

**THE UNITED STATES VIRGIN ISLANDS**  
**OFFICE OF THE VIRGIN ISLANDS INSPECTOR GENERAL**



**AUDIT REPORT**

**AUDIT OF EXPENDITURES  
OF THE  
OFFICE OF THE GOVERNOR**

**ILLEGAL OR WASTEFUL ACTIVITIES SHOULD BE REPORTED TO  
THE OFFICE OF THE VIRGIN ISLANDS INSPECTOR GENERAL BY:**

**Calling:**

**(340) 774-3388**

**Sending Written Documents to:**

**Office of the Virgin Islands Inspector General  
No. 75 Kronprindsens Gade  
St. Thomas, Virgin Islands 00802**



GOVERNMENT OF THE UNITED STATES VIRGIN ISLANDS  
**OFFICE OF THE V. I. INSPECTOR GENERAL**  
No. 75 Kronprindsens Gade, Charlotte Amalie, St. Thomas, V.I. 00802

STEVEN VAN BEVERHOUDT  
V.I. INSPECTOR GENERAL

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### **Executive Summary**

The following summarizes the major findings resulting from the Audit of Expenditures of the Office of the Governor (AC-01-11-00).

#### ***Finding 1: Costly Chartered Air Travel (pages 4 to 7)***

- The Office of the Governor spent \$259,351 in chartered air travel, primarily between St. Thomas and St. Croix, of which \$202,171 was unnecessary and excessive.
- These trips averaged about \$400 per passenger traveling each way, or about \$800 per passenger round trip between St. Thomas and St. Croix.
- There were no assurances that the government received the best possible price for the chartered air service.
- On many trips, the travelers, whether government employees or private citizens, were not identified.

#### ***Finding 2: Questionable Personal Expenses (pages 8 to 10)***

- Government funds were used to pay for the apparent personal living expenses of the first family.
- About \$114,000 in reimbursements were made to the former First Lady for mostly supermarket purchases, most of which could not be identified.
- The former Governor's Executive Assistant traveled to Puerto Rico with her family at a cost of \$900.
- The former Commissioner of Finance incurred \$8,820 in inter-island travel for himself and his family, while he was on leave to campaign for lieutenant governor.

#### ***Finding 3: Improper Temporary Living Expenses (pages 11 to 17)***

- Questionable payments of \$69,048 were made to a local hotel for temporary living expenses, of up to six months, for certain government employees and private individuals.
- A private contractor was provided with living accommodations; however, the payment documents did not identify the individual, but rather fraudulently used the name of a government employee.

- Questionable hotel accommodations were provided for two pilots who provided air transportation services to the former Governor.
- Over \$67,000 of the living expenses were incurred in 1996; however, they were paid in 1999 without the approval of the Virgin Islands Legislature as required by the Virgin Islands Code.

***Finding 4: Undocumented Inauguration Expenses (page 18)***

- The Office of the Governor did not have procedures in place to ensure that inauguration expenses were properly documented.
- About \$125,000 was disbursed for each of the past two inauguration activities with no documentation being submitted for the funds provided.

***Finding 5: Lack of Accountability (page 19)***

- The Office of the Governor did not have an effective internal control system in place to ensure that public funds were accounted for, safeguarded and used in an efficient and economical manner.



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June 26, 2000

Honorable Charles W. Turnbull  
Governor of the Virgin Islands  
Government House  
Kongens Gade  
St. Thomas, Virgin Islands 00802

Honorable Vargrave A. Richards  
President  
23<sup>rd</sup> Legislature  
Capitol Building  
St. Thomas, Virgin Islands 00802

Dear Governor Turnbull and Senator Richards:

Attached is the final report of our audit of expenditures of the Office of the Governor for the period October 1, 1995 through December 31, 1998.


The objectives of the audit were to determine the legality, propriety, and accuracy of the expenditures, and to evaluate the effective and economical use of government funds.

Our audit disclosed significant instances of misuse and waste of government funds through the circumvention of established fiscal controls and procedures, and the failure to ensure that public funds were disbursed wisely. We found that \$394,939 in public funds were either misused or could have been put to better use.

An exit conference was held on May 19, 2000, with the Governor and other members of his executive staff, at which time he concurred with most of the recommendations. A copy of the Governor's June 17, 2000 response is included as Appendix I beginning on page 20.

If you or your staff require additional information, please call me at 774-6426.

Sincerely,

  
Steven van Beverhoudt, CFE, CGFM  
V.I. Inspector General

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# INTRODUCTION

## BACKGROUND

Based on information obtained during our “Audit of the December 30, 1998 Lump Sum Payments”, AC-02-30-99, we initiated an audit of selected operating expenses for the Office of the Governor (Governor’s Office). The audit initially covered fiscal year 1998, and the first three months of fiscal year 1999; however, based on questionable charges identified, the audit scope was expanded to include fiscal years 1995 through 1998 and the first three months of fiscal year 1999.

The following is a summary of the non-Personal Service expenditures for the Governor’s Office for fiscal year 1998, the fiscal year that was the initial focus of our review.

| <u>Expenditure Category</u> | <u>Total Expenditure</u> |
|-----------------------------|--------------------------|
| Supplies                    | \$ 266,443               |
| Other Services and Charges  | <u>2,915,282</u>         |
| Total                       | <u>\$3,181,725</u>       |

Title 2 Section 28(c) of the Virgin Island Code states that, “a Contingent Fund included in the appropriation for any officer of the Government of the United States Virgin Islands shall be available for obligations and expenditures for any objects of expenditure which are not specifically provided for in any such act, including contractual and other services, travel, transportation and per diem expenses of persons selected and designated by said officer to accompany him on official missions. Such an appropriation may also be obligated and expended for expenses in connection with the official visit of members of Congress and other high-ranking officials visiting the territory, and may be expended for entertainment expenses not routinely covered within the appropriation of said officers. The officers, in their discretion, shall determine the nature of the propriety of all such expenditures.”

