Authority (VIWMA)	Fiscal Year 2020	The Government will work with its consultants to implement monitoring controls and ensure that all calculations are reviewed timely.
46	• Quality of Census Data	Austin Nibbs, Administrator, GERS Dayna Clendinen, Commissioner, Department of Personnel (DOP)	Fiscal Year 2020	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.

Page Number	Finding	Contact	Estimated Completion Date	Corrective Action
	2018-007: Management of the Medicaid Program			
47	• Cost Report Audits and System Security Review	Kimberly Causey-Gomez, Commissioner, Department of Human Services (DHS) Charmaine Antoine-Modeste, Chief Financial Officer, DHS	On-going	Department of Finance has already begun conversations with the Department of Human Services on how the recommendations set forth can be achieved.
48	• Utilization Control and Medicaid Fraud Control Unit	Kimberly Causey-Gomez, Commissioner, DHS	On-going	Subsequent to fiscal year-end, 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.

Appendix B: Corrective Action Plan
Year Ended September 30, 2018

Page Number	Finding	Contact	Estimated Completion Date	Corrective Action
49	2018-008: Unemployment Insurance Trust Fund • Account Reconciliation Process	Gary Molloy, Commissioner, Department of Labor (DOL)	Fiscal Year 2020	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.
50	2018-009: Workers Compensation Program • Plan Valuation Methodology	Clarina Modeste-Elliot, Executive Assistant Commissioner, DOF	Fiscal Year 2020	Department of Finance will collaborate with the agency to consider the recommendations set forth.

Appendix B: Corrective Action Plan
Year Ended September 30, 2018

Page Number	Finding	Contact	Estimated Completion Date	Corrective Action
	2018-010: Other-Postemployment Benefits Obligation			
51	• Administration and Recordkeeping	Clarina Modeste-Elliot, Executive Assistant Commissioner, DOF	Fiscal Year 2020	Department of Finance has already began working with the Division of Personnel on this matter. Going forward, we will continue to establish a process that will address the findings noted.
	2018-011: Payroll, Related Accruals, and Other Expenditures			
52	• Payroll Expenditures	Dayna Clendinen, Commissioner, DOP Grace Fahie-Londo, Director of Payroll, DOF	Fiscal Year 2020	Department of Finance will collaborate with the Department of Human Resources to determine and consider the recommendations set forth.
52	• Formalize Emergency Payroll Procedures	Dayna Clendinen, Commissioner, DOP Grace Fahie-Londo, Director of Payroll, DOF	On-going	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."

Appendix B: Corrective Action Plan
Year Ended September 30, 2018

Page Number	Finding	Contact	Estimated Completion Date	Corrective Action
53	• Transactions with Personnel	Clarina Modeste-Elliot, Executive Assistant Commissioner, DOF	Fiscal Year 2020	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.
53	• Supporting Documentation for Expenditures	Clarina Modeste-Elliot, Executive Assistant Commissioner, DOF Ebony Serrano, Director of Accounting, DOF	On-going	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 will be closely reviewed to ensure expenditures are recorded in the proper period and are supported in the Accounts Payable module
	2018-012: Bank Accounts			
55	• Strengthen Controls Over Bank Reconciliations	Clarina Modeste-Elliot, Executive Assistant Commissioner, DOF Calvert Birmingham, Director of Treasury, DOF	Fiscal Year 2020	The Treasury Director, with oversight from the Assistant Commissioner will re-examine 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.

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56	• Cash Pooling and Allocation(s)	Clarina Modeste-Elliot, Executive Assistant Commissioner, DOF Calvert Birmingham, Director of Treasury, DOF	Fiscal Year 2020	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.
57	2018-013: Information Technology Environment	Tamarah Smalls, Chief Counsel, BIR Monica Williams Carbon, Chief of Staff, LGO Cindy Richardson, Assistant Commissioner, DOL Charmaine Antoine-Modeste, Chief Financial Officer, DHS	On-going	Several enhancements have been made in alignment with correspondences to end users. Continuation of improvements is well underway.
59	2018-014: Landfill Consent Decrees	Clarina Modeste-Elliot, Executive Assistant Commissioner, DOF Adrian Taylor, Executive Director, VIWMA	Fiscal Year 2020	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.
60	2018-015: Establishment of a Medical Malpractice Trust Fund	Justa Encarnacion, Commissioner, DOH Tatia Monell-Hewitt, Chief Financial Officer, DOH	Fiscal Year 2020	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.

