**ISSUED: April 27, 2009** **AR-01-76-09**

## THE UNITED STATES VIRGIN ISLANDS

## OFFICE OF THE VIRGIN ISLANDS INSPECTOR GENERAL

# AUDIT REPORT

**AUDIT OF CHECKING ACCOUNTS**
**MAINTAINED BY**
**THE DEPARTMENT OF TOURISM**

**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**<br>**2315 Kronprindsens Gade # 75**<br>**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 Checking Accounts Maintained by the Department of Tourism (AR-01-76-09).

***Finding 1: Unauthorized Petty Cash/Imprest Fund Accounts (pages 6 to 22)***

- ✓ Tourism violated Finance's Petty Cash regulations by establishing 14 unauthorized imprest accounts.
- ✓ Finance compounded the unauthorized practice by continually replenishing the unauthorized accounts.
- ✓ During fiscal years 2003 through 2007 more than $4 million was disbursed from these 14 unauthorized accounts.
- ✓ Tourism did not always report to Finance how the various account funds were expended.

***Finding 2: Disbursements (pages 23 to 27)***

- ✓ Tourism did not employ adequate internal controls to ensure that petty cash/imprest funds were accounted for and disbursed for legitimate purposes.
- ✓ $4.2 million was expended without supporting documentation to disclose the nature and legitimacy of the expenditure.
- ✓ Almost $4,000 was expended for questionable purposes.
- ✓ Tourism could not support $1.5 million in American Express travelers checks obtained for a special promotion.

***Finding 3: Procurement Practices (pages 28 to 34)***

- ✓ Tourism disbursed more than $1 million through the unauthorized checking accounts to procure goods and services without following the procurement laws of the Virgin Islands.

***Finding 4: Internal Controls (pages 35 to 39)***

- ✓ Tourism did not adhere to internal controls established by Finance's Petty Cash Regulations.

- ✓ Tourism did not establish their own internal control system to govern the handling of their checking accounts.

- ✓ Tourism did not reconcile accounts, maintain records to account for disbursements, nor ensure that there was adequate segregation of duties.

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

April 27, 2009

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

Honorable Louis P. Hill
President
28th Legislature
Capitol Building
Charlotte Amalie, St. Thomas, V. I. 00802

Dear Governor de Jongh and Senator Hill:

Attached is the final report of our audit of checking accounts maintained by the Department of Tourism. The objectives of the audit were to determine if: (i) petty cash/imprest fund accounts were established in accordance with Petty Cash Regulations; and, (ii) petty cash/imprest fund account funds were disbursed and accounted for in accordance with Petty Cash Regulations. The audit objectives included the identification of inadequacies in the establishment of petty cash/imprest fund accounts, the disbursement and accounting of funds processed through the petty cash/imprest fund accounts, and recommendations to address the causes of the inadequacies found.

Our audit disclosed that Tourism did not implement or establish policies and procedures for the disbursement and accounting of petty cash/imprest fund accounts in compliance with applicable laws and regulations. As a result: (i) Tourism established 14 petty cash checking accounts without the Department of Finance's knowledge and authorization; (ii) Tourism expended in excess of $4 million dollars without adequate documentation or accounting for the funds; (iii) goods and services were procured in violation of the Procurement Law; and, (iv) poor and inadequate internal controls over the funds expended through these unauthorized petty cash/imprest fund accounts placed the assets at high risk for fraud, waste and abuse.

We attribute these conditions to Tourism's failure to: (i) follow Finance's Petty Cash Regulations and established accounting procedures; (ii) establish written internal controls and procedures to ensure that transactions were properly accounted for and adequately supported; and, (iii) adhere to procurement laws of the Virgin Islands governing the procurement of goods and services valued over $5,000.

Also, we attribute these conditions to Finance's failure to: (i) follow their own Petty Cash Regulations; (ii) utilize controls over Government funds as required by the Code; and, (iii) ensure that disbursements were petty cash related and not major expenditures.

As a result: (i) expenditures exceeding $4 million were processed through 14 unauthorized petty cash accounts; (ii) $4,177,677 in expenditures lacked sufficient supporting documentation, of which $60,839 was improperly paid to a Tourism employee; (iii) expenditures totaling $1,075,937 were disbursed for goods and services which circumvented the procurement laws of the Virgin Islands; (iv) petty cash checking accounts were not reconciled for Fiscal Years 2003 through 2007; (v) Finance was unaware of the use and status of funds advanced to Tourism to fund various activities; (vi) the expenditures processed through the unauthorized checking accounts were not reported on, or adequately accounted for; (vii) Tourism commingled funds in the various petty cash accounts without authorization or substantiation of the purpose of fund transfers, thus losing the identity of the source and purpose of the funds; and, (viii) the petty cash accounts were used to process multiple transactions that resulted in large amounts of funds being processed instead of the intended minor disbursements.

We made several recommendations to address the conditions and causes cited in the report. Our recommendations address the following areas: (i) internal controls; (ii) fund management; (iii) procurement; (iv) records maintenance; and, (v) reporting requirements.

Exit conferences were held with the respective department heads responsible for the implementation of the corrective action plans, and there was agreement with the findings and recommendations made.

The response, included as Appendix I of this report, indicates agreement with all of the findings and recommendations and is considered responsive. Follow up reviews will be performed at a later date to assess the effectiveness of the action plans once they are implemented.

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

Sincerely,

Steven van Beverhoudt

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

# TABLE OF CONTENTS

**Page**


**INTRODUCTION**

Background ..... 1
Objectives, Scope and Methodology ..... 3
Prior Audit Coverage ..... 4

**AUDIT RESULTS**

Conclusions ..... 5
Finding 1: Unauthorized Petty Cash/Imprest Fund Accounts ..... 6
- Background ..... 6
- Checking Account ..... 7
- Finance's Check Issuance and Replenishment Practices ..... 8
- Unauthorized Accounts ..... 9
  - Tourism – Puerto Rico Account ..... 9
    - Deposits ..... 9
    - Expenditures ..... 10
  - 26th Caribbean Tourism Conference Account ..... 12
  - 28th Caribbean Tourism Conference Account ..... 14
  - Casino Fund Account ..... 15
    - Deposits ..... 15
    - Expenditures ..... 16
  - Offshore Offices Accounts ..... 17
  - V. I. Visitor's Bureau – Employees' St. Croix ..... 18
    - Deposits ..... 18
    - Expenditures ..... 18
  - Friends of Tourism Account ..... 19
  - Taipei IFT 97 Account ..... 20
- Commingling of Funds ..... 20
- Recommendations ..... 21
- Governor of the Virgin Islands' Response ..... 22
- V. I. Inspector General's Comments ..... 22

Finding 2 – Disbursements ..... 23
- Background ..... 23
- Unsupported and Questionable Expenditures ..... 23
  - Unsupported Costs ..... 23
  - Employee Payments ..... 24
  - Duplicate Charges ..... 25

# TABLE OF CONTENTS

**Page**


Unrelated Costs ..... 25
American Express Contract ..... 25
Recommendations ..... 27
Governor of the Virgin Islands' Response ..... 27
V. I. Inspector General's Comments ..... 27

Finding 3 - Procurement Practices ..... 28
Background ..... 28
Procurement Law Circumvented ..... 29
Tourism – Puerto Rico Account ..... 29
Casino Fund Account ..... 30
26th Caribbean Tourism Conference Account ..... 31
28th Caribbean Tourism Conference Account ..... 32
Recommendations ..... 33
Governor of the Virgin Islands' Response ..... 33
V. I. Inspector General's Comments ..... 34

Finding 4 – Internal Controls ..... 35
Background ..... 35
Responsibility of Finance ..... 35
Accountability ..... 36
File Maintenance ..... 36
Reporting ..... 37
Segregation of Duties ..... 37
Supervisory Review ..... 37
Transfer of Custodianship ..... 38
Recommendations ..... 38
Governor of the Virgin Islands' Response ..... 39
V. I. Inspector General's Comments ..... 39

**APPENDICES**

I Governor of the Virgin Islands' Response ..... 40

II Additional Information Needed to Clear Recommendations ..... 44

III Official Report Distribution ..... 46

# INTRODUCTION

## BACKGROUND

The Department of Tourism (Tourism) was established by Title 3, Sections 330 thru 333 of the Virgin Islands Code (Code) to promote the United States Virgin Islands as a tourist destination and location for industrial promotion. To accomplish this, Tourism obtained funding from the General Fund of the Government of the Virgin Islands (Government), the Tourism Advertising Revolving Fund and the Casino Revenue Fund. The General Fund monies were appropriated for personnel services, fringe benefits, capital outlays, supplies, utilities, and other services and charges. Monies from the Tourism Advertising Revolving Fund were to be used for advertisement of the territory as a tourist destination and industrial promotion. At least 5% of these funds were to be expended for specific destination promotion for each district. Tourism was also to receive, and expend, five percent of the Casino Revenue Fund to promote tourism and casino activities solely for the district of St. Croix. The funds were to be disbursed by the Department of Finance (Finance), through the Government's accounting system, upon the certification of the Commissioner of Tourism.

Among its other duties, Finance was responsible for processing vendor payments, and recording and monitoring financial transactions of the Government, including the funds utilized through petty cash and imprest fund accounts. Departments and agencies were permitted to establish imprest fund accounts for minor disbursements, only after receiving authorization from the Commissioner of Finance, in accordance with Finance's Petty Cash/Imprest Fund Rules and Regulations (Petty Cash Regulations). The Petty Cash Regulations stipulate that: (i) the custodian must always have documentation evidencing disbursements from the petty cash/imprest funds, and (ii) procurement laws and regulations must be followed in the acquisition of goods and services. Petty cash/imprest fund accounts are to be used to expedite the procurement of goods and services that, because of their low value and generally non-specific, non-recurring nature, were deemed impractical to procure through the required disbursement methods at Finance.

Finance was to replenish the petty cash/imprest fund accounts only to the funding level authorized for the respective department's petty cash/imprest fund account. They were also to ensure that each department or agency accounted for all disbursements from the petty cash/imprest fund accounts, in compliance with applicable laws.

Records maintained by Finance indicated that Tourism had been authorized to maintain three petty cash/imprest fund accounts, with a cumulative balance not to exceed $20,750. The three accounts are identified below.

## Authorized Accounts

| Petty Cash/Imprest Fund Account | Authorized Fund Amount |
|---|---|
| Imprest Fund - Tourism | $15,000 |
| St. Thomas – Visitor's Bureau | 5,000 |
| St. Croix – Visitor's Bureau | 750 |

Tourism also operated 14 other petty cash/imprest fund accounts unknown to Finance. Eight of those accounts were maintained by Tourism's Business and Administration Division Office. In addition, Tourism operated 6 offshore offices in the United States each maintaining a petty cash/imprest fund account. These accounts are identified below.

## Unauthorized Accounts

| Location | Petty Cash/ Imprest Fund Account | Last Balance Date | Account Balance |
|---|---|---|---|
| Tourism - Business & Administration Division | | | |
| | Casino Fund | 09/28/07 | $44,870 |
| | Friends of Tourism | 05/24/06 | 3,416 |
| | V.I. Visitor's Bureau – Employees' St. Croix | 09/30/07 | 2,320 |
| | V.I. Visitor's Bureau - St. Thomas | 08/31/07 | 1,541 |
| | Taipei - IFT 97 | 09/09/07 | 1,046 |
| | Tourism - Puerto Rico | 09/28/07 | -0- |
| | 26th Caribbean Tourism Conference | 03/31/07 | -0- |
| | 28th Caribbean Tourism Conference | 03/31/07 | -0- |
| Offshore Offices | | | |
| | Los Angeles | 06/30/06 | $38,003 |
| | New York | 01/31/07 | 26,606 |
| | Miami | 05/30/06 | 25,786 |
| | Atlanta | 06/30/06 | 18,104 |
| | Chicago | 05/30/06 | 4,106 |
| | Washington, DC | Not Provided | Not Provided |

## OBJECTIVES, SCOPE, AND METHODOLOGY

Our audit was initiated at the request of the Commissioner of Tourism. The Commissioner requested that we audit the expenditures and accounting for all petty cash/imprest fund accounts.

