ISSUED: February 23, 2007 AR-01-81-07

THE UNITED STATES VIRGIN ISLANDS

OFFICE OF THE VIRGIN ISLANDS INSPECTOR GENERAL

AUDIT REPORT

AUDIT OF THE OPERATIONS OF THE HOMESTEAD AND HOME LOAN PROGRAM

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

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STEVEN VAN BEVERHOUDT
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EXECUTIVE SUMMARY

The following summarizes the major findings resulting from the Audit of the Operations of the Homestead and Home Loan Program (AR-01-81-07).

Finding 1: Accounts Receivable (pages 5 to 11)

✓ Effective measures were not implemented to ensure the proper collection of delinquent accounts.

✓ Rules and regulations were not established to facilitate the collection of delinquent accounts.

✓ As of January 2006 there were 108 active loans valued at $5,061,688.

✓ There were 68 delinquent loans with delinquencies totaling $609,225.

✓ Delinquencies ranged from 4 months to 14 years.

✓ Housing did not follow the basic requirements for the processing of revenue documents as established by the Virgin Islands Government's Account Manual.

Finding 2: Loan Fund Program Administration (pages 12 to 17)

✓ Loans were not distributed in a systematic and equitable manner.

✓ Loan funds were not disbursed in accordance with the provisions of the Virgin Islands Code.

✓ There was not sufficient staff assigned to the Loan Fund program to ensure the proper segregation of duties, the integrity of the loans granted and to avoid potential conflict of interest issues.

Finding 3: Fund Management (pages 18 to 21)

✓ Funds appropriated to the Loan Fund program were not deposited into the appropriate Government account.

✓ Housing official intentionally placed a $900,000 Loan Fund appropriation into the Veteran's Fund account to prevent the Department of Finance from using the funds to reduce an outstanding deficit in the account.

✓ As of the end of Fiscal Year 2006, the Loan Fund program owed the General Fund $862,500 in funds inadvertently deposited from stamp tax revenues.

Finding 4: Record Keeping (page 22 to 23)

- ✓ Loan recipients were not required to submit all necessary loan documents.
- ✓ Housing did not complete the required loan applicant’s checklist.
- ✓ Of 47 loans sampled, one file could not be found, and the other 46 files were missing some type of required documents.

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February 23, 2007

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

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

Dear Governor de Jongh and Senator Richards:

Attached is our final report on the operations of the Homestead and Home Loan (Loan Fund) program.

Our objectives were to determine whether the Department of Housing, Parks and Recreation (Housing): (i) administered and managed the Loan Fund program in accordance with the provisions of the Code; and, (ii) accounted for Loan Fund funds in accordance with established rules and regulations. The objectives also included the identification of inadequacies in the operations of the Loan Fund program, and recommendations to address the causes of the inadequacies found.

We found that Housing failed to: (i) manage its accounts receivables; (ii) ensure that loans were distributed in a fair and equitable manner; (iii) distribute loan proceeds according to the provisions of the Code; (iv) deposit legislative appropriations into the correct account; and, (v) maintain adequate record keeping practices to justify loans granted.

We attribute these conditions to: (i) Housing's failure to establish written rules and regulations related to the granting of loans and management of receivables; (ii) limited staff assigned to the Loan Fund program that resulted in one person being responsible for all duties related to the program; and, (iii) Housing's deliberate attempt to circumvent established law related to appropriations.

As a result: (i) as of January 2006, 63% of outstanding loans were delinquent, with $609,225 in delinquent payments; (ii) the Loan Fund program was not properly managed, and several loans were granted under questionable circumstances; (iii) funds were circumvented and loans were inappropriately granted through the Veteran's Fund; and, (iv) loan records were not available for review, and loan files were incomplete.

We made several recommendations to address the conditions and causes cited in the report. Our recommendations addressed the following areas: (i) accounts receivable; (ii) program management; and (iii) record maintenance.

We received a response from the acting Commissioner of Housing, dated February 15, 2007. The acting Commissioner agreed with all of the recommendations made in the report, and indicated action plans, completion dates and individuals responsible for implementation. The response is included as an appendix to this report beginning on page 24.

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

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INTRODUCTION

BACKGROUND

In order to increase the number of land and home owners in the Virgin Islands, the Virgin Islands Legislature, in 1955, created the Homestead and Home Loan Fund (Loan Fund) under Title 21 of the Virgin Islands Code (Code). At the time, the Loan Fund was administered under the authority of the Department of Property and Procurement. However, over the years, its administration has been placed under the Department of Housing and Community Renewal in 1962, (Act No. 903) and in 1987, the Department of Housing, Parks and Recreation (Housing) (Act No 5265). Today, the Loan Fund remains under the authority of Housing.

Chapter 1, Title 21 of the Code, outlines the general provisions of the Loan Fund. The goal of the Loan Fund program is to assist qualified applicants in becoming homeowners in the Virgin Islands by providing them with loans funded by the Virgin Islands Government (Government). Section 9 of Title 21 describes the purpose and limitations of the Loan Fund, as well as, the qualification requirements of applicants. Based on the criteria outlined in this Section, loans can be disbursed from the Loan Fund for applicants to: (1) "purchase a home . . . , (2) to construct, improve, alter, repair or rehabilitate a home . . . or, (3) to purchase a plot of land on which to construct a home. . . ." Applicants can receive loans for up to $125,000. The following shows the maximum loan amounts for each type of loan.

Type of Loan	**Maximum Loan Amount**
Purchase/Construct a home	$125,000 ($110,000 for veterans)
Land on which to construct a home	$ 50,000
Home improvement	$ 40,000

In order to receive a loan from the Loan Fund, applicants must complete an application form provided by Housing. Along with a completed form, applicants must also submit plans and specifications of the house, that have been approved by the Department of Planning and Natural Resources. Housing will then review the submitted applications and decide which applicants will receive loans.

Eligibility requirements for loans state that applicants must: (1) be the head of the family and responsible for its housing; (2) own no home or family homestead to which he has a fee simple title; (3) own in fee a plot of land on which to construct his home; and, (4) be a good credit risk.

When creating the Loan Fund program, the Legislature included several provisions to ensure that veterans would receive special assistance. Section 4 of Title 21, gives veterans "first priority" access to funds. Section 14 of Title 21 gives the authority to create a separate program to assist veterans, in order to assure that veterans are given special assistance. Additionally, Section 15 authorizes Housing to acquire or designate parcels of land exclusively for sale to qualified veterans. In order to give veterans additional support, Section 4(a) allows veterans to receive loans for the purchase of land without requiring them to make a down payment for the land.

Sections 8 and 12 state that, once Housing has selected qualified applicants to receive loans, Housing must notify the Department of Finance (Finance), who is responsible for the actual disbursement of the funds. The Sections further require that after Finance disburses the funds, it becomes responsible for the collection of repayments of loans. When a loan has been repaid in full, Finance must report the collection to Housing.

Throughout the term of the loan, Housing and the loan recipient must comply with the "Homestead contracts; conveyances, terms and provisions contained in Section 7." The Section also requires that:

- Home construction begins within five years;
- A default will not be considered "material or substantial' unless payments are more than six months behind; and,
- Periodical inspections of land purchased must be conducted by Housing to ensure that the loan recipient honors the terms of the loan agreement.