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61	2018-016: Procurement Regulations	Anthony Thomas, Commissioner, DPP	Fiscal Year 2020	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.
62	2018-017: Casino Control Commission	Clarina Modeste-Elliot, Executive Assistant Commissioner, DOF Ebony Serrano, Director of Accounting, DOF	Fiscal Year 2020	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.
63	2018-018: Allowable Costs/ Cost Principles – Non-Payroll Activities	Kimberly Causey-Gomez, Commissioner, DHS	October 2019	DHS is working to ensure the resources are available for the proper internal control procedures to adhere to 2 CFR 200. DHS has the proper structure in place to adhere to internal control procedures in regulations 2 CFR 200.303. DHS continues to ensure that only allowable expenses are charged to the program. Due to the 2 category 5 Hurricanes that occurred after September 5, 2017, the devastating impact affected the operations of DHS in FY2018. The displacement of staff extended through most of FY2018. There were instances when systems connectivity was questionable and the access to current up to date grant awards were extremely limited, and eventually awarded grant funds were reduced and subsequently defunded. The staffing level at DHS was reduced, and this impacted the timing of reconciliations and adjustments. DHS will reconcile expenses to grant awards, and review and approvals are being done.

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65	2018-019: Allowable Costs/ Cost Principles – Payroll Activities	Kimberly Causey-Gomez, Commissioner, DHS	October 2019	DHS is working to ensure the resources are available for the proper internal control procedures to adhere to 2 CFR 200. DHS has the proper structure in place to adhere to internal control procedures in regulations 2 CFR.303 and 2 CFR 200.430. DHS continues to ensure that only allowable expenses are charged to the program. Due to the 2 category 5 Hurricanes that occurred after September 5, 2017, the devastating impact affected the operations of DHS in FY2018. The displacement of staff extended through most of FY2018. Prior to the 2 category 5 Hurricanes NOPAs were done timely and consistently by programs. After the Hurricanes, HR staffing was reduced, and this impacted the HR staff assigned to processing NOPAs for this program. The strained resources assigned to assist with this program had limited knowledge specific to this program and were managing as best as could be expected with the processing and reconciliation of NOPAs. As it relates to the cost principles the match requirements on the programs has been maintained and the distribution of costs can be upheld across federal and local funds once all allowable expenses across the program are authorized specifically for the program.
67	2018-020: Allowable Costs/ Cost Principles – Indirect Cost Activities	Kimberly Causey-Gomez, Commissioner, DHS	October 2019	Operations were severely disrupted in FY2018 due to the 2 category 5 Hurricanes that devastated the territory. The review and reconciliation analysis to cost allocate indirect costs will be reinstated to appropriately fund the program.

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68	2018-021: Cash Management	Kimberly Causey-Gomez, Commissioner, DHS	October 2019	DHS has instituted the Federal receivables reconciliation to ensure the proper controls over recording and reconciling drawdowns are properly filed.
69	2018-022: Equipment/Real Property Management	Kimberly Causey-Gomez, Commissioner, DHS	October 2020	This is a common finding throughout the GVI, and DHS continues to collaborate its efforts with DPP to ensure the internal controls and proper recordkeeping related to equipment and its maintenance are available.
70	2018-023: Matching, Level of Effort, Earmarking	Kimberly Causey-Gomez, Commissioner, DHS	October 2019	DHS is working to ensure the resources are available for the proper internal control procedures to adhere to 2 CFR 200. DHS has the proper structure in place to adhere to internal control procedures in regulations 2 CFR 200.306(b)(1-7). DHS continues to ensure that only allowable expenses are charged to the program. On a monthly basis the local financial reports and federal financial reports are completed, reviewed and distributed to the Program Administrator and Assistant Administrator. Due to the 2 category 5 Hurricanes that occurred after September 5, 2017, the devastating impact affected the operations of DHS in FY2018. The displacement of staff extended through most of FY2018. As it relates to the cost principles, the match requirements on the programs has been maintained and the distribution of costs can be upheld across federal and local funds once all allowable expenses across the program are authorized 100% specifically for the program. DHS will deploy staff to monitor the compliance of the match requirements throughout the fiscal year and ensure that supporting documents are available to support the local match.