The objectives of the audit were to determine if: (i) petty cash/imprest fund accounts were established in accordance with Petty Cash Regulations; and, (ii) petty cash/imprest fund account funds were disbursed and accounted for in accordance with Petty Cash Regulations. The audit objectives included the identification of inadequacies in the establishment of petty cash/imprest fund accounts, the disbursement and accounting of funds processed through the petty cash/imprest fund accounts, and recommendations to address the causes of the inadequacies found.

The scope of the audit focused on transactions processed through the Tourism petty cash/imprest fund accounts from Fiscal Year 2003 through Fiscal Year 2007.

We examined all available supporting documentation provided by Tourism and Finance that included check registers, canceled checks, account deposit slips, bank statements and supporting documentation attributable to the various petty cash checking accounts. In addition, we interviewed Tourism and Finance officials responsible for the accounting and maintenance of the various petty cash/imprest fund accounts.

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 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 these accounts to the extent necessary to accomplish the audit objectives. Internal control weaknesses identified during the audit are discussed in the Audit Results section of our report.

## PRIOR AUDIT COVERAGE

We are unaware of any audit reports being issued on the operations of Tourism within the past five years. However, on January 8, 2001, we issued Letter Audit Report AM-03-76-01, entitled, "Audit of Operating Expenditures at Tourism's Chicago offshore office of the Department of Tourism". In that report it was disclosed that Tourism did not have an internal control system to ensure that all expenditures were legitimate disbursements of Government funds. There was little supervisory review, no separation of duties, and an ineffective system of checks and balance to assure that disbursements were proper, costs were not excessive or unauthorized, and transactions were adequately documented. The lack of adequate internal controls resulted in $19,328 in questionable disbursements in the Chicago Office. As a result of the audit report, the former manager of the Chicago office pled guilty to embezzlement charges in June 2001 and was sentenced to two years imprisonment, with all but three months suspended, and an additional two years of probation.

# AUDIT RESULTS

## CONCLUSIONS

Our audit disclosed that Tourism did not implement or establish policies and procedures for the disbursement and accounting of petty cash/imprest fund accounts in compliance with applicable laws and regulations. As a result: (i) Tourism established 14 petty cash checking accounts without Finance's knowledge and authorization; (ii) Tourism expended in excess of $4 million dollars without adequate documentation or accounting for the funds; (iii) goods and services were procured in violation of the Procurement Law; and, (iv) poor and inadequate internal controls over the funds expended through these unauthorized petty cash/imprest fund accounts placed the assets at high risk for fraud, waste and abuse.

We attribute these conditions to Tourism's failure to: (i) follow Finance's Petty Cash Regulations and established accounting procedures; (ii) establish written internal controls and procedures to ensure that transactions were properly accounted for and adequately supported; (iii) adhere to procurement laws of the Virgin Islands governing the procurement of goods and services valued over $5,000.

Also, we attribute these conditions to Finance's failure to: (i) follow their own Petty Cash Regulations; (ii) utilize controls over Government funds as required by the Code; and, (iii) ensure that disbursements were petty cash related and not major expenditures.

As a result: (i) expenditures exceeding $4 million were processed through 14 unauthorized petty cash accounts; (ii) $4,177,677 in expenditures lacked sufficient supporting documentation, of which $60,839 were improperly paid to a Tourism employee; (iii) expenditures totaling $1,075,937 were expended for goods and services which circumvented the procurement laws of the Virgin Islands; (iv) petty cash checking accounts were not reconciled for Fiscal Years 2003 through 2007; (v) Finance was unaware of the use and status of funds advanced to Tourism to fund various activities; (vi) the expenditures processed through the unauthorized checking accounts were not reported on, or adequately accounted for; (vii) Tourism commingled funds in the various petty cash accounts without authorization or substantiation of the purpose of fund transfers, thus losing the identity of the source and purpose of the funds; and, (viii) the petty cash accounts were used to process multiple transactions that resulted in large amounts of funds being processed instead of the intended minor disbursements.

We made several recommendations to address the conditions and causes cited in the report. Our recommendations address the following areas: (i) internal controls; (ii) fund management; (iii) procurement; (iv) records maintenance; and, (v) reporting requirements.

## FINDING 1: UNAUTHORIZED PETTY CASH/IMPREST FUND ACCOUNTS

Tourism did not comply with Petty Cash Regulations when 14 unauthorized petty cash/imprest checking accounts were established. Finance compounded this unauthorized practice by continually replenishing the accounts without questioning Tourism's authority to maintain them. During fiscal years 2003 through 2007, $4 million was expended through these checking accounts. Tourism used the petty cash/imprest checking account of the closed Puerto Rico offshore office as an operating account, disbursing $2.7 million in Tourism funds without the knowledge or oversight of Finance. Tourism did not always report to Finance on how the various account funds were expended. These unauthorized and unreported checking accounts created a mechanism for potential misappropriation of public funds.

## Background

Section 1 of the Petty Cash Regulations defines a petty cash/imprest fund as a sum of money advanced to a government employee by the Commissioner of Finance from the Treasury of the Virgin Islands, to be available for minor disbursements. Section 2 states that petty cash/imprest funds are to be used when the regular disbursement procedures are impractical based on the nature and/or urgency of the transaction. Section 3 requires that a custodian obtain Finance's authorization to open a petty cash/imprest fund checking account and ensure that no service charges be applied to the account. These regulations also require that supporting documentation be provided with Petty Cash Vouchers when Finance is being asked to replenish established petty cash/imprest fund accounts.

Title 3, Section 177 of the Code mandates Finance to provide uniform regulations for the disbursement of all public funds. Under this authority, Finance was to develop budgetary controls and fund accounting procedures to be used in the centralized processing and reporting of financial transactions of the departments and agencies of the Government.

Title 33, Section 3072 of the Code authorizes the Commissioner of Finance to maintain and administer the Tourism Advertising Revolving Fund and make disbursements from the fund upon the certification of the Commissioner of Tourism. An annual report of the expenditures and unobligated balance of the Advertising Revolving Fund was to be prepared by Finance and transmitted to the Governor and the Legislature.

Title 32, Section 517 of the Code requires the Commissioner of Finance to prepare a report bi-annually, accounting for the amounts of money appropriated from the Casino Revenue Fund for specific expenditures.

## Checking Accounts

Tourism was authorized to establish three checking accounts after obtaining petty cash/imprest funds from Finance. These authorized accounts and the approved fund balances along with total expenditures processed during the audit period of fiscal years 2003 through 2007 are detailed below.

### Authorized Accounts

| Account Title | Approved Fund Amount | Total Expenditures (2003-2007) |
|---|---|---|
| Imprest Fund – Tourism | $15,000 | $163,063 |
| St. Thomas - Visitors Bureau | $5,000 | 186 |
| St. Croix - Visitors Bureau | $750 | 0 |

Tourism also established 14 unauthorized checking accounts for various purposes. Eight were maintained in the Territory and 6 were maintained by Tourism's offshore offices. There were no records in Finance to show that Tourism officials requested authorization to establish the accounts, or evidence to show that Finance knew of their existence. The unauthorized checking accounts, to include total funds expended during our audit period of fiscal years 2003 through 2007, are listed below.

### Unauthorized Accounts

| Account Title | Total Expenditures (2003-2007) |
|---|---|
| Tourism - Puerto Rico | $2,682,484 |
| 26th Caribbean Tourism Conference | 607,507 |
| 28th Caribbean Tourism Conference | 468,655 |
| Casino Fund | 331,925 |
| New York | 177,257 |
| Atlanta | 40,128 |
| Miami | 34,701 |
| V. I. Visitor's Bureau – Employees' St. Croix | 33,097 |
| Chicago | 31,519 |
| Los Angeles | 28,921 |
| V. I. Visitor's Bureau - St. Thomas | 376 |
| Taipei - IFT 97 | 210 |
| Friends of Tourism | -0- |
| Washington, DC | Not Provided |

## Finance's Check Issuance and Replenishment Practices

Finance compounded the unauthorized activities of Tourism by continually issuing checks to the unauthorized petty cash/imprest fund accounts. In addition, Finance also replenished the authorized petty cash/imprest fund accounts for more than the maximum allowable. Controls were not in place to ensure that checks issued to Tourism, both to fund activities and as replenishments, were within the authorized limits.

We identified several instances where Tourism submitted expenditures to Finance for replenishment to the unauthorized petty cash/imprest checking accounts. In one instance, Tourism requested that Finance replenish an unauthorized petty cash/imprest fund account $23,054, for disbursements through two invoices, one for $5,200 and another for $17,854. Finance processed the replenishment, along with other items totaling $139,527, without questioning the authority of Tourism to maintain the account. In addition, the check amount exceeded the $15,000 maximum authorized.

The following schedule shows a sample of checks issued for Tourism expenditures. Each issued check exceeded the $15,000 maximum authorized.

**Finance Checks Issued In Excess of Tourism Petty Cash/Imprest Fund Limit**

| Account Title | Check Date | Amount |
|---|---|---|
| 26th Caribbean Tourism Conference | September 2, 2003 | $450,000 |
| Tourism - Puerto Rico | September 16, 2003 | 239,206 |
| Tourism - Puerto Rico | September 23, 2003 | 40,925 |
| Tourism - Puerto Rico | April 13, 2004 | 34,626 |
| Tourism - Puerto Rico | August 24, 2004 | 23,481 |
| Tourism - Puerto Rico | September 7, 2004 | 46,477 |
| Tourism - Puerto Rico | October 7, 2004 | 139,527 |
| Tourism - Puerto Rico | October 7, 2004 | 26,759 |
| Tourism - Puerto Rico | October 12, 2004 | 66,474 |
| Tourism - Puerto Rico | December 9, 2004 | 25,821 |
| Tourism - Puerto Rico | May 17, 2005 | 35,416 |
| New York | June 7, 2005 | 25,000 |
| Tourism - Puerto Rico | August 8, 2005 | 22,282 |
| Tourism - Puerto Rico | August 23, 2005 | 45,128 |
| Tourism - Puerto Rico | September 22, 2005 | 60,000 |
| Tourism - Puerto Rico | September 22, 2005 | 463,874 |
| Tourism - Puerto Rico | March 9, 2006 | 83,758 |
| Tourism - Puerto Rico | July 25, 2006 | 31,527 |
| Casino Fund | September 12, 2006 | 65,454 |
| Imprest Fund - Tourism | September 26, 2006 | 20,297 |

## Unauthorized Accounts

Tourism used the fourteen unauthorized accounts to circumvent the normal accounting and disbursement controls mandated by law to Finance. During the audit period, fiscal years 2003 through 2007, more than $4 million was disbursed through the unauthorized accounts. In particular, Tourism used the Tourism – Puerto Rico checking account to disburse $2.7 million in Tourism operating expenses that should have been processed through Finance. In addition, the disbursements paid from the unauthorized accounts did not appear to be of an unusual or urgent nature, and of such a small sum, that would warrant payment from a petty cash/imprest account.

The following summarizes the activities of the various petty cash/imprest fund accounts.

**Tourism - Puerto Rico Account**. The Tourism - Puerto Rico petty cash/imprest checking account was opened in 1970, to process payments related to the operations of the Puerto Rico offshore office. The Tourism Director of Business and Administration (Director) was the sole signatory on this commercial checking account. Unknown to Finance, following the closure of the Puerto Rico offshore office in 2001, the Director used this checking account as a primary operating account for Tourism. During fiscal years 2003 through 2007, the checking account was used to process $2.7 million, more than 60% of all transactions from the 14 checking accounts reviewed by us. The Director circumvented Finance's accounting controls through the use of this account; an account that should have become inactive when the Puerto Rico offshore office closed in 2001. The only supporting documents Tourism provided for this account were bank statements and cancelled checks for part of Fiscal Year 2005 and part of Fiscal Year 2006. For the other fiscal periods, we were required to obtain the additional records from the bank.

