ISSUED: March 12, 2010 **AR-01-11-10**

THE UNITED STATES VIRGIN ISLANDS

OFFICE OF THE VIRGIN ISLANDS INSPECTOR GENERAL

AUDIT REPORT

AUDIT OF THE FUNDING FOR THE ABANDONED VEHICLE PROGRAM ST. THOMAS

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

Calling:	**Sending Written Documents to:**
(340) 774-3388	**Office of the Virgin Islands Inspector General** **2315 Kronprindsens Gade # 75** **St. Thomas, Virgin Islands 00802**
Web Site:	**E-Mail:**
www.viig.org	**taskforce@viig.org**

GOVERNMENT OF THE UNITED STATES VIRGIN ISLANDS
OFFICE OF THE V. I. INSPECTOR GENERAL
2315 Kronprindsens Gade #75, Charlotte Amalie, St. Thomas, V. I. 00802-6468
No 1. Commercial Building, Lagoon Street Complex, Frederiksted, St. Croix, V. I. 00840

STEVEN VAN BEVERHOUDT
V.I. INSPECTOR GENERAL

Tel: (340) 774-3388 STT
(340) 778-9012 STX
Fax: (340) 774-6431 STT
(340) 719-8051 STX

EXECUTIVE SUMMARY

The following summarizes the major findings resulting from the Audit of the Funding for the Abandoned Vehicle Program – St. Thomas (AR-01-11-10).

Finding 1: Internal Controls (pages 5 to 12)

- ✓ The St. Thomas Task Force failed to implement internal control procedures to ensure that established Government rules and regulations were followed and the financial integrity of the program protected.

- ✓ LEPC officials failed to meet their fiduciary responsibilities by allowing St. Thomas Task Force officials to: (i) manage the Federal funds outside of the Government's accounting system established by Finance; and, (ii) continually submit incomplete financial reports while receiving additional funding.

- ✓ Finance officials failed to meet their fiduciary responsibility by allowing St. Thomas Task Force officials to manage its miscellaneous appropriations outside of the Government's accounting system without ensuring that required controls were established to safeguard those funds.

- ✓ The Government may have to reimburse at least $344,664 in Federal funds.

- ✓ A fraud scheme was perpetrated costing the Government $1,903,684.

Finding 2: Commingled Funds (pages 13 to 15)

- ✓ St. Thomas Task Force officials failed to establish a separate account to manage the funds related to the St. Thomas Task Force.

- ✓ The former Deputy Chief of Staff to the Governor, by virtue of his position at Government House, exercised undue influence over management controls established by the LEPC and Finance and was able to remove Federal grant funds and miscellaneous appropriations from under the control of the agencies.

- ✓ A total of $2,098,293 in both Federal and local funds representing ten unrelated projects were commingled and maintained into a checking account.

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March 12, 2010

Honorable John P. de Jongh, Jr.
Governor of the Virgin Islands
Government House
21-22 Kongens Gade
St. Thomas, VI 00802

Honorable Louis P. Hill
President
28th Legislature
Capital Building
St. Thomas, VI 00802

Dear Governor de Jongh and Senator Hill:

Attached is the final report of our audit of the funding for the Abandoned Vehicle Task Force - St. Thomas (St. Thomas Task Force). The objectives of our audit were to determine if the St. Thomas Task Force implemented adequate internal control procedures to: (i) ensure compliance with established Government rules and regulations; and, (ii) ensure that Government funds were adequately safeguarded. The audit objectives included the identification of inadequacies in the management and accounting of funds, and recommendations to address the inadequacies found.

We found that the St. Thomas Task Force failed to implement internal control procedures to ensure that established Government rules and regulations were followed and the financial integrity of the program protected.

We also found that LEPC officials failed to meet their fiduciary responsibilities by allowing St. Thomas Task Force officials to: (i) manage the Federal funds outside of the Government's accounting system established by Finance; and, (ii) continually submit incomplete financial reports while receiving additional funding.

Finally we found that Finance officials failed to meet their fiduciary responsibility by allowing St. Thomas Task Force officials to manage its miscellaneous appropriations outside of the Government's accounting system without ensuring that required controls were established to safeguard those funds.

We attribute these conditions to: (i) St. Thomas Task Force officials' failure to establish internal control procedures to ensure that Government funds were adequately managed, and to ensure compliance with reporting requirements; (ii) the former Deputy Chief of Staff to the Governor, by virtue of his position at Government House, exercising undue influence over officials at LEPC to circumvent reporting requirements; (iii) LEPC officials' failure to ensure that the Federal grant funds were properly managed; (iv) LEPC officials' failure to ensure that the St. Thomas Task Force adhered to Federal guidelines on grant reporting requirements; and, (v) Finance officials' failure to ensure that the miscellaneous funds provided to the St. Thomas Task Force were properly accounted for.

As a result, (i) the Government may have to reimburse at least $344,664 in Federal funds; (ii) a fraud scheme was perpetrated costing the Government $1,903,684; and (iii) $1,546,500 was commingled into a checking account opened for an unrelated purpose.

We made several recommendations to address the conditions and causes cited in the report. The recommendations addressed areas dealing with: (i) establishing internal control procedures in Government special projects; (ii) requiring full compliance with Federal grant award agreements; and, (iii) ensuring proper monitoring and disbursement of funds.

A response was received dated February 19, 2010 agreeing with all of the recommendations made in the report. The response is included as Appendix I beginning on page 15.

