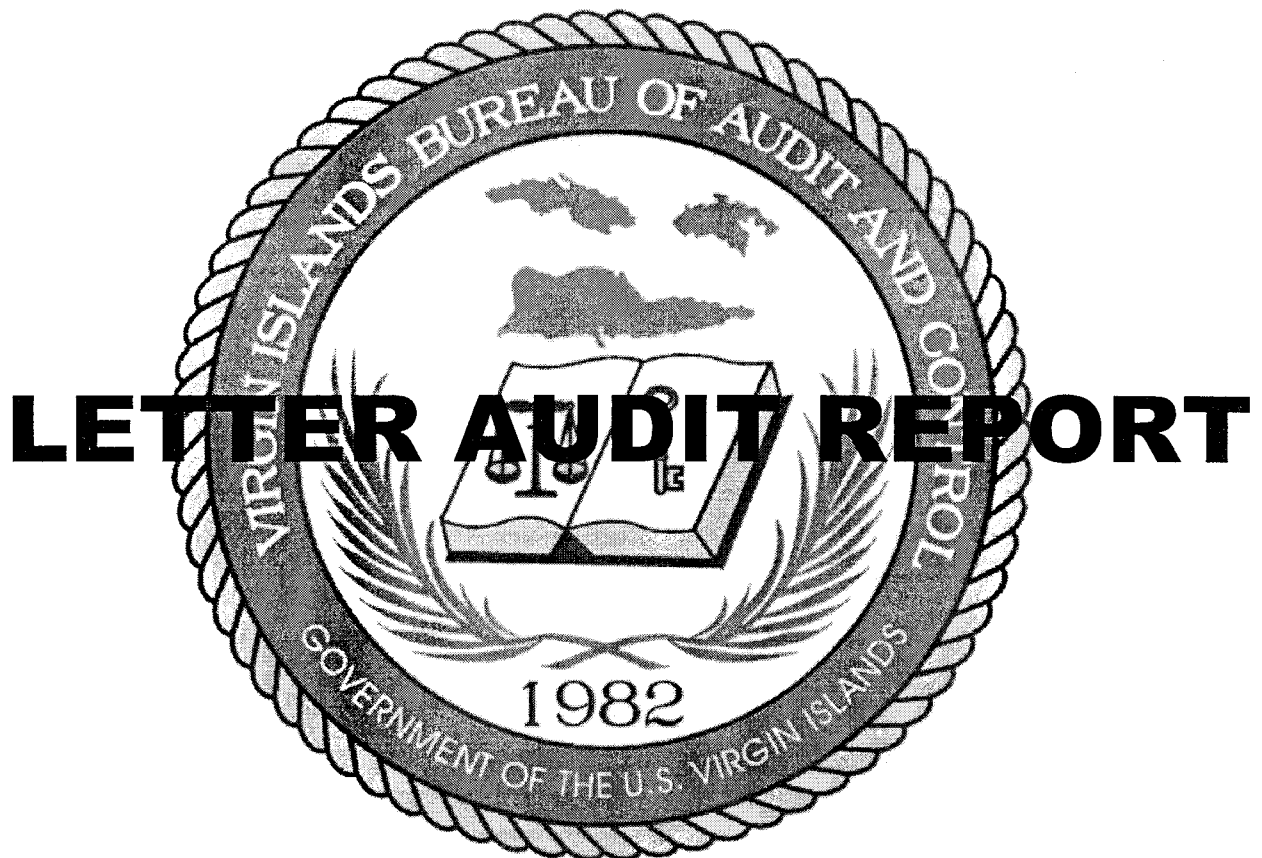


THE UNITED STATES VIRGIN ISLANDS
VIRGIN ISLANDS BUREAU OF AUDIT AND CONTROL



**AUDIT OF
COLLECTION ACTIVITIES
AT THE DEPARTMENT OF FINANCE,
FREDERIKSTED, ST. CROIX**

**ILLEGAL OR WASTEFUL ACTIVITIES SHOULD BE REPORTED TO
THE VIRGIN ISLANDS BUREAU OF AUDIT AND CONTROL BY:**

Calling or Sending Written Documents to:

**(809) 774-3381 V.I. Bureau of Audit and Control
or No. 75 Kronprindsens Gade**

(809) 774-3388 St. Thomas, Virgin Islands 00802



GOVERNMENT OF THE UNITED STATES VIRGIN ISLANDS

V. I. BUREAU OF AUDIT AND CONTROL

No. 75 Kronprindsens Gade, Charlotte Amalie, St. Thomas, V. I. 00802

STEVEN VAN BEVERHOUDT
INSPECTOR GENERAL

April 26, 1999

Tel: (809) 774-3388
Fax: (809) 774-6431

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

Honorable Vargrave A. Richards
President
23rd Legislature
Capital Building
St. Thomas, Virgin Islands 00802

Dear Governor Turnbull and Senator Richards:

This letter audit report contains the results of our audit of collection activities at the Department of Finance in Frederiksted, St. Croix.

