ISSUED: June 5, 2008 **AR-01-39-08**

THE UNITED STATES VIRGIN ISLANDS

OFFICE OF THE VIRGIN ISLANDS INSPECTOR GENERAL

AUDIT REPORT

AUDIT OF THE ACCOUNTING AND COLLECTION OF DISHONORED CHECKS

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EXECUTIVE SUMMARY

The following summarizes the major findings resulting from the Audit of the Accounting and Collection of Dishonored Checks (AR-01-39-08).

Finding 1: Accounting for Dishonored Checks (pages 5 to 7)

✓ Finance did not follow procedures included in the Revenue Manual to account for the collection of dishonored checks.

✓ In Fiscal Years 2005 and 2006, Finance did not account for $4.1 million in 2,278 dishonored checks.

✓ In addition, Finance did not know the status of more than $500,000 in 962 dishonored checks referred to Justice.

Finding 2: Collection Efforts (pages 8 to 15)

✓ Collection efforts by departments and agencies were inconsistent.

✓ At least $3.5 million in outstanding dishonored checks remained uncollected at various departments and agencies.

✓ Internal Revenue's uncollected dishonored checks totaled $3.3 million.

Finding 3: Enforcement (pages 16 to 19)

✓ Departments and agencies did not always collect penalties when collecting on dishonored checks.

✓ Finance and Internal Revenue did not refer issuers of dishonored checks to Justice on a consistent or timely basis. The last recorded referral was in 2000.

✓ Justice had 962 dishonored checks valued at $497,240, dated between 1980 and 1999, for which no action was taken.

Finding 4: Repeat Offenders (pages 20 to 23)

✓ There was no system in place to identify repeat offenders.

✓ In 2005 and 2006, 21 repeat offenders were identified, having issued more than $286,000 in dishonored checks.

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June 5, 2008

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

Honorable Usie R. Richards
President
27th Legislature
Capitol Building
St. Thomas, Virgin Islands 00802

Dear Governor de Jongh and Senator Richards:

Attached is our final audit report of the accounting and collection of dishonored checks. Our objectives were to determine if: (i) effective procedures were in place to properly account for the receipt and disposition of dishonored checks; (ii) proper procedures had been implemented to ensure the timely collection of dishonored checks; and, (iii) whether laws dealing with penalties and enforcement of the collection of dishonored checks were being implemented. The audit objectives also included the identification of inadequacies in the accounting and collection of dishonored checks, and recommendations to address the inadequacies found.

Finance did not follow the established written procedures and management controls over the collection and accounting of dishonored checks issued to the Government. Our audit disclosed that Finance returned at least $4.1 million, during Fiscal Years 2005 and 2006, in dishonored checks to at least 21 Government departments and agencies without written procedures and controls in place to ensure timely collection. Specifically, we found that Finance has followed an unwritten policy of returning dishonored checks to affected departments and agencies for collection. However, without written procedures in place to guide the collection of dishonored checks, departments and agencies were inconsistent and ineffective in their collection efforts. Procedures, once established, would provide guidance to the various departments and agencies to assist with timely collections or legal actions. We also found that collection efforts at various departments and agencies were in many instances extremely slow and most times stagnant.

Similarly, Internal Revenue, responsible for the collection of dishonored checks issued for the payment of taxes under their jurisdiction, did not have a step-by-step process in dealing with dishonored checks beyond the initial contact. They did not aggressively, and in a timely manner, pursue the collection of dishonored checks, nor did they keep an updated account of the status of dishonored checks returned to them. We found that Internal Revenue had in excess of $3.3 million in uncollected dishonored checks, some dating back to 1993.

We attribute these conditions to: (i) Finance's failure to establish revised written procedures to assist with the aggressive and timely processing and collection of dishonored checks; (ii) Finance's failure to follow up with affected government agencies and Justice to reconcile dishonored checks forwarded to them for collections; (iii) Finance's failure to establish and distribute a "bad debtors" list, with all dishonored checks to facilitate collectors in denying the acceptance of additional checks from individuals or entities, who have previously issued dishonored checks; (iv) Internal Revenue's ineffective collection process and failure to establish an enforcement mechanism to prioritize the dishonored check collection process; and, (v) Justice's failure to establish an enforcement mechanism to prioritize high dollar dishonored checks for timely enforcement action.

As a result, (i) Finance is unaware of the number and dollar value of dishonored checks that remain outstanding Government-wide; (ii) dishonored checks issued to the Government are not being collected on a timely basis; (iii) penalties and fines are not being assessed and collected on a consistent basis; and, (iv) individuals and businesses, with outstanding dishonored checks, are being allowed to write subsequent checks.

We made several recommendations to address the conditions and causes cited in this report. Our recommendations addressed the following areas: (i) records maintenance; (ii) collections; and, (iii) enforcement.

Exit conferences were held with Virgin Islands Government officials responsible for the implementation of corrective action plans, and there was overall agreement with the findings and recommendations made.

The response, included as Appendix I in the report, reflects agreement with the findings, and is considered fully responsive to the recommendations.

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

The responsibility for initiating timely collection action to recover funds due as a result of dishonored checks being returned by banks to the Virgin Islands Government (Government) is placed with the Department of Finance (Finance) and the Virgin Islands Bureau of Internal Revenue (Internal Revenue). Finance is responsible for the accounting of all dishonored checks.

The procedures for the collection and accounting of dishonored checks by Finance are contained in the Finance Revenue Procedures Manual (Revenue Manual). Section 210 of the Revenue Manual, details seven steps to be used in collecting on dishonored checks returned by Virgin Islands banks as unpaid. These steps include: (i) a return to the debtor in cases where a signature is needed or the account is closed; (ii) redeposit by Finance's collectors when checks were returned for insufficient funds; (iii) a 15-day demand letter to the debtor for payment when the debtor is contacted but does not remit payment; and, (iv) referral to the Virgin Islands Department of Justice (Justice) if the demand letter is not responded to. The Revenue Manual, however, has not been updated since it was created in the late 1970's. Although Finance has implemented numerous changes to the procedures detailed in the Revenue Manual, no written records were available to document the authorization for such changes.

Checks are returned to Finance as dishonored by banks for various reasons, such as: insufficient funds, closed accounts, lack of signature, wrong endorsee or stale dated. The records to account for the collection of dishonored checks are retained by Finance. Over the years, Finance has changed the collection process to where they receive all dishonored checks and transmit them to the departments from which they originated so that those agencies can initiate collection action.

Title 3, Section 177 (Subsections 5 and 12) of the Virgin Islands Code (Code), specifically mandates Finance to collect fees and charges legally due to the Government of the Virgin Islands (Government) for services rendered, to establish a uniform policy for the acceptance of checks in payment for Government services, and for the imposition and collection of penalties when checks are returned dishonored.

In 1999, Finance notified the general public of penalty fees to be imposed for checks written to the Government that were dishonored by banking institutions. The Finance notice stated that checks in the amount of $1-$1,000 would incur a penalty fee of $50 and checks in the amount of $1,001 and above would incur a penalty fee of $50, plus 1% of the face value of the check.

Title 33, Section 681 of the Code, gives the responsibility for the collection of various taxes, including income, corporate, gross receipts and excise taxes, to Internal Revenue. Title 33, Section 1285 of the Code gives Internal Revenue the responsibility for the collection on dishonored checks relating to their authority.

Internal Revenue has also developed their own operating manual, Internal Revenue Manual, which includes provisions for the collection of dishonored checks. The Internal Revenue Manual was last revised on June 30, 2006.

Title 14, Section 835 of the Code establishes criminal penalties to be imposed for the issuance of dishonored checks. The penalties range to as much as $1,000 in fines and 5 years imprisonment for each offense.