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

Sincerely,

Steven van Beverhoudt

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

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INTRODUCTION

BACKGROUND

In order to address concerns that the former Governor had regarding the cleanliness of the islands, the Anti-Litter and Abandoned Vehicle Task Force (Task Force) was formed in 2002 under the Office of the Governor. Separate task forces were established in both the St. Thomas/St. John and St. Croix districts. Each former district's island Administrator was responsible for the operation of the Task Force within their respective areas. However, the former St. John Administrator choose not to participate because it was determined that St. John did not have a significant problem with abandoned vehicles, and all problems identified were easily handled by the Department of Public Works.

The St. Thomas Task Force was formed under the chairmanship of the then Public Relations Officer who subsequently became the St. Thomas/Water Island Administrator (former Chairman). It was comprised of staff from several governmental agencies to include the Virgin Islands Departments of Police, Public Works, Planning and Natural Resources, Health, Fire, Property and Procurement, Housing Parks and Recreation, and Licensing and Consumer Affairs. In addition, the Virgin Islands Waste Management Authority, Housing Authority, the St. Thomas/St. John Anti-littler and Beautification Commission (ALBC), and the U.S. Environmental Protection Agency were also members. The St. Thomas Task Force held regular weekly meetings and identified problem areas within the St. Thomas community that required attention to include abandoned vehicle removals, abandoned building demolitions, roadside cleanups, and neighborhood beautification. Through a coordinated effort, the various agencies worked together to achieve the goals of the St. Thomas Task Force.

Funding was obtained from both Federal grants and local funds. Through the Law Enforcement Planning Commission (LEPC), the St. Thomas Task Force received Federal funds under a Byrne Memorial Grant, to address nuisance abatement issues within the territory of the Virgin Islands. In addition, the St. Thomas Task Force obtained local grant funds and lobbied the Virgin Islands Legislature for appropriations.

During fiscal years 2003 through 2006, $700,000 in Federal grant funds (of which $175,000 was to be distributed to the St. Croix Task Force), and $846,500 in local funds (of which $250,000 was to be distributed to the St. Croix Task Force), were deposited into the account used to pay expenses related to the St. Thomas Task Force operations.

The Federal funds were to be used for the reduction of violent and drug related crimes by means of removing abandoned vehicles and demolishing abandoned buildings used for "crack houses" and other illegal activities. The local funds were also to be used to augment the Task Force operations.

The St. Thomas Task Force removed abandoned vehicles from public and private streets and properties, demolished abandoned buildings, and cleared areas of debris on St. Thomas. It

became a popular program and enjoyed accolades from both the public and private sectors as reported in numerous news outlets.

The St. Croix Task Force was run by the former St. Croix Administrator, who managed the island's appropriated resources through established nonprofit organizations on the island. In Fiscal Year 2004, the former St. Croix Administrator expected to receive $175,000 of a $350,000 territorial Byrne Memorial Federal grant award to expand the St. Croix Task Force operations. Although, the entire grant award of $350,000 was released to the former Deputy Chief of Staff to the Governor, the former St. Croix Administrator was not provided with the expected $175,000. As a result, when contacted to participate in the following year's territorial grant application request, the former St. Croix Administrator declined.

In addition, in Fiscal Year 2006, there was a General Fund appropriation of $250,000 that was not made available to the St. Croix Task Force. The former Deputy Chief of Staff to the Governor instead deposited the funds into the account used to pay St. Thomas Task Force expenses. These funds became a part of the embezzlement scheme perpetrated by this individual.

OBJECTIVES, SCOPE AND METHODOLOGY

Our audit focused on the finances of the St. Thomas Task Force. The audit was initiated based on the investigation and conviction of the former Deputy Chief of Staff to the Governor. Based on the results of the investigation, we determined that the funds most affected by this embezzlement scheme were funds obtained for the purposes of the Task Force's operations. A total of $1,546,500 in both Federal and local grant funds was deposited into a Bureau of Economic Research's checking account. As a result, an internal control audit of the St. Thomas Task Force was necessary.

The objectives of our audit were to determine if the St. Thomas Task Force implemented adequate internal control procedures to: (i) ensure compliance with established Government rules and regulations; and, (ii) ensure that Government funds were adequately safeguarded. The audit objectives included the identification of inadequacies in the management and accounting of funds, and recommendations to address the inadequacies found.

The scope of the audit covered operations of the St. Thomas Task Force during fiscal years 2003 through 2006.

To accomplish our objectives, we reviewed applicable laws, regulations and procedures; examined expenditures made through the Bureau of Economic Research's checking account and Department of Finance (Finance); examined documents related to Federal grant funds obtained from the LEPC; and, interviewed key officials of the St. Thomas Task Force and LEPC.

The audit was performed in accordance with generally accepted government auditing standards applicable to performance audits, contained in the "Government Auditing Standards" issued by the Comptroller General of the United States. Those standards require that we plan and

perform the audit to provide a reasonable basis for our findings and conclusions. Accordingly, we have performed such tests of records and performed other auditing procedures that were considered necessary under the circumstances.

As part of our audit, we evaluated the internal controls over the management of funds controlled by the St. Thomas Task Force to the extent necessary to accomplish the audit objectives. Weaknesses in internal controls are discussed in the Audit Results section of the report.

PRIOR AUDIT COVERAGE

We are unaware of any audit reports issued on the St. Thomas Task Force within the past 5 years.

AUDIT RESULTS

CONCLUSIONS

We found that the St. Thomas Task Force failed to implement internal control procedures to ensure that established Government rules and regulations were followed and the financial integrity of the program protected.

We also found that LEPC officials failed to meet their fiduciary responsibilities by allowing St. Thomas Task Force officials to: (i) manage the Federal funds outside of the Government's accounting system established by Finance; and, (ii) continually submit incomplete financial reports while receiving additional funding.