The objectives of the audit were to determine whether appropriate internal controls were in place to safeguard funds collected, and if the collector complied with procedures established in Section 310.1 through 310.10 of the Accounting Manual.

To accomplish our audit objectives, we performed a surprise cash count, examined collection files, interviewed employees, and observed the collection process. The audit covered the period from October 1, 1997 through September 30, 1998. Revenues collected during this period totaled \$5.7 million. Most collections are Bureau of Internal Revenue taxes and property taxes.

Except for limitations to our independence as detailed in the succeeding two paragraphs, the audit was performed in accordance with "Government Accounting Standards" issued by the Comptroller General of the United States. We included tests and procedures that were considered necessary under the circumstances.

The second General Standard of the "Government Auditing Standards" states; "In all matters relating to the audit work, the audit organization and the individual auditors, whether government or public, should be free from personal and external impairments to independence, should be organizationally independent and should maintain an independent attitude and appearance."

Under the current organizational structure, the Virgin Islands Bureau of Audit and Control (Audit Bureau) is not organizationally independent. Budget and personnel limitations have adversely affected the Audit Bureau's ability to fully carry out our responsibilities.

AUDIT RESULTS

We found that internal controls were adequate to provide for the proper segregation of duties and physical security of funds collected. The collector was complying with established collection procedures, and supervision of the collection functions was adequate and provided for continued monitoring of collection activities.

These were however, two areas that needed corrective actions. The first dealt with inconsistencies in the assessing and collecting of penalties for delinquent property taxes. The second dealt with a shortage in the change funds.

Penalties on Delinquent Property Taxes

We found inconsistencies with the methods used to assess and collect penalties for property taxes. Title 33, Section 2494 of the Virgin Islands Code requires Finance to collect a penalty of 1 1/2% of the delinquent property tax amount for each month or fraction thereof that the amount remains delinquent.

We estimated that for fiscal year 1998, 120 taxpayers, who paid their taxes at this collection office, did not pay about \$8,300 in penalties. We did not include assessments of less than \$100 in the total.

We found that taxpayers paying in person were required to pay the appropriate penalties, however, those who mailed in payments were not always being required to pay. The supervisor at the Frederiksted office made attempts to collect many of the penalties, however, she indicated that, due to a limited staff, follow-up was not possible.

We also contacted the collection offices in Christiansted and on St. Thomas in order to obtain information on the process they used to assess and collect penalties for delinquent property taxes. In Christiansted, we were informed that no assessments of penalties were mailed to property taxpayers in that district. On St. Thomas, it was indicated that penalty notices were sent. These inconsistent procedures not only unfairly treat taxpayers differently, they also are not in accordance with the Virgin Islands Code. In our opinion, the Commissioner of Finance needs to establish a uniform policy and instruct the various collection offices of the procedures to follow. In addition, coordination should be made with the Tax Assessor to possibly include delinquency amounts with the property tax bills that will be mailed out in 1999.

Change Fund

During our cash count on November 15, 1998, we found that the \$200 change fund was still \$50 short, since January 11, 1994, when the discovery was made. In our September 12, 1995 report, AM-07-30-95, we included the shortages as part of the total \$5,682.50 that was reported missing.

No steps were taken to either replenish the fund or reduce the change fund by the \$50 shortage.

Recommendations

We recommend that the acting Commissioner of Finance:

1. Establishes a uniform policy in dealing with the assessment and collection of penalties relating to property taxes. Instruct the various collection districts on the procedures to follow.
2. Discusses with the Tax Assessor the possibility of including delinquent amounts with the property tax bills to be mailed in 1999.
3. Makes a decision to replenish the change fund to the original amount of \$200, or adjust the records to reflect a decrease to \$150.

A draft report was issued to the acting Commissioner of Finance on March 5, 1999, requesting a response by April 6, 1999. As of the date of this report, we have not received a response. Accordingly, we must consider the three recommendations as unresolved.

The Appendix on page 4 details the additional information needed to clear the recommendations from our follow-up system.

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

Sincerely,



Steven van Beverhoudt, CFE, CGFM
Inspector General

ADDITIONAL INFORMATION NEEDED TO CLEAR RECOMMENDATIONS FROM FOLLOW-UP SYSTEM

**Recommendation Number
and Status**

Information Needed

1. Unresolved

Provide a copy of the policy to be used in the collection of penalties relating to property taxes.

2. Unresolved

Provide evidence to show the results of discussions with the Tax Assessor relating to the inclusion of delinquent amounts with current tax bills.

3. Unresolved

Provided evidence to show that the change fund has either been replenished to the \$200 level or decreased to \$150.