OBJECTIVES, SCOPE AND METHODOLOGY

Our audit was initiated by a complaint of possible program mismanagement. The objectives of the audit were to determine whether Housing: (i) administered and managed the Loan Fund program in accordance with the provisions of the Code; and, (ii) accounted for Loan Fund funds in accordance with established rules and regulations. The objectives also included the identification of inadequacies in the operations of the Loan Fund program, and recommendations to address the causes of the inadequacies found.

The scope of the audit covered the activities in the Loan Fund program during fiscal year 1997 thru the first half of fiscal year 2006.

To accomplish our audit objectives, we interviewed officials and examined records maintained by Housing and Finance.

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

As part of our audit, we evaluated the internal controls over the accounting and management of the Loan Fund to the extent necessary to accomplish the audit objectives. Weaknesses identified during the audit are discussed in the Audit Result section of the report.

PRIOR AUDIT COVERAGE

We are unaware of any audit reports issued of the Loan Fund program within the past five years.

AUDIT RESULTS

CONCLUSIONS

We found that Housing failed to: (i) manage its accounts receivables; (ii) ensure that loans were distributed in a fair and equitable manner; (iii) distribute loan proceeds according to the provisions of the Code; (iv) deposit legislative appropriations into the correct account; and, (v) maintain adequate record keeping practices to justify loans granted.

We attribute these conditions to: (i) Housing's failure to establish written rules and regulations related to the granting of loans and management of receivables; (ii) limited staff assigned to the Loan Fund program that resulted in one person being responsible for all duties related to the program; and, (iii) Housing's deliberate attempt to circumvent established law related to appropriations.

As a result: (i) as of January 2006, 63% of outstanding loans were delinquent, with $609,225 in delinquent payments; (ii) the Loan Fund program was not properly managed, and several loans were granted under questionable circumstances; (iii) funds were circumvented and loans were inappropriately granted through the Veteran's Fund; and, (iv) loan records were not available for review, and loan files were incomplete.

We made several recommendations to address the conditions and causes cited in the report. Our recommendations addressed the following areas: (i) accounts receivable; (ii) program management; and (iii) record maintenance.

These matters are discussed in more detail in the finding sections of the report.

FINDING 1: ACCOUNTS RECEIVABLE

Officials at Housing did not implement effective measures to ensure the proper collection of delinquent accounts. Efforts to collect delinquent loan balances were minuscule at best. As of January 2006, Housing listed 108 active loans territory-wide, valued at $5,061,688. There were 68 delinquent accounts with a total delinquent balance of $609,225. These accounts were 4 months to 14 years delinquent. The delinquency rate territory-wide was 63%. In addition, Housing did not establish rules and regulations to facilitate the collection of delinquent accounts nor did they follow the basic requirements for the processing of revenue documents as established by the Government Accounting Manual (Manual).

Background

Section 310.8 of the Manual states that agencies must keep an up-to-date record of bills issued by them that are pending collection. It further states that the agency must periodically examine the file of unpaid bills to determine which are past due. As soon as a bill is past due, they are required to send a notice to the debtor asking for payment within the next ten days. If the payment is not made during the ten days allowed, they should send a second notice to the debtor requesting payment within the next five days and indicating that if the payment is not made, the debt will be transferred to the Commissioner of Finance for referral to the Attorney General for enforcement in accordance with the law. In addition, the agencies must inform the Commissioner of Finance of the names of delinquencies who are employees or creditors of the Government so that the Commissioner can stop any payment of amounts owed to them until they have settled their accounts with the Government.

The Treasury Division of Finance must write a final notice of the debtors referred as delinquents. In this notice the Treasury Division should inform the debtor that unless the payment is made within the next 10 days the case will be referred to the Attorney General.

Section 310.8 further states that the Data Processing Division of the Department will keep a central subsidiary record of bill receivables. Agencies authorized by law to make loans must keep a record of each loan granted. Each month they should notify, the Accounting Division of Finance, of the amount outstanding for each loan. The amount outstanding, but not due should be shown separately from the amount due from which bills have already been issued.

St. Thomas/St. John District

In the St. Thomas/St. John district, Housing had recorded seventy-one (71) active loans registered under the Loan Fund program as of January 2006. The loans represented $3,132,785 in funds granted. Forty-five (45) loans were delinquent, resulting in a delinquency rate for the St. Thomas/St. John district of 63%. In total, the 45 accounts represented $435,000 in delinquencies. The delinquencies were from 4 months to 14 years.

St. Croix District

Through January 2006, in the St. Croix district, Housing had recorded thirty-seven (37) active loans registered under the Loan Fund program. These loans represented $1,928,903 in funds granted. Twenty-three (23) of those loans were delinquent as of January 2006. The delinquency rate for the St. Croix district was 62%. In total, the 23 delinquent accounts represented $174,225 in delinquencies. The accounts were delinquent from 5 months to 13 years.

Loan Payment Options

The Program Administrator of the Loan Fund program indicated to us that all St. Croix loan recipients were required to have payroll deductions as a means of satisfying their loan obligations. However, this was not the case in the St. Thomas/ St. John District. In reviewing sampled loans files, we did not find this to be the true. Most St. Croix loan recipients were not required to have payroll deductions. Considering that 74% of loans reviewed were to Government employees, we expected to find that the delinquency rate on St. Croix was significantly less than that on St. Thomas/St. John. However, we found the rate to be relatively the same, 62% on St. Croix and 63% on St. Thomas/St. John. In addition, we found that 91% of the delinquencies were Government employees. If payroll deductions were required of all Government employees, the delinquency rate would have been significantly lower.

Loans

We selected forty-seven (47) accounts for detail review. Thirty-five (35) or 74% were loans granted to Government employees, and twelve (12) or 26% were loans granted to non-government employees. Of the 47 accounts, seven had already been paid off, or were paid off during the course of our audit.

The 47 loans examined represented $3,177,527 in active loans granted by Housing. Accordingly, we examined 44% of the active loans, representing 63% of the total value of the 108 active loans on file.

There were many issues concerning many of the loans selected in our sample. However, we felt that there were two situations that were considered serious enough to require them to be discussed separately. In the first instance, we found one account where a loan check valued at $125,000 was issued, however; four years later, it had not been cashed. During the course of drafting this report, we were informed by Housing officials that the check was recently found, and returned to Finance to be cancelled. In the other instance, we found where a loan was granted and the check was cashed; however, Housing had no record of the loan existing in their system nor was there any evidence that a file had ever existed. Compounding this discrepancy, is the fact that the loan was made to an official of Housing working with the Loan Fund program. These instances are discussed in more detail later in this report.

The following schedule shows the 47 loans sampled, the loan date, the original loan amount, the outstanding balance as of August 30, 2006 and the type of loan granted.