Finally we found that Finance officials failed to meet their fiduciary responsibility by allowing St. Thomas Task Force officials to manage miscellaneous appropriations outside of the Government's accounting system without ensuring that required controls were established to safeguard those funds.

We attribute these conditions to: (i) St. Thomas Task Force officials' failure to establish internal control procedures to ensure that Government funds were adequately managed, and to ensure compliance with reporting requirements; (ii) the former Deputy Chief of Staff to the Governor, by virtue of his position at Government House, exercising undue influence over officials at LEPC to circumvent reporting requirements; (iii) LEPC officials' failure to ensure that the Federal grant funds were properly managed; (iv) LEPC officials' failure to ensure that the St. Thomas Task Force adhered to Federal guidelines on grant reporting requirements; and, (v) Finance officials' failure to ensure that the miscellaneous funds provided to the St. Thomas Task Force were properly accounted for.

As a result, (i) the Government may have to reimburse at least $344,664 in Federal funds; (ii) a fraud scheme was perpetrated costing the Government $1,903,684; and (iii) $1,546,500 was commingled into a checking account opened for an unrelated purpose.

We made several recommendations to address the conditions and causes cited in the report. The recommendations addressed areas dealing with: (i) establishing internal control procedures in Government special projects; (ii) requiring full compliance with Federal grant award agreements; and, (iii) ensuring proper monitoring and disbursement of funds.

FINDING 1: INTERNAL CONTROLS

The St. Thomas Task Force was a well devised program with clear established objectives and goals as outlined in the Federal grant award application. However, St. Thomas Task Force officials failed to establish and implement internal controls to: (i) ensure compliance with established rules and regulations; and, (ii) ensure the financial integrity of the program. The St. Thomas Task Force also failed to utilize established governmental control procedures as established by the LEPC and Finance. In addition, St. Thomas Task Force officials' failed to ensure the success of its goals and objectives from both a programmatic and financial perspective. Finally, the former Deputy Chief of Staff to the Governor (former Financial Officer of the St. Thomas Task Force) used his position in the Government to circumvent accounting controls established by LEPC and Finance. As a result, project funds were improperly distributed, not monitored, unaccounted for, and commingled. Total cost to the Government was at least $1,903,684 of which $1.25 million was directly embezzled through a Bureau of Economic Research checking account inappropriately used to house the funds for the St. Thomas Task Force. In addition, $309,973 in expenses was inappropriately processed through Finance by the former Deputy Chief of Staff to the Governor.

Background

Best business practices required managers of the St. Thomas Task Force to implement internal control procedures to provide reasonable assurance regarding the achievement of objectives through effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations. Sound financial management practices are essential for successful implementation of any program objectives to ensure the best use of available resources, and to comply with statutory mandates, policies and procedures.

The U.S. Office of Management and Budget's OMB Circular A-87 states that governmental units: (i) are responsible for the efficient and effective administration of Federal awards through the application of sound management practices; and, (ii) assume responsibility for administering Federal funds in a manner consistent with underlying agreements, program objectives, and the terms and conditions of the Federal award.

The Revised Organic Act of 1954, Section 18 requires the Governor to establish and maintain systems of accounting and internal control to provide effective control over and accountability for all funds which the Government is responsible. In addition, Title 3, Section 177 of the Virgin Islands Code states in part that Finance is required to provide uniform regulations for the disbursement of all public funds.

St. Thomas Task Force Internal Controls

The St. Thomas Task Force failed to establish and implement internal control procedures to ensure: (i) that objectives were being achieved through the efficient use of its financial

resources; and, (ii) the reliability of financial reporting and compliance with applicable laws and regulations were being achieved. We attribute this to St. Thomas Task Force officials focusing on the programmatic aspect of the project and ignoring the projects' financial management and reporting requirements. As a result, the Government may have to reimburse the Federal Government at least $344,664 in Federal funds.

The former St. Thomas Administrator, who served as Chairman, was responsible for the day to day operations of the St. Thomas Task Force. The former Deputy Chief of Staff to the Governor, who served as the Financial Officer, was responsible for all financial aspects of the program to include accepting funding, paying bills and reporting on the use of those funds to LEPC.

The former St. Thomas Administrator would obtain invoices to be paid and forward those invoices to the former Deputy Chief of Staff to the Governor, who was responsible for making sure that all invoices were paid. The former Deputy Chief of Staff to the Governor was also responsible for reporting on the use of those funds to LEPC. The former St. Thomas Administrator did not require any financial reporting or reconciliations. In addition, the former St. Thomas Administrator did not track the St. Thomas Task Force's expenses, but relied only on the former Deputy Chief of Staff to the Governor's "occasional" verbal report on how much funds remained available. As a result, the former Deputy Chief of Staff to the Governor was allowed to manage and administer St. Thomas Task Force funds without any checks and balances.

Although Finance released all miscellaneous appropriations to the former Deputy Chief of Staff to the Governor, the individual, by virtue of his position as the Office of the Governor's Certifying Officer, processed at least an additional $309,973 between 2004 and 2006 through the General Fund of the Government. Those payments should have been paid from the funds previously released under the miscellaneous appropriations by Finance. However, the former Deputy Chief of Staff to the Governor failed to appropriately use the funds previously released thereby causing the Government to cover those expenses for a second time.

Ultimately, the former Deputy Chief of Staff to the Governor was convicted of embezzling $1.25 million dollars from the checking account. The following schedule details how the embezzled funds were used by the former Deputy Chief of Staff to the Governor.

Description of Checks Written:	**Total Value**
Cash	$ 660,185
Lottery Dealers	296,036
Former Deputy Chief	246,466
Home Improvement (Former Deputy Chief)	18,082
Other	14,700
Travel Agents	9,078
Bank	4,500
Grand Total	**$1,249,047**

As a result, the embezzlement scheme cost the Government at least $1,903,684. The following table summarizes the embezzlement scheme's cost to the Government.