OBJECTIVES, SCOPE AND METHODOLOGY

The objectives of our audit were to determine if: (i) effective procedures were in place to properly account for the receipt and disposition of dishonored checks; (ii) proper procedures had been implemented to ensure the timely collection of dishonored checks; and, (iii) whether laws dealing with penalties and enforcement of the collection of dishonored checks were being implemented. The audit objectives also included the identification of inadequacies in the accounting and collection of dishonored checks, and recommendations to address the inadequacies found.

The scope of the audit covered the accounting and collection activities of the Government during Fiscal Years 2005 and 2006. We limited our review to five Government agencies that accounted for 97% of the dishonored checks reviewed.

To accomplish our audit objectives, we examined the internal controls over the handling of dishonored checks at Internal Revenue, Finance, the Office of the Lieutenant Governor (Lieutenant Governor's Office), Finance's Division of Government Insurance (Government Insurance) and the Department of Licensing and Consumer Affairs (Licensing). We also interviewed officials and examined records maintained by various government agencies that received checks in payment for Government taxes or services.

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 performed 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 accounting and management of the dishonored checks to the extent necessary to accomplish the audit objectives. Weaknesses identified during the audit are discussed in the Audit Results section of the report.

PRIOR AUDIT COVERAGE

We are unaware of any audits done within the past five years dealing with the Government's handling of dishonored checks. However, we did issue a prior report on November 18, 1994, (AC-01-30-94), with a follow-up review on August 4, 1997, (AM-07-30-97).

The 1994 audit showed that: (i) effective internal controls had not been implemented to account for the collection of dishonored checks; (ii) the status or location of numerous dishonored checks was unknown; (iii) proper coordination between Finance and Internal Revenue had not been established; (iv) enforcement procedures including the assessment of penalties and criminal proceedings needed improvement; and, (v) no system had been established to easily identify repeat offenders who continually issued "bad checks".

As a result of the conditions cited, the report concluded that: (i) of the $9.6 million in dishonored checks listed by Finance, the status of between $4.6 million and $6.5 million in dishonored checks was unknown; (ii) proper enforcement procedures had not been implemented to collect on dishonored checks, assess penalties or refer debtors to Justice for possible prosecution; (iii) lists were not maintained of corporations or individuals who issued more than one dishonored check; and, (iv) procedures had not been implemented to notify Government collectors to be on the alert for repeat offenders and to deny them check writing privileges.

Of the 14 recommendations made in the report, Finance and Internal Revenue indicated that corrective actions to include; better accounting for the handling of dishonored checks, closer coordination between Finance and Internal Revenue on the status of dishonored checks, notification to collectors of repeat offenders and more aggressive referrals to Justice of uncollected amounts, were in the process of being implemented.

In the August 4, 1997, follow-up report, we found that Internal Revenue had substantially complied with all of the recommendations made in the 1994 report. Their collection rate for 1996 was 87%. Finance, however, had complied with only four of the eight outstanding recommendations. Their collection rate for 1996 was only 47%. In addition, referrals to Justice were virtually nonexistent. It was also found that Finance was not adjusting property tax records to show that accounts were in reality delinquent due to the payments being uncollected and dishonored by the banks.. This resulted in an understatement of property tax accounts receivables.

AUDIT RESULTS

CONCLUSIONS

Finance did not follow the established written procedures and management controls over the collection and accounting of dishonored checks issued to the Government. Our audit disclosed that Finance returned at least $4.1 million, during Fiscal Years 2005 and 2006, in dishonored checks to at least 21 Government departments and agencies without written procedures and controls in place to ensure timely collection. Specifically, we found that Finance has followed an unwritten policy of returning dishonored checks to affected departments and agencies for collection. However, without written procedures in place to guide the collection of dishonored checks, departments and agencies were inconsistent and ineffective in their collection efforts. Procedures, once established, would provide guidance to the various departments and agencies to assist with timely collections or legal actions. We also found that collection efforts at various departments and agencies were in many instances extremely slow and most times stagnant.

Similarly, Internal Revenue, responsible for the collection of dishonored checks issued for the payment of taxes under their jurisdiction, did not have a step-by-step process in dealing with dishonored checks beyond the initial contact. They did not aggressively, and in a timely manner, pursue the collection of dishonored checks, nor did they keep an updated account of the status of dishonored checks returned to them. We found that Internal Revenue had in excess of $3.3 million in uncollected dishonored checks, some dating back to 1993.

We attribute these conditions to: (i) Finance's failure to establish revised written procedures to assist with the aggressive and timely processing and collection of dishonored checks; (ii) Finance's failure to follow up with affected government agencies and Justice to reconcile dishonored checks forwarded to them for collections; (iii) Finance's failure to establish and distribute a "bad debtors" list, with all dishonored checks, to facilitate collectors in denying the acceptance of additional checks from individuals or entities, who have previously issued dishonored checks; (iv) Internal Revenue's ineffective collection process and failure to establish an enforcement mechanism to prioritize the dishonored check collection process; and, (v) Justice's failure to establish an enforcement mechanism to prioritize high dollar dishonored checks for timely enforcement action.

As a result, (i) Finance is unaware of the number and dollar value of dishonored checks that remain outstanding Government-wide; (ii) dishonored checks issued to the Government are not being collected on a timely basis; (iii) penalties and fees are not being assessed and collected on a consistent basis; and, (iv) individuals and businesses, with outstanding dishonored checks, are being allowed to write subsequent checks.

We made several recommendations to address the conditions and causes cited in this report. Our recommendations addressed the following areas: (i) records maintenance; (ii) collections; and, (iii) enforcement. Details of our audit findings are discussed further in this report.

FINDING 1 – ACCOUNTING FOR DISHONORED CHECKS

For a number of years, Finance did not follow their own Revenue Manual in accounting for dishonored check collections. During Fiscal Years 2005 and 2006, they did not identify, control nor accurately report the status of $4.1 million in 2,278 dishonored checks returned to 21 departments and agencies, and an additional $500,000 in 962 dishonored checks referred to Justice for appropriate collection action. These conditions resulted in the potential loss of millions of dollars in revenue and the overstating of collections and understating of accounts receivables in various Fiscal Years. The financial condition of the Government could be overstated as a result of the uncollected checks being recorded as revenue, but later determined to be dishonored by the banks.

Background

Finance controls the central depository accounts for all of the Government's primary collections. As the controller of the various Government accounts, banks return all dishonored checks to Finance. Contrary to the written established procedures as detailed in the Revenue Manual, Finance uses a Document Transmittal Memorandum Form (Document Transmittal) to transmit bank returned dishonored checks back to the various Government departments and agencies who were the initial recipients of the checks. Finance has informally delegated to departments and agencies the responsibility to collect on the dishonored checks without written instructions or authority.

This process is contrary to the established written procedures of the Revenue Manual, which, in Section 210, details a seven-step process administered and controlled by Finance in collecting on dishonored checks. Finance maintained no accounting records on the status of dishonored checks returned to the various departments and agencies, nor did they have a process in place to follow up on the status of dishonored checks returned.

Accounting

Finance did not follow their own established procedures for collecting and accounting for dishonored checks. Dishonored checks were returned to the various departments and agencies for collection. In addition, Finance did not maintain a collection log to show the status of checks returned to the various departments and agencies, nor monitor the status of the dishonored checks.

We reviewed 232 Document Transmittals issued by Finance during Fiscal Years 2005 and 2006. They documented 2,278 dishonored checks, valued at $4,078,608, as returned to 21 departments and agencies for collection. The 21 departments and agencies, the number of checks returned and their total values are presented in the following table.

