

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



LETTER AUDIT REPORT

**AUDIT OF OPERATING EXPENDITURES
AT THE CHICAGO OFFICE
OF THE DEPARTMENT OF TOURISM**

**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

Tel: (340) 774-3388
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January 8, 2001

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

Honorable Almando "Rocky" Liburd
President, 24th Legislature
Capitol Building
Charlotte Amalie
St. Thomas, Virgin Islands 00802

Dear Governor Turnbull and Senator Liburd:

This letter report contains the results of our audit of operating expenditures at the Chicago Office of the Department of Tourism (Tourism). The audit was conducted at the request of the acting Commissioner of Tourism, based on concerns raised by Tourism officials about expenditures of the office.

The objectives of the audit were to determine if: (i) claimed expenditures were legitimate disbursements of Government funds; (ii) expenditures were supported by adequate documentation; and, (iii) proper internal controls were established to safeguard the integrity of funds allotted.

We focused our review on bank transactions made from the Chicago checking account from January 1999 to December 1999. We examined available cancelled checks, automated tell machines (ATM) withdrawals, deposit slips, bank statements and supporting documentation. As part of our audit, we evaluated internal controls over the disbursement of Government funds, and the accounting of such disbursements to the extent necessary to accomplish the audit objectives. Weakness identified during the review are discussed in the Audit Results section of this report.

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

Background

Tourism, under Title 3 Chapter 19 of the Virgin Islands Code, is responsible for formulating, implementing, administering, and coordinating programs and policies pertaining to all aspects of tourism and advertising of the Virgin Islands. To assist with promoting and advertising activities, Tourism maintains several offices in the United States. One such office is located at 500 North Michigan Avenue, Suite 2030 in Chicago, Illinois. In 1999, the Chicago Office received \$44,500 to meet operating expenses for the year. There were three employees assigned to the office. A local checking account was maintained by the Chicago Office in order to disburse funds for the operations of the office. The Regional Manager was the custodian of the account, and was responsible for signing all checks.

Based on a limited review of transactions of the Chicago Office, by Tourism officials, concerns were raised that funds were not being disbursed for legitimate Government expenditures. Accordingly, a request was submitted to the Office of the Virgin Islands Inspector General that disbursements be reviewed.

AUDIT RESULTS

Our review disclosed that internal controls were not adequate to ensure that funds disbursed by the Chicago Office were legitimate expenditures of the Government. Specifically, we found that: (i) there were \$19,328 in questionable disbursements; (ii) about \$18,151 of the disbursements were not supported by documentation; and, (iii) on several occasions the checking account was in an overdraft situation resulting in charges being imposed by the bank.

Questionable Expenditures

Due to a lack of internal controls, we identified \$19,328 in questionable expenditures for which there was little or no supporting documentation to justify them.

The following summarizes the questioned costs identified in our review:

- The former Regional Manager issued 24 checks totaling \$11,024 to herself, with no supporting documentation to show that they were paid for legitimate Government expenditures.
- A check for \$700 was issued to a relative, located in the Virgin Islands, of the former Regional Manager. Again, no supporting documentation was provided to show the Government purpose of the payment.
- There were 17 ATM withdrawals totaling \$4,543, with no supporting documentation to show how the funds may have been used for Government activities.

- Four checks totaling \$1,774 were issued to car rental agencies, without supporting documentation to show how the funds were used for Government activities.
- A check for \$109 was used to pay a phone bill that, Tourism officials indicated to us, was for the home phone of the former Regional Manager.
- A check was issued for airfare expenses that included \$458 for the daughter of the former Regional Manager.
- Due to the failure to reconcile the checking account, it was in an overdraft situation for several months, resulting in \$720 in bank charges.

These questionable transactions were referred to the Government Fraud and Corruption Task Force for investigation and possible criminal and/or civil charges.

Tourism officials indicated to us that the former Regional Manager has since resigned, and no longer lives in the Chicago area. They also stated that they have attempted to contact her at her last known address, however to no avail.

Lack of Internal Controls

Tourism did not establish an internal control system to ensure that all expenditures were legitimate disbursements of Government funds. There was little supervisory review, no separation of duties, and an ineffective system of checks and balances to ensure that disbursements were proper and adequately documented. This lack of internal controls resulted in the \$19,328 in questioned costs identified in the previous section.

Supervisory Review. One of the most critical internal control features is supervisory review. Tourism, as part of their oversight responsibilities of the offshore offices, requires each office to submit on a regular basis copies of all disbursements made. Although this requirement was in effect, Tourism did not enforce regular submission of documents. When they were supplied, timely action was not taken when questionable disbursements were identified. In Chicago, questionable transactions were allowed to continue for over a year before a request was made for the account to be audited. In addition, the former Regional Manager has since resigned from her position; thus making it more difficult to resolve the questionable disbursements. Timely supervisory reviews and quick action by Tourism officials would have prevented the questionable practice from continuing. Almost immediately upon taking over, the current Regional Manager had the account reconciled and discovered some of the questionable transactions.