Description	Amount
Embezzled Funds	$1,249,047
Possible Reimbursement Federal Government	344,664
Improperly Processed Expenditures	309,973
Grand Total	**$1,903,684**

If St. Thomas Task Force officials had established and insisted on proper internal control procedures and implemented timely reviews, the embezzlement scheme may have been discovered earlier. In addition, had controls been established to ensure proper segregation of duties, the scheme would have been more difficult to be carried out. For example, the person handling the receipts, bank deposits, disbursements, and bank reconciliation should not have been the same individual. Proper management and timely reviews would have revealed that the former Deputy Chief of Staff to the Governor was using program funds for his personal uses.

Oversight by LEPC

The LEPC failed to uphold its fiduciary responsibilities by allowing St. Thomas Task Force officials to circumvent financial reporting requirements. In addition, LEPC allowed the St. Thomas Task Force to manage their grant award funds outside of the Government's central accounting system maintained by Finance.

Documents reviewed indicated that the former Deputy Chief of Staff to the Governor arranged with the former Drug Policy Advisor of the LEPC to have checks made out to the Office of the Governor instead of managing those funds through Finance. The LEPC approved three separate grant awards to the St. Thomas Task Force. All three grant awards totaled $700,000. The following schedule summarizes the grant awards provided by LEPC by fiscal year and total funds awarded.

Fiscal Year	Total Awarded
2004	$350,000
2005	200,000
2006	150,000
Grand Total	**$700,000**

For Fiscal Year 2004, LEPC awarded a $350,000 territorial grant to the St. Thomas Task Force in September 2003. The St. Thomas Task Force was required to prepare and submit a monthly progress and fiscal report that included a narrative of the program's accomplishments and a financial report summarizing the expenditures, accompanied by supporting documents justifying those expenditures. During the activity period from September 2003 through the final report filed in August of 2004, the St. Thomas Task Force should have prepared 11 monthly

reports. However, the St. Thomas Task Force filed only 4 of 11 monthly reports; at times combining reports to cover in one instance a six month period and another a three month period to close out the grant award. During the entire grant period, the former Deputy Chief of Staff to the Governor did not provide any supporting documentation to justify any of the expenditures. Although the St. Thomas Task Force officials were not in compliance with reporting requirements, we did not find any correspondence in the files to indicate that LEPC officials made objections to the reporting infractions. The LEPC officials closed out the grant in August of 2004 without requiring St. Thomas Task Force officials to justify their expenditures. In conclusion, had LEPC performed their fiduciary responsibility, the agency would have noted that based on actual expenditures during this period, the St. Thomas Task Force could only justify $207,996 of the $350,000 awarded, resulting in $142,004 of unjustified claims.

The following schedule summarizes the $350,000 grant awarded in Fiscal Year 2004.

Fiscal Year 2004 LEPC Grant

Period Covered	LEPC Release	Justified Expenses
09/08/03 – 10/03/03	$ 70,750	$ -
10/06/03 – 11/11/03	124,000	64,408
11/24/03 – 05/04/04	120,500	74,588
03/30/04 – 08/05/04	34,750	69,000
Grand Total	**$350,000**	**$207,966**

For Fiscal Year 2005, the St. Thomas Task Force was given a $200,000 grant award that was expended during the period of September 2004 through May 2005. Although we noted that overall the monthly reporting had improved, the lack of providing any supporting documentation to justify the expenditures continued.

The St. Thomas Task Force was required to prepare and file 9 reports covering the period from the start to the closing of the grant in May 2005. We noted that 5 of 9 reports were filed, and the St. Thomas Task Force combined two reports covering a two month period each. However, we did note that on December 30, 2004 LEPC officials wrote a memo addressed to the former St. Thomas Administrator indicating that the November monthly fiscal report and supporting documentation had not been submitted. That report was due on November 5, 2004. The correspondence was the first indication in the files to suggest that LEPC officials had started to make an effort to enforce its reporting requirements.

Subsequently on January 18, 2005, LEPC officials issued another memo addressed to the former St. Thomas Administrator indicating that although the agency was in receipt of the monthly reports for November and December, the supporting documentation was still outstanding. The LEPC examiner noted on the memo that the former Deputy Chief of Staff to the Governor called and stated that he had never had to submit any documentation and questioned

"why now?" The note went on to indicate that the former Deputy Chief of Staff to the Governor stated that "this does not make any sense because he maintains his own files." The notation ended with "will speak to the LEPC's Grant Administrator." However, it was not clear who would speak with the Grant Administrator; the former Deputy Chief of Staff to the Governor or the LEPC Examiner.

We did not find any instances during this grant period in which supporting documentation were supplied to LEPC. The grant was subsequently closed out with the final report filed in May 2005. Had LEPC officials performed their fiduciary responsibility, the agency would have noted that based on actual expenditures during this period the St. Thomas Task Force could only justify $43,380 of the $200,000 awarded, resulting in $156,620 of unjustified claims. The following schedule summarizes the $200,000 grand awarded in Fiscal Year 2005.