2005-2006 DISHONORED CHECKS RETURNED TO DEPARTMENTS/AGENCIES					
Department/Agency	**Number of Checks**	**Total Value**	**Department /Agency**	**Number of Checks**	**Total Value**
Internal Revenue	1,283	$3,477,893	Board of Education	31	$5,615
Lt. Governor's Office	211	175,356	Superior Court	66	4,957
Finance	175	164,185	Fire Service	17	2,190
Government Insurance	85	76,217	Agriculture	8	1,113
Licensing	143	60,323	Labor	4	737
Motor Vehicle	63	31,118	Police	8	379
Property & Procurement	26	27,425	V. I. Election System	2	350
Planning & Natural Resources	51	24,541	Magen's Bay Authority	3	225
Health	72	9,956	Casino Commission	1	100
Health Insurance	16	9,165	Public Works	1	31
Housing, Parks & Recreation	12	6,731	***Total***	***2,278***	***$4,078,607***

In addition, based on records maintained by Justice, Finance transmitted 962 dishonored checks, valued at $497,240, to Justice for collection. Finance did not provide any documents to show the checks transmitted to Justice. Accordingly, they did not document the status nor disposition of any of the transmittals.

Recommendations

We recommend that the Commissioner of Finance:

1. Document and properly authorize any changes to the existing check collection procedures detailed in the Revenue Manual as they relate to the collection of dishonored checks.

2. Ensure that all departments and agencies are aware of the changes.

Governor of the Virgin Islands's Response

The Governor of the Virgin Islands, responding for all of the agencies to whom recommendations were made, agreed with the findings and recommendations made in this section of the report. It was indicated that a "Dishonored Checks Task Force", consisting of representatives from Finance, Internal Revenue, Licensing, Lieutenant Governor's Office and Justice, will be created to update the current Revenue Manual. Once updated, the Manual will be distributed to the

various departments and agencies responsible for the collection of Virgin Islands Government revenues. A target completion date of July 31, 2008 was given.

V. I. Inspector General's Comments

The responses to the recommendations made in this section of the report are sufficient for us to consider them resolved. Before the recommendations can be considered implemented, however, a copy of the revised Revenue Manual and evidence of its distribution should be provided.

FINDING 2: COLLECTION EFFORTS

Collection efforts by departments and agencies were inconsistent and needed improvement. They had not aggressively, nor effectively, pursued the collection of dishonored checks, nor had they adequately maintained a record of the status of checks returned to them for collection. As a result, at least $3.5 million in outstanding dishonored checks remained uncollected. Internal Revenue's uncollected dishonored checks totaled $3.3 million or 94% of the outstanding amount.

Background

Title 3, Section 177 of the Code mandates Finance to collect fees and charges legally due to the Government for services rendered, to establish a uniform policy for the acceptance of checks in payments for those services, and for the imposition of penalties when checks are returned by banks as dishonored.

Under this authority, Finance developed a seven-step process to be used in the collection of dishonored checks. This process is detailed in Section 210 of the Revenue Manual. Among the steps to be implemented are: (i) a return to the debtor in cases where a signature is needed or the account is closed; (ii) redeposit by Finance's collectors when checks were returned for insufficient funds; (iii) a 15-day demand letter to the debtor for payment when the debtor is contacted but does not remit payment; and, (iv) the referral to Justice, if the demand letter is ignored.

Title 33, Section 681 of the Code, gives the responsibility for the collection of various taxes, including income, corporate, gross receipts and excise taxes, to Internal Revenue. Title 33, Section 1285 of the Code gives Internal Revenue the responsibility for the collection on dishonored checks relating to their authority.

The Internal Revenue Manual contains a seven-page section detailing the procedures to be used by Internal Revenue when dealing with dishonored checks. The majority of the section details Internal Revenue's procedures in adjusting the taxpayer's account. Regarding the process of actually collecting on the dishonored checks, the Manual merely states that "the person that processed the returned checks - typically the Tax Management Assistant to the Chief of Processing" notifies the taxpayer of the dishonored check received from Finance. This individual is required to maintain an updated "dishonored check excel spreadsheet database" (database).

We reviewed the dishonored checks collection procedures of the five departments and agencies who accounted for 97% of the returned checks transmitted by Finance in Fiscal Years 2005 and 2006. The following sections detail the results of our reviews.

Internal Revenue

Internal Revenue, having separate revenue collection responsibilities from Finance, did not establish an effective process to collect, control and account for the collection of dishonored checks. Beyond the initial demand letter sent to taxpayers of dishonored checks, Internal Revenue did not

follow-up, nor refer outstanding checks for further collection action. The Internal Revenue Manual did not contain a step by step process to be used by the individual responsible for the initial contact with the offending taxpayer, the time period given to the taxpayer to honor the dishonored check, and the referral process if the taxpayer does not respond.

Internal Revenue did not maintain an adequate filing system to account for checks received from Finance that were collected, and those that remained uncollected. In addition, although required by their Manual, Internal Revenue did not maintain an updated database of the status of dishonored checks received from Finance. As a result, as of June 2007, there were 2,161 uncollected dishonored checks valued at $3.3 million at Internal Revenue, most of which showed little collection activity.

The following schedule shows the number of uncollected dishonored checks in the possession of Internal Revenue as of June 2007. It must be noted that this schedule consists of all dishonored checks that Internal Revenue maintained in their files at the time of our review, including checks submitted prior to and after Fiscal Years 2005 and 2006.

V. I. BUREAU OF INTERNAL REVENUE UNCOLLECTED CHECKS		
Years	**Number of Checks**	**Total Uncollected as of June 2007**
1993 - 1998	367	$ 611,177
1999 - 2004	1,070	1,485,643
2005 - 2007	724	1,155,210
Total	***2161***	***$3,252,030***

We reviewed the files maintained by Internal Revenue of dishonored checks received from Finance. The original checks along with the related demand letters were kept in file folders grouped alphabetically (for example, all taxpayers beginning with the letter “A” were kept in one folder, “B” in a second folder, “C” in a third folder, etc.). The files also contained dishonored checks that, based on the supporting documents attached, had been collected.

Of the 1,283 dishonored checks transmitted to Internal Revenue by Finance in Fiscal Years 2005 and 2006, we sampled 60 dishonored checks, valued at $2,237,737. We were able to verify that, of the 60 checks, 35 checks, valued at $1,684,113 were collected and 20 checks valued at $476,164 remained uncollected. The status of 5 checks, valued at $77,460 could not be determined, since the checks were not in the files, nor recorded in the database. The following schedule details the status of the 60 dishonored checks included in our sample.