**Deposits.** Bank statements revealed that deposits of $2,676,910 were processed through this account over the five year period. Based on deposit and accounting records obtained from Finance and the bank, we were able to identify $1,761,408 in deposits from various Government Funds that were processed through Finance. There were also deposits totaling $255,300 in American Express Travelers Checks from a Tourism promotional contract, and $74,562 in reimbursements, donations and transfers. Finally, there were deposits totaling $585,641 for which no funding source has been identified.

The following schedule shows the source of deposited funds placed into the Tourism - Puerto Rico account.

**Tourism – Puerto Rico Account Deposits**

| Source of Deposits | Amount |
|---|---|
| Finance - Unknown Fund | $870,499 |
| Finance - Tourism Advertising Revolving Fund | 493,443 |
| Finance - Casino Revenue Fund | 262,862 |
| Finance - General Fund | 69,040 |
| Finance - General Fund/Rum Promotion | 50,498 |
| Finance - Rum Promotion | 15,066 |
| American Express Travelers Checks | 255,300 |
| Reimbursements - Contract Employees | 51,061 |
| Donations/Promotions - Organizations | 23,270 |
| V. I. Visitor's Bureau - St. Thomas | 230 |
| Unknown | 585,641 |
| **Total** | **$2,676,910** |

Tourism continuously deposited funds intended for specific projects into the Tourism – Puerto Rico checking account and used the funds for disbursements contrary to their intended purposes. For example:

- Between January 2003 and November 2003, the Director endorsed and deposited into the Tourism – Puerto Rico account, $123,000 in American Express Travelers Checks. This activity was repeated in December 2003 with $120,000 in deposits, and again in January 2004, and May and June 2005 with deposits totaling $12,300. These Travelers Checks were obtained by Tourism from American Express Travel Related Services (American Express) with Tourism Advertising Revolving Fund monies and were intended for a special promotion. The promotion was to increase tourism travel to the territory. The checks were to be distributed to guests visiting the territory under this promotion. Although some of the funds were used for the intended purpose, some were used to pay vendors and employees, cover the costs of a trade show attended by employees in the Los Angeles offshore office, and made payable to cash for unknown purposes. The American Express Travelers Checks promotion is discussed in more detail in Finding 2 – Disbursements of this report.

- In addition, we found that $262,862 from the Casino Revenue Fund was deposited into the Tourism - Puerto Rico Account. However, except for a $125,000 disbursement on August 16, 2006, used to establish the Casino Fund checking account, we could not determine if the remaining $137,862 was transferred into the Casino Fund account or whether it was used for the exclusive promotion of St. Croix as required.

- 

**Expenditures.** During the same five-year period, $2,682,484 in expenditures were processed through the Tourism – Puerto Rico account. Many of the disbursements were for items that should have been processed through the normal accounting system established by Finance. These include items like utility expenses, purchases of supplies and equipment, travel expenses and advances, rent, and contract labor.

In addition to disbursing funds outside of Finance's accounting system, many of the disbursements lacked documentation to support the payments. The following schedule categorizes the type of expenses paid from the Tourism - Puerto Rico Account.

## Tourism – Puerto Rico Account Expenditures

| Purpose | Amount |
|---|---|
| Transfer of Funds | $607,392 |
| Promotion & Advertising | 540,365 |
| Sponsorship | 397,005 |
| Supplies & Equipment | 128,500 |
| Entertainment | 87,677 |
| Transportation – Air | 77,736 |
| Conferences, Trade Shows, Membership Fees, etc. | 72,946 |
| Food & Beverages | 62,853 |
| Travel – Hotel | 60,227 |
| Insurance | 42,999 |
| Cash | 34,087 |
| Professional Services | 31,872 |
| Visitor's Bureau Manager St. Thomas/St. John | 27,502 |
| Utilities | 27,107 |
| Miscellaneous | 25,942 |
| Tourism Director of Business and Administration | 25,110 |
| Contract Labor | 24,462 |
| Travel Advances | 21,353 |
| Postage/Shipping/Trucking | 18,759 |
| Rent | 18,437 |
| Gifts & Awards | 16,799 |
| Storage | 14,847 |
| Transportation - Ground/Sea | 13,382 |
| Office Repairs & Maintenance | 11,759 |
| Decorations | 11,705 |
| Vehicle Repairs & Maintenance | 5,771 |
| Unknown | 275,890 |
| **Total** | **$2,682,484** |

The following are examples of questionable or unsubstantiated disbursements made from the Tourism - Puerto Rico Account.

- $27,502 was used to pay a Tourism employee for unidentified purposes. This situation is discussed further in Finding 2 - Disbursements of this report.

- There were several instances where the Director requested that Finance process payments to individuals for services rendered. However, the Director paid the individuals from the Tourism – Puerto Rico account when Finance payments were not received timely. As a result, many of these individuals were paid twice for their services. Some individuals who received duplicate payments provided the Finance checks to Tourism who then deposited them into the

Tourism - Puerto Rico account. However, due to the lack of required documentation, we could not determine if there were instances in which the individuals received checks from both Finance and the Tourism - Puerto Rico account and did not return the duplicate payment.

- There were $34,087 in checks made payable to "Cash" that were endorsed by the Director and several other employees. There was no documentation of how the funds were used.

- Checks totaling $42,999 were written to three insurance companies. However, we could not determine the purpose for the insurance coverage.

- Several Water and Power Authority invoices totaling $15,854 were paid from the Tourism – Puerto Rico account. However, these charges should have been paid through the normal disbursement process at Finance. We were not provided the invoices to support these transactions. As a result, we could not verify the validity of these charges.

- Several checks totaling $397,005 were written to various organizations for sponsorship. However, documentation was not provided to indicate how the funds were to be used, or who authorized the payments. Nor could we determine if the expenditures promoted, advertised or benefited the territory's tourism efforts.

**26th Caribbean Tourism Conference Account.** On August 26, 2003, Tourism requested that the Commissioner of Finance advance to Tourism $450,000 to fund the 26th Caribbean Tourism Conference (26th Conference), to be hosted on St. Thomas from October 13 to 19, 2003.

The $450,000, advanced from the Tourism Advertising Revolving Fund, was to be deposited, as previously agreed to by the Commissioner of Finance, into one of Tourism's authorized petty cash/imprest fund accounts. However, the funds were received and deposited into a newly opened and unauthorized checking account by Tourism on September 18, 2003. In addition, there were other deposits totaling $40,729 from unknown sources. The Tourism Commissioner, Assistant Commissioner and the Director were co-signatories on this account. Tourism did not report to Finance that this checking account was opened. There were no indications that Tourism reported on the use and status of these funds to Finance.

Tourism expended $607,508 from the checking account. Included were costs associated with the 26th Conference, as well as activities that occurred after the 26th Conference had ended. Tourism did not close the checking account after the event had been completed, but instead continued to use funds from the account for other purposes. There was no record of Finance requesting an accounting of the funds advanced to Tourism.

The following schedule shows the types of expenditures charged to the 26th Conference account.

## 26th Caribbean Tourism Conference Account Expenditures

| Purpose | Amount |
|---|---|
| Unused Funds Returned to Finance | $144,446 |
| Funds Expended for 28th Conference | 117,703 |
| Receptions and Dinners | 62,094 |
| Audio Visual | 59,593 |
| Transportation | 55,357 |
| Entertainment | 41,958 |
| Lunch for Unrelated Event | 22,606 |
| Travel Agents Lunch & Expenses | 21,888 |
| Interpretation Service | 15,845 |
| Decorations | 14,074 |
| Roadside Cleaning | 10,320 |
| Video Taping | 7,000 |
| Facility Rental | 6,250 |
| Advertising | 5,767 |
| Equipment Rental | 5,710 |
| Stage Lighting | 3,940 |
| Hotel Rooms | 2,372 |
| Flags | 1,903 |
| Youth Congress | 1,458 |
| Gifts | 965 |
| Miscellaneous | 963 |
| Fuel | 908 |
| Greeters | 375 |
| Petty Cash Replenishment | 350 |
| Site Inspection | 195 |
| Unknown | 3,468 |
| **Total** | **$607,508** |

Our review of the transactions charged against the account revealed the following questionable items.

- Tourism provided supporting documents for only $83,315 of expenditures incurred from the 26th Conference account.

- Large payments, in excess of $5,000, were disbursed from the account, without any indications that procurement laws relating to contracting were followed. There were no indications that estimates were obtained from potential vendors in order to obtain the best price for the Government. The issue of procurement is discussed in Finding 3 – Procurement Practices of this report.

- We noted transactions in the 26th Conference checking account, totaling $117,703 for costs related to the 28th Caribbean Tourism Conference (28th Conference) held two years later. In November 2006, after the 28th Conference event, Tourism transferred $114,678 to the 26th Conference account for the costs related to the 28th Conference.

- A $22,606 deposit for a luncheon was paid to a St. Thomas hotel on January 24, 2004, three months after the 26th Conference was over.

On November 13, 2006, over three years after the 26th Conference, Tourism refunded the outstanding account balance of $144,446, to the Tourism Advertising Revolving Fund. However, Tourism did not request that the account be closed until six months later, at the instruction of the current Commissioner of Tourism, following the initiation of our audit.

**28th Caribbean Tourism Conference Account.** Tourism again, on August 18, 2005, requested and received a check from Finance in the amount of $450,000 to host the 28th Caribbean Tourism Conference (28th Conference) from October 21 to 26, 2005, on St. Thomas. Once again, Tourism opened another checking account without Finance's approval. However, before receiving the $450,000 from Finance for the 28th Conference, Tourism used $117,703 from the 26th Conference account to pay for expenses related to the 28th Conference.

Tourism provided bank statements, canceled checks and the check register for this account. However, they only provided invoices, purchase orders, contracts, etc. to support $53,485 of expenditures disbursed from the 28th Conference account. As with the previous conference, there were no indications that Tourism reported to Finance on the use of the funds.

The following schedule details the type of expenses incurred for the 28th Conference activities.

## 28th Caribbean Tourism Conference Account Expenditures

| Purpose | Amount |
|---|---|
| Unused Funds Returned to Finance | $163,733 |
| Reimbursement to 26th Conference | 114,678 |
| Audio Visual | 80,448 |
| Transportation | 38,883 |
| Luncheon at Hotel | 29,551 |
| Entertainment | 18,620 |
| Advertising | 3,471 |
| Communications | 2,920 |
| Decorations | 2,661 |
| Equipment Rental | 2,400 |
| Printing & Programs | 1,869 |
| Stage /Lighting | 1,428 |
| Miscellaneous | 1,190 |
| Catering | 1,020 |
| Youth Congress | 965 |
| Employee Overtime | 651 |
| Food | 636 |
| St. Thomas Extravaganza | 525 |
| Gifts & Souvenir | 463 |
| Meeting Room | 460 |
| Replenish Other Tourism Account | 281 |
| Check Order | 70 |
| Overdrafts | 15 |
| Unknown | 1,717 |
| **Total** | **$468,655** |

After the 28th Conference was completed, Tourism did not close the checking account or return the unexpended funds to Finance. On November 13, 2006, over one year after the 28th Conference, Tourism returned $163,733 to the Tourism Advertising Revolving Fund. However, Tourism did not request that the bank close the checking account until six months later, at the instruction of the new Commissioner of Tourism, following the initiation of our audit.

**Casino Fund Account.** The Casino Fund Account was opened to process expenditures related to the promotion of St. Croix as a tourist destination. The authorized source of funds for this account was the Casino Revenue Fund maintained by Finance. The Director and the Financial Analyst were both signatories on this account; however, only one signature was required. We noted that the Director signed most of the checks. The only supporting documents provided were bank statements and canceled checks for the period August 2006 through September 2007. During this fourteen-month period, deposits into the account totaled $395,427 while disbursements totaled $331,925. Tourism officials did not provide invoices or reports to support any of the expenditures.