Loan Number	Loan Date	Loan Amount	Balance as of 08-30-06	Type of Loan	Loan Number	Loan Date	Loan Amount	Balance as of 08-30-06	Type of Loan
1	10-19-01	$75,000	$64,775.00	1	25	10-23-98	$75,000	$59,374.38	1
2	03-13-03	120,000	122,053.30	1	26	06-30-00	65,000	48,636.78	2
3	10-29-97	75,000	55,983.13	2	27	07-26-02	85,000	85,000.00	1
4	06-01-03	40,000	38,858.22	2	28	10-21-97	75,000	61,330.31	1
5	11-08-02	105,000	91,076.37	2	29	02-25-98	75,000	60,445.87	1
6	05-09-00	65,000	63,073.63	1	30	10-23-02	50,000	41,418.12	2
7	03-20-03	50,000	47,814.28	1	31	03-30-00	75,000	69,884.70	1
8	07-21-00	60,027	50,965.33	2	32	06-06-01	75,000	74,599.69	1
9	04-15-02	75,000	0.00	2	33	04-18-02	48,000	43,997.92	2
10	04-18-02	48,000	45,516.95	2	34	12-06-02	60,000	54,305.72	1
11	02-20-98	17,000	3,317.06	2	35	04-04-02	100,000	95,339.17	1
12	07-25-97	75,000	0.00	1	36	05-12-95	27,500	9,562.34	1
13	07-13-03	15,000	12,748.78	2	37	06-16-97	75,000	56,358.77	1
14	10-17-97	75,000	71,158.03	1	38	09-04-97	74,500	64,473.78	1
15	10-18-01	75,000	68,126.31	1	39	03-11-03	125,000	117,521.34	1
16	05-30-02	69,500	65,228.33	1	40	02-28-98	75,000	68,794.90	2
17	06-10-03	25,000	0.00	2	41	08-12-03	33,000	28,945.75	2
18	06-12-97	75,000	75,000	N/A	42	04-10-02	120,000	0.00	1
19	12-02-97	75,000	57,282.64	1	43	07-10-02	75,000	0.00	2
20	09-16-97	10,000	0.00	2	44	12-11-97	75,000	61,939.69	1
21	N/A	125,000	0.00	1	45	12-02-97	45,000	44,958.69	2
22	12-04-97	75,000	58,057.90	1	46	05-10-01	75,000	69,350.78	2
23	08-30-00	55,000	46,454.48	2	47	08-07-02	75,000	72,390.84	1
24	11-07-97	40,000	38,366.47	2					
					TOTAL		**$3,177,527**	**$2,364,485.75**	
Type of Loan : 1 - New Construction/Home Purchase									
2 - Home Improvement/Home Completion									

Delinquent Loans

Our detailed review of the 47 loans sampled indicated that 22 or 47% of the loans were delinquent as of January 2006. Only 5 of the 22 were sent delinquency notices. Based on the provisions of the Code, 20 of the 22 delinquent loans should have been classified as seriously delinquent. Title 21, Section 7 of the Code states that Housing will not consider a default to be "material or substantial" unless payments are more than six months late.

As of January 2006, these 22 loans represented $272,814 in delinquencies. The delinquencies ranged from $1,824 to $55,344. The delinquency period ranged from 5 months to 103 months (over 8 years). In none of the samples reviewed did we find evidence to show that attempts were made by Housing to collect the delinquencies or report the delinquencies to Finance or Justice for appropriate action. The following schedule details the 22 delinquencies found in our sample.

Item Number	Loan Amount	Loan Date	Monthly Payment	Months Delinquent	Amount Delinquent
1	$75,000	06-12-1997	$537.33	103	$55,344
2	75,000	06-06-2001	537.33	51	27,404
3	75,000	02-28-1998	537.33	49	26,329
4	45,000	12-02-1997	322.40	61	19,666
5	40,000	11-07-1997	286.58	62	17,768
6	85,000	07-26-2002	515.08	42	21,633
7	75.000	10-17-1997	537.33	31	16,657
8	75,000	06-06-2001	537.33	30	16,120
9	75,000	05-10-2001	537.33	21	11,284
10	40,000	06-01-2003	405.00	22	8,910
11	75,000	08-07-2002	537.33	16	8,597
12	100,000	04-04-2002	606.00	10	6,060
13	74,500	09-04-1997	537.33	11	5,911
14	75,000	10-18-2001	537.33	9	4,836
15	75,000	10-18-2001	537.33	9	4,836
16	48,000	04-18-2002	278.78	16	4,461
17	48,000	04-18-2002	278.78	13	3,624
18	27,500	06-09-1999	272.57	12	3,271
19	60,000	12-06-2002	364.00	8	2,912
20	75,000	12-11-1997	537.33	5	2,687
21	33,000	08-12-2003	335.00	8	2,680
22	25,000	07-13-2003	405.00	5	1,824
Total					**$272,814**

Example 1. As of January 2006, a loan obtained in June 1997 was now delinquent for 103 months. This loan was granted to an official of Housing working with the Loan Fund program. This loan is addressed as Example 1 in the section entitled Accounting for Loans under this finding of the report. Due to the fact that no loan documents existed at Housing for review, we made some assumptions concerning the interest rate and the loan period, in an effort to address the monthly required payments. As a result, we assumed that the $75,000 loan was issued at 6% for 20 years with monthly payments of $537.33.

Example 2. As of January 2006, a loan granted in June 2001 was now delinquent for 51 months in the amount of $27,404. This loan was granted for $75,000 at 6% interest for 20 years with payments of $537.33 per month. The loan was to be used as a partial payment towards the purchase of a home that cost $137,000. The purchase, however, never occurred. The borrowers could not secure the additional financing to make the purchase. In June 2001, Housing officials gave the borrowers four checks of $18,750 each ($75,000 total) without preparing loan closing documents, securing collateral for the funds given, or knowing the source of the additional funds needed for the purchase. When interviewed, one of the borrowers indicated to us that the home was never purchased because the additional funds could not be obtained. It was further stated that the funds were used to liquidate other financial obligations at the time. One of the borrowers was a Government employee, and should have been required to make the monthly payments through payroll deductions. If Housing had in place a policy to require payroll deductions from Government employees, at a minimum, the account might have been current.

Example 3. A loan granted in September 1997 was now delinquent for 49 months in the amount of $26,329. This loan was granted for $75,000 at 6% interest for 20 years with payments of $537.33 per month. Based on our review of this individual's file, we noted several issues. According to the Program Administrator of the Loan Fund program, Housing uses a rule of 2.5 times an applicant's salary to determine the maximum amount of funds the applicant is eligible to receive. In this case, this applicant's income verification form did not support the gross monthly income indicated on the application. The income verification form indicated a lower salary. Although the application indicated a higher annual salary, the verified salary did not support Housing's eligibility requirement to received a $75,000 loan. Based on the Housing requirements the applicant was eligible for a maximum loan of $43,220. This applicant made the loan payments for the first 4 years of the loan, however, has failed to make the payments since.

Example 4. As of January 2006, a loan approved in September of 1997 was now delinquent for 61 months in the amount of $19,666. This loan was granted for $45,000 at 6% interest for 20 years with payments of $322.40 per month. This was a joint application with both applicants being employed by the Government. If Housing had a policy in place to require government employees to sign up for payroll deduction, maybe this situation would not have occurred.

Example 5. A loan granted in November 1997 was, as of January 2006, delinquent for 62 months in the amount of $17,768. This loan was granted for $40,000 at 6% interest for 20 years with payments of $286.58 per month. The borrower was a Government employee. If Housing had a policy in place to require government employees to sign up for payroll deduction, maybe this situation would not have occurred.

Accounting for Loans

Currently, Finance's responsibility for the Loan Fund program only involves the issuing of loan checks. Housing maintains all payment records and files for loan recipients. Once a loan has been deemed as paid in full, Housing notifies Finance. In the late 1980's, Housing, on a monthly basis, reported to Finance the payment status on each account. Finance maintained a subsidiary leger on each receivable. Finance officials indicated that upon the retirement of the Manager of Business and Financial Affairs at Housing, Finance's abolishment of the Accounts Receivable Section, and the merger of the Revenue Audit and Reconcilement sections of Finance, the reporting ceased. Housing became the only source holding the payment history on each account. As a result, this eliminated any checks and balances between the records maintained by Finance and Housing.