V. I. BUREAU OF INTERNAL REVENUE DISHONORED CHECKS SAMPLE

Sample	Date Sent to Internal Revenue	Date of Last Activity	Amount	Status	Sample	Date Sent to Internal Revenue	Date of Last Activity	Amount	Status
1	11/8/04	12/1/04	$10,080.00	Open	31	2/2/05	6/9/05	$23,877.00	Paid
2	11/8/04	12/2/04	1 2,386.13	Paid	32	3/30/05	3/16/05	1 0,377.00	Paid
3	1/3/05	1/20/05	4 1,426.40	Paid	33	9/29/06	12/12/06	1 9,158.00	Paid
4	4/20/05	5/25/05	116,179.00	Paid	34	9/29/06	11/10/06	1 5,741.33	Paid
5	4/20/05	5/6/05	1 8,060.00	Open	35	7/26/06	-------	2 0,879.56	Paid
6	4/20/05	5/5/05	146,360.00	Paid	36	7/26/06	8/9/06	2 7,601.83	Paid
7	5/20/05	5/23/05	41,638.80	Paid	37	7/26/06	-------	21,798.06	Unknown
8	5/20/05	-------	6 3,141.00	Paid	38	7/17/06	-------	2 0,879.56	Paid
9	5/20/05	5/17/05	1 0,000.00	Paid	39	7/11/06	8/8/06	7 0,000.00	Paid
10	5/20/05	6/13/05	4 4,000.00	Paid	40	6/26/06	7/14/06	2 6,033.86	Paid
11	5/20/05	6/3/05	3 6,000.00	Open	41	6/26/06	7/24/06	1 7,048.00	Paid
12	5/20/05	6/21/05	34,502.12	Paid	42	6/26/06	6/28/06	10,500.00	Open
13	5/20/05	6/21/05	2 6,477.00	Paid	43	5/17/06	5/4/06	5 4,000.00	Paid
14	5/20/05	-------	1 9,000.00	Open	44	5/17/06	6/8/06	7 8,169.00	Paid
15	6/21/05	-------	1 1,942.00	Unknown	45	5/17/06	6/19/06	1 2,059.00	Paid
16	6/21/05	-------	1 0,089.00	Unknown	46	5/17/06	4/20/06	1 5,497.00	Paid
17	6/21/05	-------	1 8,631.00	Unknown	47	5/17/06	6/12/06	2 4,611.50	Paid
18	6/21/05	N/A	18,032.00	Paid	48	5/9/06	6/21/06	14,328.96	Open
19	6/14/05	6/17/05	18,966.00	Open	49	5/9/06	-------	16,839.55	Open
20	6/14/05	-------	18,191.00	Open	50	3/21/06	4/6/06	10,000.00	Open
21	6/14/05	6/13/05	1 6,354.82	Paid	51	2/10/06	5/5/06	2 9,978.45	Paid
22	6/14/05	-------	15,000.00	Open	52	1/30/06	-------	98,250.00	Closed
23	6/14/05	6/17/05	11,666.36	Open	53	1/30/06	5/9/06	38,015.95	Open
24	7/21/05	-------	16,180.00	Open	54	1/20/06	2/22/06	20,025.00	Open
25	7/21/05	8/9/05	10,277.24	Paid	55	1/20/06	2/27/06	20,000.00	Open
26	7/21/05	8/9/05	1 3,654.17	Open	56	11/25/05	1/5/06	1 0,120.22	Paid
27	9/26/05	3/10/06	14,457.00	Open	57	11/25/05	2/20/06	1,629.55	Open
28	9/26/05	-------	1 5,000.00	Unknown	58	11/25/05	1/10/06	3 6,455.12	Paid
29	11/29/04	12/31/04	1 3,737.00	Paid	59	10/28/05	1/9/06	448,355.00	Paid
30	11/29/04	10/27/04	30,510.00	Paid	60	10/28/05	-------	153,570.00	Open

Collection efforts by Internal Revenue were inconsistent due to a lack of follow-up; for example, some checks were collected within one week after the demand letter was sent by Internal Revenue. However, for the 20 checks that remained uncollected, we found that after the initial demand letters were sent, some as early as in December 2004, no additional documented attempts were made to contact the taxpayers, or effect collection through the legal process.

In addition, Internal Revenue was not always timely in sending demand letters to taxpayers. For example, one taxpayer, whose dishonored check, valued at $38,015.95, was sent to Internal Revenue by Finance on January 30, 2006, was not sent a demand letter until May 9, 2006. Another taxpayer's $14,457 check, sent by Finance on September 26, 2005, was sent a demand letter on March 10, 2006. In both instances, the initial demand letter was the only attempt to contact the taxpayers, and they both remain uncollected.

If there was an established procedure in the Internal Revenue Manual detailing the collection steps to be taken when taxpayers did not respond to the demand letter, more dishonored checks would have been collected. For example, there should be an established collection process where once the response date to the demand letter has expired (after 10 or 14 days), the case would be referred to the revenue collection officers who could more aggressively pursue collections. Another option would be to refer abusive and repeat violators (see the section in this report on Repeat Offenders) to the criminal investigative unit for possible criminal action. As noted in the Background section of this report, there are monetary, as well as, confinement penalties that could be imposed for intentionally issuing dishonored checks to Government departments and agencies.

Finally, although required by the Internal Revenue Manual, the database of dishonored checks had not been updated. Although we did not receive a printed copy of the excel spreadsheet database, we were given access to the online database. Our review disclosed some instances where dishonored checks transmitted by Finance were not recorded in the database. The individual responsible for the maintenance of the database indicated that all dishonored checks received had been put into the database. From our sample of 60 checks, we found five checks in the files at Internal Revenue that were not listed on the database. The status of the dishonored checks not recorded in the database was unknown.

Lieutenant Governor's Office

The Lieutenant Governor's Office did not implement procedures to account for and collect dishonored checks returned by Finance. As much as two years lapsed between the initial contact and a follow-up contact, resulting in the outstanding amount remaining uncollected. Finance transmitted 211 dishonored checks valued at $175,356 to the Lieutenant Governor's Office for collection during Fiscal Years 2005 and 2006. We reviewed the status of 21 checks valued at $144,441 transmitted during the two-year period. They represented 82% of the total value transmitted from Finance. Of the 21 checks reviewed; 2 checks, valued at $21,701, had been collected; 16 checks, valued at $10,044, remain uncollected; and, 3 checks, valued at $113,026, could not be located. The following schedule details the status of the 21 checks reviewed.

LIEUTENANT GOVERNOR'S OFFICE DISHONORED CHECKS SAMPLE											
Sample	Date Sent to Lt. Gov. Office	Date of 1st Action	Date of Last Action	Amount	Status	Sample	Date Sent to Lt. Gov. Office	Date of 1st Action	Date of Last Action	Amount	S tatus
1	11/08/04	-------	-------	$ 4,257.00	Unknown	12	7/21/05	8/9/05	4/17/07	$ 300.00	Open
2	1/31/05	2/14/05	3/23/05	21,543.87	Paid	13	7/21/05	4/9/05	4/17/07	150.00	Open
3	3/15/05	-------	-------	106,985.05	Unknown	14	7/21/05	4/9/05	4/17/07	200.00	Open
4	4/20/05	5/3/05	4/17/07	375.00	Open	15	7/21/05	4/9/05	4/17/07	150.00	Open
5	4/20/05	5 /3/05	4/17/07	75.00	Open	16	11/29/04	-------	-------	1,784.00	Unknown
6	5/23/05	6/6/05	4/17/07	67.00	Open	17	2/10/06	2/28/06	3/9/06	157.00	Paid
7	5/23/05	6/6/05	4/17/07	300.00	Open	18	11/14/05	12/1/05	4/17/07	5,000.00	Open
8	6/21/05	6/30/05	4/17/07	25.00	Open	19	10/28/05	12/1/05	4/17/07	2,177.33	Open
9	6/14/05	6/20/05	4/17/07	300.00	Open	20	10/28/05	12/1/05	4/17/07	50.00	Open
10	7/21/05	8/9/05	4/17/07	300.00	Open	21	10/28/05	12/1/05	4/17/07	275.00	Open
11	7/21/05	8/9/05	4/17/07	300.00	Open						

We found the Lieutenant Governor's Office's collection efforts to be inconsistent. Of the 21 checks reviewed, initial demand letters were sent within a month of their transmittal from Finance. However, for the 16 remaining uncollected checks, second notices were not sent until more than a year later, and in some cases the delay was more than two years. There was no evidence to show that the uncollected checks were returned to Finance for referral to Justice for possible enforcement action as required by the Revenue Manual.

Finance

In Fiscal Years 2005 and 2006, Finance transmitted 175 dishonored checks valued at $164,185 to their respective divisions on St. Croix and St. John for collection. We sampled 20 checks, with a value of $88,156, or 54% of the total transmitted for the period. We found that 8 checks, valued at $32,046 were collected; 6 checks, valued at $30,344 were outstanding; and the status of 6 checks, valued at $25,766 were unknown. The following schedule details the status of the 20 checks reviewed.