**Deposits.** Of the $395,427 in deposits made during the 14-month period, we were able to identify the source of only $191,856, or 48.5% of the deposits. Of this amount, $126,402 was

transferred from the Tourism – Puerto Rico account. The following schedule shows the source of deposited funds placed in the Casino Fund Account.

## Casino Fund Account Deposits

| Source of Deposits | Amount |
|---|---|
| Tourism - Puerto Rico Account | $126,402 |
| Finance - Casino Revenue Fund | 65,454 |
| Unknown | 203,571 |
| **Total** | **$395,427** |

**Expenditures.** Tourism disbursed $331,925 from the Casino Fund account during the 14-month period for which bank statements and checks were provided. No supporting documentation was provided to show that the funds were spent on promotion activities for St. Croix as required by the Code. Based on the information provided on the canceled checks, we did identify payments made for items such as, bulk airline tickets, travel, rent, and insurance. The following schedule shows, based on the checks reviewed, the type of expenses paid from the Casino Fund Account.

## Casino Fund Account Expenditures

| Purpose | Amount |
|---|---|
| Promotion & Advertising | $65,750 |
| Entertainment /Lunch | 32,633 |
| Travel | 19,783 |
| Office & Maintenance Supplies | 26,591 |
| Professional Services | 26,531 |
| Airline Bulk Tickets | 20,211 |
| Miscellaneous | 19,092 |
| Sponsorship | 17,830 |
| Postage | 15,280 |
| Reimbursement to Employees | 14,688 |
| Hotel | 14,659 |
| Contract Employees | 14,548 |
| Funds Transfer | 12,047 |
| Insurance | 5,491 |
| Training | 5,000 |
| Rent/Storage | 4,715 |
| Transportation | 3,793 |
| Communications | 2,827 |
| Decorations | 2,709 |
| Awards | 1,877 |
| Cash | 1,500 |
| Unknown | 4,370 |
| **Total** | **$331,925** |

The Casino Fund Account included the following unsupported expenditures:

- Two checks totaling $1,500 were made payable to "Cash". No supporting documents were provided to show the use of the funds.

- Checks totaling $12,047 were written to replenish other unauthorized checking accounts. Payments totaling $14,548 were made payable to a contracted employee with no support of services provided.

**Offshore Offices Accounts.** Offshore offices accounts were established and maintained by Tourism's 6 offshore offices in order to disburse funds for their day-to-day operations. Although the establishment of these accounts was necessary, Tourism never obtained the approval of Finance in their establishment, nor did they notify Finance of their existence. Finance had no records of their existence; however, the accounts were replenished on a quarterly basis by Finance.

The respective office managers and the Commissioner of Tourism were signatories on the accounts. However, only one signature was required on the checks. The respective office managers were the usual signatory on the checks reviewed.

After our 2001 audit of the Chicago office, Tourism implemented procedures to conduct annual audits of the offshore offices accounts; however, these audits were only conducted for three years, 2001 through 2003.

The following schedule summarizes the total expenditures reported by each offshore office from October 2005 through June 2006.

## Offshore Offices Account Expenditures

| Offshore Office | Expenditures Oct. 2005- June 2006 |
|---|---|
| New York (to 10/06) | $177,257 |
| Atlanta | 40,128 |
| Miami | 34,701 |
| Chicago | 31,519 |
| Los Angeles | 28,921 |
| Washington, DC | Not Provided |

Our review of the supporting documentation provided for the various offshore offices accounts identified the following questionable items.

- No information was provided for the Washington, DC office.

- Some expenditures were supported only by canceled checks.

- Monthly records contained canceled checks for travel advances that were not supported by travel vouchers, airline tickets, and hotel or meal receipts.

- Travel vouchers were reimbursed without supporting documentation for costs incurred. There was no supporting documentation in the New York files for money orders valued at $2,000 that were express mailed to the former Commissioner while travelling to Canada.

**V. I. Visitor's Bureau - Employees' St. Croix.** The V. I. Visitor's Bureau – Employees' St. Croix Account was opened on St. Croix with funds obtained from vending machine sales in their building according to Tourism officials. The St. Croix Office Manager was the sole signatory on this account. The funds were used for minor disbursements and the account was periodically reimbursed from the Imprest Fund - Tourism account, Tourism - Puerto Rico account and the Casino Fund account. Expenditures from this account during the audit period totaled $33,097.

**Deposits.** Although Tourism officials indicated that the account was opened with collections generated from the office vending machines, most deposits made during the audit period were generated from the authorized Imprest Fund – Tourism account, and two unauthorized accounts; the Tourism – Puerto Rico account and the Casino Fund account. In addition, the source of $15,398 in deposits could not be determined. The following schedule shows the source of funds deposited into the account.

## V. I. Visitor's Bureau – Employees' St. Croix Account Deposits

| Source of Deposits | Amount |
|---|---|
| Imprest Fund - Tourism - Puerto Rico Account | $11,224 |
| Casino Fund Account | 6,609 |
| Donations | 1,000 |
| Imprest Fund – Tourism | 904 |
| 26th Caribbean Tourism Account | 41 |
| Unknown | 15,398 |
| **Total** | **$35,176** |

**Expenditures.** As was the practice with other accounts maintained by Tourism, disbursements from the V. I. Visitor's Bureau – Employees' St. Croix account were used for apparent day-to-day expenditures such as travel expenses, bulk airline ticket purchases, and vehicle maintenance and repairs. The following schedule shows the type of expenditures paid from the V. I. Visitor's Bureau – Employees' St. Croix Account.

## V. I. Visitor's Bureau – Employees' St. Croix Account Expenditures

| Purpose | Amount |
|---|---|
| Promotions | $ 7,475 |
| Office Maintenance & Supplies | 4,844 |
| Storage | 3,665 |
| Travel Outside of Territory | 2,828 |
| Bulk Tickets | 2,318 |
| Vehicle Maintenance & Repair | 1,648 |
| Office Hospitality/Entertainment | 1,316 |
| Professional Services | 1,000 |
| Freight & Postage | 789 |
| Cleaning Services & Supplies | 677 |
| Taxi Service | 550 |
| Equipment Service & Repair | 548 |
| Miscellaneous | 663 |
| Marketing Lunches & Items | 437 |
| Office Equipment | 389 |
| City of Lights Prize | 250 |
| Workshop | 175 |
| Hotel Room Fees | 111 |
| Administrative Cost | 71 |
| Petty Cash Replenishment | 59 |
| 26th Caribbean Tourism Conference | 41 |
| Bank Fees | 20 |
| Unknown | 3,223 |
| **Total** | **$33,097** |

Our review of the supporting documents and canceled checks identified the following:

- Supporting documents were not available for most of the expenditures.

- Funds were used to host office lunches.

- The custodian issued a check for $190 for taxi service for employees of the St. Thomas office attending the funeral of the former Commissioner's father.

**Friends of Tourism Account.** The Friends of Tourism Account was funded from donations made to Tourism and had three employees as signatories. The three employees are no longer employed by Tourism. This account was opened in 1999. We obtained bank statements for the period September 2001 through May 2006. During this period there was no activity in this account. The account ceased activity when the employees left Tourism, but the account was not closed. It remained open carrying an average balance of $3,400 for several years, including the period of our audit.

**Taipei IFT 97 Account.** The Taipei IFT 97 petty cash/imprest fund account was opened to facilitate the operations of a Tourism office that was to be opened in Taipei, Taiwan. The account was maintained by two employees who have left Tourism's employment. We obtained bank statements for the period October 2004 to September 2007. There was no activity during this time. The account remained open and was charged dormant fees totaling $210 for three years, through September 2007, the end of our audit period. Tourism's failure to reconcile and close the checking account contributed to the fees being charged. Tourism did not attempt to close this account until November 2007. However, we could not confirm that the account was closed.

## Commingling of Funds

Tourism violated Petty Cash Regulations by commingling funds from the various accounts to replenish balances once they had been depleted. Petty Cash Regulations required that accounts be replenished by the submittal of reimbursement vouchers to Finance. However, Tourism used funds from various unauthorized checking accounts to open and replenish other accounts. For example, the Tourism - Puerto Rico account should have been closed in 2001 when the Puerto Rico offshore office closed; however, Tourism did not close the account, but rather used it as the primary account for conducting the business of the department. Funds from the Tourism - Puerto Rico account were used to establish the Casino Fund account. During the period March 2004 to March 2006, Tourism periodically received Casino Revenue Fund monies and deposited them into the Tourism - Puerto Rico account. However, it was not until August 17, 2006, that the Director issued a check for $125,000 to open the Casino Fund account.

On September 30, 2005, Tourism deposited $450,000, issued from Finance for the 28th Conference into the Tourism - Puerto Rico account. Tourism later opened the 28th Conference account with these funds on October 11, 2005.

In addition, when the offshore offices needed replenishment funds for their accounts, rather than requesting replenishments from Finance, the Director transferred funds from the Tourism - Puerto Rico account.

In April 2007, transactions in the Tourism - Puerto Rico account abruptly stopped. In June 2007, with only $1,402 in the account and monthly maintenance charges of $10, the Director transferred the remaining balance to the Casino Fund account. In 2007, the Director began replenishing other petty cash/imprest fund accounts from the Casino Fund account.

The following schedule represents funds transferred between checking accounts which totaled $638,656 that we have been able to identify.

## Fund Transfers Between Accounts

| Originating Account | Destination Account | Amount | Purpose |
|---|---|---|---|
| Tourism - Puerto Rico | 28th Caribbean Tourism Conference | $450,000 | Establish checking account |
| Tourism - Puerto Rico | Casino Fund | 125,000 | Establish checking account |
| Tourism - Puerto Rico | New York Offshore Office | 34,000 | Replenish |
| Tourism - Puerto Rico | V. I. Visitor's Bureau - Employees' St. Croix | 11,224 | Replenish |
| Casino Fund | V. I. Visitor's Bureau - Employees' St. Croix | 6,609 | Replenish |
| Tourism - Puerto Rico | Imprest Fund Account | 5,000 | Replenish |
| Tourism - Puerto Rico | Los Angeles Offshore Office | 4,500 | Replenish |
| Tourism - Puerto Rico | Casino Fund | 1,402 | Bring Tourism - Puerto Rico Account to zero balance |
| Casino Fund | Visitor's Bureau Petty Cash Account | 483 | Replenish |
| Casino Fund | 28th Caribbean Tourism Conference | 438 | Cover overdraft |
| | **Total** | **$638,656** | |

## Recommendations

We recommend that the Commissioner of Tourism:

1. Review all accounts to ensure that only accounts necessary for the smooth operations of the agency are considered to remain active.

2. Request from Finance authorization to maintain the accounts that need to remain open.

3. Ensure that all transactions are made in accordance with the established Petty Cash Regulations issued by Finance.

4. Stop the commingling of funds between the various accounts.

5. Establish and implement internal control procedures for the accounting, reconciliation, and reporting of all fiscal transactions processed through the petty cash/imprest accounts.

We recommend that the Commissioner of Finance:

1. Enforce the petty cash/imprest fund provisions as established by the Petty Cash Regulations.

2. Maintain an up to date listing of Tourism petty cash/imprest fund accounts authorized by Finance, including the identity and status of account custodians, and signatories.

3. Require Tourism to disclose all petty cash transactions, and process non-petty cash transactions through Finance.

4. Ensure that reimbursement amounts are within the petty cash/imprest fund account limits as established by Finance for each account.

## Governor of the Virgin Islands' Response

The Governor of the Virgin Islands, responding for the departments involved, indicated agreement with all of the findings and recommendations made in this report.