This apparent generous authority, in our opinion, does not authorize officials of the government to misuse and waste public funds. General criteria found in Generally Accepted Government Auditing Standards and Generally Accepted Accounting Principles require government officials to safeguard public funds, and to always ensure that these funds are fully accounted for and appropriately spent.



## **OBJECTIVES AND SCOPE**

The objectives of the audit were to determine if expenditures were: (i) proper and accurate obligations of the Virgin Islands Government; (ii) properly supported with adequate documentation; (iii) in compliance with established fiscal policies and procedures; and, (iv) an efficient, effective and economic use of government funds.

Our audit encompassed reviewing records obtained from the Department of Finance (Finance), the Office of the Governor (Governor's Office), and applicable vendors. It covered the period from October 1994 through December 1998. As part of our audit, we evaluated internal controls over the processing of payment vouchers, the disbursement of government funds, and the accounting of such disbursements, to the extent necessary to accomplish the audit objectives. Weaknesses identified during the review are discussed in the Audit Results section of this report.

The audit was performed in accordance with "Government Auditing Standards" issued by the Comptroller General of the United States. We included tests and procedures that were considered necessary under the circumstances.

## **PRIOR AUDIT COVERAGE**

We are unaware of any audits of expenditures of the Governor's Office conducted during the last five years.

# AUDIT RESULTS

## CONCLUSIONS

The results of our audit disclosed that \$578,366 in government funds were expended for questionable and sometimes undocumented purposes. Of this amount, we feel that \$394,939 was either misused or could have been put to better use. Specifically, we found that: (i) \$259,351 was expended for inter-island travel, where \$202,171 was excessive and a significant number of the travelers were not identified; (ii) officials of the previous administration expended an average of \$400 per person to travel one-way between St. Thomas and St. Croix; (iii) approximately \$114,000 in expenses was reimbursed to the former First Lady, some of which appears to have been for personal living expenses; (iv) the government paid \$8,820 for inter-island travel for the former Commissioner of Finance and his family while he was on leave to be a candidate for lieutenant governor; (v) \$900 was paid for an apparent personal trip to Puerto Rico for the former Governor's Executive Assistant; (vi) a total of \$61,607 was paid for temporary living expenses of two individuals housed at a local hotel after Hurricane Marilyn in 1995; (vii) \$7,441 was paid for a hotel room for which the occupant was not known; (viii) more than \$67,000 in temporary hotel living expenses incurred in 1995 and 1996 were paid in fiscal year 1999, without legislative approval, as required by Title 2 Section 28(e) of the Virgin Islands Code; and, (ix) more than \$125,000 for inauguration expenditures were disbursed in each of the past two administrations without supporting documentation being required.

These findings are discussed in further detail in the finding sections of this report.

## **FINDING 1: COSTLY CHARTERED AIR TRAVEL**

The Governor's Office spent \$259,351 in travel costs for chartered air service primarily between St. Thomas and St. Croix, of which about \$202,171 was unnecessary and excessive. There were no assurances that the government received the best possible price, since, the chartered air services were provided on a regular basis for a period of almost three years without competitive negotiations and the existence of a contract as required by the Virgin Islands Code. In addition, on many trips, the travelers, whether government or private, were not identified. There were even instances where the government was charged for canceled flights.

### **Excess Travel Expenses**

The Governor's Office expended \$259,351 on a chartered air service for inter-island travel from November 1995 through December 1998. The chartered air service was obtained exclusively through a St. Croix-based airline, and passengers were both government employees and private citizens. During the period, 451 one-way flights were made at an average cost per flight to the Virgin Islands Government of almost \$600. It is noted that the frequent use of this chartered air service began directly following the former Governor utilized the services of a private air ambulance company leasing a Lear jet in October of 1995, following Hurricane Marilyn. Questionable charges relating to the services provided by the private air ambulance are discussed in Finding 3: Improper Temporary Living Expenses of this report.

Although the chartered air service does not have published rates for air travel, we obtained the rental rates at the time of our review, which are based on the capacity of each aircraft. The rates are as follows: \$450 for a five-passenger aircraft, to \$675 for a nine-passenger aircraft. These rates are set no matter how many passengers are included on each flight. For example, the rate for a nine-passenger aircraft is \$675, whether there was one passenger or nine passengers making the trip. Of course, the cost per passenger is substantially higher if there is only one passenger making a trip. Of the 451 flights made, 319, or 71% were with one or two passengers, and totaled \$181,476. The following schedule summarizes the cost of trips for flights with one, two and three or more passengers.

| <b><u>Number of Passenger</u></b> | <b><u>Total One-way Flights</u></b> | <b><u>Total Travel Costs</u></b> |
|-----------------------------------|-------------------------------------|----------------------------------|
| One                               | 224                                 | \$126,015                        |
| Two                               | 95                                  | 55,461                           |
| Three or more                     | 132                                 | 77,875                           |
| Total                             | <u>451</u>                          | <u>\$259,351</u>                 |

Based on documents reviewed, we were able to determine that there were about 953 passengers who traveled on these 451 trips. Using a weighted average, we estimated that it cost about \$400 for each passenger to travel one-way between St. Thomas and St. Croix. This, when compared with the government's bulk rate fare of \$60 one-way per person, cost the government approximately \$202,171 in unnecessary travel costs. The following schedule summarizes these costs.

|   |                  |
|---|------------------|
| Chartered Air Travel Costs Paid<br>(953 Passengers)         | \$259,351        |
| Less: Government's Bulk Rate<br>(953 Passengers @\$60 Each) | <u>57,180</u>    |
| Excessive and Unnecessary Travel Costs                      | <u>\$202,171</u> |

We also noted that at times, the aircraft was required to fly empty between St. Thomas and St. Croix. Since it was based on St. Croix, it was required to fly empty to St. Thomas to pick up travelers originating on St. Thomas. In addition, when it returned to St. Croix, after returning passengers to St. Thomas, there were instances when the aircraft was supposedly empty. This resulted in unnecessary costs to the government. For example, there were four instances where the government was required to pay \$2,008 for scheduled flights that were never used. The carrier described these occurrences on their invoices as "no shows" or "cancellations". The government was charged for each round trip because the aircraft had already left St. Croix to pick up St. Thomas passengers.