FINANCE DISHONORED CHECKS SAMPLE											
Sample	Date Sent to Finance Divisions	Date of 1st Action	Date of Last Action	Amount	S tatus	Sample	Date Sent to Finance Divisions	Date of 1st Action	Date of Last Action	Amount	S tatus
1	3/18/04	N/A	------	$7,897.60	Paid	11	6/14/05	10/13/05	3/6/06	$2,664.19	Open
2	4/23/04	------	------	2,973.94	Unknown	12	9/26/05	12/6/05	3/6/06	3,023.00	Open
3	6/11/04	11/8/05	------	2,486.93	Paid	13	11/14/05	1/30/06	3/7/06	3,619.58	Open
4	7/21/04	11/9/05	2/2/06	4,248.04	Paid	14	1/20/06	------	------	5,086.07	Unknown
5	8/4/04	11/9/05	------	8,228.45	Open	15	1/20/06	------	------	2,457.28	Unknown
6	8/4/04	11/10/05	------	2,459.65	Paid	16	1/30/06	------	------	2,494.36	Unknown
7	8/20/04	11/10/05	------	2,754.58	Paid	17	5/17/06	------	------	3,561.16	Unknown
8	9/14/04	11/10/05	------	4,982.38	Paid	18	7/5/06	7/17/06	------	3,373.45	Paid
9	1/31/05	11/29/05	------	8,065.83	Open	19	7/5/06	1/12/07	------	3,843.79	Paid
10	2/24/05	11/29/05	------	4,742.90	Open	20	9/29/06	------	------	9,193.19	Unknown

Like other departments and agencies, Finance's own divisions had been inconsistent in their collection activities. Of the 20 dishonored checks reviewed, there were instances where it took as much as 18 months from the time of the transmittal before the initial demand letters were sent.

Government Insurance

Government Insurance had not implemented effective measures to control and account for dishonored checks. Collection efforts were inadequate, and an adequate filing system was not maintained to track the status of dishonored checks. As a result, it was difficult to differentiate the collected dishonored checks from the uncollected dishonored checks, because both categories were filed together.

Finance transmitted 85 dishonored checks valued at $76,217 to Government Insurance during Fiscal Years 2005 and 2006. We reviewed 8 checks valued at $26,475, or 35% of the checks returned during the period. We were able to confirm that 4 checks, valued at $12,312, were collected, and 4 checks, valued at $14,164 could not be located. The following schedule details the status of the 8 checks sampled.

GOVERNMENT INSURANCE DISHONORED CHECKS SAMPLE

Sample	Date Sent to Government Insurance	Date of Last Activity	Amount	Status	Sample	Date Sent to Government Insurance	Date of Last Activity	Amount	S tatus
1	4/20/05	-------	$2,406.21	Unknown	5	6/14/05	-------	$3,396.23	Unknown
2	4/20/05	-------	2,729.38	Unknown	6	10/15/04	10/22/04	2,447.17	Paid
3	4/20/05	5/11/05	4,964.14	Paid	7	10/15/04	-------	5,632.45	Unknown
4	4/20/05	6/1/05	2,566.73	Paid	8	2/23/06	3/2/06	2,333.62	Paid

Government Insurance did not use demand letters in their attempt to collect on dishonored checks. It was indicated that telephone contact was made with the dishonored check issuer, however, our review disclosed only a few instances where the date of the contact attempt was recorded in the file.

Licensing

Licensing did not implement procedures to collect or account for activities relating to collection of dishonored checks. During Fiscal Years 2005 and 2006, Finance transmitted to Licensing 143 dishonored checks valued at $60,323. We reviewed the status of 10 checks valued at $18,235, or 30% of those transmitted during the period. We were able to determine that 4 checks, valued at $4,810, were collected, and 1 check for $5,005 was no longer valid, because the individual had used the check to bid on a taxi medallion that was not awarded to the person who issued the check. There were 5 checks, valued at $8,420, that could not be located. The following schedule details the status of the 10 checks reviewed.

LICENSING DISHONORED CHECKS SAMPLE									
Sample	Date Sent to Licensing	Date of Last Activity	Amount	Status	Sample	Date Sent to Licensing	Date of Last Activity	Amount	Status
1	2/24/05	------	$1,300.00	Unknown	6	2/10/06	------	$1,170.00	Unknown
2	5/23/05	8/22/05	1,225.00	Paid	7	1/30/06	3/30/06	1,170.00	Paid
3	6/13/05	12/12/05	1,140.00	Paid	8	1/30/06	------	2,385.00	Unknown
4	7/21/05	------	1,250.00	Unknown	9	1/20/06	------	5,005.05	Cancelled
5	9/29/06	10/25/06	1,275.00	Paid	10	10/28/05	------	2,315.00	Unknown

Collection efforts by Licensing were inconsistent. They consisted merely of a telephone contact to the dishonored check issuers. A notation of the contact was made on a copy of the dishonored check. Licensing does not maintain a filing system for dishonored checks, or to track the status of collection efforts. All documents related to collected and uncollected checks were kept commingled in one folder.

As demonstrated by the five agencies reviewed, the overall collection process and accounting for dishonored checks was inconsistent, lacked sufficient controls and documentation, and needed improvement. If Finance is going to delegate to departments and agencies the responsibility of collecting dishonored checks, they should establish a uniform, written, collections policy for all departments and agencies to follow. The policy should be disseminated to the departments and agencies for their strict adherence. Finance should still be the central controlling point for the official accounting on the status of the collection process, and should monitor all collection activities. Finance should also be the referring agency for any referrals to Justice for appropriate legal action. (Enforcement is covered in the third finding of this report.)

Since Internal Revenue is responsible for the collection of their own dishonored checks, more detailed written procedures should be established showing step-by-step the actions to be taken in the collection process. These procedures should include steps to be taken if taxpayers do not respond in a timely manner to the initial demand letters sent by Internal Revenue. In addition, Internal Revenue should report the status of their collection efforts to Finance.

Recommendations

We recommend that the Commissioner of Finance:

1. Ensure that any revised policies and procedures for the handling of dishonored checks are documented and disseminated to the various departments and agencies.

2. Ensure that all employees from departments and agencies responsible for the collection of dishonored checks follow the established procedures when collecting on dishonored checks.

We recommend that the Director of Internal Revenue:

1. Revise the existing written procedure for the handling of dishonored checks to provide a more detailed step-by-step process. Ensure that the procedure includes the steps to be taken when taxpayers do not respond in a timely manner to the initial demand letters.

2. Ensure that the excel spreadsheet database is accurate and updated on a regular basis so that an accurate status of the collection process can be known at all times.

3. If there are discrepancies between Document Transmittals from Finance and actual dishonored checks received, ensure that there is a documented attempt to reconcile differences.

4. Step up efforts to collect on the outstanding dishonored checks.

Governor of the Virgin Islands's Response

In his response, the Governor indicated that the revised Revenue Manual will be disseminated to all departments and agencies responsible for the collection of revenues. In addition, the Revenue Manual will include a section of "follow-up" procedures to ensure that collection procedures are followed. Finally, each department will be responsible for providing Finance with regular updates on the status of collection activities.

Regarding Internal Revenue's collection efforts, revised collection procedures will be developed to provide a step-by-step process to be used for the processing and collection of dishonored checks. A July 31, 2008, implementation date has been established for the completion of the revised procedures. In addition, Internal Revenue will ensure that the database is current and updated.

The revised procedures will also require Internal Revenue to compare Finance transmittals to actual receipts to ensure that all dishonored checks are accounted for. Finance will be immediately notified if any discrepancies are found.

Finally, as incorporated in the revised collection procedures and in accordance with requirements established by the Internal Revenue Code, stepped-up efforts will be implemented to ensure timely collection on dishonored checks. All changes and revisions will be completed by July 31, 2008.

V. I. Inspector General's Comments

The responses to the recommendations made in this section of the report are sufficient for us to consider them resolved. Before the recommendations can be considered implemented, however, a copy of the revised Revenue Manual and evidence of its distribution should be provided. In addition, a copy of Internal Revenue's revised collection procedures should also be provided.

FINDING 3: ENFORCEMENT

Departments and agencies did not always collect penalties when collecting on dishonored checks. Also, Finance and Internal Revenue did not refer issuers of dishonored checks to Justice on a consistent and timely basis. The last recorded date of checks being referred by Finance for action was in Fiscal Year 2000. There was no record of referrals from Internal Revenue to Justice. In addition, Justice did not aggressively pursed referrals from Finance, nor did they track the status of the referrals. Justice had 962 dishonored checks valued at $497,240, all dated between 1980 and 1999, for which no action had been taken. The last record of action on dishonored checks taken by Justice was in Fiscal Year 2005.