Regarding the five recommendations made to Tourism, the Governor indicated that the Commissioner of Tourism reviewed all accounts, keeping, with the authorization of Finance, only the accounts necessary for the operation of the department. It was further indicated that Finance was notified that Tourism's Director of Administration and Management and the Financial Analyst were the account custodian and assistant custodian respectively. Finally, the response stated that Tourism has established internal control procedures for the accounting, reconciliation and reporting of all petty cash and imprest funds. Tourism has imposed stricter internal controls to eliminate all activities and transactions which result in the comingling of funds.

Regarding the four recommendations made to Finance, it was indicated that petty cash rules and regulations will be enforced initially by reviewing and updating the petty cash rules and regulations. All central government departments and agencies will be notified of the increased enforcement of the revised rules and regulations.

All banks doing business with the Government have been notified instructed to not open bank accounts from Government entities unless approved by the Commissioner of Finance. Finance will update and maintain an accurate listing of all authorized accounts. Finally, Finance personnel have been instructed to ensure that petty cash and imprest fund reimbursements do not exceed the approved limits.

## 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. However, before we can consider them to be fully implemented, additional information is required. Appendix II of this report details the additional information needed before the recommendations can be considered closed and fully implemented.

## FINDING 2: DISBURSEMENTS

Tourism did not employ adequate internal controls to ensure that petty cash/imprest funds were accounted for, and disbursed for legitimate purposes. Specifically, $4,177,677 was expended without supporting documentation to disclose the nature or legitimacy of the expenditures. Additionally, $3,714 was expended for questionable purposes. Tourism also entered into a $1.5 million contract with American Express to provide travelers checks for a special promotion; however, Tourism did not have proper controls to ensure that the travelers checks were used for the intended purpose.

## Background

Section 330.2 of the Government's Accounting Manual requires that documentation be provided for all financial transactions affecting appropriations and/or funds. These documents are to be available for, and subject to, audit. Title 3, Section 177 of the Code requires Finance to exercise general control over the enforcement of the laws relating to finance and to exercise general supervision over Government funds. Title 33, Section 3112 of the Code establishes that monies could only be expended for the purpose for which they were appropriated.

## Unsupported and Questionable Expenditures

Tourism processed payments totaling $4,177,677 through the various petty cash/imprest fund accounts that were not supported by invoices or documentation. Although Tourism had available bank statements, many of the canceled checks pertaining to those statements were unavailable for review. Therefore, we could not determine if the disbursements were legitimate expenses of Tourism. Of the few disbursements for which some support was available, we questioned $2,511 in duplicate charges and $1,203 in unrelated charges. The following schedule shows the total unsupported charges against various accounts.

### Unsupported and Questioned Costs

| Checking Account Name | Unsupported Cost | Duplicate Charges | Unrelated Charges | Total Questioned Cost |
|---|---|---|---|---|
| Tourism - Puerto Rico | $2,682,484 | | | 2,682,484 |
| Casino Fund | 331,925 | | | 331,925 |
| 26th Caribbean Tourism Conference | 524,193 | | | 524,193 |
| 28th Caribbean Tourism Conference | 415,170 | | | 415,170 |
| Offshore Offices | 60,842 | $2,511 | $1,203 | 64,556 |
| Imprest Fund - Tourism | 163,063 | | | 163,063 |
| **Total Questioned** | **$4,177,677** | **$2,511** | **$1,203** | **$4,181,391** |

**Unsupported Costs.** We found that Tourism had not provided adequate records to support expenditures paid from the 17 checking accounts. Section 330.2 of the Government's Accounting Manual, issued by Finance, states, in part, that, "All financial transactions affecting

appropriations and/ or funds shall be evidenced by appropriate documents and shall be available for, and subject to, audit before being recorded." We found that for $4,177,677 of expenditures on the various checking accounts we were not provided any supporting documents. Based on the canceled checks provided for review, we identified $35,675 in travel related expenses for which no supporting documentation was provided. In addition, the New York office incurred $25,167 in unsubstantiated ATM purchases.

The following schedule summarizes the total amount of unsubstantiated costs.

## Unsupported Costs

| Account | Unsupported Amount | Purpose |
|---|---|---|
| Tourism - Puerto Rico | $2,682,484 | All transactions lack invoices |
| Various Offshore Offices | 31,034 | Travel advances with no receipts |
| Various Offshore Offices | 2,151 | Travel vouchers lack proper receipts |
| Casino Fund | 331,925 | Transactions lack invoices |
| 26th Caribbean Tourism Conference | 524,193 | Transactions lack invoices |
| 28th Caribbean Tourism Conference | 415,170 | Transactions lack invoices |
| New York Offshore Office | 25,167 | Bank debit charges |
| New York Offshore Office | 2,490 | Money orders for former Commissioner |
| Imprest Fund - Tourism | 152,693 | Transactions lack invoices |
| Imprest Fund - Tourism | 8,720 | 26 checks for "Cash" |
| Imprest Fund - Tourism | 1,350 | 3 checks to custodian |
| Imprest Fund - Tourism | 300 | Check written for "Petty Cash" |
| **Total Unsupported Costs** | ***$4,177,677** | |

* Amount could be greater, however all bank records were not available.

**Employee Payments.** During the period November 2004 through August 2006, the Director paid a Tourism employee $7,588 from the Tourism - Puerto Rico Account and recorded that the payments were for the following services: (i) interior decorating and maintenance of various Tourism office locations; (ii) upholstery of the Visitor's Bureau furniture; and, (iii) printing of wedding promotion packages applications and brochures. Tourism officials did not provide invoices to support these payments. We could not determine if the employee performed these services during normal working hours. In addition, the same employee received funds totaling $53,251 from the Tourism - Puerto Rico Account, the Casino Fund Account, the 26th Caribbean Tourism Conference Account, and the Imprest Fund – Tourism Account for items purchased for Tourism. Tourism officials indicated that there were instances when the employee requested funds to make purchases for Tourism, rather than make checks for the exact purchase amounts payable to the vendors, lump-sum checks were made to the employee or to "cash". There was no documentation to support any of the payments to the employee. The following represents the payments made to the employee.

## Payments to Tourism Employee

| Purpose | Amount |
|---|---|
| Payments for Gifts, Materials, Supplies, and Shipping | $24,852 |
| Payments for Services Provided to Tourism Offices | 7,588 |
| Reimbursements for Canada Event | 500 |
| Reimbursements for Summer Student Farewell | 385 |
| Reimbursements for Parts & Labor | 131 |
| Undocumented Disbursements | 27,383 |
| Total | **$60,839** |

**Duplicate Charges.** Duplicate charges of $2,511 were identified in the New York Offshore Office's account. We reviewed several travel vouchers and found transactions where charges were claimed and paid twice, as follows:

- Travel expenses were submitted by the General Manager of the offshore offices after attending a trade show that included per diem charges of $96 for two dinners at a restaurant located in the hotel where the General Manager stayed. However, a hotel bill for reimbursement was submitted that included the same charge. As a result, the General Manager was reimbursed twice for the same meal.

- In Fiscal Year 2007, during travel to Chicago and Minneapolis, the General Manager made debit charges of $887 and $1,528, respectively to the New York Office account for rented items and material handling at two trade shows. However, the General Manager also included these charges again on the travel voucher for reimbursement. As a result, the two amounts totaling $2,415 were paid to the vendors by debit charges and again to the General Manager as reimbursements.

- 

**Unrelated Costs.** We found evidence that the New York Offshore Office paid for expenses totaling $1,203 that were not related to Tourism operations. Specifically, we found evidence that indicated the General Manager used Tourism funds to pay for the purchase of tuxedos and American Admiral's Club membership renewal.

Title 33, Section 3112 of the Code states, in part, that, "Except as otherwise provided by law, sums appropriated for the various branches of expenditure in the public service shall be applied solely to the objects for which they are made and for no others."

## American Express Contract

In November 2001, the Government, through Tourism, entered into a one year contract with American Express to provide $1.5 million in travelers checks for a Tourism promotion entitled, "Stay and Play, We'll Pay". The promotion covered the period from December 2001 through March 2002, although the contract expired in December 2002. The program was created to attract travelers to the territory, to counter the negative effects of September 11, 2001.

On a weekly basis, hotels were to submit to Tourism a list of arrivals. Tourism would then verify the arrivals with manifests sent from tour wholesalers and operators. The hotels were provided with American Express Travelers Checks to be awarded to hotel guests in packages of $200 per guest. The hotel guests had the option of making the checks payable to themselves or using them to pay for purchases of items or services.

Forms, designed by Tourism, were distributed to the hotels requesting the names of the guests, the dates of stay, the tour wholesaler or operator, the travelers check number that was distributed and the guests' signatures acknowledging receipt of the travelers checks.

During the promotion period, Tourism requested that Finance issue two checks to American Express for $500,000 each. Fourteen months after the promotion had ended, Tourism requested another check for $500,000. Finance withheld $20,000 from the third $500,000 check for gross receipt taxes, therefore issuing a check to American Express for $480,000. In return, American Express provided Tourism with $1,480,000 worth of travelers checks. Documents obtained from American Express showed that checks were purchased by Tourism from December 2001 through May 2003; five months after the contract had ended, in December 2002. Tourism also purchased an additional $10,000 in travelers checks on November 15, 2005, nearly three years after the contract had expired. We were not provided with any additional documentation to show that Tourism entered into another contract with American Express.

Tourism indicated that they used $674,200 in the program; however, no supporting documentation was provided to show the use of the travelers checks. The contract stipulated that all unused checks would be re-deposited into the Tourism Advertising Revolving Fund. Contrary to the provisions of the contract, however; Tourism deposited $123,000 of travelers checks from the promotion into the Tourism - Puerto Rico account and used the funds to pay for expenditures of the department.

In addition, Tourism did not provide any records regarding the administration of the promotion or the distribution of the travelers checks. None of the completed forms from the hotels showing the distribution of the travelers checks were provided; therefore, we could not determine whether the funds were used in accordance with the program's objectives and whether there were controls in place to guard against fraud. We did obtain from American Express copies of canceled travelers checks, valued at $114,550 that were used in the program. Many of the checks were made payable to individual people; however, others were made payable to local grocery and retail discount stores. As a result, the disposition of $1,252,450 in travelers checks could not be substantiated.

The following schedule summarizes the use of the travelers checks and the funds that could not be accounted for.

## Unaccounted American Express Travelers Checks

| Description | Amount | Total |
|---|---|---|
| Travelers Checks 12/07/2001 | $500,000 | |
| Travelers Checks 01/22/2002 | 500,000 | |
| Travelers Checks 05/29/2003 | 480,000 | |
| Travelers Checks 11/15/2005 | 10,000 | |
| Total Travelers Checks Available | | $1,490,000 |
| Deposit to Tourism – Puerto Rico Account | $123,000 | |
| Travelers Checks Verified by American Express | 114,550 | |
| Total Verified Disbursements | | (237,550) |
| Total Unaccounted For | | **$1,252,450** |

## Recommendations

We recommend that the Commissioner of Tourism:

1. Ensure that there are procedures in place to review all transactions on a regular basis, and resolve any questionable transactions in a timely manner.

2. Require that the former General Manager refund the $3,714 in duplicated and unauthorized disbursements.

3. Comply with accounting procedures of the Government and good business practices by properly documenting and reporting expenditures.

4. Implement controls and adequately report on the distribution of travelers checks and all other Tourism promotional programs.

## Governor of the Virgin Islands' Response

In his response, the Governor indicated that Tourism officials will review transactions on a regular basis and perform semi-annual reviews of accounts to ensure compliance with Finance's petty cash and inprest fund rules and regulations. Allotments to the Tourism offshore offices have been reduced and major disbursements have been centralized through the Washington, DC office.

Finally, Tourism has implemented a new system to manage and account for the use of Government funds during the various promotional programs.

## V. I. Inspector General's Comments

Recommendations 1, 3 and 4 are considered resolved, although not fully implemented pending the receipt of the additional information identified in Appendix II of this report. Recommendation 2 was not discussed in the response, and is therefore considered unresolved.