**Lack of A Contract**

As previously stated, in November 1995, officials from the Governor's Office began the frequent use of the St. Croix chartered air service for inter-island travel. The trips continued through December 1998 at costs in excess of \$259,000. These expenditures were made without regard to certain legal requirements for all major government expenditures as stated in Title 2, Section 28(d) of the Virgin Islands Code. This section states, "All major expenditures shall be covered by written contracts therefor acceptable under standard business practices for such objects and purposes in order to protect the integrity of the public funds thus obligated and expended." In addition, the Code further states that, "there shall be adequate control and accounting for all such obligations and expenditures. . . ."

The average cost for each of these chartered air trips between St. Thomas and St. Croix was \$600 each way. On a per person basis, we estimated that the cost was \$400 per person, each way, or \$800 round trip. During this period, 1995 to 1998, the government bulk rate for inter-island travel averaged \$60 per person each way, or \$120 round trip. This amounted to a difference of \$340 per person each way, or \$680 round trip in unnecessary travel cost to the Virgin Islands Government. In our opinion, at least \$202,171 (\$259,351 less the equivalent government bulk rate of \$57,180) would have been saved if officials from the Governor's Office had complied with the requirements of the Code, and been more economical in their extravagant mode of travel.

## **Undocumented Travel Expenses**

Some of the travel costs incurred by the Governor's Office for chartered air travel could not be substantiated as valid government travel. Of the total \$259,351 in payments to the chartered air service, \$66,231 were found to lack proper supporting documentation. In most cases, the names of the travelers were not identified. For example:

- C The government paid \$3,665 for seven trips where invoices were completely blank with regard to detailed information.
- C Four trips were canceled; however, the government paid \$2,008 in fees.
- C \$62,921 was paid for 265 unidentified passengers traveling primarily between St. Thomas and St. Croix.

We were informed by officials of the chartered air service that all requests for the use of this service were initiated by the former Governor's Executive Assistant. Although the air carrier did not maintain complete detailed records regarding the names of passengers, we were able to review flight log data which provided flight dates, number of passengers, and some passenger names.

Certifying officers employed at the Governor's Office approved numerous miscellaneous disbursement vouchers for payment based upon these incomplete vendor invoices. As a result, the travel costs should not have been considered valid expenses of the government. The former Governor's Office Director of Budget and Financial Management indicated to us that he authorized payments on the instructions of his supervisor, the former Governor's Executive Assistant. He stated that it was not within his purview to question or counteract her instructions; hence, he authorized payments as long as funds were available. This was done in violation of Title 33, Section 3204 of the Virgin Island Code, which states, "The officer or employee certifying a voucher shall be held responsible for the existence and correctness of the facts recited on the certification or otherwise stated on the voucher or its supporting papers, and for the legality of the proposed payments under the appropriation or fund involved . . . ."

## **Recommendations**

We recommend that the Governor's Chief of Staff:

1. Establish procedures to ensure that the Virgin Islands Code is followed so that the government always obtains the best price for requested services.
2. Ensure that procurement and contracting procedures are followed when services requiring significant amounts of funds and/or long-term services are going to be required.
3. Ensure that future air travel arrangements are made through commercial carriers with

competitive airfare rates.

4. Ensure that there are procedures in place requiring that future air travel costs are adequately supported with documentation detailing the purpose of the travel, the passenger's name(s) and title(s) and a travel itinerary or a copy of the used ticket.

5. Ensure that all government certifying officers understand the magnitude and nature of their responsibilities under Title 33 Section 3204 of the Virgin Islands Code.

### **Governor's Response**

The Governor, in his June 17, 2000 response, concurred with the five recommendations made in this finding of the report. He indicated that procurement and contracting procedures are now being followed to acquire services. Bulk tickets are used for air travel, which represents the lowest price available to the government. All travel costs are supported with documentation detailing the nature and purpose of the travel. Finally, the new certifying officer for the Office of the Governor has been provided with a copy of the guidelines and procedures for the position.

### **V.I. Inspector General's Comments**

We consider the Governor's response to adequately address the recommendations made in this section of the report, and therefore considered them fully resolved and implemented.

## **FINDING 2: QUESTIONABLE PERSONAL EXPENSES**

Government funds were used to pay for apparent personal living expenses of the first family. Due to a lack of detailed documentation, we could not identify all such expenses; however, reimbursements totaled \$114,000. In addition, the former Governor's Executive Assistant traveled to Puerto Rico with her family at a cost of \$900. Finally, the former Commissioner of Finance incurred \$8,820 in inter-island travel for himself and his family, while he was on leave to campaign for lieutenant governor.

### **Personal Household Expenses**

The former First Lady was reimbursed a total of \$114,000 for food, household and cleaning expenses from February 1995 through December 1998. Government checks, payable to the former First Lady were prepared on almost a monthly basis, with the frequency of these payments increasing in the last 12 months of the previous administration. These checks were as much as \$7,245 and averaged \$2,714 per payment. Although some entertainment expenses are expected to be incurred by a chief government official, we believe that some of these food and household reimbursements were personal in nature and should not have been paid for by the Virgin Islands Government.

We were informed by officials at Finance that although this practice had been done to some extent in the past, it was more frequent from 1995 through 1998. We attempted to obtain evidence to verify the extent of similar activities prior to 1995, however, the documents provided showed very few purchases of this nature.

Our interpretation of the Virgin Islands Code authorizing the expenditure of promotional and entertainment expenses by the governor does not include the reimbursement of personal living expenses.

### **Personal Travel Expenses**

The former Governor's Executive Assistant traveled to Puerto Rico with her husband and child on the same chartered air service mentioned in the first finding of this report. The trip cost the Virgin Islands Government \$900. According to an official from the Governor's Office who normally certified these expenditure, payment for this travel should not have been made unless proper justification was provided. The payment document reviewed by us did not indicate the purpose of the trip, nor did it justify the use of government funds to pay for family members to travel.