Example 1. Finance records indicate that in 1997 a $75,000 loan existed with a Housing official, however, we could not locate the loan file at Housing. This official, until recently, had been managing the Loan Fund program. Upon further examination, we found that the check was issued and cashed. With no file existing for review within Housing, we contacted Finance to determine if this individual was making payment through payroll deduction. Finance officials indicated to us that this individual had never had payroll deductions made. Accordingly, no records of a loan to this individual exist at Housing, nor are there any records at Finance to indicate that payments were made on the loan. The Housing official has recently died, and based on our insistence, Housing has requested that Justice file a claim against the individual's estate. On August 7, 2006, Housing wrote to the Department of Justice, and on August 10, 2006 the Attorney General responded by indicating that the matter has been assigned for appropriate action.

Example 2. Based on Finance's records, we identified a $125,000 check that was issued in 2002, but it never cleared the bank. Housing did not know what happened to the check. As previously indicated, the check was not cashed and there was no record that the check had been returned to Finance. Officials at Finance indicated to us that a Housing employee took the check from Finance. This employee indicated to us that the check would have been placed in the safe until the Program Administrator removed it. During the course of the audit fieldwork, no one at Housing knew what happened to the check. Housing officials indicated that the check was not in the safe, and no one could tell us if the check was ever issued to the loan recipient. During the course of drafting this report, Housing officials indicated that the check was located in an unrelated file. It was further indicated to us that the check had been subsequently returned to Finance for cancellation.

Accounting for Receivables

In addition to not having a system and procedures for accounting of receivables, Housing did not follow established rules and regulations as outlined in the Manual that require loan granting agencies to inform Finance on a monthly basis the amount outstanding of each receivable.

Finance officials indicated that Housing followed the procedures of notification in late 1980's. However, upon the retirement of the then Manager of Business and Financial Affairs at Housing, the phase out of the Accounts Receivable Section and the consolidation of the Revenue Audit and Reconcilement Sections at Finance, the reporting of those receivables ceased.

The Manual requires that debts considered delinquent be reported to Finance for further collection efforts. We asked the Program Administrator at Housing for the status of delinquencies and foreclosures referred to Finance and the Department of Justice. We were not provided with any information.

Recommendations

We recommend that the Acting Commissioner of Housing:

1. Computerize the Loan Program.

2. Reconcile the home loan accounts and issue delinquent notices to all applicable borrowers.

3. Establish a procedure for collecting receivables.

4. Forward, through Finance, accounts deemed uncollectible to Justice for legal determination.

5. On a monthly basis notify Finance on the status of each loan amount outstanding.

6. Request assistance from Justice to determine if Housing can require that all existing loans be converted to payroll deductions.

7. Require payroll deductions as a condition in granting loans through the Loan Fund program.

Department of Housing, Parks and Recreation's Response

The Acting Commissioner of Housing, in his February 15, 2007 response, indicated concurrence with all of the recommendations made in this section of the report.

In response to the first recommendation, the Acting Commissioner stated that the Loan Fund program was computerized in October of 2006. Regarding the second recommendation, he indicated that the loan accounts have been reconciled, and notices were sent to borrowers to verify the account balances. It was further stated, as a reply to the third recommendation, that the current procedure for the collection of receivables is being reviewed and improvements will be made if necessary. In response to the fourth recommendation, it was indicated that by April 20, 2007, outstanding uncollectible accounts would be referred to Justice for legal action. Regarding the recommendation that Finance be issued monthly reports on the status of outstanding loans, the Acting Commissioner stated that a procedure to re-establish the process will be discussed and initiated with Finance. In response to the sixth recommendation, it was stated that Justice will be contacted to determine the legality of converting existing loans to payroll deductions. Finally, as a response to the seventh recommendation, the Acting Commissioner stated that effective immediately, payroll deductions will be required for all Government employee loans.

Office of the Virgin Islands Inspector General's Comments

Based on the responses to the recommendations made in this section of the report, we consider them fully resolved.

FINDING 2: LOAN FUND PROGRAM ADMINISTRATION

Housing did not ensure that loans were distributed in a systematic and equitable manner. Some loans were not disbursed in accordance with the provisions of the Code. In addition, Housing officials did not ensure that there was adequate staffing to achieve a proper segregation of duties to ensure the integrity of loans granted and to avoid conflict of interest issues.

Background

Although the Code does not address the priority for construction and home improvement loans, the Program Administrator of the Loan Fund program indicated that loans are granted on a first come first serve basis.

Title 21, Section 10 of the Code states that after a loan has been approved by the Commissioner of Housing, the monies should be advanced to the borrower in four equal installments at intervals during the construction process as determined by the Commissioner.

In addition, good internal controls require the proper segregation of duties. Segregation of duties is used to ensure that errors or irregularities are prevented or detected on a timely basis by employees. It makes fraud more difficult because many fraudulent activities require collusion between two or more persons. It also ensures that innocent errors will more likely be found. In short, segregation of duties requires that no single individual have control over two or more phases of a transaction or operation. Management should assign responsibilities to ensure that there is a cross-check of responsibilities.

Loan Applications

Officials at Housing did not have a system in place to ensure that loans were granted in a systematic and equitable manner. The Program Administrator stated that it was the policy at Housing to grant loans on a first come first serve basis. However, we did not find evidence to show that Housing had a system in place to ensure that this was the case. We found numerous instances where loans were granted out of sequence.

When an application was submitted to Housing, they did not assign a numbering system, nor maintain a log or any other form of notation to identify the time and date the application was accepted. Additionally, Housing did not establish any other form of identification to the applications to indicate which application had priority over the other due to the date of entry in the system, qualification status, or readiness. As a result, Housing could not ensure that loans were granted on a first come first serve basis. Housing officials acknowledged that they could not ensure that persons were approved for loans in the order that the application was received.

The Program Administrator stated that in some cases although an application was received before another, the previous application may have been incomplete. In the case of an incomplete application, officials were required to notify the applicant that the application was incomplete and the information that was needed to complete the application. Officials could not tell us how many applicants were awaiting approval.

Timing of Loan Approval

As a part of our audit, we looked at loan applications submitted and/or loans granted at various times during our audit period. We observed that in some instances, loans were approved in seven (7) days, while others took as much as two and a half (2 ½) years to be approved.

For example, we noted that two loans whose applications were submitted on August 27 and September 17, 1997 were approved and processed before a loan whose application was submitted on June 10, 1995. The 1995 loan application was not approved until November of 1997, two months after the previous two1997 applicants were approved and processed. There was no information in the file to explain why this loan took so long to be processed.

In another instance, we found that a loan application dated May 31, 2000 was approved on June 23, 2000, 23 days later, while another loan submitted three years earlier on September 25, 1997 was not approved until October, 2, 2000, three months after the previous loan mentioned. Again, no reason was given why there was a delay in processing the 1997 loan application.

Finally, we found where a loan dated August 21, 2002 was approved on August 29, 2002, eight days later. However, two other loans submitted in 1999 were not approved and processed until 2 years and nine months later. Like the other examples cited above, there was no information in the files showing why the disparity in approving the loan applications reviewed.

The following schedule shows the eight loan applications reviewed and the time that it took for the final approval of the applications.