## FINDING 3: PROCUREMENT PRACTICES

Tourism disbursed $1,075,937 through four unauthorized petty cash/imprest fund accounts to procure goods and services without following the procurement laws of the Virgin Islands. Finally, Tourism did not prepare reports on the use, or resulting benefits, of the expenditure of these funds, nor were the procurement methods and use of the funds made known to Finance.

## Background

Title 31, Chapter 23 of the Code contains the provisions for the purchase of goods and services for the Government. In particular, Title 31, Section 234 of the Code establishes the Commissioner of Property and Procurement as the sole purchasing agent for the Government. Title 31, Section 236 requires that all purchases of, and contracts for, supplies, materials, equipment, and contractual services be based on competitive bids; and if the amount of the expenditure is estimated to exceed $5,000 the contract must be in writing.

Title 31, Section 239 of the Code, provides for several instances where supplies, materials and equipment may be purchased and contractual services may be negotiated in the "open market" without observing the provisions of Section 236. These instances provide that: (i) if the Governor declares that a public emergency exists, and specifies that purchases and/or services may be obtained without observing the provisions of Section 236; (ii) if the purchase or contract is for professional services; provided that the services are procured by competitive negotiation, wherever practicable; (iii) if there exists a threat to public health, safety or welfare, that the emergency procurements are made with competition as is practicable under the circumstances, that all procurements made pursuant to this section be clearly stamped PUBLIC EXIGENCY; (iv) if the aggregate amount involved is not more than $5,000; provided, however, that no more than one purchase of the same supplies, material, or equipment or contract for the same professional service be made by any agency of the Government from any person, firm, partnership, or corporation in any 30-day period; and, (v) only the head of the department or agency or the certifying officer is authorized to certify expenditures between $1,000 and $5,000 for open market purchases and negotiated contracts for services; in addition, the purchase or contract is for an aggregate amount not exceeding $25,000 and is made by the Commissioner of Property and Procurement on behalf of any department or agency of the Government.

Title 3, Section 177 of the Code, sets out the duties for Finance, giving the department the responsibility to exercise general control over the enforcement of the laws relating to finance. It also provides Finance with the responsibility to establish uniform regulations for the disbursement of all public funds, and exercise supervision over, all public funds.

Sections 330.1 and 330.2 of Finance's Accounting Manual for the Government of the Virgin Islands (accounting Manual), states in part that Finance is responsible for maintaining an adequate and effective system of budgetary and accounting controls over all appropriations and funds available for the operation of the various departments and agencies. They are to ensure

that all financial transactions are supported by appropriate documents. Also, Finance is responsible for providing current and accurate reporting of all financial transactions.

Finally, Title 33, Section 3072 of the Code, establishes the Tourism Advertising Revolving Fund, and requires that funds be disbursed by the Commissioner of Finance, upon the warrant of the Commissioner of Tourism for advertising and promotion of the territory.

## Procurement Law Circumvented

Tourism circumvented the procurement law by entering into informal agreements with individuals and businesses to provide goods and services with aggregate costs exceeding $5,000. The payments were made through four unauthorized petty cash/imprest fund accounts. The Tourism - Puerto Rico and the Casino Fund accounts were used to disburse $553,161 and $39,612 respectively, to procure goods and services without complying with the procurement law. Tourism also used the 26th Caribbean Tourism Conference and the 28th Caribbean Tourism Conference accounts to disburse $273,538 and $209,626 respectively for similar violations. In addition, Tourism did not provide documentation to justify the disbursements or the reasons for not following the procurement laws.

We identified 112 transactions in the four accounts where vendors were paid a total of $1,075,937 in violation of the procurement laws. Many of the disbursements exceeded the $5,000 "open market" limit. Other disbursements, in the aggregate exceeded the allowable amounts.

The following summarizes the expenditures made in violation of the procurement laws from each of the four checking accounts.

**Tourism - Puerto Rico Account.** Tourism used the Tourism – Puerto Rico account to disburse $553,161 in "open market" purchases in violation of the procurement laws. Goods and services were acquired from 41 businesses and individuals without any indication that the best price was obtained for the Government. The purchases ranged from $5,047 to $120,000. Many of the disbursements were not documented. The following table identifies the disbursements made without Property and Procurement approval.

## Tourism - Puerto Rico Account Expenditures in Violation of Procurement Laws

| Vendor | Transaction Date | Amount | Total | Purpose |
|---|---|---|---|---|
| **1** | 12/31/03 | $120,000 | $120,000 | Checks purchased after contract expired |
| **2** | 11/9/05 | 13,000 | | Deposit-Conference Reception |
| **2** | 11/10/05 | 13,000 | | Conference Catering |
| **2** | 12/12/05 | 21,756 | 47,756 | Conference Rental 11/10-13/05 |
| **3** | 7/6/06 | 4,489 | | Promotional Items |
| **3** | 7/6/06 | 5,550 | | Promotional Items |
| **3** | 7/19/06 | 19,626 | 29,665 | Promotion Items |
| **4** | 01/25/04 | 10,000 | | Not Documented |
| **4** | 02/17/04 | 10,015 | 20,015 | Not Documented |
| **5** | 01/14/04 | 17,854 | 17,854 | Not Documented |
| **6** | 04/05/05 | 3,102 | | Not Documented |
| **6** | 04/12/05 | 3,969 | | Not Documented |
| **6** | 05/03/05 | 4,054 | | Not Documented |
| **6** | 05/26/05 | 4,371 | 15,496 | Not Documented |
| **7** | 04/21/05 | 14,405 | 14,405 | Not Documented |
| **8** | 05/06/04 | 7,160 | | Not Documented |
| **8** | 05/19/04 | 7,160 | 14,320 | Not Documented |
| **9** | 09/27/04 | 14,218 | 14,218 | Not Documented |
| **10** | 10/10/03 | 12,985 | 12,985 | Not Documented |
| **11** | 02/18/05 | 12,719 | 12,719 | Not Documented |
| **12** | 5/19/06 | 4,705 | | Promotional items |
| **12** | 5/19/06 | 6,768 | 11,473 | Promotional items |
| **13** | 09/22/04 | 2,500 | | Not Documented |
| **13** | 10/21/04 | 2,500 | | Not Documented |
| **13** | 11/17/04 | 2,500 | | Not Documented |
| **13** | 12/10/04 | 2,500 | | Not Documented |
| **13** | 12/24/04 | 1,250 | 11,250 | Not Documented |
| **14** | 11/26/03 | 10,800 | 10,800 | Not Documented |
| **15** | 08/05/04 | 10,400 | 10,400 | Not Documented |
| **16** | 6/24/03 | 5,000 | | Not Documented |
| **16** | 7/14/03 | 5,000 | 10,000 | Not Documented |
| **17** | 03/08/04 | 10,000 | 10,000 | Not Documented |
| **18** | 11/15/05 | 10,000 | 10,000 | Checks purchased one year after the contract had expired |
| **19** | 5/12/06 | 4,500 | | Symposium Dinner Deposit |
| **19** | 5/18/06 | 5,496 | 9,996 | Symposium Dinner final payment |
| **20** | 11/05/04 | 2,449 | | Not Documented |
| **20** | 10/26/04 | 7,124 | 9,573 | Not Documented |
| **21** | 12/17/03 | 8,750 | 8,750 | Not Documented |
| **22** | 9/21/06 | 650 | | Not Documented |
| **22** | 9/21/06 | 657 | | Not Documented |
| **22** | 9/29/06 | 6,762 | 8,069 | Not Documented |
| **23** | 02/09/05 | 7,900 | 7,900 | Not Documented |
| **24** | 5/17/06 | 7,900 | 7,900 | Brokerage Account Payment |
| **25** | 03/11/05 | 7,756 | 7,756 | Not Documented |
| **26** | 11/14/02 | 7,500 | 7,500 | Not Documented |
| **27** | 05/04/05 | 7,500 | 7,500 | Not Documented |
| **28** | 1/25/06 | 7,500 | 7,500 | Personal Services |
| **29** | 2/18/06 | 7,500 | 7,500 | Not documented |
| **30** | 10/14/04 | 6,426 | 6,426 | Not Documented |
| **31** | 10/29/04 | 6,400 | 6,400 | Not Documented |
| **32** | 05/19/05 | 6,195 | 6,195 | Not Documented |
| **33** | 12/22/04 | 6,060 | 6,060 | Not Documented |
| **34** | 9/19/06 | 95 | | Not Documented |
| **34** | 9/18/06 | 332 | | Not Documented |
| **34** | 9/18/06 | 1,345 | | Not Documented |
| **34** | 9/5/06 | 4,235 | 6,007 | Not Documented |
| **35** | 11/12/04 | 3,000 | | Not Documented |
| **35** | 10/29/04 | 3,000 | 6,000 | Not Documented |
| **36** | 12/17/03 | 5,775 | 5,775 | Not Documented |
| **37** | 05/19/05 | 5,769 | 5,769 | Not Documented |
| **38** | 11/15/04 | 5,491 | 5,491 | Not Documented |
| **39** | 12/12/05 | 5,491 | 5,491 | Insurance |
| **40** | 01/12/04 | 5,200 | 5,200 | Not Documented |
| **41** | 10/06/04 | 1,425 | | Not Documented |
| **41** | 11/05/04 | 3,622 | 5,047 | Not Documented |
| **Total** | | | **$553,161** | |

**Casino Fund Account.** The Casino Fund was used to pay 5 businesses and individuals a total of $39,612. The disbursements ranged from $5,491 to $13,996, and were used to purchase promotional supplies, hotel accommodations, and travel expenses. The following table identifies the disbursements in violation of the procurement laws.

## Casino Fund Account Expenditures in Violation of Procurement Laws

| Vendor | Transaction Date | Amount | Total | Purpose |
|---|---|---|---|---|
| **1** | 12/13/06 | $5,000 | | Promotional Supplies |
| **1** | 12/22/06 | 8,996 | $13,996 | Promotional Supplies |
| **2** | 04/10/07 | 7,100 | 7,100 | Painting - Balance of Invoice |
| **3** | 04/18/07 | 3,543 | | St. Croix Hotel |
| **3** | 04/18/07 | 3,522 | 7,065 | St. Croix Hotel |
| **4** | 09/13/07 | 2,980 | | United Vacations |
| **4** | 09/13/07 | 2,980 | 5,960 | United Vacations |
| **5** | 02/08/07 | 5,491 | 5,491 | Insurance |
| **Total** | | | **$39,612** | |

**26th Caribbean Tourism Conference Account.** The 26th Caribbean Tourism Conference account was used by Tourism to pay 14 businesses and individuals $273,538. Disbursements ranged from $5,040 to $58,152, and were used for presentation services, catering, entertainment, transportation, and roadside cleanup. The following table identifies the disbursements in violation of the procurement laws.