Fiscal Year 2005 LEPC Grant

Period Covered	LEPC Release	Justified Expenses
09/24/04 – 10/29/04	$ 38,200	$ -
10/22/04 – 11/12/04	30,000	-
11/12/04 – 12/31/04	41,000	16,273
01/12/05 – 03/17/05	50,000	23,057
03/17/05 – 05/31/05	40,800	4,050
Grand Total	**$200,000**	**$43,380**

For Fiscal Year 2006, the St. Thomas Task Force was given a $150,000 grant award that was expended during the period of September 2005 through February 2006. Again, we noted that overall the monthly reporting had improved, however; the failure to provide supporting documentation to justify the expenditures continued. The St. Thomas Task Force was required to prepare and file 5 reports covering the period from the start to the closing of the grant in February 2006. We noted that 3 of 5 reports were filed, and the St. Thomas Task Force combined one report covering a three month period. Although, LEPC officials were aware of the shortcomings regarding the financial reporting requirements of the St. Thomas Task Force, we did not find any correspondence during this period to indicate that LEPC officials were reviewing the St. Thomas Task Force for compliance regarding the submittal of supporting documentation to justify their expenditures. We did not find any instances, during this grant period, where supporting documentation was supplied to LEPC. The grant was subsequently closed out with the final report filed in February 2006. Had LEPC officials performed their fiduciary responsibility, the agency would have noted that based on actual expenditures during this period the St. Thomas Task Force could only justify $103,960 of the $150,000 awarded, resulting in unjustified claims of $46,040. The following schedule summarizes the $150,000 grant awarded in Fiscal Year 2006.

Fiscal Year 2006 LEPC Grant

Period Covered	LEPC Released	Justified Expenses
10/03/05	$ 50,000	$ -
10/03/05 – 01/08/06	60,000	103,960
01/06/06 – 02/21/06	40,000	-
Grand Total	**$150,000**	**$103,960**

Overall, of the $700,000 provided by the LEPC, the St. Thomas Task Force could only justify $355,366, resulting in $344,664 of unjustified claims. The following schedule summarizes all three Federal grants awarded and the total amounts of justified and unjustified expenses.

Summary of LEPC Grants and Expenses

Fiscal Year	Grand Award	Justified Expenses	Unjustified Expenses
2004	$350,000	$207,996	$142,004
2005	200,000	43,380	156,620
2006	150,000	103,960	46,040
Grand Total	**$700,000**	**$355,336**	**$344,664**

Oversight by Finance

Finance failed to uphold its fiduciary responsibilities by allowing St. Thomas Task Force officials to manage their appropriated funds outside of the Government's central accounting system without insisting on controls to ensure the accountability of those funds. Finance is charged with the responsibility to provide effective controls for all Government funds.

The Virgin Islands Legislature on three different occasions appropriated a total of $946,000 in funding to the two task forces. The St. Thomas/St. John district was to receive $566,000 and the St. Croix district $380,000.

The following schedule summarizes the miscellaneous appropriations of the Legislature to the Task Force.

Fiscal Year	Act Number	Appropriation	STT/STJ	STX
2004	6634	$130,000	$ 65,000	$ 65,000
2005	6781	316,000	251,000	65,000
2006	6839	500,000	250,000	250,000
Grand Total		**$946,000**	**$566,000**	**$380,000**

All funds appropriated were made available under the Office of the Governor's miscellaneous budget. However, Finance allowed the former Deputy Chief of Staff to the Governor to remove the funds from its control without insisting on controls to account for those funds. The former Deputy Chief of Staff to the Governor had the option of requesting, from the Commissioner of Finance, the authorization to open an imprest fund account to manage the appropriated funds. However, we were not provided with any evidence that this request was made. As a result, there was no evidence to indicate that Finance was aware of how the St. Thomas Task Force intended to manage and account for the funds disbursed. The former Deputy Chief of Staff to the Governor on each occasion prepared a Miscellaneous Disbursement Voucher for the entire sum of the appropriation and was subsequently provided with a check made out to the Office of the Governor. The former Deputy Chief of Staff to the Governor arranged with the former Assistant Commissioner of Finance to have the checks picked up personally, at which time the former Deputy Chief of Staff to the Governor made the deposit into the Bureau of Economic Research's checking account. We attribute this to Finance's failure to ensure that Government funds were appropriately safeguarded and controlled. In addition, the former Deputy Chief of Staff to the Governor abused his position at Government House to circumvent Government financial controls. As a result, $946,000 was removed from Finance's accounting system without any controls put into place for the accountability of those funds.

Recommendations

We recommend that the current Chairperson for both the St. Thomas and St. Croix Task Forces:

1. Establish a system of documented internal control procedures to account for all receipt and disbursement of funds and to establish a system of checks and balances.

We recommend that the Director of the LEPC:

1. Ensure that all Federal grantees are properly monitored for reporting compliance before additional funds are made available.

2. Ensure that the Government's potential liability to the Federal Government is minimized by ensuring that Government sub-grantees who are non-compliant with federal regulations are reported to the Office of the Governor, Director of OMB, and Finance for assistance with corrective action.

We recommend that the Commissioner of Finance:

1. Ensure that all funds disbursed for use by Government agencies and programs are safeguarded in approved accounts and properly accounted for.

Governor of the Virgin Islands' Response

The Governor of the Virgin Islands in his February 19, 2010 response indicated agreement with all of the recommendations made in this section of the report. Specifically, regarding the recommendation to the St. Thomas and St. Croix Task Forces, it was indicated that procedures have been put into place, mainly through the Government's Enterprise Resource Planning (ERP) System. Unlike prior practice, the program is not operated through a separate checking account.

Regarding the two recommendations to the LEPC, the response indicated that no new Federal funds have been used to support the Task Forces.

Finally, regarding the recommendation made to Finance, it was indicated that all banks were notified to refrain from opening Government bank accounts without authorization from the Commissioner of Finance. The Director of Treasury for Finance has been instructed to deny approval of outside accounts except for the occasional imprest/petty cash accounts. Finally, it was indicated that Finance was in the process of identifying and closing all unauthorized accounts.

V. I. Inspector General's Comments

Regarding the recommendation to the Task Forces, with the current procedure of processing payments through the Government's ERP System, we consider this recommendation resolved and fully implemented.