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72	2018-024: Period of Performance	Kimberly Causey-Gomez, Commissioner, DHS	October 2019	DHS is working to ensure the resources are available to strengthen the processes for maintaining the support for expenditures. DHS has the proper structure in place to adhere to internal control procedures in regulations 2 CFR 200.309 and 2 CFR 200.343. DHS continues to ensure that only allowable expenses are charged to the program during the period of performance. Due to the 2 category 5 Hurricanes that occurred after September 5, 2017, the devastating impact affected the operations of DHS in FY2018. The displacement of staff extended through most of FY2018. Prior to the 2 category 5 Hurricanes time and attendance reports were approved and electronically transmitted in the ADI system (time and attendance management system) requiring various levels of managerial/supervisory approvals. Additionally, payroll time continues to be uploaded into the ERP system. Several levels of internal approvals are required prior to the batches (files) being electronically released to the Department of Finance for final processing. After the passage of the Hurricanes, the ADI system server was completely disabled, and access to the system was halted. Stored information of data files was limited with certain periods.
74	2018-025: Procurement/ Suspension and Debarment	Kimberly Causey-Gomez, Commissioner, DHS	July 2019	DHS has the proper internal control procedures in place to ensure adherence to the open competition requirements. DPP instituted the sam.gov review of vendor debarment status as of July 2019 to ensure that all vendors meet the requirements. DHS will continue to collaborate with DPP to ensure compliance.

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76	2018-026: Reporting	Kimberly Causey-Gomez, Commissioner, DHS	October 2019	DHS will ensure that the proper monitoring and review of the required reports are documented by the appropriate officials. DHS has the proper internal control procedures in place to ensure adherence to federal regulations reporting of the Federal Financial Report FNS-46. The reports were appropriately filed. Due to the 2 category 5 Hurricanes that occurred after September 5, 2017, the devastating impact affected the DHS operations in FY2018. The filing of the required quarterly report is a collaboration between the program Administrators and the Fiscal office team. The Director of Financial Services works closely with the program Accountant to ensure that the component requirements of the report are compiled accurately. Since most of the compilation and review of the reports are done electronically the subsequent step of printing out the reports for signature was omitted.
77	2018-027: Special Tests and Provisions – ADP System for SNAP - Recertifications	Kimberly Causey-Gomez, Commissioner, DHS	October 2019	DHS has the proper internal control procedures in place to ensure adherence to federal regulations 2 CFR 200.303. Related to 2 CFR 272.10(a) in order to come into compliance, the DHS SNAP program is in the process of acquiring the Virgin Islands Benefits Eligibility Systems (VIBES). The design and development is 95% complete and the staff is ready to move into the User Acceptance Testing (UAT) phase.

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79	2018-028: Special Tests and Provisions – EBT Reconciliation	Kimberly Causey-Gomez, Commissioner, DHS	October 2019	DHS SNAP program will prepare an SOPP specific to the handling of the EBT cards inclusive of monthly reconciliations. The staff will be trained and crossed trained to ensure adherence to the policy. DHS intends on hiring additional staff to assist in ensuring that the reconciliation process is completed in order to allow for full federal compliance.
80	2018-029: Special Tests and Provisions – EBT Card Security	Kimberly Causey-Gomez, Commissioner, DHS	October 2020	Due to the staffing changes that occurred after the 2 category 5 Hurricanes that devastated the territory after September 5, 2017, and impacted operations in FY2018, DHS plans to appropriately evaluate staffing levels to ensure proper oversight of as per 7 CFR Section 274.8(b)(3), as an addition to or component of the Security Program required of Automated Data Processing (ADP) systems, the State or Territory agency shall ensure that the certain electronic benefits transfer (EBT) security requirements are established. DHS is hopeful that once staffing is sufficient to adequately cover compliance functions DHS can maintain adequate security over, and documentation/records for EBT cards, to prevent their theft, embezzlement, loss damage, destruction, unauthorized transfer, negotiation, or use. DHS SNAP program will prepare an SOPP specific to the handling of the EBT cards inclusive of monthly reconciliations. The staff will be trained and crossed trained to ensure adherence to the policy. DHS intends on hiring additional staff to assist in ensuring that the reconciliation process is completed in order to allow for full federal compliance.