**26th Caribbean Tourism Conference Account Expenditures in Violation of Procurement Laws**

| Vendor | Transaction Date | Amount | Total | Purpose |
|---|---|---|---|---|
| **1** | 01/08/04 | $24,081 | | Presentation Services |
| **1** | 01/08/04 | 34,071 | $58,152 | Presentation Services |
| **2** | 11/03/03 | 53,844 | 53,844 | Dinner - Reception |
| **3** | 09/24/03 | 14,790 | | Entertainment Deposit |
| **3** | 10/15/03 | 14,790 | 29,580 | Entertainment Final Payment |
| **4** | 02/03/04 | 22,606 | 22,606 | Reception - Lunch |
| **5** | 10/01/03 | 10,325 | | Lunch Catering Deposit |
| **5** | 10/15/03 | 10,325 | 20,650 | Lunch Catering Final Payment |
| **6** | 10/01/03 | 15,654 | | Transportation |
| **6** | 10/03/03 | 4,144 | 19,798 | Transportation |
| **7** | 10/03/03 | 15,845 | 15,845 | Audiovisual Services |
| **8** | 10/01/03 | 3,840 | | Communications First Deposit |
| **8** | 10/13/03 | 7,000 | 10,840 | Communications Final Payment |
| **9** | 10/08/03 | 8,362 | | Events Services |
| **9** | 10/23/03 | 2,091 | 10,453 | Events Services |
| **10** | 10/14/03 | 8,250 | 8,250 | House Reception Rental |
| **11** | 09/25/03 | 6,950 | 6,950 | Transportation |
| **12** | 09/24/03 | 3,125 | | Center Rental Deposit |
| **12** | 10/10/03 | 3,125 | 6,250 | Center Rental Final Payment |
| **13** | 11/03/03 | 5,280 | 5,280 | Roadside Cleaning Service |
| **14** | 11/03/03 | 5,040 | 5,040 | Roadside Landscaping |
| **Total** | | | **$273,538** | |

**28th Caribbean Tourism Conference Account.** The 28th Caribbean Tourism Conference account was used by Tourism to pay 10 businesses and individuals $209,626. Disbursements ranged from $5,840 to $49,904, and were used for video and lighting services, meals, transportation, and decoration services. The following table identifies the disbursements in violation of the procurement laws.

**28th Caribbean Tourism Conference Account Expenditures in Violation of Procurement Laws**

| Vendor | Transaction Date | Amount | Total | Purpose |
|---|---|---|---|---|
| **1** | 10/19/05 | $24,952 | | Video and Lighting |
| **1** | 11/3/05 | 24,952 | $49,904 | Video and Lighting |
| **2** | 09/27/05 | 36,750 | 36,750 | Transportation |
| **3** | 2/1/07 | 29,551 | 29,551 | Closing luncheon |
| **4** | 10/07/05 | 26,643 | 26,643 | Audio Visual |
| **5** | 11/9/05 | 26,643 | 26,643 | Video and Lighting |
| **6** | 10/07/05 | 3,900 | | Video & Lighting Deposit |
| **6** | 11/3/05 | 2,400 | | Video & Lighting |
| **6** | 11/3/05 | 3,900 | 10,200 | Video & Lighting Final Payment |
| **7** | 10/13/05 | 4,875 | | Tropical Events Group |
| **7** | 10/13/05 | 4,875 | 9,750 | Tropical Events Group |
| **8** | 10/13/05 | 3,750 | | Entertainment |
| **8** | 10/13/05 | 3,750 | 7,500 | Entertainment |
| **9** | 12/19/06 | 965 | | Transportation |
| **9** | 12/19/06 | 2,940 | | Transportation |
| **9** | 12/19/06 | 2,940 | 6,845 | Transportation |
| **10** | 10/05/05 | 2,920 | | Decorations Deposit |
| **10** | 10/28/05 | 2,920 | 5,840 | Decorations Final Payment |
| **Total** | | | **$209,626** | |

## Recommendations

We recommend that the Commissioner of Tourism:

1. Ensure that all procurements of goods and services are done in compliance with the procurement laws of the Virgin Islands.

2. Procure only small, occasional, non-recurring operational items through authorized petty cash/imprest fund accounts.

3. Adequately authorize, document and report on all procurements, as required by law or regulations.

## Governor of the Virgin Islands' Response

It was indicated in the response that Tourism will adhere to petty cash and imprest fund rules and regulations relating to the purchase of goods and services, only using the accounts for small, occasional and non-recurring expenditures. Additionally, Tourism will adhere to the procurement laws when making purchases in excess of $5,000.

Finally, Tourism's internal controls will require the express approval of the commissioner or designee for all requests for goods, services and supplies before payments are initiated.

## 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. However, before we can consider them to be fully implemented, additional information is required. Appendix II of this report details the additional information needed before the recommendations can be considered closed and fully implemented.

## FINDING 4 – INTERNAL CONTROLS

Tourism did not adhere to internal controls established by Petty Cash Regulations in their handling of their petty cash/imprest fund accounts. They also failed to establish their own internal control system to govern the handling of their checking accounts and the proper accounting of disbursements from these accounts. Among other weaknesses, Tourism did not reconcile checking accounts on a regular basis; they did not properly maintain records nor account for disbursements; and they did not segregate the duties to ensure that no one individual had sole control over the accounts.

## Background

Section 1 of the Petty Cash Regulations, defines a petty cash/imprest fund as a sum of money advanced to a Government employee by the Commissioner of Finance from the Treasury of the Virgin Islands, to be available for minor disbursements. Section 3 requires that a custodian obtain Finance's authorization to open a checking account and ensure that no service charges be applied to the account; Section 5 requires that petty cash/funds not be used for any purpose that would require that it be replenished other than by reimbursement vouchers processed through Finance; and Section 9 requires that any change in custodianship be recommended to, and approved by, Finance.

## Responsibility of Finance

Sections 330.1 and 330.2 of Finance's Accounting Manual states that Finance is responsible for maintaining an adequate and effective system of budgetary and accounting controls over all appropriations and funds available for the operation of the various departments and agencies. They were to ensure that all financial transactions were supported by appropriate documents.

Finance authorized Tourism to establish the three petty cash/imprest fund accounts with maximum amounts of $15,000, $5,000 and $750, respectively. However, we found that Finance issued checks to other accounts that were not established in accordance with Petty Cash Regulations. Finance issued checks for Tourism's percentage of the Casino Revenue Fund totaling $328,316, the operations of the offshore offices totaling $366,616, and the 26$^{th}$ and 28$^{th}$ Caribbean Tourism Conferences, totaling $900,000; however, Finance did not require Tourism to account for the use of the funds.

Tourism usurped Finance's fiscal controls and responsibility over the processing, recordkeeping and safeguarding of Government funds disbursed to Tourism and funneled through the unauthorized checking accounts. Since Tourism did not account for the use of a majority of the funds expended, Finance lost control over the funds disbursed to Tourism.

Accordingly, Finance was unable to provide accurate reporting of expenditures for the required annual reports. The unauthorized actions by Tourism circumvented the financial

reporting procedures and controls for which the Government's financial system was established. By Tourism having control over the funds, it also allowed them to bypass the appropriation and procurement laws of the Virgin Islands. The funds processed and controlled through the unauthorized checking accounts were thereby placed at high risk of misuse, abuse, and/or fraud.

## Accountability

During the audit period Tourism maintained 17 checking accounts. Three of these accounts were authorized by Finance. However, the other 14 accounts were not authorized by Finance as required by the Petty Cash Regulations. In fact, Tourism did not report these accounts to Finance. Eight of the fourteen accounts were maintained in the Territory and six were established in the offshore offices. According to Tourism officials, some of these accounts were initially opened for specific purposes, however, after the activity ended the accounts were never closed. Regulations require that the department return the petty cash/imprest funds when the purpose has been served.

We noted that, as a result of our prior audit, Tourism established procedures to account for transactions in the offshore offices. The offshore offices were required to record check transactions on a manual record and the computer. However Tourism did not consistently implement the procedures in the offshore offices. Locally, we found that the Director, who was responsible for all reporting requirements of the offshore offices and the custodian of the petty cash accounts on St. Thomas did not ensure that the division prepared a record of transactions from the local accounts. As a result, there was no evidence that the requirements required of the offshore office were implemented locally. We found no evidence that accounts were reconciled. Consequently, officials were not able to track cash balances in the accounts, which resulted in overdraft charges of $644 being levied due to the issuance of bad checks.

Bank reconciliations are necessary in order to verify that the balances in the accounts are accurately stated. The offshore offices were required to reconcile their accounts and prepare monthly reports within ten days of receipt of bank statements. These offices did not consistently reconcile their accounts. And, locally, officials did not perform reviews of the offshore offices' monthly reports to ensure that funds were expended for their intended purposes. If a system of checks and balances had been implemented, requiring that offices be consistently monitored on a timely basis, some offshore offices would not have been able to withhold monthly activities and financial reports for up to five years.

## File Maintenance

We found that Tourism's St. Thomas office did not properly maintain bank records for the checking accounts they maintained. Our audit revealed that bank statements were not easily accessible and in some instances were missing. Specifically, we noted that bank records were not kept in any particular order or location within the office. Tourism officials could not locate all bank records resulting in us obtaining missing statements from the banks. In those instances where records were located, some missing checks could not be accounted for. We were not able

to determine if those checks remained outstanding or were voided. In addition, we noted checks that were prepared and approved for payment to individuals and businesses that were never issued. However, those checks were not secured to avoid unauthorized persons from obtaining and delivering them to one of the businesses to obtain goods and services for personal use.

Supporting documents for the transactions in the checking accounts were not readily available. Many of the transactions did not have sufficient supporting documentation to assure that they were proper and in compliance with applicable laws and regulations.

## Reporting

Tourism required the offshore offices to submit monthly financial reports with supporting documentation. We were able to identify supporting documents for most of the expenditures from the offshore offices that submitted financial reports. However, these offices were not consistent in submitting financial reports to the St. Thomas office. The New York Office had not submitted reports for Fiscal Years 2006 and 2007 until our request. Also, although we requested reports from the Washington, DC Office, none were submitted.

Tourism established procedures to review the monthly reports submitted by the offshore offices within two weeks of receipt and so indicate by initial and date. We noted that in cases where monthly financial reports were submitted to Tourism, other than a date stamped on some of the records, there was no evidence that Management ever reviewed the records for accuracy and appropriateness of costs.

## Segregation of Duties

There was a lack of segregation of duties in Tourism's Division of Administration and Business Office which exposed the funds in the checking accounts to fraud, waste and abuse. Although internal controls were in place for the separation of duties for the offshore offices; Tourism did not implement these controls for the St. Thomas office. The Director did not delegate responsibilities for different elements of the accounting activities to other employees in the Division. The Director had sole responsibility for receipt and disbursement of funds, and kept all the bank records and supporting documents. We found that Tourism established checking accounts with one signature required on each check. The Director was sole-signatory on two checking accounts, one of which served as the primary checking account of the department with more than 60% of the disbursements being processed through this account. The Director did not delegate the duties of preparing checks and recording transactions to her staff as was required for the offshore offices. This, too, was left at the discretion of the Director.

## Supervisory Review

Tourism Management failed to provide consistent and timely management oversight of the financial affairs of the department. Management could not promptly address problems concerning the lack of documentation and questionable charges. There was no evidence that

management was aware of these conditions, or made any efforts to correct the errors.

Management failed to put in place internal controls to report the financial status and uses of the funds assigned to the local offices, thus leaving the funds related to their operations prone to mismanagement, fraud, waste and abuse.

Management failed to establish procedures to authorize the disbursement of funds for the local offices. Thus, the Director had no restrictions on disbursements that could be made from the checking accounts. We found no evidence that Management authorized the expenditure of funds from these checking accounts for the purchase of goods and services. Without these controls Tourism could not ensure that department activities were in compliance with applicable laws and established petty cash/imprest fund rules and regulations.

## Transfer of Custodianship

Tourism did not ensure that custodianship of two checking accounts was transferred when the original custodian left Tourism as was required in the Petty Cash Regulations. We found no evidence that custodianship was transferred to another employee. The accounts remained inactive and Tourism did not close the accounts, but allowed them to remain dormant.

## Recommendations

We recommend that the Commissioner of Tourism:

1. Comply with the Petty Cash Regulations as they relate to internal controls.

2. Establish internal controls, to include the verification of appropriateness of disbursements, accounting of all disbursements, timely bank reconciliations, the segregation of duties and timely supervisory reviews.

3. Establish reporting procedures, to be utilized in the timely review of departmental activities.

4. Require that timely financial reports of revenues and expenditures be prepared and submitted to Finance.

We recommend that the Commissioner of Finance:

1. Require Tourism to submit verification of petty cash and imprest fund balances.

2. Require Tourism to provide documentation to support all financial transactions.

3. Cease issuing checks to Tourism except for replenishment of petty cash/ imprest fund accounts at the appropriate amount.