Regarding the recommendations to the LEPC dealing with the monitoring of sub-grantees, although no additional Federal funds have been awarded to the Task Forces, the recommendations are applicable to all recipients of grant funds. The LEPC must ensure that procedures are in place to regularly monitor grant recipients, both Government and non-Government, to ensure compliance. In addition, a process must be in place to deal with issues of non-compliance. Although we will consider these recommendations resolved, additional information regarding the LEPC's monitoring procedures and non-compliance issues are needed before we can consider them closed.

Finally regarding the recommendation made to Finance, the response is sufficient for us to consider it closed and resolved. However, please provide a listing of all authorized checking accounts and those accounts that were unauthorized and closed.

FINDING 2: COMMINGLED FUNDS

St. Thomas Task Force officials failed to establish a separate account to manage the funds related to the St. Thomas Task Force. The former Deputy Chief of Staff to the Governor, by virtue of his position at Government House, exercised undue influence over management controls established by the LEPC and Finance and was able to remove Federal grant funds and miscellaneous appropriations from under the control of the agencies. As a result, a total of $2,098,293 in both Federal and local funds representing ten unrelated projects were commingled and maintained into a checking account.

Background

Federal guidelines over the financial administration of Federal grants dictate that grant funds of specific grant projects and programs not be commingled, and that the funds and related expenditures of each grant program or project be separately and distinctly accounted. In particular, the U.S. Department of Justice, Office of Justice Programs' Financial Guide procedures manual clearly states in Chapter 3: Standards for Financial Management Systems, ". . . the accounting systems of all recipients and sub recipients must ensure that agency funds are not commingled with funds from other Federal agencies .... Funds specifically budgeted and/or received for one project may not be used to support another."

Checking Account

The checking account where all the commingled funds were maintained was an account legally approved by Finance for the management of the Federal Health Resources Services Administration (HRSA) grant controlled by Bureau of Economic Research. This checking account ultimately became the dumping ground for various other projects unrelated the HRSA grant program. Transactions related to the HRSA grant program were audited and reported on in our "Audit of Select Transactions of the Bureau of Economic Research," (AR-02-11-09) the details of this audit can be found in that report.

The HRSA approved checking account ultimately held funds for three different Federal grants totaling $969,864 to include the HRSA grant for which the account was originally approved, the Byrne grant related to the St. Thomas Task Force, and a U. S. Department of Energy Project. Also maintained in this account were local funds for seven different purposes totaling $1,071,025 including; funds for the Task Forces (St. Thomas and St. Croix), Economic Research's operating expenses, Nazareth property clean-up, Charlotte Amalie restrooms, Carnival portable restrooms, and antique furniture purchases. Additionally, the account was used for five other types of deposits made to include a donation specifically for the purchase of antique furniture, cash deposits, travel reimbursements, political contributions, and other miscellaneous donations; all five totaled $57,404. A grand total of $2,098,293 was commingled into this checking account.

The following schedule details the various Federal, local, and non-governmental related deposits commingled into this checking account, their related purpose and amount of the funds deposited.

Schedule of Commingled Funds		
Source	**Purpose**	**Amount**
Federal Government		
Justice (Bryne Grant)	Crime Reduction (Task Force)	$ 700,000
Health Resources Services Administration	Health Insurance Study	206,554
Energy Office	Government House Energy Project	63,310
Subtotal - Federal		**$ 969,864**
Local Government		
Legislature	Task Forces	$ 816,000
Economic Research (Checking Account)	Economic Research Operating Expenses	159,625
Economic Research	Economic Research Operating Expenses	40,900
Anti-Litter and Beautification Commission	Nazareth Clean-up	20,000
Office of the Governor	Charlotte Amalie Restrooms	20,000
Anti-Litter and Beautification Commission	Carnival Portable Restrooms	10,500
Planning and Natural Resources	Antique Furniture	4,000
Subtotal - Local		**$1,071,025**
Non-Government		
West Indian Company	Antique Furniture	$ 25,870
Cash Deposits	Deputy Chief of Staff	12,566
Travel Reimbursements	Airfares	8,871
Political Contributions	Turnbull/Richardson	4,892
Other/Donations	Miscellaneous	5,205
Subtotal - Non Government		**57,404**
Grand Total		**$2,098,293**

Recommendations

We recommend that the Director of the LEPC:

1. Ensure that all Government Agencies receiving Federal Funds maintain and account for those funds through the Government accounting system maintained by Finance.

2. Enforce all Federal grant award guidelines as established by the Federal Government.

We recommend that the Commissioner of Finance:

1. Ensure that all funds disbursed for use by Government agencies and programs are safeguarded in approved accounts and properly accounted for.

2. Enforce that all department employees follow established rules and regulation when disbursing funds.

3. Ensure that all significant requests for departure from Finance's rules and regulations are properly documented.

4. Issue a directive to all government departments and agencies to evaluate all their imprest fund and petty cash accounts to ensure that the accounts are being maintained for the purpose for which they were intended, and take corrective actions where necessary.

Governor of the Virgin Islands' Response

The Governor's response indicated concurrence with the recommendations made in this section of the report. The response further stated that the LEPC did not award additional Federal funds to the abandoned vehicle program.

Regarding the recommendations to Finance, it was indicated that banks have been notified to refrain from opening Government accounts without the approval of Finance; the Treasury Division of Finance will not authorize accounts to be opened without the Commissioner's authorization; and, unauthorized accounts are being identified and closed. Finally, Finance's Rules and Regulations are being disseminated to the various department and agencies of the Government.