The former Commissioner of Finance and his family took several trips between St. Thomas and St. Croix, on the chartered air service discussed in this report, while he was on a leave of absence to campaign for lieutenant governor. The total cost paid by the Government was \$8,820. Title 18, Section 2 of the VI Code requires an employee of the Virgin Islands Government to take a leave of absence from his job if he is campaigning for public office. This leave is to continue until the end of the election. The Code allows the employee to use annual leave for this purpose.

On August 10, 1998, the former Governor and the former Commissioner of Finance filed a campaign application package with the Virgin Islands Board of Election. The former Commissioner of Finance, in accordance with the Code, elected to be placed on annual leave while campaigning for the position of lieutenant governor. The election was held on November 3, 1998, and the former Commissioner returned to work shortly after. During our review of travel expenses of the Governor's Office, we identified 15 trips between St. Thomas and St. Croix from August 22, 1998 to November 3, 1998, that were taken solely by the former Commissioner of Finance (candidate for lieutenant governor), by his family, or jointly with his family. The cost of these trips totaled \$8,820, and were paid by the Virgin Islands Government. Since the former Commissioner was on leave to campaign for public office, these trips were personal in nature and the costs should not have been paid by the government.

### **Recommendations**

We recommend that the Governor's Chief of Staff:

1. Request an opinion from the Department of Justice on the legality of the government paying personal living expenses of a governor. If necessary, submit legislation to have the Virgin Islands Code amended to clarify the issue.
2. Request the assistance of the Department of Justice in having the former Governor's Executive Assistant and the former Commissioner of Finance reimburse the Virgin Islands Government for the travel expenses determined to be personal in nature.
3. Ensure that only valid government travel expenses are authorized or approved for payment, and that certifying officers are adequately trained regarding internal control procedures which prohibit the personal use of public funds.

### **Governor's Response**

The Governor agreed with the second and third recommendations made in this section of the report. However, he did not agree with the first. The Governor indicated that the assistance of the V.I. Attorney General will be sought in determining if the former Governor's Executive Assistance and the former Commissioner of Finance should be required to reimburse the government for the questionable expenditures identified. In addition, procedures are in place at the Office of the Governor to ensure that only valid government expenditures are paid.

The Governor did not agree with the first recommendation dealing with seeking the assistance of the Attorney General in determining whether the government should pay the personal living expenses of a governor. He felt that the recommendation was too broad, based on the finding discussed in the report. The finding dealt with the propriety of the expenses being reimbursed to the former First Lady, and the lack of adherence to procurement and accounting practices. It was felt "that the Governor's reasonable daily subsistence and other expenses incidental to maintaining his public residence" is not improper.



### **V.I. Inspector General's Comments:**

The responses to recommendations two and three are sufficient for us to consider them resolved and implemented.

Regarding the first recommendation on personal living expense of a governor, we partially agree with the Governor's comments on the exceptions taken in the finding. Namely, the fact that over \$114,000 in reimbursements were made to a "non-governmental" individual, and most of the disbursements lacked proper documentation or consisted of un-itemized supermarket receipts. We also agree that the government should pay for the maintenance of Government House as well as the Governor's Official Residence. However, should the government be required to maintain a governors' personal residence too, if he decides to live there. Also, should the government pay for everyday living expenses for him and his family, like daily meals, laundry and dry cleaning expenses, and other personal living expenses that everyone would incur whether they held the position of governor or not. We know that in the past, to some extent, some of these expenses were paid by the government. However, during the previous administration, the amount claimed to the government and the method of incurring the expenses was considerably more than in the past. Since, we could not find any regulations or guidance in the Virgin Islands Code, we felt that the Attorney General should be requested to provide some interpretation for future guidance.

We are therefore, requesting that the recommendation be reviewed, and guidance be sought from the Attorney General for future reference.

## **FINDING 3: IMPROPER TEMPORARY LIVING EXPENSES**

Questionable disbursements totaling \$69,048 were made to a local hotel for temporary living expenses, of up to six months, for certain government employees and private individuals. A private contractor was included with the individuals provided with temporary living expenses; however, the official payment documents did not identify the private contractor, but rather fraudulently used the name of a government employee who never stayed at the hotel. Questionable hotel accommodations were charged to the government for two pilots who provided transportation services to the former Governor. Personnel at Finance were manipulated in order to process the improper payments. Over \$67,000 of these expenses, although incurred in fiscal year 1996, were paid in fiscal year 1999 without the authorization of the Virgin Islands Legislature as required by the Virgin Islands Code.

### **Chronology of Events**

In order to provide a better understanding of the circumstances that resulted in the payment of these vouchers, the following is a chronology of the major events:

**September 15-16, 1995:** Hurricane Marilyn struck the Virgin Islands, devastating the territory and damaging most homes and buildings, especially on St. Thomas.

**September 17, 1995:** The former Governor's Executive Assistant was provided with temporary living accommodations at the Marriott Frenchman's Reef Hotel (Reef Hotel). The accommodations continued for almost four and a half months until February 4, 1996, at a cost of \$25,334.

**September 19, 1995:** The Reef Hotel became an operation and press information center for the Virgin Islands. A room at the Reef Hotel was initially used as a pressroom, and later as living quarters for a private contractor to the Virgin Islands Government, until March 14, 1996. The room was registered in the name of the former Governor's Office Media Specialist. This was done without his approval and without him living in the room. All official documents used to pay the hotel bills incorrectly showed the room as being used by the former Media Specialist. The use of this room for the six month period was paid by the Virgin Islands Government at a cost of \$36,273.

**On or about September 23, 1995:** Two pilots from a private air ambulance company were provided with two rooms for living accommodations as per the instructions of the former Governor. The pilots provided Lear jet transportation for the former Governor. One room was paid through October 23, 1995, at a cost of \$5,717. The second room was paid through December 5, 1995, at a cost of \$12,625. It must be noted that there is a discrepancy regarding the period of time that the second room was rented and the time that the jet was available to the Governor. This issue is discussed later in this finding of the report.