Background

Title 3, Section 177 (Subsection 5 and 12) of the Code, specifically mandates Finance to collect fees and charges legally due the Government for services rendered, to establish a uniform policy for the acceptance of checks in payments for those services, and for the imposition of penalties when checks are returned dishonored.

In 1999, Finance notified the general public of penalty fees for checks written to the Government that were dishonored by banking institutions. The Finance notice stated that checks in the amount of $1-$1,000 would incur a penalty fee of $50 and checks in the amount of $1,001 and above would incur a penalty fee of $50 plus 1% of the face value of the check.

Title 33, Section 681 of the Code, gives the responsibility for the collection of various taxes, including income, corporate, gross receipts and excise taxes, to Internal Revenue. Title 33, Section 1285 of the Code gives Internal Revenue the responsibility for the collection on dishonored checks relating to their authority. Internal Revenue collects a 2% penalty on dishonored checks.

Title 14, Section 835 of the Code establishes the criminal penalties to be imposed on issuers of dishonored checks. The penalties can range to as high as $1,000 in fines and 5 years confinement for each offense. The Revenue Manual requires that all uncollected dishonored checks be referred to Justice once initial collection efforts fail.

Penalties and Fees

Although Finance established a penalty and fee scale in 1999, departments and agencies were not timely nor consistent in the assessment and collection of the appropriate penalties and fees. Some departments and agencies were more consistent in their application of the penalties and fees, while others did not assess or collect any.

Of the 119 dishonored checks reviewed in the second finding of this report, 53 checks, valued at $1,656,689, were collected by the respective department or agency. However, penalties and fees totaling $20,313 were assessed on 39 of the dishonored checks collected. No penalties and fees were assessed on the remaining 14 dishonored checks collected. We found that penalties and

fees were waived for 9 of the 14 dishonored checks, for reasons to include processing errors, bank delays, and a stop payment for a duplicate payment. The remaining five dishonored checks collected, for which penalty and fee amounts should have totaled $682, did not have any justification for the failure to assess and collect penalties and fees.

✓ Of the two checks collected by the Lieutenant Governor's Office, one payer, with a check valued at $157 was assessed a $50 fee; however, the other payer was not assessed $267 in penalties and fees on a $21,544 dishonored check.

✓ Finance collected $466 in penalties and fees from five dishonored checks collected, but failed to collect $315 on three other collections.

✓ On a positive note, Internal Revenue and Licensing collected or justifiably waived all penalties and fees on the 39 dishonored checks collected from our sample.

The following schedule shows the penalties assessed by the five agencies sampled as a part of our review.

PENALTIES ASSESSED BY SAMPLED DEPARTMENTS/AGENCIES

Agency	Number Of Checks Collected	Number For Which Penalties And Fees Were Collected or Were Justifiably Waived	Amount of Penalties And Fees Collected	Number For Which Penalties and Fees Were Not Collected	Amount of Penalties And Fees Not Collected
Internal Revenue	35	35	$19,400	-	-
Lieutenant Governor's Office	2	1	50	1	$267
Finance	8	5	466	3	315
Government Insurance	4	3	149	1	100
Licensing	4	4	248	-	-

Enforcement

Justice has failed to initiate timely collection efforts and collect $497,240 in dishonored checks referred by Finance. The checks all date from Fiscal Year 1980 through Fiscal Year 1999. As of May 2007, Justice's files contained 962 dishonored checks. The following schedule shows the distribution of the dishonored checks in Justice's possession.

UNCOLLECTED CHECKS MAINTAINED BY JUSTICE		
Period	**Number of Checks**	**Total Value**
1980 - 1985	61	$ 17,033
1986 - 1990	202	81,024
1991 - 1995	363	187,227
1996 - 1999	336	211,956
	962	**$497,240**

Finance had not referred dishonored checks to Justice in more than 7 years. We were provided a schedule of 819 transferrals from Finance to Justice that were to represent all transmittals. The list was not dated, and was not accompanied by the standard Document Transmittal Form normally used by Finance to transfer dishonored checks to the various agencies. A review of the schedule showed that all of the checks on the list were dated from Fiscal Year 2000 and prior, implying that the transmittals must have occurred from Fiscal Year 2000 and prior. Included in the list were 30 checks, valued at $33,745, dated at various times in Fiscal Year 2000. We attempted to determine the status of the 30 checks issued in 2000; however, there was no record at Justice to indicate receipt of the checks, whether they were collected or if they still remain outstanding. Justice did not maintain copies of transmittals from Finance, nor did they maintain a status log on the disposition of checks in their possession. Justice officials indicated that there was no staff specifically assigned to collect on dishonored checks, and that all collection efforts are addressed during the summer months when interns are hired. Records indicated that the last collection activity initiated by Justice was the collection of 25 checks in Fiscal Year 2005. There was no record of any dishonored check referrals from Internal Revenue.

Considering the number of dishonored checks returned to Finance on an annual basis (more than 2,200 in Fiscal Years 2005 and 2006), it would be unreasonable, with the current staffing, to expect Justice to be responsible for following up on all cases not resolved by the departments and agencies. Finance should coordinate with Justice to prosecute some of the more abusive cases. In addition, since most payments made are for annual recurring fees (property taxes, withholding, taxes, business licenses, etc.), the transactions should be reversed and the accounts placed in a delinquent status and dealt with when future payments are made. In addition, as discussed in Finding 4 of this report, a "bad debtor" list should be generated and used to require a more secure form of payment.

Recommendations

We recommend that the Commissioner of Finance:

1. Ensure that departments and agencies are aware of, and collect the penalties and fees as detailed in the 1999 Finance Memorandum. If penalties and fees are waived, the justifications should be fully documented.

2. Update the current collection procedure, in conjunction with Justice, to address the issue of dishonored check issuers who do not respond to requests by departments and agencies to collect on the dishonored checks.

3. Initiate collection efforts in a timely and consistent manner.

4. Maintain documented control of the status of the enforcement efforts to collect on dishonored checks.

We recommend that the Attorney General:

1. Establish a function within Justice to enforce, in a timely and effective manner, Title 14 Section 835 of the Code and other applicable laws for the collection of dishonored checks. The initial efforts should be of abusive issuers of dishonored checks.

2. Establish a procedure to document referrals of dishonored checks from Finance and Internal Revenue.

3. Take steps to promptly notify Finance and Internal Revenue of the status on collection efforts by Justice.

Governor of the Virgin Islands's Response

The response indicated that once the Revenue Manual has been revised, all of the recommendations made to the Commissioner of Finance will be addressed. With a "Debtor Tracking Database" maintained by Finance, all collection activities will be monitored by Finance.

Regarding the recommendations to Justice, the Attorney General has committed to the establishment of a "Government Debt Collection Unit" to actively pursue issuers of dishonored checks. Emphasis will be placed on repeat offender and blatant abusers.

V. I. Inspector General's Comments

The responses to the recommendations made in this section of the report are sufficient for us to consider them resolved. Before the recommendations can be considered implemented, however, evidence of the revised Revenue Manual and procedures established by Justice should be provided.

FINDING 4: REPEAT OFFENDERS

A system has not been implemented to identify and take action against individuals or businesses who have issued more than one dishonored check in payment of Government obligations. In Fiscal Years 2005 and 2006, there were 21 individuals or businesses who issued more than one dishonored check. The total value of these dishonored checks was more than $286,000.

Background

As detailed in the previous findings of this report, Title 3, Section 177 (Subsection 5 and 12) of the Code gives Finance the responsibility for the development of policies and procedures to deal with the collection of dishonored checks. In addition, Title 33, Section 681of the Code, gives the same responsibilities to Internal Revenue for dishonored checks dealing with fees and taxes under their jurisdiction.