Segregation of Duties. The former Regional Manager was responsible for all expenditure activities, deposits of funds, record keeping and report preparation. This resulted in the same individual controlling all transaction from the beginning to the end. This lack of separation of duties creates a greater opportunity for funds to be mishandled and possibly misappropriated.

Supporting Documentation. Receipts and invoices were not always submitted to properly support expenditures. Many of the questioned expenditures identified earlier in this report consisted of only cancelled checks. No receipts were included to justify the purpose for the expenditures.

Bank Reconciliations. The Chicago Office's bank account had not been reconciled for more than half the period covered by our review. This failure to reconcile the bank account contributed to the account being overdrawn and bank charges of \$720 being charged due to the issuance of bad checks.

Recommendations

We recommend that the acting Commissioner of Tourism:

1. Ensure that Tourism has procedures in place to review all transactions from the offshore offices on a regular basis, resolving any questionable transactions timely.
2. Ensure that all offshore offices have an internal control system in place to include: supervisory reviews; separation of duties; the requirement of supporting documentation; and, regular bank reconciliations.

Tourism's Response

The acting Commissioner of Tourism, in her December 29, 2000 response, indicated that procedures are now in place to ensure that monthly reports are received and reviewed timely. In addition, annual internal audits are to be performed beginning with fiscal year 2000.

Finally, an internal control system has been initiated where responsibilities are separated and management review of offshore offices are performed monthly.

V. I. Inspector General's Comments

The responses submitted are sufficient for us to consider the recommendations resolved. At a later date, we will review the effectiveness of the internal control system that has been initiated.

The acting Commissioner's response is included as an appendix to this report. If you or your staff require additional information, please call me at 774-3388 ext. 225.

Sincerely,



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

Appendix:



THE UNITED STATES VIRGIN ISLANDS
Department of Tourism

P.O. Box 6400, St. Thomas, U.S. Virgin Islands 00804
Tel.: (340) 774-8784 • Fax: (340) 774-4390 • 800-372-8784

OFFICE OF THE COMMISSIONER

December 29, 2000

Stephen VanBeverhoudt, CFE,CGFM
Inspector General
Office of the Virgin Islands Inspector General
No. 75 Kronprindsens Gade
St. Thomas, USVI 00802

Dear Inspector General VanBeverhoudt:

This letter is in response to your audit findings at our Chicago's office. Based on your recommendations the Department of Tourism has procedures in place to review all transactions on a regular basis. We are making every effort to ensure that monthly reports are received and reviewed timely. The offices are required to be physically audited annually, Every effort will be made to complete the audits through FY-2000 early in the First Quarter of FY-01 (please refer to the attached audit schedule) and by December 31st of each succeeding year.

An internal control system is in place, which includes supervisory reviews, separation of duties, requirement of supporting documentation and regular bank reconciliation. Quick Books Accounting Programs have been instituted in all six offices. All monthly statements from all banks are now being sent to the General Manager for review. Any large expenditures over \$1,000 must now be approved by the General Manager. Managers will be accountable for all offices.

SEPARATION OF DUTIES:

- 1) Manager reviews and approves invoices for payment.
- 2) Administrative Assistant prepares checks and enters them on manual record and computer.
- 3) Manager reviews and signs checks, and in Managers absence, Administrative Assistant signs.
- 4) Administrative Assistant reconciles account and prepares monthly report in accordance with specified instructions within ten days of receipt of bank statement. Manager reviews and signs reports to be transmitted to the Office of the General Manager in New York and Administration and Management in St. Thomas. Both offices will review the reports within two weeks of receipt and so indicate by initials and date. Any exceptions found, will be addressed to the Managers in writing with a response required in writing within ten days.

Respectfully,



Monique Sibilly-Hodge
Acting Commisiiioner

APPENDIX

Per your request, following is a tentative schedule for completing the offshore audits through FY-2000.

Chicago (4 yrs.)	Travel 1/8	Audit 1/9-1/12	Travel 1/13
New York (5 yrs.)			
Los Angeles (6 yrs.)	Travel 1/23 Travel 1/28	Audit 1/24-26 Audit 1/29-31	Travel 2/1
Miami (3 yrs.)			
Atlanta (3 yrs.)	Travel 2/4 Travel 2/7	Audit 2/5-6 Audit 2/8-9	Travel 2/10

Please note that the above schedule is based on two persons performing the audits. In addition, since the first audit is scheduled for January 8th a decision is needed so that if approved, the necessary GTR and cash advance requests can be submitted without delay.