Item Number	Application Date	Date Approved	Approval Lapse Time	Loan Amount
1	06-10-1995	11-12-1997	2 years/5 months	$75,000
2	08-27-1997	09-03-1997	7 days	$75,000
3	09-17-1997	09-29-1997	12 days	$75,000
4	09-25-1997	10-02-2000	3 years	$75,000
5	05-31-2000	06-23-2000	23 days	$55,000
6	02-27-2002	11-25-2004	2 years/9 months	$85,000
7	04-12-2002	07-02-2003	1 year/2 months	$33,000
8	08-21-2002	08-29-2002	8 days	$105,000

Lump Sum Payments

Housing did not always follow the provisions of the Code in disbursing loan funds to loan recipients. We found three loans where funds were disbursed before the closing date. In at least two other instances, we found where funds were disbursed in three or two installments rather than the required four. Finally, we found several situations where the timing between loan disbursements was questionable.

Title 21, Section 19 of the Code states that after a loan has been approved by the Commissioner of Housing, the funds are to be advanced to the borrower in four equal installments at intervals during the construction process as determined by the Commissioner of Housing.

A $75,000 loan granted to a Government official showed that the loan's closing date was April 15, 2002. However, three installment payments had already been disbursed before the closing date. We did find that a truth in lending statement was signed on March 8, 2002, the date that the first installment was paid. The Loan for $75,000 was to be disbursed in four equal installments of $18,750. The first installment was paid 38 days prior to closing on March 8, 2002. The second installment was paid 11 days prior to closing on April 4, 2002. The third installment was disbursed on April 12, 2002, three days prior to the closing.

Another loan whose closing date was held on October 4, 2002 had already received three installment payments. In this case, the first two installments were disbursed on the same day August 28, 2002, thirty-six days prior to closing. The third installment was disbursed on September 27, 2002, seven days prior to closing.

Finally, a loan whose closing was held on November 6, 1997 already had received two installment payments. On October 10, 1997 both installment payments were paid. These payments were made 25 days prior to the closing date.

We also found an instance where a loan for $125,000 was paid in two instead of four installment payments. The first check was issued for $16,925.56, and the second was for $108,074.44. We noted that the first check was paid out on February 19, 2003, 20 days prior to the closing date. We did not find any documentation within the file to indicate when the second installment was paid. However, it is common practice for an installment payment to be received on the date of closing, which in this case was March 11, 2003.

Additionally, we found other instances where two or three installment payments were issued on the same day. However, there was no documentation in the files to indicate the reasons for the departure from the requirements of the Code. One loan recipient received the third and fourth installments on the same date. Another loan recipient received the second, third, and fourth installments on the same day.

Finally in some instances, we question the amount of time between some installment payments. There were no documents in the files to indicate why in one instance there was only a three-day turn around before the next installment was granted. There were other instances where the time span between installment payments was as few as thirteen days. With the average installment payment of $18,750 it is questionable that work would have been completed and inspections made within a three-day or even a thirteen-day period.

Employee Loans

At the time of our audit, there were fourteen current and former Housing employees with outstanding loans. The total value of the loans was $626,753. As of August 30, 2006, seven of the loans were delinquent from 4 months to 9 years. The delinquencies totaled $77,390. Of the fourteen employees, three were making payments through payroll deduction.

Overall the employee loans appeared to have been granted within the criteria established for the Loan Fund program. However, we found four notable exceptions with the granting of loans to Housing employees. The first exception, was the issuance of a loan to the employee who managed the Loan Fund program. There was no record of the loan at Housing, nor any record of payments for the nine years since the issuance of the loan funds. The situation is discussed in detail as Example 1 in the section entitled Accounting for Loans in the first finding of this report.

The second exception, was the granting of a loan to an employee to refinance an existing mortgage. Refinancing of mortgages is not permitted under the Loan Fund program. This situation is discussed in detail in the third finding of this report.

The third exception dealt with Housing declaring that a mortgage was satisfied in a document dated May 26, 2004, thereby releasing the lean that Housing had against the property. However, upon examination, we noted that as of August 2006 payments were still being made against this loan. It was noted that the home for which the lean was placed was sold on April 14, 2004. It is our opinion, that the Housing lean was removed in an effort to allow the employee to sell the home. However, why the loan was not required to be paid off as indicated in documents filed with the Lt. Governors Office is unknown.

The final exception involved a Housing employee who, in December 2000, had obtained a $40,000 first priority mortgage from the Moderate Income Fund, a special program managed by Housing. Monthly payments were set at $350. In September 2001, the employee obtained a second first priority mortgage from the Loan Fund program for $65,000, to make repairs to the property. Monthly payments were to be set at $465.68. Initially, Housing officials could not determine whether the first loan had been liquidated or if it was still outstanding. Based on records obtained from Finance, we were able to determine that $28,000 of the second loan was used to liquidate the first loan. However, the borrower’s monthly payments did not increase from the $350 amount required from the first loan to the $465.68 that was required by the second loan.

Internal Controls

Housing did not assign sufficient employees to the Loan Fund program to ensure that there were internal controls to: (i) protect the integrity of loans granted; and, (ii) avoid conflict of interest issues. Due to a staffing shortage, there was no segregation of duties. There was only one employee responsible for the daily operations of the Loan Fund program. These responsibilities included, among others: (i) evaluating the applications for approval; (ii) preparing required loan documents; (iii) conducting closings of loans granted; (iv) maintaining custody of loan files; (v) reconciling loan accounts; (vi) issuing delinquency notices; and, (vii) recommending loans for further collection efforts by Justice.

Many of the defects cited in this report are the direct result of Housing's failure to develop and implement an effective internal control system and to have sufficient staff assigned to perform the various responsibilities of the Loan Fund program.

Recommendations

We recommend that the Acting Commissioner of Housing:

1. Implement a system to identify loan applications to ensure that loans are addressed on a first come first serve basis and to document the reasons for any delays in processing loan applications.

2. Consult with the other Government entities who provide home loans, like the V. I. Housing Finance Authority and the Government Employees Retirement System, to obtain information on how loan applications are handled.

3. Follow the requirement of the Code as it relates to loan distribution payments. In those cases where the requirements are not followed, the reasons for the departure should be documented.

4.Install a system of internal controls to achieve at a minimum proper segregation of duties to ensure that instances of errors and fraudulent activities are detected on a timely basis.

5. Properly staff the Loan Fund program in an effort to ensure that the program can operate in an efficient and effective manner.

Department of Housing, Parks and Recreation's Response

The Acting Commissioner indicated, in response to the first recommendation, that a computer based application process will be implemented. Regarding the second recommendation, other Government entities have been consulted relative to their handling of their loan application process. In response to the third recommendation, it was stated that the provisions of the Code will be followed, and a new operating procedure will be drafted and implemented. Finally, regarding the fourth and fifth recommendations, the Acting Commissioner indicated that adequate staffing will address the deficiencies that resulted in the recommendations. A request for additional staff will be included in the Fiscal Year 2008 budget submission.

Office of the Virgin Islands Inspector General's Comments

The responses are sufficient for us to consider them resolved. In order for us to fully close the third recommendation, we request that a copy of the operating procedure be provided once it is issued.

FINDING 3: FUND MANAGEMENT

Officials at Housing did not ensure that funds appropriated to the Loan Fund program were deposited into the appropriate Government account. In addition, Housing, through the Loan Fund program, owed $862,500 to the General Fund for monies inadvertently deposited into the account from stamp tax revenues and subsequently used by the Loan Fund program.