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82	2018-030: Allowable Costs/ Cost Principles – Indirect Cost Activities	Racquel Berry-Benjamin, Commissioner, Department of Education (DOE)	January 2021	Once drawn and posted, all indirect cost transactions are forwarded to the respective division for further processing and payment. The State agency developed an internal log beginning FY 2019 to track all indirect costs to ensure that all reimbursements are received by the GVI. The State agency will continue to work with the respective division to ensure that costs are reported timely.
83	2018-031: Cash Management	Racquel Berry-Benjamin, Commissioner, DOE	January 2021	DOE will ensure that all drawdowns are reviewed, approved, and reconciled on a monthly basis.
84	2018-032: Equipment/Real Property Management	Racquel Berry-Benjamin, Commissioner, DOE	January 2021	The DOE has an updated equipment listing; however, DPP is unable to reconcile against the list that DOE has provided. We will continue to work with DPP.
85	2018-033: Matching, Level of Effort, Earmarking	Racquel Berry-Benjamin, Commissioner, DOE	January 2021	The missing information was not provided due to the storage area being damaged and files destroyed during the Hurricanes of 2017. The State agency will work with the appropriate division in regard to proper storage of files.
86	2018-034: Period of Performance	Racquel Berry-Benjamin, Commissioner, DOE	January 2021	The State agency will work with the appropriate DOE division to provide guidance on the period of performance to ensure that no expenditures are charged against expired grants.
87	2018-035: Procurement/ Suspension and Debarment	Racquel Berry-Benjamin, Commissioner, DOE	January 2021	The State agency will reach out to the appropriate staff at the SFAs to ensure that when contracts are awarded all pertinent documents and/or provisions are included.

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88	2018-036: Equipment/Real Property Management	Justa Encarnacion, Commissioner, DOH	October 2019	WIC continues to work with P&P staff responsible for equipment inventory to reconcile inventory shortfalls. Details continue to be worked out for the resolution of this condition.
89	2018-037: Procurement/ Suspension and Debarment	Justa Encarnacion, Commissioner, DOH	October 2019	It should be noted that some of the requests for transaction documents crossed over procurement protocol changes and these procurement protocol changes were provided showing the effective date that the procedure was initiated in June 2018, and then it became mandatory on July 1, 2019 (FY 2019). This resulted in vendors not being notified timely that these supporting documents were needed and therefore they were not given the deadline date to respond. Therefore, mandatory requirement for these documents on transactions before the effective date of these changes does not concur with transactions reviewed before these changes came into full effect. However, this issue will be resolved in FY 2019 since the mandatory date given to vendors occurred in this FY 2019.
90	2018-038: Activities Allowed or Unallowed	Gary Molloy, Commissioner, DOL	July 2020 and on-going	The VIDOL Unemployment Insurance program concurs with the finding and has set in place a corrective action plan to establish internal controls, and procedures for the Virgin Islands Trust Fund accounts. This action plan will set forth criteria for periodic reconciliations of the VI revenue account (clearing account) revenue, and deposits. In addition to the cash draws for benefit payments from the Trust fund to the benefit account and provide guidelines in conformity with Cash Management Improvement Act of 1990 (CMIA).

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				The agency has launched a task force and conducted its first kick off meeting on July 10,2020.
91	2018-039: Cash Management	Gary Molloy, Commissioner, DOL	August 2020 and on-going	The VIDOL concurs with this finding; however due the two category five hurricanes, Irma and Maria, the ERP system was not functional. In addition, the VIDOL offices were damaged and not accessible with no electricity and internet connectivity. All of these factors contributed to the untimely drawdowns identified. In addition to the state of emergency declared, an Incident report should be noted from the GVI along with the creation of an ERP MUNIS continuity plan from the Department of Finance. The VI Department of Labor currently has an effective Drawdown and Cash Management Policy in place that will be reviewed and enhanced to accommodate natural disaster continuity. Going forward, DOL will enforce its policy that all drawdowns are thoroughly reviewed and approved before request is submitted.
92	2018-040: Eligibility	Gary Molloy, Commissioner, DOL	July 2020 and on-going	The VIDOL Unemployment Insurance program concurs with the finding and has set in place a corrective action plan to establish internal controls, and procedures for the Benefits Unit and will implement a schedule for regular file review and to prevent such discrepancies.
93	2018-041: Matching, Level of Effort, Earmarking	Gary Molloy, Commissioner, DOL	July 2020 and on-going	The VIDOL Unemployment Insurance program concurs with the finding and has set in place a corrective action plan to establish internal controls, and procedures for the Virgin Islands Extended Benefits program.

