

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



LETTER AUDIT REPORT

AUDIT OF COLLECTION ACTIVITIES
AT THE VIRGIN ISLANDS TRANSIT SYSTEM
IN ST. CROIX

**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
Fax: (340) 774-6431

July 13, 2000

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
Capitol Building
St. Thomas, Virgin Islands 00802

Dear Governor Turnbull and Senator Richards:

This final letter report contains the results of our audit of collection activities at the Virgin Islands Transit System in St. Croix. The audit was conducted at the request of the Commissioner of Finance.

The objectives of the audit were to determine whether appropriate internal controls existed to safeguard funds collected, and if collectors complied with established rules and regulations.

To accomplish our audit objectives, we performed a surprise cash count, interviewed employees, and examined collection files. The audit covered the period from October 1, 1998 through September 30, 1999. Revenues collected during this period totaled approximately \$281,964.

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.

BACKGROUND

The Commissioner of Finance, responsible for the enforcement and collection of Government funds, has issued an Accounting Manual, which in section 310.10 establishes procedures for collecting, recording and depositing revenues, and reporting these revenues to the Revenue Audit Section (Revenue Audit) of the Department of Finance for the purpose of centralized accounting.

The Virgin Islands Transit System (VITRAN), under the auspices of the Department of Public Works, Office of Transportation, is responsible for providing public transportation to residents of the Virgin Islands. VITRAN-PLUS Paratransit Services (VITRAN-PLUS) provides public transportation to certified disabled persons, in accordance with the Americans with Disabilities Act.

VITRAN buses, except VITRAN-PLUS minivans for disabled individuals, are equipped with an electronic farebox system, known as GFI fareboxes, to collect and register all of the inserted fares and to generate and report data on a “GFI Daily Summary Report.” The fares are: basic fares - \$1; senior citizens - \$0.55; students - \$0.75; and, transfers - \$0.25. Fares for disabled persons are \$4 for a round trip, and \$2 one way.

VITRAN on St. Croix has one official collector and four assistant collectors. These employees are referred to as “counters” because they count the money collected instead of making the actual collections.

AUDIT RESULTS

Our review showed that the collectors did not comply with established procedures contained in the Government Accounting Manual. Specifically, we found that: (i) funds were retained from farebox collections to purchase supplies and parts, and were not deposited into the General Fund or reported to Finance; (ii) fares collected from disabled passengers were not always deposited intact and promptly; (iii) existing control over GFI cashboxes and the keys for the counting room and vault were not adequate and did not offer security for the funds collected; and, (iv) the farebox data system report, which is compared to the actual money counted, could not be used to determine if funds collected were accounted for.

Funds Retained from Farebox Collections

During Fiscal year 1999, VITRAN retained \$20,566 from farebox revenues to purchase supplies and parts. These revenues were not deposited into the General Fund and were not reported in the Summary of Collections and Deposits submitted to Revenue Audit.

The practice of retaining funds from collections started in October of 1998 and continued in effect during the period of our audit. The justification for this action was the lengthy procurement process and the reluctance of vendors to accept government purchase orders.

Upon verification of supporting documents, we found that goods and services were purchased from local and outside vendors and paid for by cash or with postal money orders. On various occasions, authorized staff used their personal money to make purchases and later were reimbursed from the retained funds upon submission of invoices. Since, no evidence was provided to show that these purchases were included in the Government’s Financial Management System, it is probable that they were never recorded.

Section 310.4 of the Government Accounting Manual states that funds collected must be deposited intact, without making any deductions. Section 310.5 mandates that collections of funds must be reported in the Daily Summary of Collections and Deposits.

An appropriate way to handle emergency purchases is through the establishment of an imprest fund, which should be set up in accordance with established petty cash rules and regulations. VITRAN officials suggested that an imprest fund of \$15,000 be established.

VITRAN-PLUS Fare Deposits

VITRAN-PLUS fares collected were not being deposited intact nor on the next working day after collection. The following are examples:

<u>Collection</u>		<u>Deposits</u>		
<u>Period</u>	<u>Amount</u>	<u>Date</u>	<u>Amount</u>	<u>Total</u>
July 6-8/99	\$146.00	7/09/99	\$ 50.00	
		7/12/99	<u>96.00</u>	\$146.00
Aug 2-4/99	142.00	8/05/99	\$ 88.00	
		8/06/99	<u>54.00</u>	\$142.00
Sept 2-7/99	194.00	9/08/99	\$100.00	
		9/09/99	<u>94.00</u>	\$194.00

VITRAN-PLUS fares collected from disabled individuals are counted and recorded separately from VITRAN’s regular transit fares. Both revenues are deposited into the General Fund in one certificate of deposit.