## Governor of the Virgin Islands' Response

The Governor's response indicated that Tourism will provide regular and timely reconciliations of all petty cash and imprest fund accounts. With the limited staff, every effort will be made to segregate the duties, and more timely supervisory reviews will be conducted. Financial reports will be submitted to Finance on a timely basis.

Regarding the recommendations to Finance, the General Ledger Section will require Tourism to submit verification of all account balances. They will also limit reimbursements to the approved amounts.

## V. I. Inspector General's Comments

The response is sufficient for us to consider the recommendations resolved, but not yet implemented, pending the additional information indentified in Appendix II.

# 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

April 2, 2009

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

**RE: Response of the Government of the Virgin Islands to Draft Report**
***Audit of Checking Accounts Maintained by the Department of Tourism***

Dear Mr. van Beverhoudt:

Transmitted herewith is my response to the audit findings outlined in your draft report Number AR-01-76-09 "Audit of Checking Accounts Maintained by the Department of Tourism" dated February 11, 2009. While the audit addresses inefficiencies in the Department of Tourism's and the Department of Finance's handling of Petty Cash accounts, since its transmittal every effort has been made to strengthen internal controls. Additionally, since the delivery of the draft audit findings, through my direct intervention with the Department of Tourism, the Department of Finance, and the Department of Property and Procurement many recommendations made have already been implemented. I concur with the findings of your office and, as noted below, will continue to implement corrective measures to address the valid and valuable recommendations made.

**FINDING I: RECOMMENDATIONS 1 THROUGH 5: UNAUTHORIZED PETTY CASH/IMPREST FUND ACCOUNTS**

The Commissioner of Tourism and her staff has reviewed all accounts to ensure that only those accounts critical to the unique operations of her department remain open with the Commissioner of Finance's authorization. Further, The Department of Tourism (DOT) has forwarded correspondence to the Department of Finance (DOF) for the purposes of removing the names of employees no longer affiliated with DOT and included the names of its new Director of Administration and Management and Financial Analyst as principal custodian and assistant custodian respectively. (See attached correspondence). The Commissioner of DOT has also eliminated any employees from being considered or retained for any professional services required by the DOT and has terminated the disbursement of funds from the accounts established for the Taipei Visitor's Bureau, Caribbean Tourism Conference #26 and Caribbean Tourism

# GOVERNOR OF THE VIRGIN ISLANDS' RESPONSE



Conference #28 and forwarded correspondence to First Bank to close said accounts. (Correspondence attached).

Additionally, the Commissioner of DOT has established supporting documentation for all disbursement of petty cash/imprest funds such that disbursements are made in accordance with the established "Petty Cash Regulations" issued by the Department of Finance.

The number of checking accounts in DOT's Offshore Offices has been reduced and in concurrence with DOF has ensured that only those necessary accounts remain open in accordance with the rules and regulations governing said funds. Additionally, DOT has established internal control procedures for the accounting, reconciliation and reporting of all transactions occurring with petty cash or imprest funds.

The person responsible for implementation of the above corrective actions is the Director of Administration and Management of the Department of Tourism.

In conjunction with the DOT, the Department of Finance will address Recommendations 1 through 4 to DOF by spearheading the enforcement of DOF's "Petty Cash Regulations" (see attached) by reviewing, updating and communicating these regulations not only to the DOT as cited in the audit but to all central government departments and agencies with petty cash accounts. Correspondence will be issued to all of these entities reinforcing the regulations with examples of non-petty cash transactions that must be processed through the Enterprise Resource Planning (ERP) system and which will not be reimbursed as Petty Cash expenditures. Departments or agencies attempting to circumvent these rules will effectively have their authorized petty cash limits reduced.

All banks doing business with the Government of the Virgin Islands (GVI) have been instructed, via written communication, to cease opening new bank accounts for any government entity without expressed written approval of the Commissioner of Finance. Any newly authorized accounts must submit to the Commissioner a "DOF Petty Cash/Imprest Fund Return Receipt", which includes the bank account number, sub-account description and the custodian name(s) after the account is established.

DOF will update and thereafter maintain an accurate listing of all governmental petty cash/imprest fund accounts authorized by the DOF which includes the identity and current status of account custodians and signatories. Special attention will be given to those accounts identified in the audit as belonging to or being maintained by the DOT and a meeting will be requested with the Commissioner of Tourism to review and explain the Petty Cash/Imprest Funds Regulations in detail. DOF staff has been instructed to ensure that reimbursement amounts requested by departments and agencies of the Government are within the limits as established by DOF for each account.

The Accounting Division, General Ledger Section, of the DOF has been assigned the responsibility of ensuring compliance with the enforcement of the above and all other matters related to Petty Cash/Imprest Fund accounts.

# GOVERNOR OF THE VIRGIN ISLANDS' RESPONSE



**FINDING 2: RECOMMENDATIONS 1 THROUGH 4: DISBURSEMENTS**

To resolve questionable transactions in a timely manner the Department of Tourism will review petty cash transactions on a regular basis and conduct impromptu visits to the off-shore offices to perform semi-annual reviews of those accounts to ensure compliance with departmental rules and DOF's *"Petty Cash/Imprest Fund Procedures"*. To improve documentation, DOT has installed Quick Books software locally and is in the process of installing and training personnel in the off-shore offices on its use in order to generate regular "revenues and expenditure" reports as well as reports on short notice.

Effective March 1, 2009, DOT has reduced allotments to offshore offices in Miami, Atlanta, New York, Los Angeles and Chicago to $8,000 quarterly instead of the previous allotments of $15,000. Major disbursement for rent, utilities and telephone service shall be centralized and paid from the Washington, DC office through the ERP as required. In light of the additional responsibilities of the Washington, DC office, it will receive quarterly allotments of $20,000.

DOT has implemented a new system with participating hoteliers for the processing of Traveler's Checks for the department's Winter Escape, Sizzling Sampler and all other programs requiring the use of traveler's checks. Orders are now being fulfilled based on manifests submitted by tour operators selling the promotion. These lists are cross referenced with guest arrivals from the hotels. Participating hoteliers sign off on receipt of "X" number of packages for specific guests identified from the manifests.

The Director of Administration and Management of the DOT is the person designated to ensure proper implementation of the foregoing practices.

**FINDING 3: RECOMMENDATIONS 1 THROUGH 4: PROCUREMENT PRACTICES**

To ensure adherence to the proper procurement practices of the Government of the Virgin Islands the DOT will only procure goods and services for small, occasional and non-recurring operational expenses with funds in the Petty Cash/Imprest fund accounts. All other recurring goods and services, especially all expenditures over $5,000.00, will be forwarded to the Department of Property and Procurement for approval and processing. Additionally, the DOT has imposed stricter internal controls to (1) ensure that casino funds are disbursed in accordance with the Casino Revenue Fund statute, 32 V.I.C. § 517, and DOF regulations, (2) eliminate all activities and transactions which result in the commingling of funds, and (3) require the expressed approval of the Commissioner or her designee for all requests for goods, services and supplies before payment is initiated.

The Director of Administration and Management of the DOT is the person designated to ensure that the DOT is in compliance with accounting standards and procedures when disbursing funds from the department.

# GOVERNOR OF THE VIRGIN ISLANDS' RESPONSE



**FINDING 4: RECOMMENDATIONS 1 THROUGH 4: INTERNAL CONTROLS**

The Commissioner of Tourism has committed to complying with the established DOF Petty Cash Regulations relating to internal controls and will provide regular and timely reconciliation of all petty cash accounts to ensure verification, appropriateness and proper authorization for all disbursements. With the limited staff available the Commissioner will, to the extent possible, segregate duties to minimize the potential for fraud, waste and abuse and will provide more timely supervisory reviews of the affected accounts. To accomplish this, timely financial reports of revenues and expenditures will be prepared and submitted to the DOF. These new reporting procedures will allow for the regular review not only of these accounts but of the activity levels of all offices being monitored.

Recommendation 1 through 3 to strengthen internal controls at the Department of Finance will be implemented as cited in the audit by the General Ledger Section of the Accounting Division at DOF. Specifically, DOF will require DOT to submit verification of all current balances in all petty cash/imprest funds accounts still being maintained by the DOT. Those balances in excess of the allowed amount will be required to be returned to the appropriate accounts from which they were issued. DOF will cease issuing checks to DOT and all other government departments and agencies in excess of the authorized amount and will require documentation to support ALL transactions.

The Director of Administration and Management of the DOT is the person designated to ensure that the DOT is in compliance with the foregoing. For the DOF, this responsibility is charged to the Accounting Division, General Ledger Section.

On behalf of the Government of the Virgin Islands, I would like to thank you and your staff for the quick response to the Commissioner of Tourism's request for this audit and for the professional services rendered as part of this audit. My Administration is encouraged has moved forward expeditiously to implement your recommendations, our corrective actions and to do everything necessary to improve the manner in which Petty Cash funds are disbursed by the Departments of Tourism and Finance.

Sincerely,

John P. de Jongh, Jr.
Governor

pc: Claudette J. Watson-Anderson, Commissioner, Department of Finance
Debra E. Gottlieb, Director, Office of Management and Budget
Beverly Nicholson Doty, Commissioner, Department of Tourism

# ADDITIONAL INFORMATION NEEDED TO CLOSE RECOMMENDATIONS

| Recommendation Number and Status | | Additional Information Needed |
|---|---|---|
| **Finding 1:** | | |
| To the Commissioner of Tourism: | | |
| 1-1 | Resolved | No additional information needed. |
| 1-2 | Resolved | Provide a copy of Finance's authorization. |
| 1-3 | Resolved | No additional information needed. |
| 1-4 | Resolved | No additional information needed. |
| 1-5 | Resolved | Provide a copy of the internal control procedures. |
| To the Commissioner of Finance: | | |
| 1-1 | Resolved | Provided a copy of the revised Petty Cash/Imprest Fund Rules and Regulations. |
| 1-2 | Resolved | No additional information needed. |
| 1-3 | Resolved | No additional information needed. |
| 1-4 | Resolved | No additional information needed. |
| **Finding 2:** | | |
| 2-1 | Resolved | Provide a copy of the internal control procedures. |
| 2-2 | Unresolved | Provide evidence to show that the duplicate and unauthorized disbursements were reimbursed. |
| 2-3 | Resolved | No additional information needed. |
| 2-4 | Resolved | Provide a copy of the internal control procedures. |
| **Finding 3:** | | |
| 3-1 | Resolved | No additional information needed. |
| 3-2 | Resolved | Provide a copy of the internal control procedures. |
| 3-3 | Resolved | No additional information needed. |

# ADDITIONAL INFORMATION NEEDED TO CLOSE RECOMMENDATIONS

| Recommendation Number and Status | | Additional Information Needed |
|---|---|---|
| **Finding 4:** | | |
| To the Commissioner of Tourism: | | |
| 4-1 | Resolved | Provide a copy of the internal control procedures. |
| 4-2 | Resolved | Provide a copy of the internal control procedures. |
| 4-3 | Resolved | Provide a copy of the internal control procedures. |
| 4-4 | Resolved | Provide a copy of the internal control procedures. |
| To the Commissioner of Finance: | | |
| 4-1 | Resolved | Provided a copy of the revised Petty Cash/Imprest Fund Rules and Regulations. |
| 4-2 | Resolved | Provided a copy of the revised Petty Cash/Imprest Fund Rules and Regulations. |
| 4-3 | Resolved | Provided a copy of the revised Petty Cash/Imprest Fund Rules and Regulations. |

# OFFICIAL REPORT DISTRIBUTION

**Government of the Virgin Islands**

Office of the Governor ..... 3

Office of the Lieutenant Governor ..... 1

Department of Tourism ..... 1

Department of Finance ..... 1

Department of Justice ..... 1

Office of Management and Budget ..... 1

28th Legislature ..... 15

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