**On or about October 18, 1995:** The then Commissioner of Property and Procurement directed all government employees to return to their regular duty stations. The former Media Specialist had indicated to us that he returned to his regular duty station, since Government House was not seriously damaged.

**December 28, 1995, January 8, 1996 and January 29, 1996:** Three miscellaneous disbursement vouchers covering the periods of 12/7/95 to 12/19/95 for \$2,923; 12/19/95 to 12/25/95 for \$1,381; and 1/15/96 to 1/22/96 for \$1,764, for room accommodations for the former Governor's Executive Assistant, were certified and submitted to Finance for payment.

**March 14, 1996 and March 28, 1996:** Two miscellaneous disbursement vouchers covering the periods of 2/13/96 to 3/2/96 for \$3,435 and 3/3/96 to 3/14/96 for \$3,435, for room accommodations for the private contractor, were certified and submitted to Finance for payment.

**Early July 1996:** The Director of Budget and Financial Management at the Governor's Office met with a former Governor's Special Assistant and indicated that he was opposed to the payment of temporary living expenses for the former Governor's Executive Assistant. He also indicated to the Special Assistant that he was aware that the former Media Specialist did not stay in one of the hotel rooms, but rather the private contractor.

**July 11, 1996:** A miscellaneous disbursement voucher, payable to the Reef Hotel for temporary living accommodations of government employees and private individuals, in the amount of \$68,389, was certified by the former Governor and sent to Finance for payment. The former Director of Accounting at Finance rejected the payment request. She considered the payment to be an inappropriate charge to the government. The then Commissioner of Finance concurred with the former Director of Accounting's determination.

**October 29, 1998:** Another miscellaneous disbursement voucher in the amount of \$67,076, payable to the Reef Hotel for the temporary living accommodations of government employees and private individuals was again certified by the former Governor and submitted to Finance for payment. The former Director of Accounting at Finance, again refused to process the payment request. She brought the matter to the attention of the former acting Commissioner of Finance, who indicated that he would take care of it.

**November 18, 1998:** The then Director of Accounting was terminated from government employment. Another Finance employee was appointed acting Director of Accounting.

**December 21, 1998:** The new acting Director of Accounting appointed her sister to be the Chief of the Pre-Audit Section of Finance. This Section was responsible for reviewing and verifying all payment requests.

**December 21, 1998:** The former Director of Budget and Financial Management at the Governor's Office submitted a memorandum to Finance, in an attempt to justify the payment to the Reef Hotel.

**December 29, 1998:** The acting Commissioner of Finance, called the acting Chief of the Pre-Audit Section into his office and directed her to process the pending miscellaneous disbursement voucher for “propriety and legality”, “account code” and “computation”. A check was issued to the Reef Hotel in the amount of \$67,076.

The following schedule details the various miscellaneous disbursement vouchers in the chronology of events discussed above.

| <u>Individual</u>   | <u>Room #</u> | <u>Period of Stay</u>      | <u>MDV #<br/>0020-99</u> | <u>MDV#<br/>122-96<br/>146-96</u> | <u>MDV#<br/>298-96<br/>324-96<br/>192-96</u> | <u>Total</u>       |
|---------------------|---------------|----------------------------|--------------------------|-----------------------------------|--|--------------------|
| Pilot               | 158           | 09-23-95<br>to<br>10-23-95 | \$ 5,716.98              |                                   |  | \$ 5,716.98        |
| Pilot               | 209           | 09-23-95<br>to<br>12-05-95 | 12,625.16                |                                   |  | 12,625.16          |
| Media Specialist    | 582           | 09-19-95<br>to<br>03-14-96 | 29,402.55                |                                   | \$6,870.40                                   | 36,272.95          |
| Executive Assistant | 155           | 09-17-95<br>to<br>02-04-96 | 19,265.39                | \$6,068.22                        |  | 25,333.61          |
| Miscellaneous       | N/A           | N/A                        | <u>66.40</u>             |                                   |  | <u>66.40</u>       |
| Total               |               |                            | <u>\$67,076.48</u>       | <u>\$6,068.22</u>                 | <u>\$6,870.40</u>                            | <u>\$80,015.10</u> |

As can be seen from the chronology of events and the schedule of the various miscellaneous disbursement vouchers, there are several areas of concern regarding the eventual processing of the Reef Hotel room charges. These areas of concern include the living accommodations provided for the former Governor’s Executive Assistant, the living accommodations provided for the private contractor under the name of the Media Specialist, the living accommodations provided to the air ambulance pilots beyond the time that their jet was available, the manipulation of Finance personnel to process the rejected documents, and the payment of prior year expenditures without the approval of the Virgin Islands Legislature. The following sections detail these five areas.

### **Former Governor's Executive Assistant**

As a result of Hurricane Marilyn, the former Governor's Executive Assistant's personal residence suffered major damage. The former Governor provided, at the government's expense, temporary living accommodations for her and her family from September 17, 1995 until February 4, 1996, almost four and a half months, at a cost of \$25,334.

The Virgin Islands Code, under Title 23, Section 1125(f)(9), gives the Governor, as part of his emergency powers, the authority to provide temporary accommodations for individuals whose services are considered vital to the smooth operation of the government during a time of emergency. Although one can consider a governor's executive assistant important to the operation of his office, there are also many other individuals whose services are considered vital during an emergency.

Considering the extent of the destruction to homes and buildings on St. Thomas, we attempted to verify if there were other individuals who were provided with temporary living accommodations at the expense of the government. We requested from Finance copies of all payment documents, between September 1995 and December 1998, to the Reef Hotel, and found only one instance where the then Commissioner of Tourism was provided with living accommodations for one month after Hurricane Marilyn. The cost of these accommodations was \$5,034.

Although the Code provided for the temporary accommodations by the former Governor, the fact that there was no record of these benefits being provided to other government officials, and the fact that the temporary accommodations were for almost four and a half months, in our opinion, the former Governor's Executive Assistant was singled out for preferential treatment.