Our review of Fiscal Year 1999 collections and deposits showed a shortage of \$167. A clerk in charge of recording VITRAN-PLUS collections, explained that \$141 of the \$167 shortage was stolen from the minibuses cashbox, but police reports submitted did not substantiate this allegation. VITRAN management indicated that the cashboxes installed in this minibuses are defective, and pledged to replace them with a more secure dropbox.

Section 310.4 instructs collectors to deposit daily during the morning, all funds collected during the previous work-day, and that “all collections shall be deposited intact, without making any deductions.”

Internal Controls

We found that existing control over GFI cashboxes and the custody of keys to access the counting room and open the GFI vault, did not offer sufficient security for the revenues collected.

GFI Cashboxes. Two employees, in charge of removing and transferring the GFI cashboxes containing the day's collections, were not authorized collectors. Moreover, a counting system to account for the total number of cashboxes was not in effect.

VITRAN has 17 buses on St. Croix, with 8 buses in operation and 9 inoperable buses. Each morning the established practice was to inspect the farebox system before the departure of the buses. These inspections were to determine if the fareboxes were operational and if cashboxes were inserted. The GFI cashboxes can be removed and inserted in any of the farebox systems installed in the buses. To be emptied, they have to be engaged with the GFI vault located inside the counting room. The number of available GFI cashboxes was not available, but we were informed that there are GFI cashboxes in some of the inoperable buses in addition to extra ones in case they are needed.

There is no assurance that all cashboxes used in any given day is emptied by the GFI vault as required by operating procedures. In our opinion all GFI cash boxes should be accounted for and all unused GFI cashboxes should be kept in a secured location.

Key System. We found that the keys to open the counting room and the GFI vault were in the custody of various employees, two of whom were not authorized collectors. We also found that one of the keys to open the money compartment chamber in the vault was not properly secured.

Five employees had custody or access to the keys opening the counting room, a protected structure where transit fares collected are stored and counted. Two of these employees, who are in charge of removing and transferring the GFI cashboxes from the buses to the counting room, were not designated collectors. These two employees also had to use the key to unlock the farebox compartment where GFI cashboxes are inserted.

An official collector and three assistant collectors had custody or access to the GFI vault door keys and/or the two padlocks protecting the money compartment. It was stated that the custody of the two keys for the two padlocks was divided between two employees to improve security. Therefore, one employee could not open the vault's money compartment without the other employee's key. Nevertheless, we observed that one of these keys was not properly secured.

An employee stated that the key in question was stored inside the drawer of a file cabinet that was not always locked. We also found that, in addition to these two employees, two other employees had access to this key.

In our opinion, the vault keys should be stored in a safe and issued at the start of and collected at the end of the work day. Responsibility for custody of the keys should be recorded, so that authorized employees using the keys are accountable for their loss or theft.

Farebox Data System Report

The farebox data system report, known as GFI Daily Summary Report (GFI Report) could not be used as a guide to determine if all of the fares collected were accounted for.

The GFI Report shows data on passenger classification, quantities of coins and values, revenue totals, and other farebox related operations. The data is transmitted and printed daily.

We found that in the majority of cases, the GFI Report did not agree with the actual cash count of fares collected. The percentages of overages and underages, mainly overages, were sometimes very large. A comparison of monthly totals for the months of May through September of 1999, is shown below:

<u>Month</u>	<u>Farebox Cash count</u>	<u>GFI Daily Summary Report</u>	<u>Difference Over (Under)</u>	<u>Percent Over (Under)</u>
May	\$ 22,736	\$16,981	\$ 5,755	33.8
June	21,747	17,533	4,214	24.0
July	21,667	18,054	3,613	20.0
August	22,952	18,872	4,080	21.6
September	<u>21,359</u>	<u>23,100</u>	<u>(1,741)</u>	<u>(7.5)</u>
Totals	<u>\$110,461</u>	<u>\$94,540</u>	<u>\$15,921</u>	<u>16.8</u>

As shown by the schedule, during the months of May through August 1999, the actual cash count of fares was much larger than the count on the GFI report, differences ranged from 20.0% to 33.8%. During the month of September, the actual cash count was 7.5% less than the GFI Report count.