Background

On August 14, 1999, Act No. 6287 became law requiring that 100% of stamp tax proceeds be deposited into the General Fund. As a result, funds were no longer to be deposited into the Loan Fund. Finance, however, continued to make deposits into the Loan Fund. The Commissioner of Finance notified Housing of this error on May 20, 2004. As a result, an internal reconciliation of the Fund was conducted to determine the extent of those funds erroneously deposits into the Loan Fund. The Commissioner of Finance indicated to the Commissioner of Housing that appropriations into the Loan Fund would have to be used to reduce the negative balance caused by erroneous deposits. The Commissioner of Finance also suggested that no new obligations be placed against the Loan Fund.

On May 7, 2004, the Legislature, by Act No. 6675, Section 20, appropriated $900,000 from the General Fund into the Loan Fund to be used by the Loan Fund program. However, on November 17, 2004 Housing officials prepared a statement of remittance and deposit those funds into the Veteran's Housing Fund (Veteran's Fund). The Veteran's Fund was created to assist veterans to purchase land, homes, construct, improve, alter, repair and refinance a home mortgage loan in the event of foreclosure action.

Misappropriated Funds

Officials at Housing did not ensure that the $900,000 appropriated by Act 6675 was deposited into the Loan Fund account. Instead, Housing officials intentionally deposited the $900,000 appropriation into the Veteran's Fund in an attempt to circumvent Finance's attempts to offset over-obligations in the Loan Fund program account.

Once the $900,000 was deposited into the Veteran's Fund, officials at Housing processed three loans to non-veterans. The Housing officials treated the three loans as if they were veteran loans, citing the criteria for the Veteran's Fund as if the three individuals were eligible veterans.

One of the loans was made to a Housing employee, and was used to refinance an existing home loan, a provision for which the Loan Fund program was not designed to accommodate. Another loan was granted to an individual, who, officials at Housing were concerned, did not qualify for enough funds to complete the home. The third individual loan was for $125,000, although the Veterans Fund's legal limit is $110,000.

Veteran's Fund Deposit

On May 20, 2003, the Commissioner of Finance notified the Commissioner of Housing that the Loan Fund would have to be reduced because Finance failed to implement Act No. 6287, which amended Title 33, Section 120 of the Code. The Act, which became law in 1999, eliminated the transfer of 10% of the monies earned from stamp tax revenues to the Loan Fund. As a result, those funds transferred to the Loan Fund subsequent to the amendment would have to be returned. The Commissioner of Finance indicated that once the adjustment was made, the new balance in the Fund would be made known to Housing. However, until such time the Commissioner of Finance suggested that the Commissioner of Housing not incur new obligations against the Loan Fund.

In a January 3, 2005, letter, the Commissioner of Finance wrote to the Commissioner of Housing raising concerns about the illegal deposit into the Veteran's Fund. The letter made it clear that the Commissioner of Finance believed that the funds were deliberately deposited into the wrong account to circumvent the payment of funds that the Loan Fund owed to the General Fund.

Loans Issued

Housing officials knew that they were circumventing Finance's requirements in their attempt to loan funds from the over-obligated Loan Fund. We found that the three individuals who received the loans from the Veteran's Fund were not veterans. The three loan applications indicated that the individuals requested loans under the Loan Fund program. However, all of the disbursement vouchers prepared for payment indicated that Housing officials requested the payments from the Veteran's Fund in accordance with the provisions of Title 21, Section 16 of the Code, which governs the Veteran's Loan program. In addition, a current list of individuals with loans under the Loan Fund program includes the three individuals as having loans under the Loan Fund program.

One of the loan recipients, is an employee with Housing, and is the person who participated in the preparation of the initial deposit of the appropriated funds into the wrong account. This individual indicated to an official at Finance that the Commissioner of Housing authorized the deposit into the Veteran's Fund. The employee received a $66,000 loan from the erroneous deposit. In addition, we found that the loan was actually to refinance a previous mortgage secured by another government agency. The Loan Fund program does not provide for refinancing of existing home mortgages. The loans are specifically designed for land purchases, new construction, or home improvements.

This employee's initial application dated October 28, 2002 indicated that it was for the purchase of a home. In the loan approval letter, dated two years later, on October 20, 2004, it was indicated that the loan was approved to "assist in the improvement of your home." Records reviewed by us showed that the US Department of Agriculture, Rural Development (Rural Development) entered into a mortgage with this applicant in April 1989. Based on a further review of the file, it is our opinion that officials at Housing were aware that the ultimate intent of this loan was to refinance the Rural Development mortgage. Housing officials, in an undated letter, wrote to Rural Development requesting a payoff amount as of January 15, 2005. The payoff amount was $64,402.74.

Another non-veteran recipient received $42,500. This applicant on March 7, 2002 applied for $75,000 for a new construction loan. The loan was subsequently approved for $42,500. This amount was indicated in an unsigned, undated letter of approval found in the file. The $42,500 was paid in December 2004. Upon further examination of this file, it was noted that in December of 2002 officials tried to contact the applicant because there was a question as to the ability to complete the home because of the amount requested and the cost of construction indicated. Again on August 24, 2004, the applicant responded to a request by the Program Administrator of the Loan Fund program to submit an estimate on the construction cost of the home. The applicant submitted an estimate done on March 5, 2002, which was more than two years old, that indicated a total cost of $84,353. The applicant indicated that the estimate was based on a request by Housing officials after a site visit made in February of 2002.

Although Housing officials were concerned about the ability of the loan applicant to complete the construction, nothing in the file indicates that an answer was ever obtained, however the $42,500 was disbursed. Additionally, although this was a concern in December of 2002, the Program Administrator of the Loan Fund program, in 2004, accepted a two-year-old estimate without requesting a new estimate to account for the cost of inflation. Finally, although the $42,500 was paid, to date there are no records in the file to indicate that Housing performed a site inspection to determine if the funds were used for the intended purpose.

The third non-veteran loan recipient received $125,000. This loan was originally requested under the Loan Fund program on February 20, 2001. Although, $125,000 was paid out of the Veteran's Loan Fund, the maximum amount for veteran's loans is $110,000.

General Fund Reimbursement

Housing has not reimbursed the General Fund $862,500 owed due to erroneously deposited stamp tax revenues into the Loan Fund. As of August 2006, Finance and Housing have not arrived at an agreement to address how Housing will meet the repayment obligation. In the interim, Finance has asked Housing not to obligate any monies against the Fund until an agreement can be reached between the two departments.

On May 20, 2004, the Commissioner of Finance wrote to the Commissioner of Housing indicating that appropriations into the Loan Fund will have to be used to reduce the negative balance caused by erroneous deposits into the Fund. The Commissioner of Finance also suggested to the Commissioner of Housing that no new obligations be placed against the Fund.

On June 7, 2004, the Commissioner of Finance again wrote to the Commissioner of Housing rejecting a request that a $1 million budget be established for the Loan Fund. Finance indicated that there were two reasons for the rejection. The first reason was that the fund only contained $602,415. Secondly the obligation to return to the General Fund the stamp tax revenues that had been erroneously deposited had not been satisfied. On January 14, 2005, Housing wrote to Finance acknowledging that the Loan Fund owed about $1.3 million to the General Fund, and requested that Housing be allowed to pay this sum back in yearly installments of $350,000 until the amount was liquidated. On March 14, 2005, Finance responded by requesting further information before accepting Housing's offer for repayment. Housing was required to submit: (i) a schedule of the anticipated monthly revenues to the Loan Fund; (ii) the source from which the revenues will be derived by account; and, (iii) an amount or amounts to be paid up to $350,000 annually by the specific date during each year until paid in full. As of August 2006, Housing had not submitted the requested information. As a result, no agreement had been reached, and no new obligations were being made against the Loan Fund. Housing officials indicated to us that they are trying to computerize the loan system first in an effort to meet Finance's requirements. In the absence of an agreement with Housing, Finance officials have reimbursed the General Fund some of the monies owed. However, as of the end of Fiscal Year 2006, Housing was left with an outstanding balance of $862,500.