At a minimum, these government paid accommodations were indirect income to the former Governor's Executive Assistant and as such, a miscellaneous income Form 1099 should have been issued to her, showing this amount as supplemental income, with a copy going to the Virgin Islands Bureau of Internal Revenue.

### **Private Contractor**

A private individual who was contracted to provide public relations services for the former Governor was provided with temporary living accommodations for almost six months at a cost to the government of \$36,273. The hotel room was registered in the name of a former Media Specialist, although he never stayed in the room, nor did he authorize or was aware of the use of his name. All payment documents submitted for these charges identified the room as being used by the Media Specialist, and failed to identify the contractor as the actual user of the room. Based on statements made by several individuals aware of the situation and correspondence between the Reef Hotel and officials at the Governor's Office, it was known that incorrect information was being used to justify the cost to the government. We consider this situation to be fraudulent and a direct attempt to have the government pay for the temporary living expenses of a private citizen whose services were not vital to the safety of the Virgin Islands during the state of emergency. Accordingly, these charges

should not have been paid.

### **Lear Jet Pilots**

The government paid \$7,441 for a Reef Hotel room, registered under the name of two contract pilots, for a month and a half beyond the time that their services were used to provide Lear jet service to the former Governor.

The former Governor entered into an oral agreement with a local air ambulance company to provide air transportation for the former Governor. Based on information provided by the air ambulance official who made the oral agreement with the former Governor, the company was to provide a Lear jet and pilots for one month for use by the former Governor to travel immediately after Hurricane Marilyn. The government was to provide the accommodations for the pilots. The company official provided documents to show that the Lear jet was subleased for one month at a cost of \$2,000 per day or \$60,000 for the month from September 21, 1995 to October 20, 1995. He indicated that the government should have reimbursed the company for the leased jet; however, no reimbursement was received, and the outstanding amount is still being maintained as an accounts receivable on the company's books.

One of the pilots, when contacted, indicated that they were on St. Thomas for one month, and each of them stayed in a separate room at the Reef Hotel. He also indicated that they transported the former Governor on a daily basis, sometimes more than once a day, between St. Thomas, St. Croix and Puerto Rico.

Our review of the hotel bills for the two rooms shows inconsistencies with the duration of time allegedly used by the pilots for one of the rooms. One bill shows a stay period from September 23, 1995 through October 23, 1995. This time period closely corresponds to the time that the Lear jet was leased. The other room, however, shows a time of stay period from September 23, 1995 to December 5, 1995, almost a month and a half beyond the time that the Lear jet was used. This additional month and a half cost the government \$7,441. Since the pilot indicated that they were in St. Thomas for a month, we could not determine how the government used the room for the additional month and a half.

### **Finance Personnel Manipulation**

The circumstances surrounding the initial payment request of the Reef Hotel invoice in 1996 and the second request and ultimate payment in 1998, give the appearance of a direct manipulation and coercion of Finance personnel so that the questionable invoice could be paid.

As summarized in the chronology of events, the former Director of Accounting at Finance rejected the initial payment request that was submitted in 1996. This rejection was affirmed by the then Commissioner of Finance, and it was returned to the Governor's Office. No action was taken on the hotel bill for almost two years, until late October 1998, when it was again submitted to Finance for payment. It was again rejected by the former Director of Accounting and brought to the

attention of the acting Commissioner of Finance, who indicated that he would take care of the voucher. This individual was the same acting Commissioner of Finance, who later deliberately circumvented all controls in processing the questionable lump sum payments in December 1998 to selected officials of the former administration.

The former Director of Accounting was fired from her position shortly after, in November 1998, and another employee was appointed as the acting Director. The sister of the new acting Director of Accounting was appointed acting Chief of the Pre-Audit Section, and she was instructed by the acting Commissioner of Finance to validate the voucher for payment. In addition, the former Director of Budget and Financial Services at the Governor's Office prepared a justification letter for the payment knowing that there were questionable and even fraudulent representations made in the payment voucher, namely, the claim that the Media Specialist was provided with temporary living accommodations. As stated in the chronology of events, in early July 1996, he acknowledged to the former Governor's Special Assistant that the room was not occupied by the Media Specialist, but rather by the private contractor.

### **Payment of Prior Year Expenditures**

The Reef Hotel miscellaneous disbursement voucher in the amount of \$67,076, was paid three fiscal years later, without authorization of the Legislature. Title 2 Section 28(e) of the Virgin Islands Code requires any prior year expenditures in excess of \$5,000 to be approved by the Virgin Islands Legislature before they can be paid. A review of the payment voucher shows that officials who processed the late voucher knew of the requirements of the Code. Stamped on the voucher was an authorization request citing the Code section, and signed by the former Governor and the acting Commissioner of Finance.

### **Department of Justice Investigation**

A joint investigation was initiated between the Office of the Virgin Islands Inspector General and the Virgin Islands Department of Justice relating to the processing of the Reef Hotel invoices and the temporary living accommodations, specifically as they related to the accommodations provided for the private contractor. Formal charges to include fraud and conspiracy were filed against the former Governor, the former acting Commissioner of Finance, the former Governor's Executive Assistant and the former Director of Budget and Financial Services. The former Governor, in a settlement agreement, promised to make restitution under the provisions of Title 33 Section 3204(b) of the Virgin Islands Code. This section states, "An officer or employee who certifies a voucher knowing that such certification may result in an illegal, improper, or incorrect payment shall: (1) for the first offense, be fined an amount equal to the amount of the illegal, improper, or incorrect payment and shall be suspended without pay for thirty (30) days; and (2) for a second or subsequent offense, be fined an amount of the illegal, improper, or incorrect payment and shall be imprisoned for at least thirty (30) days but not more than one (1) year."

## **Recommendations**

We recommend that the Governor's Chief of Staff:

1. Require personnel in the Business Office to follow procedures ensuring that all payment vouchers submitted are properly authorized, and certified as appropriate government expenditures.
2. Establish an internal review process within the Governor's Office to avoid nonessential travel claims, and executive review of all budget and accounting reports.
3. Encourage and support Finance's internal control procedures to prevent fraud, waste and abuse.
4. Ensure that a supplemental income Form 1099 is issued to the former Governor's Executive Assistance for the temporary living accommodations paid by the government.
5. Ensure that procedures are in place to require all prior year obligations in excess of \$5,000 to be submitted to the Legislature for approval prior to payment.

