



GOVERNMENT OF THE UNITED STATES VIRGIN ISLANDS  
**OFFICE OF THE V. I. INSPECTOR GENERAL**

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**OFFICE OF THE VIRGIN ISLANDS INSPECTOR GENERAL**  
**Fiscal Year 2015 Budget Proposal**

**INTRODUCTION**

Good afternoon Senator Clifford Graham, Chairman of the Committee on Finance, members of the Committee, other members of the 30<sup>th</sup> Legislature, employees of the Legislature, ladies and gentlemen. My name is Steven van Beverhoudt, and I am the Virgin Islands Inspector General. With me this afternoon is Ms. Delia Thomas, Deputy Virgin Islands Inspector General. We are here today to provide an overview of the proposed Fiscal Year 2015 Budget for the operations of the Office of the Virgin Islands Inspector General (VI Inspector General's Office) and to answer any questions that you might have.

First I will give you a summary of our activities to date for Fiscal Year 2014, and then I will discuss our budget request for Fiscal Year 2015.

**STATE OF THE VI INSPECTOR GENERAL'S OFFICE**

In Fiscal Year 2014, the VI Inspector General's Office became the only Government audit agency permanently located in the Virgin Islands with the

closure of the Office of Inspector General for the Department of the Interior in September of 2013. We were fortunate to hire two former auditors with a combined 25 years of experience and they were able to “hit the ground running”. Currently there are 15 budgeted positions, of which 13 are filled in both the St. Thomas/St. John and St. Croix districts. Our organizational chart is attached as an exhibit on page 16 of this document.

I must complement the staff of the VI Inspector General’s Office for their dedication and commitment to our mission “to promote economy, efficiency and effectiveness, and to further the prevention of fraud, waste and abuse in the administration of the programs and operations of the Government of the United States Virgin Islands.”

I must say that the VI Inspector General’s Office is probably one of the most transparent agencies in the Government. Although we do not give premature specific details of our audit findings, we do identify all of our projects, as well as those that we plan on doing. As shown in our 2014 Audit Plan, which can be found on page 17, although we have very limited resources, we have engaged on a very ambitious plan to do audits and inspections that have more of an impact on the Government and deal with issues that impact the daily lives of the people of the

Virgin Islands. We hope to continue and even expand on this trend in Fiscal Year 2015.

To date, we have issued in final or draft format the following reports:

✓ **Audit of the Remedial Account for the Virgin Islands Bureau of Corrections**

- The objectives of this audit were to determine if (i) sufficient internal controls were established and utilized to ensure that the Remedial Account was created and managed in accordance with the Virgin Islands Code and Rules and Regulations, and (ii) expenditures were allowable and allocable to the purpose for which the Account was established.
- We found that the Remedial Account was not established and managed in accordance with the provisions of the Code, Rules and Regulations, and fiscal policies of the Virgin Islands Government. In addition more than \$2.8 million was disbursed from the Account contrary to financial, procurement, and personnel laws, regulations, policies and procedures of the Government.

✓ **Inspection of Real Property Auctions Held by the Office of the Lieutenant Governor**

- The inspection was initiated based on allegations of questionable bids and a lack of compliance with statutory regulations governing real property auctions.
- The objective of the inspection was to determine if the Lieutenant Governor's Office was conducting real property auctions in accordance with the provisions of Title 33, Chapter 89 of the Code.
- The official draft report was issued on June 27, 2014 with a response due by July 25, 2014. The final report should be issued in August.

Our final reports are available on our web-site at [www.viig.org](http://www.viig.org).

The following audits and inspections are in the write-up phase or are in progress and should be completed in Fiscal Year 2015:

✓ **Audit of the Virgin Islands Economic Development Commission's Tax Incentive Program**

- This audit was initiated at the request of the Chief Executive Officer of the Virgin Islands Economic Development Commission.
- The objectives of this audit are to determine whether: (i) the tax incentive program was administered in accordance with the Code and

approved rules and regulations; and, (ii) internal controls were in place to ensure the effective, efficient and economical operations of the tax incentive program.

- The preliminary draft report is being finalized and we hope to have an exit sometime in August. Baring any unforeseen issues, we hope to issue a final report later this year.