V. I. Inspector General's Comments

We will consider all of the responses as resolved; however, additional information will be required before we can consider them closed. Regarding the recommendation to the LEPC, as was indicated in the previous finding, although the LEPC does not provide Federal funding to the abandoned vehicle programs, a significant amount of funds are provided to other Government agencies. All of the agencies that receive funding should be required to manage their funding through the ERP System maintained by Finance. In addition, the LEPC should ensure that all Federal guidelines are adhered to. Please provide evidence to show that the LEPC has a system in place to monitor and guide grant recipients of the accounting and reporting requirements in accordance with Federal guidelines.

Regarding the recommendations to Finance, please provide a copy of the revised Rules and Regulations for the handling of imprest/petty cash accounts.

GOVERNOR OF THE VIRGIN ISLANDS' RESPONSE

THE UNITED STATES VIRGIN ISLANDS
OFFICE OF THE GOVERNOR
GOVERNMENT HOUSE
Charlotte Amalie, V.I. 00802
340-774-0001

February 19, 2010

Mr. Steven van Beverhoudt
Virgin Islands Inspector General
Office of the Virgin Islands Inspector General
2315 Kronprindsens Gade #75
St. Thomas, Virgin Islands 00802-6468

Dear Mr. van Beverhoudt:

I am writing in response to the Audit of the funds for the *Abandoned Vehicles Program on St. Thomas*, which covers the period from 2002 - 2006.

From the onset of my Administration in 2007, we proactively began to take measures to address the issues germane to this audit report, recognizing that these had not been put in place by the previous Administration. In January of 2007, my office implemented policies and procedures to address the fiscal management of its resources. Also, likewise, we ensured that the utilization of federal funding for the Abandoned Vehicles Program ceased. Further, by correspondence dated April 2, 2009, all banks doing business with the Government of the Virgin Islands were instructed to refrain from opening bank accounts for Government departments and agencies, without the expressed written consent of the Commissioner of Finance.

The Government entities impacted by this audit report concur with its findings. The Office of the Governor (in particular the Abandoned Vehicles Task Forces), the Law Enforcement Planning Commission (LEPC), and the Department of Finance (DOF) are committed to continuing to implement our corrective measures in order to enhance internal controls and funds management. To reiterate, some measures, such as precluding the prior practice of establishing "random" bank accounts, have already been implemented, and these entities will continue their commitment and dedication to this process.

GOVERNOR OF THE VIRGIN ISLANDS' RESPONSE

The Office of the Virgin Islands Inspector General's work in this and related areas fosters strengthening of our internal controls, and lends itself to more accountability and transparency in government. My Administration continues to be committed to this shared goal.

Sincerely,

John P. de Jongh, Jr.
Governor

Enclosure

GOVERNOR OF THE VIRGIN ISLANDS' RESPONSE

Government of the Virgin Islands' Response
to
Draft Audit Report by Office of the Virgin Islands Inspector General
Audit of the Funding for the Abandoned Vehicles Program – St. Thomas
for the period 2002 to 2006
Control Number AR-01-11-10, dated January 19, 2010

FINDING #1: INTERNAL CONTROLS

The St. Thomas Task Force failed to establish and implement internal controls to: (i) ensure compliance with established rules and regulations; and (ii) ensure the financial integrity of the program. It also failed to utilize established governmental control procedures as established by the Law Enforcement Planning Commission (LEPC) and the Department of Finance (DOF); and to ensure the success of its goals and objectives from both a programmatic and financial perspective; and circumvented accounting controls established by LEPC and DOF.

Recommendation (St. Thomas and St. Croix Task Forces)

1. Establish a system of documented internal control procedures to account for all receipt and disbursement of funds and to establish a system of checks and balances.

Recommendations (LEPC)

1. Ensure that all Federal grantees are properly monitored for reporting compliance before additional funds are made available.

2. Ensure that the Government's potential liability to the Federal Government is minimized by ensuring that Government sub-grantees who are non-compliant with federal regulations are reported to the Office of the Governor, Director of OMB, and Finance for assistance with corrective action.

Recommendation (DOF)

1. Ensure that all funds disbursed for use by Government agencies and programs are safeguarded in approved accounts and properly accounted for.

Government's Response

(Task Forces) – The Office of the Governor (OFG) concurs with the recommendation.

LEPC – LEPC concurs with the recommendations.

DOF – DOF concurs with the recommendation.

GOVERNOR OF THE VIRGIN ISLANDS' RESPONSE

Corrective Action

OFG – Beginning in January 2007, the Office of the Governor updated its policies and procedures. The current policies and procedures implemented by the Office of the Governor provide for; (1) proper monitoring and safeguarding of receipts to ensure that they are properly accounted for; (2) proper segregation of duties requiring that no one person controls all phases of a transaction; and (3) assurances that all receipts are supported and recorded, and payments are disbursed in a timely and accurate manner. This is OFG's unified approach to overall efficiency, and it will help to mitigate the risk of financial losses that can occur due to inappropriate payments.

Additionally, the ERP (Enterprise Resource Planning) System has mechanisms in place based on work flow submissions to ensure that all financial transactions receive approval by the Administrators/Directors of the Task Force, Certifying Officers and other designated staff before a financial transaction can be finalized to culminate in a payment of government funds. Furthermore, all budgets and expenses for the Abandoned Vehicle Program are managed through the ERP System through budgets appropriations authorized by the Legislature and allocations by the Office of Management and Budget. Unlike prior practice with this program, a separate bank account has not been opened.

LEPC – During the course of my Administration, no federal funds have been used to support the abandoned vehicles program.