## **Governor's Response**

The Governor agreed with the five recommendations made in this section of the report. He indicated that the Deputy Chief of Staff currently supervises the operations of the Business Office for the Governor's, and he is responsible for the appropriateness of all expenditures. The Chief of Staff also performs internal reviews of the various expenditures. Regarding the issuance of a Form 1099 to the former Governor's Executive Assistant, it was indicated that guidance will be sought from the Attorney General.

## **V.I. Inspector General's Comments**

The Governor's responses are sufficient for us to consider the recommendations resolved and implemented.



## **FINDING 4: UNDOCUMENTED INAUGURATION EXPENSES**

The Governor's Office did not have procedures to ensure that disbursements were properly documented. As a result about \$125,000 was disbursed for each of the past two inauguration activities with no supporting documentation submitted for the funds provided.

As part of our review of fiscal year 1998 disbursements for the Governor's Office, we selected two payments totaling \$125,000 payable to an official of the current Governor's Inauguration Committee. The Business Office had no supporting documentation to justify the expenditure. The only documentation in their files were copies of the miscellaneous disbursement vouchers.

We requested and were provided with supporting documentation from the Inauguration Committee to justify the expenditures; however, we were concerned that this support was not required by the Governor's Office. We also requested the available supporting documentation from the inauguration expenses of the previous administration. Again, the only documentation provided was a copy of the miscellaneous disbursement voucher for \$125,000. The utilization of the funds disbursed was not documented.

### **Recommendation**

We recommend that the Governor's Chief of Staff:

- Ensure that there are procedures in place to direct Business Office staff to require supporting documentation for all disbursements of government funds.

### **Governor's Response**

The Governor agreed with this recommendation, and indicated that the Business Office has been instructed to follow the guideline in the Virgin Islands Code. In addition, as previously indicated, supervisory reviews are now in place to ensure that expenditures are properly supported.

### **V.I. Inspector General's Comments**

We consider this recommendation fully resolved and implemented.

## **FINDING 5: LACK OF ACCOUNTABILITY**

The Governor's Office did not have in place an effective internal control system to ensure that public funds were accounted for and safeguarded. Accordingly, as shown by the findings in this report, funds were disbursed in an inefficient and uneconomical manner.

The annual executive appropriation act is the authoritative law which provides the legal budget for salaries and expenditures of the Governor's Office. Current legislation includes a minimal requirement for accountability and internal controls. This accountability is placed on certifying officers of the government, who have the responsibility to ensure that government funds are safeguarded.

At this time of limited financial resources, it is even more incumbent on certifying officers to ensure that these critical resources are spent in an economical and proper manner, and to ensure that there is sufficient supporting documentation to justify the disbursement of government funds. Accordingly, certifying officers, government-wide, must be reminded of their responsibilities when they obligate or approve the disbursement of public funds. They should also be reminded of the penalties that can and will be imposed for the failure to protect the government's best interest.

### **Recommendations**

We recommend that the Governor's Chief of Staff:

1. Design and implement a system of internal controls over the commitment and disbursement of the Governor's Office budget. At a minimum, this system should include the segregation of duties, appropriate levels of review and approval, a requirement for adequate supporting documentation, and a system of financial reporting and follow up regarding questionable transactions.

2. Issue a written directive from the Governor to reinforce to certifying officers of their duties and responsibilities in the disbursement of public funds. Stress to them the penalties that will be imposed for the failure to protect these funds.

### **Governor's Response**

The Governor agreed with the recommendations made in this section of the report. As indicated in the other findings, a system of internal controls and supervisory reviews have been established to ensure adherence to the V. I. Code and the rules of the Department of Finance.

### **V.I. Inspector General's Comments**

The responses from the Governor are sufficient for us to consider the recommendations resolved and implemented.



**THE UNITED STATES VIRGIN ISLANDS**

OFFICE OF THE GOVERNOR  
GOVERNMENT HOUSE

Charlotte Amalie, V.I. 00802  
340-774-0001

June 17, 2000

Mr. Steven G. VanBeverhouldt  
Inspector General  
Office of the Virgin Islands Inspector General  
No. 75 Kronprindsens Gade  
St. Thomas USVI 00802

Dear Mr. VanBeverhouldt:

Attached is the Office of the Governor's response to the Draft Audit Report on expenditures of the Office of the Governor #AC-01-11-00.

The audit report lists five findings and various recommendations for each finding. This Office concurs with all of the findings and the majority of the recommendations and has provided a corrective action plan for each finding with which it concurs and a response to the recommendations to which there is no concurrence .

Overall the audit is very thorough and your recommendations are insightful and will assist this office in developing appropriate guidelines to ensure greater accountability and more efficient internal operations in the future.

Sincerely

A handwritten signature in cursive script that reads "Charles W. Turnbull".

Charles W. Turnbull  
Governor

**GOVERNMENT OF THE UNITED STATES VIRGIN ISLANDS  
OFFICE OF THE GOVERNOR**

Response to Findings and Recommendations of the Office of the Inspector General Draft Audit Report/Expenditures of the Office of the Governor Report #AC-01-11-00.

The following are responses to Findings and Recommendations to the above-mentioned Draft Audit Report. There are five (5) basic findings with various recommendations to each finding:

**Finding/Recommendations I.**

**Costly Chartered Air Travel**

- (a) Establish procedures to ensure that the Virgin Islands Code is followed so that the Government always obtains the best price for requested services.
- (b) Ensure that procurement and contracting procedures are followed when services requiring significant amounts of funds and/or long-term services are going to be required.
- (c) Ensure that future air travel arrangements are made through commercial carriers with competitive airfare rates.
- (d) Ensure that there are procedures in place requiring that future air travel costs are adequately supported with documentation detailing the purpose of travel, the passenger's name(s) and title and travel itinerary or a copy of the used ticket.
- (e) Ensure that all government certifying officers understand the magnitude and nature of their responsibilities under Title 33 Section 3204 of the Virgin Islands Code.