✓ **Audit of the Controls over the Department of Education’s School Lunch Program**

- This audit was initiated based on concerns revealed to us about the operations of the School Lunch Program at the Department of Education.
- The objective of this audit is to determine if the Virgin Islands School Lunch Program is meeting the goals of the various nutritional programs administered by the United States Department of Agriculture.
- This audit was divided into two phases with two separate reports being issued. The first phase of the audit covered inventory and warehouse controls and the second phase will cover the financial controls to include reimbursements from Federal funds.

- A preliminary draft report on the warehouses and inventory controls is being prepared and a final report should be issued in early 2015.
  - The second phase of the audit should begin later this year or early in 2015.
- ✓ **Inspection of the Alternative Investment Program Administered by the Government Employees Retirement System (GERS)**
- This inspection was initiated by us based on current events and concerns regarding the alternative investments being entered into by GERS.
  - The objective of the inspection is to determine whether lending and investment practices under the Alternative Investment Program were authorized, secured and monitored to reduce exposure to risk.
  - On July 1, 2014, based on our concerns from the preliminary findings of the inspection, we issued an alert memorandum to the GERS Board recommending that a moratorium be implemented regarding further activities of the Alternative Investment Program. A copy of the memorandum was provided to each member of the Board, the Administrator of GERS, the Governor of the Virgin Islands and each member of the 30<sup>th</sup> Legislature.

- A preliminary draft report is being prepared and a final report should be issued later this year.
- ✓ **Audit of the Public Finance Authority (joint VI Inspector General's Office/Office of Inspector General, Department of the Interior)**
  - Pre-planning to include audit objectives, scope of work, and development of an audit program for the audit of the Public Finance Authority began last week, and an audit announcement letter and entrance conference meeting is scheduled for later this month.
  - This audit fieldwork should be completed and a final report issued in the spring or summer of 2015.

Audit reports issued in Fiscal Year 2013 and to date in Fiscal Year 2014 have identified potential savings or funds that could have been put to better use totaling \$13.5 million, \$10.7 million in Fiscal Year 2013 and \$2.8 million to date in Fiscal Year 2014.

As you can see, we have several high profile audits and inspections at various stages of work and if a review of the un-resourced audits shown in our 2014 Audit Plan is done, there are several other potentially high profile projects planned in the future. Again, I must complement the staff for their dedicated effort and hard work during these difficult and challenging times, and limited resources.

Senators, with a gradual increase in resources, we can go a long way in identifying fraud, waste and abuse in the Government, and show where departments and agencies can be more effective and efficient in spending the even more limited resources that the Virgin Islands Government has at its disposal to meet the needs of the people. I will discuss our needs in more detail when I discuss the Fiscal Year 2015 Budget request.

On a positive note, during the current fiscal year, we were able to purchase and install servers in the St. Thomas and St. Croix offices, enabling electronic connectivity and file sharing capabilities between the two offices, thereby reducing the need to send work papers between the two districts for review and referencing. Although funds were not provided in the current fiscal year to purchase and maintain electronic work paper software, audit staff members were able to develop a work paper maintenance and file sharing system using the Microsoft OneNote program on the Microsoft SharePoint platform. The system is basic and is being refined on a regular basis as issues arise; an example of “doing more with less”.

On a negative note, with the Executive Fiscal Year 2015 budget cuts proposed by the current administration, the VI Inspector General’s Office will be forced to violate the very Code that we are mandated to ensure that other Government agencies and departments follow. Title 3, Chapter 40, Section 1203(e)

states that; “In carrying out the powers, duties, and authority of this chapter, the Office of the V.I. Inspector General shall comply with generally accepted auditing standards established by the General Accounting Office and the American Institute of Certified Public Accountants.” The Government Auditing Standards on Quality Control and Assurance states in section 3.82(b) that; “Each audit organization performing audits in accordance with GAGAS (Generally Accepted Government Auditing Standards) must: . . . have an external peer review performed by reviewers independent of the audit organization being reviewed at least once every 3 years.” Our last peer review was in January 2012; accordingly our next peer review was scheduled for January 2015. Unfortunately, that review was put on hold due to the reduced funding level being proposed by the administration.