DOF – By letter dated April 2, 2009, the Department of Finance has instructed all banks doing business with the Government of the Virgin Islands, via written correspondence, to refrain from opening bank accounts under the purview of any government department or agency without formal written approval from the Commissioner of Finance. Internally, the current Commissioner of Finance has indicated to the Treasury Division that no such approvals shall be granted for any accounts outside of the Department of Finance, other than the occasional Imprest Fund opened for minor disbursements. Further, such accounts shall be notified to the Office of the Virgin Islands Inspector General, upon opening, for periodic independent auditing and no additional advances shall be made to such accounts until and unless all prior advances are properly accounted for.

Finally, utilizing "Public Funds Reports" received from the Government's banking partners, the Department of Finance is in the process of identifying and closing all unauthorized accounts.

Implementation date(s): OFG - January 2007 and ongoing
DOF – FY 2009 (3rd quarter)
LEPC – January 2007

Due date(s): LEPC – Not applicable.

GOVERNOR OF THE VIRGIN ISLANDS' RESPONSE

Responsible Party(ies): Chief of Staff, OFG and **Director of Business & Administration, OFG**
Director, LEPC and **Grant Manager, LEPC**
Commissioner, DOF and **Director of Treasury, DOF**

FINDING #2: COMMINGLED FUNDS

St. Thomas Task Force failed to establish a separate account to manage $1,546,500. The Financial Officer exercised undue influence over management controls established by LEPC and Finance, and removed Federal grant funds and miscellaneous appropriations from under the control of the agencies. As a result, $2,098,293 of Federal and local funds were commingled.

Recommendations (LEPC)

1. Ensure that all Government Agencies receiving Federal Funds maintain and account for those funds through the Government accounting system maintained by Finance.

2. Enforce all Federal grant award guidelines as established by the Federal Government.

Recommendations (DOF)

1. Ensure that all funds disbursed for use by Government agencies and programs are safeguarded in approved accounts and properly accounted for.

2. Enforce that all department employees follow established rules and regulation when disbursing funds.

3. Ensure that all significant requests for departure from Finance's rules and regulations are properly documented.

4. Issue a directive to all government departments and agencies to evaluate all their imprest fund and petty cash accounts to ensure that the accounts are being maintained for the purpose for which they were intended, and take corrective actions where necessary.

Government's Response

LEPC – LEPC concurs with the recommendations and ceased the utilization of federal funds for the Abandoned Vehicle Program.

DOF – DOF concurs with the recommendations.

GOVERNOR OF THE VIRGIN ISLANDS' RESPONSE

Corrective Action

LEPC – During the course of my Administration, no federal funds have been used to support the abandoned vehicles program.

DOF – The Department of Finance has implemented or will be implementing the following corrective measures.

1. Instructed all banks doing business with the Government of the Virgin, via written correspondence dated April 2, 2009, to refrain from opening bank accounts under the purview of any Government department or agency without formal written approval from the Commissioner of Finance. Internally, the current Commissioner of Finance has indicated to the Treasury Division that no such approvals shall be granted for any accounts outside of the Department of Finance, other than the occasional Imprest Fund opened for minor disbursements. Further, such accounts shall be notified to the Office of the Virgin Islands Inspector General, upon opening, for periodic independent auditing and no additional advances shall be made to such accounts until and unless all prior advances are properly accounted for. Finally, utilizing "Public Funds Reports" received from the Government's banking partners, the Department of Finance is in the process of identifying and closing all unauthorized accounts.

2. Standard Operating Policies and Procedures (SOPP's) are being reviewed for adequacy and, where necessary, are being revised or devised for dissemination to all applicable personnel.

3. A policy is being put into place that will require the Commissioner of Finance (or Acting Commissioner, in his absence) to approve any request, which significantly deviates from Finance's Rules and Regulations.

4. The Department of Finance will dispatch written correspondence to all central government departments and agencies reinforcing the Petty Cash Rules and Regulations, including the descriptions on non-petty cash transactions that must be processed through the Enterprise Resource Planning (ERP) System and thereby not be replenished through DOF as a bona fide petty cash expenditure. DOF will also establish sanctions for departments and agencies to preclude circumvention of said Rules and Regulations.

Implementation Date: DOF - 3rd quarter (FY 2009)

Due Date: LEPC – Not applicable.
DOF – 2nd – 3rd quarter (FY 2010) & ongoing

Responsible Party(ies): Director, LEPC and **Grant Manager, LEPC**
Commissioner, DOF and **Director of Treasury, DOF**

ADDITIONAL INFORMATION NEEDED TO CLOSE RECOMMENDATIONS

Recommendation Number and Status	Additional Information Needed
Finding 1:	
To the Chairpersons of the Task Forces:	
1-1 Resolved	No additional information needed.
To the Director of the LEPC:	
1-1 Resolved	Provide a copy of the procedures to be used to monitor grant recipients and how non-compliance issues will be dealt with.
1-2 Resolved	Same as Recommendation 1-1 above.
To the Commissioner of Finance:	
1-1 Resolved	Provide a listing of all authorized checking accounts and those accounts that were unauthorized and closed.
Finding 2:	
To the Director of the LEPC:	
2-1 Resolved	Same as Recommendation 1-1 above.
To the Commissioner of Finance:	
2-1 Resolved	Same as Recommendation 1-1 above.

OFFICIAL REPORT DISTRIBUTION

Government of the Virgin Islands

Office of the Governor.....3

Office of the Lieutenant Governor.....1

Law Enforcement Planning Commission 1

Department of Finance.....1

Office of Management and Budget.....1

Department of Justice 1

28th Legislature 15

Office of the Legislative Post Auditor.....1

Delegate to Congress 1

Government of the United States

Office of Inspector General, Department of the Interior 1

Office of the United States Attorney, Department of Justice 1

Federal Bureau of Investigation, Department of Justice.....1