Recommendations

We recommend that the Acting Commissioner of Housing:

1. Return the monies deposited into the Veteran's Fund to the Loan Fund.

2. Reconcile any difference between the Veteran's Fund and the Loan Fund due to the inappropriate deposit into the Veteran's Fund.

3. Negotiate an agreement with Finance in an effort to reimburse the General Fund for the erroneous stamp tax deposits made.

Department of Housing, Parks and Recreation's Response

The Acting Commissioner indicated that an internal investigation is being conducted to determine what must be done to prevent future appropriations from being recorded in the wrong Fund. Based on the results of the investigation, a determination will be made whether the situation indicated in the report should be reported to the Virgin Islands Attorney General. In addition, once the investigation is completed, the necessary adjustments will be made to correct the various account balances. Finally, an agreement was negotiated with Finance to reimburse to the General Fund the $862,500 in stamp taxes that was erroneously deposited into the Loan Fund.

Office of the Virgin Islands Inspector General's Comments

We consider the recommendations resolved. However, in order to close the three recommendations made in this section of the report, we request that a copy of the investigative report be submitted once it is completed. In addition, we request that a copy of the negotiated agreement with Finance be provided.

FINDING 4: RECORD KEEPING

Housing did not ensure that all required documents were submitted by loan applicants and recipients. Upon examination of 47 files selected for detail review, we noted that some pertinent documents required in the loan application process were not located within the files. In addition, officials did not ensure that the applicant's checklist, which shows the required documents, was completed.

Background

Housing's eligibility requirements as established, requires that applicants submit certain documents in order to be approved for a loan. As a means to keep tract of the applicant's submissions, Housing has devised an applicant's checklist that is kept in each file. This checklist has 20 documents required in order to satisfy the loan requirements. The checklist is a means for Housing personnel to ensure that all required documents were submitted to meet the approval process. Those required documents include: (i) the application; (ii) employment and income verification, mailed by the applicant's employer; (iii) certified copies of the last three years income tax returns; (iv) a credit report mailed by a credit bureau; (v) copies of the applicant's last two check stubs; (vi) a copy of Form DD214 (if a veteran); (vii) credit references from three institutions or people with whom the applicant had done business in support of a good credit rating; (viii) a Title and Encumbrance Certificate from the Recorder of Deeds for all property owned or to be purchase; (ix) a bank refusal notice (if applicable); (x) an itemized estimate of construction costs from a licensed contractor, a copy of the license must be submitted; (xi) plans approved by the Department of Planning and Natural Resources for new construction, major improvements or repairs; (xii) a property survey; (xiii) an appraisal from a certified appraiser and a boundary survey done by a certified surveyor; (xiv) a copy of the seller's agreement whether it is for a plot of land or the purchase of home; (xv) a site inspection; (xvi) title insurance; (xvii) builders risk or home insurance; (xviii) an executed truth-in-lending statement and request for waiver (if applicable); (xix) the applicant's identifications; and, (xx) the deed for the property.

Missing Documents

We used the 47 sampled loans identified in our first finding to verify that the required documents were maintained in the respective loan files. The table below show the results of this review. All of the files reviewed were missing some types of documentation. As noted in the first finding, one file could not even be located.

Description	Number of Applicable Files	Number of Files Missing Items	Percentage Of Missing Items
Entire File	47	1	2%
Gross Income	47	2	4%
Certified Appraisal	47	20	43%
Boundary Survey	47	26	55%
Title & Encumbrance Certificate	47	17	36%
Two (2) Credit Reference	47	25	53%
Credit Report	47	7	15%
Two (2) Pay Stubs	47	9	19%
Seller's Agreement or Warranty Deed	47	17	36%
Income Verification from Employer	41	13	32%
Itemized Estimate from Licensed Contractor	39	33	85%
Plans Approved By Planning	39	27	70%
Three (3) years Tax Returns (self employed)	5	2	40%

Recommendations

We recommend that the Acting Commissioner of Housing:

1. Ensure that all required documents necessary for the approval of a loan be submitted, properly secured and maintained by Housing.

2. Ensure that Housing officials responsible for maintaining loan files, utilize the checklist developed by Housing to document the loan process.

Department of Housing, Parks and Recreation's Response

Housing will draft and institute a new procedure outlining all of the required documents needed for the processing of a loan application. In addition, as part of the procedure, the loan application checklist will be an integral part of the loan file.

Office of the Virgin Islands Inspector General's Comments

We consider the recommendations resolved, however, we request that a copy of the new procedure be provided once it is issued.

DEPARTMENT OF HOUSING, PARKS AND RECREATION'S RESPONSE

GOVERNMENT OF
THE VIRGIN ISLANDS OF THE UNITED STATES

DEPARTMENT OF HOUSING, PARKS & RECREATION
L.B.J. Gardens
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February 15, 2007

Steven Van Beverhoudt
Virgin Islands Inspector General
Office of the Virgin Islands Inspector General
Government of the Virgin Islands
3215 Kronprindsens Gade #75
Charlotte Amalie, St. Thomas 00802-6468

Dear Inspector General Beverhoudt:

Attached for your review and consideration are the responses to the recommendations outlined in your draft report of the audit conducted on the operations of the Homestead and Home Loan (Loan Fund) Program of the Department of Housing, Parks and Recreation issued January 29, 2007.

Should you or your staff require any additional information or have any question, please do not hesitate to call me at 773-0160 or 774-0255.

Your assistance and cooperation are very much appreciated.

Sincerely,

St. Claire N. Williams
Acting Commissioner

Improving the Quality of Life

APPENDIX I

DEPARTMENT OF HOUSING, PARKS AND RECREATION'S RESPONSE

GOVERNMENT OF
THE VIRGIN ISLANDS OF THE UNITED STATES

DEPARTMENT OF HOUSING, PARKS & RECREATION
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RESPONSE TO RECOMMENDATIONS OF THE AUDIT REPORT ON THE DHP&R HOMESTEAD AND HOME LOAN PROGRAM ISSUED JANUARY 29, 2007

FINDING 1: ACCOUNTS RECEIVABLE

1. We concur with the recommendation that the Loan Program be computerized which was completed and implemented on October 1, 2006. Lender Support Systems, Inc. (LSSI) a well known mortgage software company, assisted the Department of Housing, Parks and Recreation (DHP&R) with the conversion of the old loan manual system to computerized loan documents.

   The new computerization will allow the Department of Housing, Parks and Recreation to issue monthly statements, delinquent reports, letters of late payments and a monthly manager report that identify all aspects of the loan portfolio. Lender Support Systems Inc. (LSSI) is the same mortgage software provider for both the Virgin Islands Housing Finance Authority and the Government Employees Retirement System.

   Person Responsible: Assistant to the Commissioner
   Date Implemented: October 1, 2006

2. We concur: Reconciling of the home loan account has been accomplished as of October 1, 2006. Additionally, delinquent notices where sent out to all applicable borrowers. These notices advised the borrowers that if the current monthly computer statements did not correspond with their records that they should set an appointment to rectify any discrepancies. The notices also allowed for a 30-day window before further legal action would take place.