**Concurrence or Non-Concurrence:**

The Office of the Governor concurs with these recommendations.

**Corrective Actions:**

The Office of the Governor now ensures that Virgin Islands Code and procurement and contracting procedures are strictly followed to acquire services. All travel arrangements are made through commercial carriers with competitive airfares. Bulk tickets are used whenever applicable. These bulk tickets represent the lowest price to the Government.

If a chartered flight is required it will only occur in an extreme emergency.

All travel costs are supported with documentation detailing the nature and purpose of the travel. (see exhibit A).

We have assigned another employee as certifying officer for the Office of the Governor. This employee has been provided a copy of the guidelines and procedures regarding the responsibilities of a certifying officer.

**Finding/Recommendation 2:**

Questionable Personal Expenses.

Request an opinion from the Department of Justice on the legality of the government paying personal living expenses of a governor. If necessary, submit legislation to have the Virgin Islands Code amended to clarify the issue.

- (b) Request the assistance of the Department of Justice in having the former Governor's Executive Assistant and the former Commissioner of Finance reimburse the Virgin Islands Government for the travel expenses determined to be personal in nature.
- (c) Ensure that only valid government travel expenses are authorized or approved for payment, and that certifying officers are adequately trained regarding internal contract procedures, which prohibit the personal use of public funds.

**Concurrence or Non-Concurrence:**

The Office of the Governor does not concur with these recommendations in their entirety.

**Corrective Action:**

There appears to be a lack of correlation between the “Finding” and the recommendation. The incidents to which the report takes exception appear to raise issues as to the propriety of extraordinary expenses reimbursed to the former first lady that should have been subject to existing procurement regulations and other accounting practices. Moreover, notwithstanding the fact that the report clearly indicates that you were unable to determine exactly which categories the expenses fell under, it is clearly not improper that the Governor’s reasonable daily subsistence and other expenses incidental to maintaining his public residence be provided. Accordingly, it would appear that the recommendation is overly broad and that the appropriate recommendation should have addressed the propriety of a non-government individual incurring those debts in the manner described and the institution of internal controls to prevent reoccurrence in the future.

We will seek the assistance of the Attorney General to determine if the Government should be reimbursed from the former Governor’s Executive Assistant and the former Commissioner of Finance.

The accounting office will ensure that only valid government expenses are authorized or approved for payment. The training of certifying officers was addressed in recommendation number 1.

**Finding/Recommendation 3:**

Improper Temporary Expenses.

- (a) Require personnel in the Business Office to follow procedures ensuring that all payment vouchers submitted are properly authorized, and certified as appropriate government expenditures.
- (b) Establish an internal review process within the Governor’s Office to avoid nonessential travel claims, and executrix review of all budget and accounting reports.
- (c) Encourage and support Finance’s internal control procedures to prevent fraud, waste and abuse.

## APPENDIX I

- (d) Ensure that a Supplemental Income Form 1099 is issued to the former Governor's Executive Assistant for the temporary living accommodations paid by the government.
- (e) Ensure that procedures are in place to require all prior year obligations in excess of \$5,000 to be submitted to the Legislature for approval prior to payment.

### **Concurrence or Non-Concurrence:**

The Office of the Governor concurs with these recommendations.

### **Corrective Action:**

The Business Office personnel currently follow strict guidelines and procedure to make sure all vouchers submitted and properly authorized and certified as appropriate government expenditures. These guidelines and procedures are followed in accordance with Virgin Islands Code, Chapter 115, Subchapter I. In addition, the Deputy Chief of Staff is currently supervising the Business Office and he is responsible for certifying all expenditures in the Office of the Governor are appropriate.

The internal review is accomplished by the Business Office staff, the Deputy Chief of Staff and Chief of Staff in the Office of the Governor. This internal control process supports the Department of Finance's procedures to prevent fraud, waste and abuse.

If we are directed by the Attorney General's opinion to issue a Supplemental Income Form 1099, to the former Governor's Executive Assistant, we will issue such form for temporary living accommodations paid by the government.

### **Finding/Recommendations 4:**

Undocumented Inauguration Expenses.

- (a) Ensure that there are procedures in place to direct Business Office staff to require supporting documentation for all disbursements of government funds.

### **Concurrence or Non-Concurrence:**

The Office of the Governor concurs with this recommendation.

### **Corrective Action:**

The procedures are in place and the Business Office staff is guided by guidelines in Virgin Islands Code, Chapter 115, subchapter I. In addition, the reviews mentioned above are in place.

**Finding/Recommendations 5:**

Lack of Accountability.

- (a) Design and implement a system of internal controls over the commitment and disbursement of the Governor's Office budget. At a minimum, this system should include the segregation of duties, appropriate levels of review and approval, a requirement for adequate supporting documentation, and a system of financial reporting and follow up regarding questionable transactions.
- (b) Issue a written directive from the Governor to reinforce certifying officers of their duties and responsibilities in the disbursement of public funds. Stress to them the penalties that will be imposed for the failure to protect these funds.

**Corrective Actions:**

A system of internal controls are already in place. Please note corrective actions for recommendation, number three (3) A & B.

Written directives have been issued from the Commissioner of Finance. These directives advise the certifying officer of their duties and responsibilities.



## APPENDIX I

## OFFICIAL REPORT DISTRIBUTION

### Virgin Islands Government

|                                   |    |
|-----------------------------------|----|
| Office of the Governor            | 3  |
| Office of the Lieutenant Governor | 1  |
| Department of Justice             | 1  |
| Department of Finance             | 1  |
| Office of Management and Budget   | 1  |
| 23 <sup>rd</sup> Legislature      | 15 |
| Legislative Post Auditor          | 1  |

### United States Government

|  |   |
|--|---|
| Office of Inspector General - Department of the Interior | 1 |
| Department of Justice - Federal Bureau of Investigation  | 1 |