In the area of investigations, “doing more with less” cannot be more prevalent than in this unit. The one investigator at the VI Inspector General’s Office juggles his time with investigations relating to violations of Virgin Islands laws, as well, as serving a very active role in the Federal/Local Public Corruption Task Force. In addition to several ongoing local and Task Force investigations, the investigator is also participating in several cases pending before both the local and Federal court systems, to include the still ongoing local prosecution of the former

executives of the Schneider Hospital and the Federal prosecution of the former executive director of the Virgin Islands Legislature.

In Fiscal Year 2013 we received 30 complaints about possible fraud, waste or abuse in the Government and through June 30, 2014 an additional 15 complaints were received. Although the majority of the complaints that were received either lacked sufficient information to corroborate the claims, or were administrative in nature, some potential investigations, although critical to the complainant, have not been started or have been suspended because we are forced to use our judgment and prioritize our investigations.

In the area of training, although we have been able to meet our continued professional education (CPE) requirements with the assistance of the Department of Personnel, the Department of the Interior and the USDA Graduate School, it is becoming more difficult to find courses that cover new and interesting subjects for our professional staff. We have basically gone through all of the relevant audit courses offered by the Graduate School, and the time is quickly approaching where we will need to afford the professional staff the opportunity of attending professional development courses out of the territory, to network and to develop relationships with colleagues on the mainland. However, since we are part of the

Executive Branch, the General Fund travel freeze has hampered our ability to offer our staff these opportunities.

In October of 2013, we sponsored two courses offered by the Graduate School entitled “Written Communication for Auditors” and “Human Side of Auditing”. There were approximately 25 to 30 participants from various departments and agencies including the Post Audit Division of the 30<sup>th</sup> Legislature.

**2015 BUDGET**

The 2015 Executive Budget . . . . . this is the 25<sup>th</sup> year that I’ve appeared before the Virgin Islands Legislature to defend the budget for the VI Inspector General’s Office, and this is probably the most puzzling budget proposal to date. For the first time in 25 years, the administration is treating the VI Inspector General’s Office as a “semiautonomous agency”. I am curious to know what has changed from 2014 and prior to 2015 to warrant this change in thinking. Although this budget document claims that we are a “semiautonomous agency”, in actuality we are not and nothing has changed. Since our enabling legislation is contained in Title 3 (the Executive Branch) of the Code, we are still directed to adhere to all directives and limitations imposed by the Governor of the Virgin Islands, unlike the true “semiautonomous agencies” of the Government. A 2002 Advisory Letter from the Attorney General confirms this interpretation.

At the request of this body at last year’s budget hearing, I submitted to every senator several suggested options to deal with the independence issue, the budget issue, and the reporting of wrong-doing issue. Ladies and gentlemen, “the ball remains in your court.”

On May 9, 2014, at the request of the Chairman of this Committee and in accordance with Title 3, Chapter 40, Section 1202(a) of the Code, we submitted a Fiscal Year 2015 Budget request of \$1,466,164, which is the same funding level that was approved in Fiscal Year 2014. This request is \$87,970 more than the budget ceiling established by the Office of Management and Budget in their February 14, 2014 budget call, and \$98,107 more than the Fiscal Year 2015 Budget ultimately submitted by the Governor.

**Personal Services and Fringe Benefits.** Our budget proposal provides for 15 positions. The total proposed funding level for personnel and related services is \$1,270,653, or \$935,853 and \$334,800 for Personal Services and Fringe Benefits respectively.

<b>Personal Services</b>	<b>\$ 935,853</b>
<b>Fringe Benefits</b>	<b><u>334,800</u></b>
	<b>\$1,270,653</b>

Again I would like to take this opportunity to recognize the entire staff of the VI Inspector General's Office for their commitment to the people of the Virgin Islands.

In my observations of recent budget hearing for other agencies and departments a common question that is asked of the testifiers is: "On a scale of 1 to 10, how would you rate employee moral within your agency?" To that question I must say that the employee moral is at a level of 8.5. Several people have commented that I adhere to a very relaxed management style. I strongly believe in the philosophy that if you treat your employees as professionals, they will reciprocate and go beyond to accomplish the overall goals of the organization. My position is that we have a mission to accomplish, and we do whatever it takes to accomplish that mission. I would not ask my employees to do anything that I would not do myself. This relaxed style however is not to be mistaken as being tolerant of abuse and unproductivity.