   Person Responsible: Administrative Officer III
   Date Implemented: October 1, 2006

Improving the Quality of Life

DEPARTMENT OF HOUSING, PARKS AND RECREATION'S RESPONSE

3. A procedure for the collection of receivables has been in place which consists of sending out notices to delinquent borrowers on a monthly basis. The present collection procedure is being reviewed by staff to make recommendations to improve and expand the collection process where necessary.

   Person Responsible: Administrative Officer III
   Implementation Date: April 2, 2007

4. We concur with the recommendation to forward, through the Department of Finance, accounts deemed uncollectible to the Department of Justice for legal determination. Once all reasonable collection efforts have been made, within sixty days those accounts deemed uncollectible will be forwarded to the Department of Justice for legal action.

   Person Responsible: Administrative Officer III
   Implementation Date: April 20, 2007

5. We concur: The computerization of the Home Loan Program allows the Department to generate monthly statements on each borrower to which monthly notices are issued. The information regarding the status of each loan amount outstanding can also be generated for the Department of Finance. However, discussion would have to be initiated with the Department of Finance to determine a procedure to re-establish the reporting of the payment status of each account. The Acting Commissioner of the Department of Housing, Parks and Recreation will initiate discussion with the Department of Finance within thirty (30) days.

   Person Responsible: Acting Commissioner
   Implementation Date: March 23, 2007

6. We concur with the recommendation and the Acting Commissioner will request from the Department of Justice (within thirty (30) days) an opinion as to whether all existing loans can be required to be converted to payroll deduction.

   Person Responsible: Acting Commissioner
   Implementation Date: March 23, 2007

7. We concur and will implement as part of an overall pre-condition to the approval of a loan, all loan applicants who are government employees be required to submit to payroll deductions. This new policy will go into effect on all new loans, effective immediately.

   Person Responsible: Administrator Officer III
   Implementation Date: February 15, 2007

DEPARTMENT OF HOUSING, PARKS AND RECREATION'S RESPONSE

FINDING 2: HOME LOAN PROGRAM ADMINISTRATION

1. We concur: The Department of Housing, Parks and Recreation will implement a new application process within thirty (30) days that will be computer based. All current applications will be adjusted according to the date the applications were received. The new procedure will document the loan progress on each application such as each time the file is reviewed. It will include notations of missing and other information still needed for the file. This new system will go into effect immediately.

   Person Responsible: Administrative Officer III
   Implementation Date: February 15, 2007

2. We concur: Consultation with other Government entities, specifically the V. I. Housing Finance Authority and the Government Employees Retirement System has been undertaken and is ongoing relative to their handling of their loan application.

   Person Responsible: Assistant to the Commissioner
   Date Implemented: September 8, 2006

3. We concur and will insure that the V. I. Code, Title 21, Chapter 11, Section 10(c) is strictly followed. Any situation that may require departure from the Code will be fully documented. New standard operating procedures will be drafted and implemented to insure compliance.

   Person Responsible: Administrative Officer III
   Implementation Date: March 23, 3007

4. We concur that internal control within the Division that administers the Home Loan Program is necessary to segregate duties among the loan staff so that there will be proper checks and balances. Due to recent staffing changes a new request for additional personnel will have to be made as part of the FY 2008 Budget request to OMB which is now in process.

   Person Responsible: Director of Business and Financial Management
   Implementation Date: February 23, 2007

5. We concur that adequate staffing is required to insure that the program can operate in an efficient and effective manner. A request will again be made in the new budget request within thirty (30) days to increase the staff in this Division to

DEPARTMENT OF HOUSING, PARKS AND RECREATION'S RESPONSE

properly manage the program.

Person Responsible: Director of Business and Financial Management
Implementation Date: March 23, 2007

FINDING 3: FUND MANAGEMENT

1. We concur: Due to the serious allegations made by the V. I. Inspector General based on his findings of the circumstances regarding the deposit made into the Veteran's Fund instead of the Loan fund Program, an internal investigation is being conducted by the Acting Commissioner to determine what must be done to rectify this situation to prevent its recurrence. Additionally, based on the results of the internal investigation, a determination will be made whether the findings should be referred to the Attorney General of the Virgin Islands for further investigation and to determine if further action is warranted. Meanwhile, coordination will be made with the Department of Finance and the Director of Business and Financial Management of the Department of Housing, Parks and Recreation to insure that the deposit is adjusted and reflected in the correct account.

   Person Responsible: Acting Commissioner
   Implementation Date: March 23, 2007

2. We concur: As part of the investigation into the alleged inappropriate deposit into the Veteran's Fund, after reviewing and determining any differences, the Director of Business and Financial Management will be directed to make the necessary adjustments.

   Person Responsible: Director of Business and Financial Management
   Implementation Date: March 30, 2007

3. We concur: An agreement was negotiated with the Commissioner of Finance and in December of 2006 the Department of Housing, Parks and Recreation reimbursed the Department of Finance an outstanding balance of $862,500 due to the erroneous stamp tax deposit made by them into the Loan Fund.

   Person Responsible: Director of Business and Financial Management
   Date Implemented: December 2006

FINDING 4: RECORD KEEPING

1. The Department of Housing, Parks and Recreation will draft and institute a new procedure outlining all the required documents for the approval of a loan application file. These necessary documents and applications will be maintained separately by a Department of Housing, Parks and Recreation staff member in a

DEPARTMENT OF HOUSING, PARKS AND RECREATION'S RESPONSE

secured filing room. This process will be part of an overall loan processing procedure which will be completed within thirty (30) days.

Person Responsible: Acting Commissioner
Implementation Date: March 30, 2007

2. The Department of Housing, Parks and Recreation in conjunction with the aforementioned loan processing procedure will insure that all necessary documents are check listed for every loan processed.

Person Responsible: Administrative Officer III
Implementation Date: March 24, 2007

Submitted by:

St. Claire N. Williams
Acting Commissioner

ADDITIONAL INFORMATION NEEDED TO CLOSE RECOMMENDATIONS

Recommendation Number and Status		Additional Information Needed
Finding 1:		
1-1	Resolved	No further action needed.
1-2	Resolved	No further action needed.
1-3	Resolved	No further action needed.
1-4	Resolved	No further action needed.
1-5	Resolved	No further action needed.
1-6	Resolved	No further action needed.
1-7	Resolved	No further action needed.
Finding 2:		
2-1	Resolved	No further action needed.
2-2	Resolved	No further action needed.
2-3	Resolved	Provide a copy of the operating procedure once issued.
2-4	Resolved	No further action needed.
2-5	Resolved	No further action needed.
Finding 3:		
3-1	Resolved	Provide a copy of the investigative report once issued.
3-2	Resolved	Same as 3-1 above.
3-3	Resolved	Provide a copy of the negotiated agreement.

ADDITIONAL INFORMATION NEEDED TO CLOSE RECOMMENDATIONS

Recommendation Number and Status		Additional Information Needed
Finding 4:		
4-1	Resolved	Provide a copy of the operating procedure once issued.
4-2	Resolved	Same as 4-1 above.

APPENDIX III

OFFICIAL REPORT DISTRIBUTION

Government of the Virgin Islands

Office of the Governor	3
Office of the Lieutenant Governor	1
Department of Housing, Parks and Recreation	1
Department of Finance	1
Office of Management and Budget	1
Department of Justice	1
27th Legislature	15
Legislative Post Auditor	1
Delegate to Congress	1

Government of the United States

Office of Inspector General, Department of the Interior	1
Office of the United States Attorney, Department of Justice	1
Federal Bureau of Investigation, Department of Justice	1