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				This action plan will set forth accounting criteria for matching cash draws for the extended benefit payments and provide guidelines in conformity with Cash Management Improvement Act of 1990 (CMIA). The agency has launched a task force and conducted its first kick off meeting on July 10,2020.
95	2018-042: Equipment/Real Property Management	Nelson M. Petty, Jr. Commissioner, DPW	On-going, December 2020	Even though it is the responsibility of the Department of Property and Procurement (DPP) to conduct physical inventory of equipment and reconcile to the equipment records. DPW will continue to work with the Department of Property & Procurement so that all equipment is registered, properly tagged, and reviewed by DPP. The Department has initiated communications with the Department of Finance to begin the tracking of equipment and real property internally. We also await the arrival of the tracking software in fiscal year 2021 which will be instrumental.
96	2018-043: Procurement/ Suspension and Debarment	Nelson M. Petty, Jr. Commissioner, DPW	Immediately	The Department will coordinate with the Department of Property and Procurement to ensure that all procurement procedures are followed, include the verification of suspension and debarment for all contracts, and maintain supporting evidence for procedures performed.
97	2018-044: Matching, Level of Effort, Earmarking	Racquel Berry-Benjamin, Commissioner, DOE	January 2021	VIDE was unable to meet the Maintenance of Effort amount for FY18. Due to the 2 catastrophic category 5 hurricanes that VIDE experienced in September of 2017, many activities were not able to take place. As a result, funds were not expended at the level as planned.

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				VIDE will ensure that level of effort calculations are reviewed and that they go through an approval process.
98	2018-045: Allowable Costs/Cost Principles – Payroll Activities	Racquel Berry-Benjamin, Commissioner, DOE	January 2021	VIDE will review and strengthen internal controls to ensure adherence to requirements for expending and accounting for payroll expenditures. Moreover, VIDE will ensure that prescribed policies, guidance and regulations will be enforced.
100	2018-046: Subrecipient Monitoring	Racquel Berry-Benjamin, Commissioner, DOE	January 2021	VIDE will determine and verify whether subrecipients are required to be audited as per 2 CFR par 200 subpart F. In addition, VIDE will perform program monitoring of subrecipients to include follow on corrective action when deficiencies were noted.
102	2018-047: Allowable Costs/ Cost Principles – Payroll Activities	Kimberly Causey-Gomez, Commissioner, DHS	October 2019	DHS will ensure that timesheets that has the proper approval requirements are available for inspection. DHS has the proper internal control procedures and structure in place to ensure adherence to federal regulations 2 CFR 200.303 and 2 CFR 200.430(i). DHS continues to ensure that only allowable expenses are charged to the program. Due to the 2 category 5 Hurricanes that occurred after September 5, 2017, the devastating impact affected the operations of DHS in FY2018. The displacement of staff extended through most of FY2018. Prior to the 2 category 5 Hurricanes time and attendance reports were approved and electronically transmitted in the ADI system (time and attendance management system) requiring various levels of managerial/supervisory approvals.

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				Additionally, payroll time continues to be uploaded into the ERP system. Several levels of internal approvals are required prior to the batches (files) being electronically released to the Department of Finance for final processing. After the passage of the Hurricanes, the ADI system server was completely disabled, and access to the system was halted. The STATS system is now being used to track the staff time and attendance. If there are any discrepancies between the time sheet and the payroll register, the adjustment is done subsequently.
104	2018-048: Cash Management	Kimberly Causey-Gomez, Commissioner, DHS	October 2020	DHS will enforce its policy with respect to review and approval of all drawdowns, and month-end reconciliations. Additionally, DHS will institute agency level of controls that address proper review of journal entries and receipt of reimbursements.
105	2018-049: Equipment/Real Property Management	Kimberly Causey-Gomez, Commissioner, DHS	October 2020	This is a common finding throughout the GVI, and DHS continues to collaborate its efforts with DPP to ensure the internal controls and proper recordkeeping related to all procurement and equipment and its maintenance are available.
106	2018-050: Matching, Level of Effort, Earmarking	Kimberly Causey-Gomez, Commissioner, DHS	October 2019	DHS will assign resources to ensure that an evaluation of the match is done consistently. The Head Start program has historically been overmatched. DHS has the proper internal control procedures and structure in place to ensure adherence to federal regulations 2 CFR 200.306(b)(1-7). DHS continues to ensure that only allowable expenses are charged to the program.