Both Finance and Internal Revenue developed some level of procedures to deal with the collection of dishonored checks. Neither agency however, addressed the issue of repeat offenders.

Monitoring System

For Fiscal Years 2005 and 2006, we identified 21 individuals or businesses who issued more than one dishonored check to the Government. They issued a total of 139 checks, with a value of $286,098. Of the 21 repeat offenders, 6 individuals or businesses issued dishonored checks to more than one department and agency during the period.

The following schedule summarizes the 21 repeat offenders, the number of checks dishonored by each repeat offender, and the departments and agencies affected.

2005-2006 REPEAT OFFENDERS OF DISHONORED CHECKS								
Repeat Offender	Internal Revenue		Government Insurance		Lieutenant Governor's Office		Licensing	
	Number of Checks	Amount	Number of Checks	Amount	Number of Checks	Amount	Number of Checks	Amount
1	7	$ 3,727						
2	8	8,553						
3	3	48,060						
4	2	5,279						
5	3	30,505						
6	8	12,722			1	219		
7	14	637			1	300		
8	7	5,177						
9	5	23,996						
10	4	5,418						
11	4	8,752						
12	21	15,863	1	527				
13	5	13,515						
14	4	21,824						
15	5	5,781						
16	6	11,776						
17	3	30,529						
18	12	19,198						
19	2	82	1	1,123	1	150		
20	5	3,294	1	3,396	1	150	1	260
21					2	290	1	5,005
Total	**128**	**$274,688**	**3**	**$5,046**	**6**	**$1,109**	**2**	**$5,265**

Most of the 21 repeat offenders identified in the above schedule issued dishonored checks on a monthly basis for almost a year. Others issued dishonored checks to various departments and agencies within a few months of each other. The following are examples of some of the more flagrant abusers.

Repeat Offender 1. A St. John restaurant issued 21 dishonored checks to Internal Revenue, on almost a monthly basis, between June 14, 2005 and August 14, 2006. The checks ranged in value between $496 and $1,078. The restaurant also issued a $527 dishonored checks to Government Insurance during the same period. All 22 checks, valued at $16,390, remained outstanding.

Repeat Offender 2. A St. Croix construction company issued three dishonored checks to Internal Revenue dated March 7, 2005, for $18,060, December 9, 2005, for $20,000, and January 31, 2006, for $10,000. The 3 checks, valued at $48,060, remained outstanding.

Repeat Offender 3. A St. Thomas construction company issued five dishonored checks to Internal Revenue ranging from $142 to $2,218. The five checks were dated February 15, 2005, February 22, 2005, April 26, 2005, May 27, 2005 and August 30, 2005. During that time period, the company issued a dishonored check, dated May 4, 2005, for $3,396 to Government Insurance, and another check, dated June 24, 2005, for $150 to the Lieutenant Governor's Office. Finally Licensing was the recipient of a $260 dishonored check dated February 22, 2006. All 8 checks, valued at $7,100, remained outstanding.

As recommended in our 1994 report, if there was a system in-place to monitor for repeat offenders, timely steps could have been taken to protect the interest of the Government from chronic abusers. In addition, if a "bad debtor" list was prepared and issued to all collectors of the Government, forbidding the acceptance of unsecured forms of payment, significant revenues would have been protected. Aggressive collection and prosecution of abusers would reduce the average of more than $2 million in dishonored checks received by the Government annually.

Recommendations

We recommend that the Commissioner of Finance and the Director of Internal Revenue:

1. Develop and implement a system to monitor the activities of individuals and businesses who repeatedly issue dishonored checks in payment of Government obligations.

2. Prepare and maintain an updated list of individuals and businesses who have issued dishonored checks to the Government, especially repeat offenders, and make the list available to all Government collectors.

3. Inform the collectors that only cash, money order, certified checks, or approved credit cards, would be accepted from these individuals and businesses.

Governor of the Virgin Islands's Response

In the Governor's response, it was indicated that, with the establishment of the "Debtor Tracking Database" individuals and businesses will be monitored for repeat offenders. Once identified, collectors will be notified not to accept checks from the individuals or businesses for a one year period.

All improvements to the collection and monitoring of dishonored checks should be implemented by July 31, 2008.

V. I. Inspector General's Comments

The responses to the recommendations made in this section of the report are sufficient for us to consider them resolved. Before the recommendations can be considered implemented, however, evidence of the revised Revenue Manual and other operating procedures should be provided.

GOVERNOR OF THE VIRGIN ISLANDS'S RESPONSE

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

May 9, 2008

VIA HAND DELIVERY

Mr. Steven G. Van Beverhoudt
Inspector General of the Virgin Islands
75 Kronprindsens Gade
St. Thomas, Virgin Islands, 00802

Dear Mr. Van Beverhoudt:

First, let me express my appreciation for the extension granted for a response to the findings to the "Audit of the Accounting and Collection of Dishonored Checks." My Administration appreciates your assistance in identifying aspects of our operations that require improvement, including your recommendations to achieve compliance. Although the Department of Finance has implemented significant changes in procedures since the Revenue Manual was first introduced, we also acknowledge that the Manual has not been properly updated to reflect the changes made. I, have therefore, instructed the Commissioner of Finance to update the Manual forthwith and to implement the recommendations made in your report.

To specifically address each finding, the Government of the Virgin Islands (GVI) concurs with Recommendations numbers one (1) and two (2) of Finding number one (1) – "Accounting for Dishonored Checks". A task force will be assembled to include representatives from the Department of Finance (DOF), Bureau of Internal Revenue (BIR) Department of Licensing and Consumer Affairs (DLCA), the Office of the Lieutenant Governor, and the Department of Justice (DOJ) to address the findings and recommendations of the Inspector General of the Virgin Islands. The main thrust of the task force will be to document and update the Revenue Manual with current policies and procedures to strengthen internal controls over dishonored checks. Once finalized, the Manual will be disseminated to **all** agencies collecting revenues for the GVI. Additionally, the document will be revisited semi-annually to ensure the policies and procedures are working, up-to-date, aligned with current business practices and are effective in maximizing our collection efforts while discouraging non-compliance by those who do business with the GVI. A target date for completion is July 31, 2008, and the person responsible is the Commissioner of Finance who will oversee the work of the "Dishonored Checks Task Force".

GOVERNOR OF THE VIRGIN ISLANDS'S RESPONSE

Recommendation Number One (1) of Finding No. 2 "Collection Efforts" reiterates the importance of and need for documented policies and procedures for handling dishonored checks. As mentioned above, under the guidance of the Commissioner of Finance, a "Revenue Manual" will be developed and disseminated to all department and agencies responsible for collection of revenues for the Government of the Virgin Islands.

The Revenue Manual shall include a section of "follow-up" procedures to ensure that employees responsible for collections follow-up on established procedures. A "Debtor Tracking Database" will be established to: 1) keep track of all "demand for payment" letters issued to debtors, 2) alert government collectors of all debtors that have not responded within the timeframe to be established and 3) produce automated "Cease and Desist" reports containing the updated list of persons from whom checks should not be accepted in the future. Each department will be tasked with providing updates to the Department of Finance database within specific timeframes. Additionally, Services rendered for which a dishonored check was received will be reversed (e.g. business license cancelled) if corrective action is not taken by the issuer within a time certain to be established in the manual.

Recommendations Number Three (3) and Four (4) of Findings No. 2 "Collection Efforts" were addressed to the Bureau of Internal Revenue (BIR). The Government of the Virgin Islands also concurs that current procedures of BIR are not explicit enough regarding the steps to be taken after initial contact to recover funds and penalties from dishonored checks. The Bureau has committed to developing a documented step-by-step process to be followed for the processing and collection activity for dishonored checks. The revised procedures will include the requirement, guidelines and timelines for referral of non-responsive taxpayers to the Department of Justice for prosecution. The Chief of Processing has been designated the person responsible for implementation by the due date of July 31, 2008.