I attribute the 8.5 moral level directly to the fact that the VI Inspector General's Office pay scale has not been adjusted in 7 years. As you are well aware, although salaries have not been increased since that time, the same cannot be said for the cost of living.

We currently have a core of very good professional employees; however, if we do not address the issue of fair compensation, the VI Inspector General’s Office will continue to be a training ground for other entities within and outside of the Government.

**Supplies.** Budgeted supplies costs for Fiscal Year 2015 are estimated at \$39,000.

**Supplies** **\$39,000**

**Other Services.** Budgeted other services costs for Fiscal Year 2015 are estimated at \$111,511.

**Other Services** **\$111,511**

**Utility Services.** Finally, our utilities costs for Fiscal Year 2015 are estimated at \$45,000.

**Utility Services** **\$45,000**

**SUMMARY**

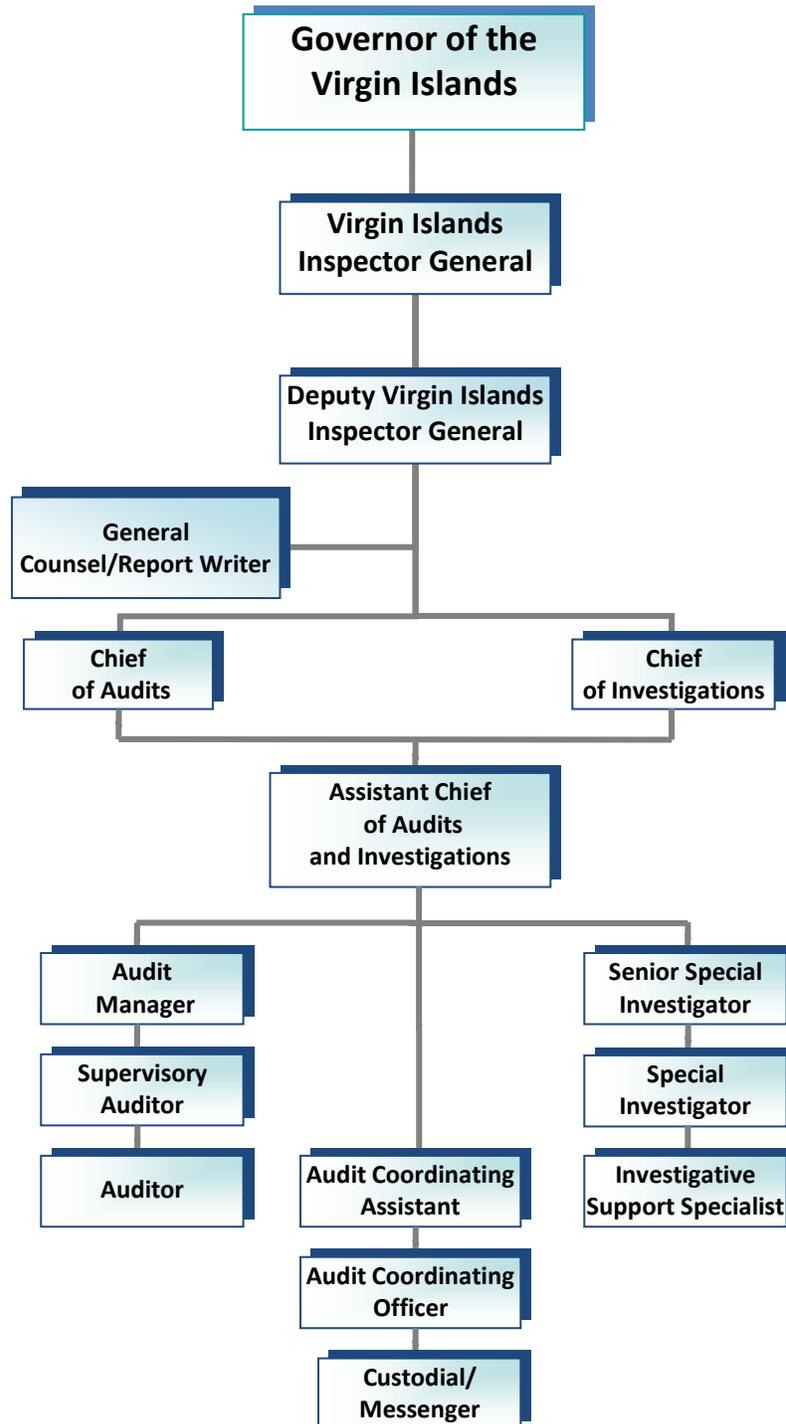
Ladies and gentlemen, can the VI Inspector General’s Office use more funds than this budget request of \$1,466,164? Of course we can, however; we must look at the reality of the situation and the financial limitations of the Virgin Islands Government. As I have consistently done over the years at numerous budget presentations and in my efforts to be a “team player”, we are requesting that our Fiscal Year 2015 Budget be maintained at the current Fiscal Year 2014 level. This