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				On a monthly basis the local financial reports and federal financial reports are completed, reviewed and distributed to the Program Administrator. As it relates to the cost principles, the match requirements on the programs has been maintained and the distribution of costs can be upheld across federal and local funds once all allowable expenses across the program are authorized 100% specifically for the program.
107	2018-051: Period of Performance	Kimberly Causey-Gomez, Commissioner, DHS	October 2019	DHS will ensure that the expenditures occur within the correct period of performance by ensuring that the proper resources consistently provides monitoring and review of transactions. DHS has the proper internal control procedures and structure in place to ensure adherence to federal regulations 2 CFR 200.303. DHS continues to ensure that only allowable expenses are charged to the program during the period of performance. Due to the 2 category 5 Hurricanes that occurred after September 5, 2017, the devastating impact affected the operations of DHS in FY2018. The displacement of staff extended through most of FY2018, so it's noteworthy that this is a one-time occurrence.
108	2018-052: Reporting	Kimberly Causey-Gomez, Commissioner, DHS	October 2019	DHS will ensure that there is evidence of the proper monitoring, review, and approval by the authorized official to ensure that information submitted is accurate and complete. DHS has the proper internal control procedures in place to ensure adherence to federal regulations reporting in accordance with 2 CFR 200 Appendix XI. The reports were appropriately filed.

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				The filing of the required quarterly report is a collaboration between the program Administrator and the Fiscal office team.
109	2018-053: Activities Allowed or Unallowed	Kimberly Causey-Gomez, Commissioner, DHS	October 2019	DHS provided the CHIP Match report for FY2018, and the report will be maintained going forward to ensure that the correct FMAP rates are consistently applied. Also, resources will be assigned to reconcile the ERP to the MMIS. GVI has the proper internal control procedures and structure in place to ensure adherence to federal regulations 2 CFR 200.303. DHS continues to ensure that only allowable expenses are charged to the program. Due to the 2 category 5 Hurricanes that occurred after September 5, 2017, the devastating impact affected the operations of DHS in FY2018. The displacement of staff extended through most of FY2018. As a result of the hurricane devastation to the territory, CMS, the federal regulatory oversight body for the CHIP program, issued FMAP rate changes, and various other flexibilities related to allowable spending. Also, as a result of the hurricane devastation aftermath, the DHS staffing level was stretched with emergency shelter responsibilities, so the implementation of the FMAP changes and reconciliation were delayed.
111	2018-054: Cash Management	Kimberly Causey-Gomez, Commissioner, DHS	October 2020	DHS will enforce its policy with respect to review and approval of all drawdowns, and month-end reconciliations. Additionally, DHS will institute agency level of controls that address proper review of journal entries and receipt of reimbursements.

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112	2018-055: Matching, Level of Effort, Earmarking	Kimberly Causey-Gomez, Commissioner, DHS	October 2019	The DHS filing of the CMS 21 report is supported with documentation provided to the federal regulatory body. The matched rates report was prepared by DHS Fiscal as part of the support for the audit, and it will be maintained going forward. There is extensive collaboration between CMS the oversight body, the DHS Medicaid team of program and accountants, the MMIS facilitators, and other knowledgeable resources to ensure that the components of the CMS 21 reports are captured accurately. DHS will ensure that the supporting documentation reconciles to the CMS 21 reports.
114	2018-056: Reporting	Kimberly Causey-Gomez, Commissioner, DHS	October 2019	DHS will ensure that a reconciliation is done for the CMS 21 report and the supporting documentation. DHS will also ensure that evidence of review and approval is available. DHS files the CMS-21 in accordance with the Compliance Supplement. Due to the 2 category 5 Hurricanes that occurred after September 5, 2017, the devastating impact affected the operations of DHS in FY2018. The displacement of staff extended through most of FY2018. As a result of the hurricane devastation to the territory, CMS, the federal regulatory oversight body for the CHIP program, issued FMAP rate changes, and various other flexibilities related to allowable spending. Also, as a result of the hurricane devastation aftermath, the DHS staffing level was stretched with emergency shelter responsibilities, so the implementation of the FMAP changes and reconciliation were delayed. The program received the approvals to spend the FY2017 Redistribution as expended.