We also found disagreements between sections in the GFI report. For example, on our cash count conducted on October 4, 1999, the actual money counted was \$1,058. On the GFI Report, in the section “Daily Coin Counts and Values”, the total amount of coins counted was \$124.50; but, in the section “Daily Revenue and Ridership Data Summary”, the total coins counted was \$987.50.

The manufacturer’s manual states that “the farebox counting is not 100% accurate and a misread of about 0.2% can occur (1 out of every 500 coins)”. It also states that the effective operation of the GFI farebox system is based upon the correct operation by bus drivers, maintenance, and inspections to detect and correct malfunctions.

A specific cause for the large overages and underages has not been determined. We learned

that maintenance and inspection of the fareboxes have not been performed because the manufacturer's are located in the United States. However, the GFI manual describes many situations that may cause a farebox to low count or miscount. Among them are: (a) when the farebox is in the bypass mode, (b) when the coin mechanism is not properly gapped and cleaned; (c) when the bill transport lightbulb is burned out or improperly seated; and, (d) when overlapping or folded bills are inserted into the farebox. Incorrect probing or cashbox handling problems may also destroy the comparison of money and data counting system.

A VITRAN official explained to us, that although drivers were trained on how to operate the farebox, it is impossible to capture the exact amount of money deposited by passengers. The farebox has a pre-set basic fare and discounted values for students and senior citizens. When a passenger deposits more money than the exact fare required, an overage will occur.

In our opinion, VITRAN has to operate the GFI farebox system according to the manual to produce reliable information. Management has to determine if drivers understand the use of the system, and are operating the farebox system appropriately. In addition, personnel should be trained to perform the routine inspections and repairs, and ensure that inspections are done on a regular basis. Another option VITRAN has is to consult the manufacturer for possible modifications to the equipment components and software to produce more reliable information, such as detailed daily farebox data for each bus, and the number of times per day each farebox is probed.

Recommendations

We recommend that the Commissioner of Public Works require VITRAN administrators and/or collectors to:

1. Discontinue the practice of retaining funds from farebox collections, and to deposit these revenues intact and promptly, as required by the Government Accounting Manual.
2. Request, from the Commissioner of Finance, the establishment of an imprest fund of about \$15,000, solely for VITRAN's use in the purchase of emergency supplies and parts. This fund should be operated in accordance with established petty cash rules and regulations.
3. Report transit collections in their entirety in the Summary of Collections and Deposits to be submitted to Revenue Audit.
4. Procure and install a secure cashbox in the minibuses to prevent stealing of fares collected.
5. Establish an inventory control system to account for all of the GFI cashboxes, before their insertion and after removal from the fareboxes.

6. Restrict the custody and access to the keys for the counting room and store the keys in a safe location at the start and end of each work day.

7. Determine the specific causes of the large differences between the money counted and the data system report and correct the problems. Ensure that a preventative maintenance program is put into effect to avoid future problems. Consult the manufacturer for possible modifications in the equipment components and software to produce reliable information.

An exit conference was held with Public Works officials, at which time they basically agreed with the recommendations made in the report. A draft report was issued on May 15, 2000, requesting a response from Public Works by May 30, 2000. Two extensions were requested from the department until June 30, 2000; however, as of the date of this report, we have not received a response. Accordingly, we are issuing the report without a response or comments from officials of the Department of Public Works. The additional information needed for us to resolve the seven recommendations made is included as an appendix to this report.

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

Sincerely,

A handwritten signature in blue ink that reads "Steven van Beverhoudt". The signature is written in a cursive style.

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

ADDITIONAL INFORMATION NEEDED TO CLEAR RECOMMENDATIONS

Recommendation Number and Status

Information Needed

- | | |
|---------------|---|
| 1. Unresolved | Provide documentation to show that farebox collections are being deposited intact as required by Finance's Accounting Manual. |
| 2. Unresolved | Provide evidence to show that Finance has authorized the use of an imprest fund. |
| 3. Unresolved | Provide evidence to show that all collections are reported to Finance as required. |
| 4. Unresolved | Provide evidence to show that a secured cashbox has been installed in the minibuses. |
| 5. Unresolved | Provide a copy of the inventory control system to be used to account for all GFI cashboxes. |
| 6. Unresolved | Provide evidence to show that custody and access to the counting room keys have been limited. |
| 7. Unresolved | Provide evidence to show that the automated accounting system has been corrected to accurately report collections. |