Additionally, the Bureau (BIR) is committed to ensuring that the Excel database of Dishonored Checks is always current and that all employees of the Bureau notify the custodian of the database, in writing, of all payments made to the Bureau, or Department of Justice for dishonored checks issued to the Bureau. The custodian of the database will also be required to periodically review the tax system as a redundancy to verify that the account of the taxpayer has not been satisfied or has been credited.

The database listing of dishonored checks will be periodically purged to reflect only those checks that are still outstanding and legally collectible. Checks that must be written off as uncollectible bad debt will be purged from the listing and the issuer banned from writing checks to the GVI. I am also assigning the Dishonored Checks Task Force to explore the legal avenues open against those who continue to issue dishonored checks without taking immediate corrective action. Repeat offenders should be barred from issuing further checks to the GVI, have their business license suspended or cancelled where applicable, and be barred from eligibility as a

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bidder contractor or supplier of goods and services to the GVI. In cases where legal action becomes necessary to collect a debt, court cost and attorney fees should be added to the debt.

Pursuant to Recommendation Number Three (3) the revised procedure will also call for the periodic comparison and reconciliation of the listing of dishonored checks referred back to the Bureau for collection by the Department of Finance. A new form will be adopted to be used whenever there is a discrepancy on the Document Transmittals from the Department of Finance. The form will be immediately returned to Department of Finance requesting correction and identifying the checks actually received by the Bureau which require collection efforts.

The Government of the Virgin Islands also concurs that collection efforts on outstanding dishonored checks must be stepped up. Accordingly, the first step will be reversal of the transaction thereby triggering late fees and penalties, if applicable. Once this procedure is activated, the value of the dishonored checks and the other applicable penalties and fees will be integrated into the total account receivable. The Bureau's collection procedures as mandated by law under the Internal Revenue Code, procedures, rulings and manuals are then followed.

Additionally, appropriate procedures will be implemented to monitor the status of the dishonored checks throughout a three (3) months period to verify its status, and to ensure that collection efforts are being escalated to the Delinquent Accounts and Returns branch of the Bureau of Internal Revenue, or to the Department of Justice as required.

The list of persons or entities that have outstanding dishonored check with the Bureau, will also be maintained by the Delinquent Accounts and Return Branch, and shared with BIR personnel, the Collections and Deposit staff and the Excise Tax Enforcement Officers. Checks will not be accepted from those persons or entities until the outstanding check is satisfied. If more than one (1) check is involved from separate occasions more stringent measures will be implemented to prevent recurrences. The Chief of Processing is responsible for implementing these changes in procedure by July 31, 2008 or before.

Finding Number Three (3) "Enforcement" uncovered numerable instances where issuers of dishonored checks, including repeat offenders, were not referred to the Department of Justice on a consistent or timely basis, if at all. The Government of the Virgin Islands concurs. Despite a 1999 notification to the public regarding penalties and fees related to dishonored checks, the penalties were often not assessed and were often waived without adequate explanations. Recommendation numbers one (1), two (2), three (3) and four (4) under this finding will be addressed in the new Revenue Manual referred to earlier. This will ensure that all collection agencies will collect penalties when levied and if penalties are waived, the justification will be fully documented. With the update to the current collection procedure it is expected that collection efforts will be initiated in a timely and consistent manner and that all collection

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agencies will maintain documented control, with the Department of Finance on the status of the enforcement efforts to collect on dishonored checks.

As a member of the "Dishonored Checks Task Force" the Department of Justice will develop a collection procedure to address issuers who do not respond to departments and agencies initial collection efforts. The Attorney General has committed to the establishment of a "Government Debt Collection Unit" in the Department of Justice dedicated to the collection and/or prosecution of debtors to the Government of the Virgin Islands, including issuers of dishonored checks. This unit will liaison with the Department of Justice, Bureau of Internal Revenue, Department of Licensing and Consumer Affairs and other agencies collecting funds to issue demand letters, make appropriate follow-up efforts and institute legal action for debt when appropriate. The Department of Finance will take immediate action to file criminal charges against individuals and corporations who are repeat offenders or who blatantly ignore collection efforts. This effort will be immediately directed against those currently identified and who have not taken corrective actions to repay the government.

To address the recommendations in Finding Number Four (4) "Repeat Offenders", the Department of Justice, with the "Dishonored Checks Task Force," will explore the legal avenues available against those who continue to indiscriminately issue dishonored checks (repeat offenders) and who have not taken corrective actions necessary to resolve their case. In addition to charges of fraud being filed with the courts, repeat offenders should have their business license suspended or revoked where applicable, and should be barred from eligibility as a bidder, contractor or supplier of goods and services to the Government of the Virgin Islands. In cases where court action becomes necessary to collect a debt, then court costs and attorney's fees should be assessed. The Attorney General's Office has been instructed to take immediate action against all repeat offenders identified in the Inspector General's report.

Recommendations Number One (1), Two (2), Three (3) and Four (4) of Finding Number Four (4) addresses the issue of "Repeat Offenders" but as the issue relates to the Department of Finance (DOF) and the Bureau of Internal Revenue (BIR). As outlined earlier in the response, the DOF will develop a "Debtor Tracking Database" that, in addition to other things cited in this response, will monitor individuals and businesses that repeatedly issue dishonored checks to the Government. Once these entities are identified, the information will be shared with other collection agencies within the government. Simultaneously, these agencies will be advised of the Department of Finance's requirement to only accept further payment in cash, certified check, credit card or money order. These debtors will be barred from "writing checks" to the government for a minimum of one (1) year from the last dishonored check. Agencies will also be advised when debtors check writing privileges have been re-instated. Each department and agency shall be informed and trained in the new administrative tools to be developed to address the issuers of dishonored checks.

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The anticipated implementation date of all measures will be July 31, 2008. Upon the issuance of the new Revenue Manual, a copy will be forwarded to the Office of the Inspector General for review. Additionally, copies of all additional policies and procedures developed as a result of this audit by any collector agency will also be sent to your attention.

Should you have any additional questions or comments, please do not hesitate to contact Clement Magras, Associate Director of Office of Management and Budget, at (340) 774-0750, extension 252.

Sincerely,

John P. de Jongh, Jr.
Governor

ADDITIONAL INFORMATION NEEDED TO CLOSE RECOMMENDATIONS

Recommendation Number and Status		Additional Information Needed
Finding 1:		
1-1	Resolved	Provide a copy of the revised Revenue Manual.
1-2	Resolved	Provide a copy of notification to departments and agencies.
Finding 2:		
To Commissioner of Finance:		
2-1	Resolved	Same as 1-1 and 1-2 above.
2-2	Resolved	Same as 1-1 and 1-2 above.
To Director of Internal Revenue:		
2-1	Resolved	Provide a copy of revised collection procedures.
2-2	Resolved	Same as 2-1 above.
2-3	Resolved	Same as 2-1 above.
2-4	Resolved	Same as 2-1 above.
Finding 3:		
To Commissioner of Finance:		
3-1	Resolved	Same as 1-1 and 1-2 above.
3-2	Resolved	Same as 1-1 and 1-2 above.
3-3	Resolved	Same as 1-1 and 1-2 above.

ADDITIONAL INFORMATION NEEDED TO CLOSE RECOMMENDATIONS

Recommendation Number and Status		Additional Information Needed
3-4	Resolved	Same as 1-1 and 1-2 above.
To Attorney General:		
3-1	Resolved	Provide evidence to show that Justice has initiated a program to pursue referrals from Finance and Internal Revenue.
3-2	Resolved	Same as 3-1 above.
3-3	Resolved	Same as 3-1 above.
Finding 4:		
4-1	Resolved	Same as 1-1 and 1-2 above.
4-2	Resolved	Same as 1-1 and 1-2 above.
4-3	Resolved	Same as 1-1 and 1-2 above.

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Virgin Islands Bureau of Internal Revenue. 1

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