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116	2018-057: Allowable Costs/Cost Principles - Non-Payroll Activities	Kimberly Causey-Gomez, Commissioner, DHS	October 2019	DHS is working to ensure the resources are available for the proper internal control procedures to adhere to 2 CFR 200. DHS continues to ensure that only allowable costs are charged to the program by maintaining support for expenditures and providing documentation of review and approval to ensure that expenses are reasonable and necessary to operate the Medicaid Program in accordance with 2 CFR.303 and 2 CFR 200.430 as well as Grants and Cooperative Agreements with States and Local Government. DHS adopted fiscal and administrative requirements for expending and accounting for all funds, which are consistent with the provisions of the 2 CFR 200, but due to the 2 category 5 Hurricanes that occurred on September 5, 2017, the devastating impact affected the operations of DHS in FY2018. The displacement of staff extended through most of FY2018 due to the aftermath of the devastation. The staffing level at DHS was reduced, and this impacted a few of the transactions for FY2018. Due to the urgent lack of healthcare services available on island there was an arrangement with a travel agency to expedite the service to Medicaid patients seeking treatment off island. The practice of advance payments to this vendor has since been halted. The storage trailer that held the Medicaid administrative records were being secured for the appropriate record retention period. The 2 category 5 Hurricanes that occurred on September 5, 2017, affected the contents of the storage.

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				An evaluation of the storage is being done to determine the next steps on whether the contents will be destroyed or moved. The MMIS system has controls in place to continually evaluate rates and claims payments related to the various FMAPs.
118	2018-058: Allowable Costs/ Cost Principles – Payroll Activities	Kimberly Causey-Gomez, Commissioner, DHS	October 2020	DHS has the proper internal control procedures in place to ensure adherence to federal regulations 2 CFR 200.430(i). DHS continues to ensure that only allowable expenses are charged to the program, but due to the 2 category 5 Hurricanes that occurred on September 5, 2017, there was a lack of resources and communication between HR Labor Relations, Program, and Fiscal failed. This employee has since been removed from the federal grant. The Program will perform regular reviews of the payroll to ensure that all employees are actively working on the Medicaid program.
119	2018-059: Cash Management	Kimberly Causey-Gomez, Commissioner, DHS	October 2020	DHS will enforce its policy with respect to review and approval of all drawdowns, and month-end reconciliations. Additionally, DHS will institute agency level of controls that address proper review of journal entries and receipt of reimbursements.
120	2018-060: Eligibility	Kimberly Causey-Gomez, Commissioner, DHS	October 2020	The Virgin Islands Benefits Eligibility System (VIBES) was implemented which has improved monitoring capabilities and controls. Additionally, an SOPP is being developed requiring the Eligibility Supervisor's review of case files. Management will also conduct random case sampling to ensure compliance.

Page Number	Finding	Contact	Estimated Completion Date	Corrective Action
				Since the 2 category 5 hurricanes that happened after September 5, 2017, the Medicaid program has not resumed regular progressive movement towards total electronic capabilities but is making steady improvements every day.
122	2018-061: Matching, Level of Effort, Earmarking	Kimberly Causey-Gomez, Commissioner, DHS	October 2019	The DHS filing of the CMS 64 report is supported with documentation provided to the federal regulatory body. The matched rates reports was prepared by DHS Fiscal as part of the support for the audit, and it will be maintained going forward. There is extensive collaboration between CMS the oversight body, the DHS Medicaid team of program and accountants, the MMIS facilitators, and other knowledgeable resources to ensure that the components of the CMS 64 report are captured accurately.
123	2018-062: Period of Performance	Kimberly Causey-Gomez, Commissioner, DHS	October 2019	The Medical Assistance Program operates on a cash basis. The date the expenditure is processed by the program becomes the reporting date of the expenditure. DHS has the proper internal control procedures in place to ensure adherence to federal regulations. As it relates to the review and approval of the expenses, all payments requests are submitted to the DHS Fiscal office after being processed and approved by program leadership. DHS will ensure that the review and approval documentation is maintained.