is a mere \$100,000 more than the recommended Fiscal Year 2015 Executive Budget. One hundred thousand dollars is insignificant when considering the total \$1 billion plus overall Virgin Islands budget, but that \$100,000 will let us fill an additional auditor position in the St. Croix District (currently there is only one), begin to increase our investigative ability, and provide us with the funds to meet our Auditing Standards required peer review.

In this season of campaign slogans and phrases, the citizens of the Virgin Islands are looking for individuals with “Integrity and Family Values”. They are in need of “Responsible Leadership That Won’t Quit”. Accordingly, for the VI Inspector General’s Office, the “Time to Build” is now. After so many years of broken promises “This Time Must Be Different”. We are looking for “Experience Leadership We Can Trust” for a “New Vision! New Direction”, so we must “Do the Right Thing”. Give us the authority and resources we need for us to meet our mandate. Senators, “Let’s Do It!”

We thank you for the opportunity to be here today, and we are available to answer any questions that you might have.

**OFFICE OF THE  
VIRGIN ISLANDS INSPECTOR GENERAL  
ORGANIZATIONAL STRUCTURE**



**ANNUAL AUDIT PLAN SUMMARY**  
**OFFICE OF THE VIRGIN ISLAND INSPECTOR GENERAL**  
**FISCAL YEAR 2014**

	<u>Staff Days</u>
<b>RESOURCED AUDITS</b>	
<b><u>Fiscal Year 2013 Carryover</u></b>	
Audit of the Remedial Account for the Virgin Islands Bureau of Corrections	120
Audit of the Economic Development Commission at the VI Economic Development Authority	270
Audit of the Controls over the Department of Education’s School Lunch Program	<u>720</u>
	<u>1110</u>
<b><u>Fiscal Year 2014 New Starts</u></b>	
Inspection of Property Tax Auctions at the Office of the Lieutenant Governor	250
Inspection of the Alternative Investment Program of the Government Employees Retirement System	240
Audit of the Public Finance Authority (Joint Project OVIIG/OIG-DOI)	<u>340</u>
	<u>830</u>
<b><u>Other</u></b>	
Special Assignments and Technical Assistance	30
Assistance to Investigations	90
Audit Recommendations Follow-up	20
Audit Work Plans	<u>30</u>
	<u>170</u>
Total Resourced Man-days	<u>2110</u>
<b>UNRESOURCED AUDITS</b>	
Audit of the Administrative Functions of the Government Employees Retirement System	300
Audit of the Construction of the Charles W. Turnbull Library	300
Audit of Government-wide Travel Practices	300
Government-wide Use of Professional Service Contracts	300
Administrative Functions of the Licensing Division of Licensing and Consumer Affairs	200
Government-wide Contracting Practices	300
Administrative Functions of the Tax Assessor’s Office of the Office of the Lt. Governor	300
Administrative Functions of the Corporate Division, Office of the Lt. Governor	300
Administrative Functions of the Permits Division of Planning and Natural Resources	300
Government-wide Vehicle Purchase and Control Program	325
Government-wide Petty Cash and Imprest Accounts	300
Contracting Practices of the UVI Research and Technology Park	250
Government-wide Grant Administration	350
Waste Management Authority Administration and Performance	<u>275</u>
Total Un-resourced Man-days	<u>4100</u>