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124	2018-063: Procurement/ Suspension and Debarment	Kimberly Causey-Gomez, Commissioner, DHS	October 2020	This is a common finding throughout the GVI, and DHS continues to collaborate its efforts with DPP to ensure the internal controls and proper recordkeeping related to all procurement and equipment and its maintenance are available.
125	2018-064: Reporting	Kimberly Causey-Gomez, Commissioner, DHS	October 2020	The DHS filing of the CMS 64 report is supported with documentation provided to the federal regulatory body. There is extensive collaboration between CMS (the federal regulatory oversight body), the DHS Medicaid team of program and accountants, the MMIS facilitators, and other knowledgeable resources to ensure that the components of the CMS 64 report are captured accurately. Going forward, DHS will ensure that the reports reconcile to the quarterly CMS 64 report.
126	2018-065: Special Tests and Provisions - Utilization Control and Program Integrity	Kimberly Causey-Gomez, Commissioner, DHS	On-going	DHS has hired a program integrity analyst as of October 2018 to reduce fraud, waste, and abuse for the Medicaid program. The program is in the process of hiring more staff for the quality control unit.
128	2018-066: Special Tests and Provisions - Inpatient Hospital and Long-Term Care Facility Audits	Kimberly Causey-Gomez, Commissioner, DHS	October 2020	The DHS Medicaid program is presently in an active contract with a vendor who is providing the cost audit reports and reconciliations as required by the Federal regulations. Due to the delays caused by the passage of 2 major category 5 hurricanes in September 2017, the reports are still outstanding, but the work to complete the reports are being done.

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129	2018-067: Special Tests and Provisions – ADP Risk Analysis and System Security Review	Kimberly Causey-Gomez, Commissioner, DHS	October 2020	The DHS Medicaid program will move forward to take steps to ensure that the VIBES system is reviewed biennially in order to be in compliance with the requirements.
130	2018-068: Special Tests and Provisions – Provider Eligibility	Kimberly Causey-Gomez, Commissioner, DHS	October 2020	The DHS MAP program is continuing to work with the Director of MAP, provider relations staff, the DHS Commissioner, and the DPP Commissioner to ensure the provider agreements are reviewed and approved appropriately and are available for inspection.
131	2018-069: Special Tests and Provisions - Medicaid Fraud Control Unit	Kimberly Causey-Gomez, Commissioner, DHS	On-going	The DHS Medicaid program Fraud Control Unit was created at DOJ in January 2019. The program is also in the process of staffing a quality control unit to oversee and mitigate fraud, waste and abuse. The Program Integrity Analyst was hired October 2018.
132	2018-070: Special Tests and Provisions – Federal Financial Participation Refunds	Kimberly Causey-Gomez, Commissioner, DHS	October 2020	The DHS will continue to work with the Department of Finance's Treasury Division on the uncashed checks report to allow for quarterly reports to be incorporated to review and request modifications based on the reporting results.

Appendix B: Corrective Action Plan
Year Ended September 30, 2018

Page Number	Finding	Contact	Estimated Completion Date	Corrective Action
133	2018-071: Activities Allowed or Unallowed and Allowable Costs/Cost Principles, Period of Performance	Kirk Callwood, Commissioner, DOF	Fiscal Year 2020	DOF believes the department was following the guidelines of the CDL loans as this was a new grant and a number of controls were put in place. Additionally, DOF will continue to work with the semiautonomous agencies and make sure that the necessary controls are in place in order to maintain consistency when reporting.
135	2018-072: Cash Management	Kirk Callwood, Commissioner, DOF	Fiscal Year 2020	DOF believes the department was following the guidelines of the CDL loans as this was a new grant and a number of controls were put in place. Additionally, DOF will continue to work with the semiautonomous agencies and make sure that the necessary controls are in place in order to maintain consistency when reporting.
137	2018-073: Reporting	Daryl Jaschen, Director, VITEMA	Immediately	VITEMA will establish the internal control to document the review and approval of electronic reports via an email statement which will indicate that "VITEMA has reviewed the attached document(s)". However, physical sign off is not required by FEMA. The process for approving reports includes electronically sharing the document between preparer, reviewer, and submitter. Any issues identified are communicated by e-mail and addressed prior to submitting the final version of the report.

Appendix B: Corrective Action Plan
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Page Number	Finding	Contact	Estimated Completion Date	Corrective Action
138	2018-074: Data Collection Form and Single Audit Reporting Package	Vincent Thomas, Associate Director, OMB	Fiscal Year 2020	The Government agrees that the Data Collection Package was not provided timely. However, the Government will set up appropriate measures to ensure that the data collection form and reporting package is submitted to the FAC on the required due date for the fiscal year 2020.