

THE UNITED STATES VIRGIN ISLANDS

OFFICE OF THE VIRGIN ISLANDS INSPECTOR GENERAL



LETTER AUDIT REPORT

**AUDIT OF THE OPERATIONS
OF THE ST. CROIX
HORSE RACING COMMISSION**

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

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GOVERNMENT OF THE UNITED STATES VIRGIN ISLANDS
OFFICE OF THE V. I. INSPECTOR GENERAL
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STEVEN VAN BEVERHOUDT
V.I. INSPECTOR GENERAL

Tel: (340) 774-3388
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May 7, 2007

Wayne Biggs
Chairman
St. Croix Horse Racing Commission
PO Box 641
Frederiksted, St. Croix, Virgin Islands 00841

Dear: Mr. Biggs:

This letter report contains the results of our audit of the operations of the St. Croix Horse Racing Commission (Commission).

The objectives of the audit were to determine whether: (i) revenues were properly deposited and reported in accordance with prescribed procedures; (ii) expenditures were allocable and allowable to the Commission; and, (iii) internal controls were in place to ensure the effective and efficient operations of the Commission. The objectives also included the identification of inadequacies in the operations of the Commission, and recommendations to improve the causes of the inadequacies found.

The Scope of the audit covered the activities of the Commission during fiscal years 2002 and 2003.

To accomplish our audit objectives, we interviewed former Commission members who controlled the operations of the Commission during the audit period. We reviewed revenue and expenditure documents provided to us by the Commission. We also reviewed bank statements obtained through subpoenas from two Virgin Islands banks. As will be discussed in greater detail in the report, supporting documentation for revenues and expenditures was very limited, thereby severely hampering our ability to meet the audit objectives.

The audit was performed in accordance with generally accepted government auditing standards applicable to performance audits, contained in the Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to provide a reasonable basis for our findings and conclusions. Accordingly, we have performed such tests of records, and conducted other procedures that were considered necessary under the circumstances.

As part of our audit, we evaluated the internal controls over the collection, recording, and reporting of revenues and the usage of funds. Weaknesses in internal controls identified in these areas are discussed in the Audits Results section of the report.

We are unaware of any audit reports issued for the Commission within the past five years.

BACKGROUND

The Commission was established within the Department of Housing, Parks and Recreation (Housing) under Title 32, Chapter 11 of the Virgin Islands Code (Code). Rules and Regulations were approved in 1997, to further regulate horse racing in the territory. Two separate and independent commissions supervise horse racing activities within their respective districts; one in the St. Thomas/St. John district, and the other in the St. Croix district. This report deals only with the Commission activities in the St. Croix district. A report on the activities of the St. Thomas/St. John district was issued on April 24, 2006 (LR-01-65-06).

The Commission has eight members from St. Croix. The Commissioner of Housing serves in an ex-officio capacity, as the ninth member. The Governor appoints the Commission members.

The Commission is authorized under the general direction of the Governor, to regulate all matters relating to horse racing in the St. Croix district. The horse racing facility in the St. Croix district is the Randall N. "Doc" James Race Track. The Commission has the authority to: prescribe the rules and conditions by which race horses should be governed; prescribe the qualification of persons who can engage in any horse racing activity; provide classification and registration of race horses; provide for the licensing of trainers, jockeys, grooms and other persons directly involved in the conditioning, handling, care or riding of horses; impose administrative fines and penalties; and, hold hearings in any matter concerning racing.

AUDIT RESULTS

We found that the Commission did not comply with established rules and regulations as prescribed by Title 32 Sections 201-209 of the Code. The Code required that the Commission establish financial and managerial controls over its operations. However, controls were not established nor implemented. As a result, we found that: (i) there was no system of accounting in place to record the income and disbursements from the Commission's operations; and, (ii) most of the Commission's financial documents did not exist or could not be located.

We attribute these conditions to: (i) a lack of over-site of the operations of the Commission by the Board; and, (ii) the failure by the Board to establish basic business management and accounting principles into the operations of the Commission.

As a result: (i) the Board did not have complete and current information on the operations of the Commission; (ii) there were no assurances that all revenues from horse racing activities were deposited into the appropriate Commission account; and, (iii) there were no assurances that disbursements from the Commission account were allowable and allocable to the operations of the Commission.

We made several recommendations to address the conditions and causes cited in the report. The recommendations addressed areas dealing with accounting and internal controls.

Financial Operations

The Commission did not develop and implement an accounting system to ensure that all receipts were accounted for and disbursements were used for their intended purposes. Specifically, the Commission did not maintain adequate documentation to support disbursements totaling \$480,813. There was no assurance that funds were used for the purposes mandated by the Code. Although recorded deposits for fiscal years 2002 and 2003 totaled \$555,029, we were not able to determine the source of the deposits nor could we verify that all revenues were deposited into the account.

Deposits. Based on bank statements obtained, we found that there were 40 deposits totaling \$516,721 in Fiscal Year 2002 and 24 deposits totaling \$38,308 in Fiscal Year 2003. Deposits for the two fiscal years totaled \$555,029. However, there were no assurances that all receipts were deposited into the account. The schedule below lists the deposits for the 2002 and 2003 fiscal years as recorded in the bank statements for two bank accounts held by the Commission.

Fiscal Year 2002		Fiscal Year 2003	
Date	Amount	Date	Amount
10/01/2001	\$242.42	10/02/2002	\$800.00
11/21/2001	42,236.38	10/04/2002	120.00
12/04/2001	35,596.73	10/31/2002	1,328.56
12/31/2001	38,545.58	11/15/2002	8,313.76
01/02/2002	5,000.00	11/15/2002	8,108.69
01/18/2002	4,909.21	12/05/2002	255.00
01/25/2002	50,224.67	12/30/2002	351.83
01/29/2002	186.63	01/27/2003	110.19
01/29/2002	645.18	02/10/2003	828.73
02/25/2002	45,469.20	03/03/2003	189.98
03/04/2002	75.00	03/03/2003	413.00
03/11/2002	240.00	03/05/2003	220.25
03/18/2002	550.00	03/05/2003	248.73
04/04/2002	49,349.33	03/05/2003	651.95
04/18/2002	163.10	03/31/2003	219.50
04/18/2002	399.88	04/22/2003	720.00
04/18/2002	483.75	04/24/2003	8,600.00
04/29/2002	51,755.40	05/14/2003	3,000.00
05/13/2002	1,000.00	06/26/2003	485.31
05/30/2002	41,011.00	07/28/2003	301.23
06/11/2002	300.00	08/18/2003	900.00
06/11/2002	1,730.00	08/22/2003	150.00
06/17/2002	75.00	08/25/2003	1,350.00
06/17/2002	125.00	09/05/2003	640.75
06/17/2002	745.00		
06/27/2002	46,441.60		
07/01/2002	650.00		
07/16/2002	6,903.51		
07/22/2002	100.00		
07/22/2002	220.00		
07/22/2002	462.78		
07/22/2002	54,590.14		
08/02/2002	1,000.00		
08/15/2002	64.48		
08/15/2002	75.00		
08/15/2002	101.00		
08/27/2002	20,998.44		
09/16/2002	1,080.00		
09/23/2002	12,740.83		
FY2002 Total	\$516,721.24	FY2003 Total	\$38,307.46

Expenditures. Initially, we were told that all bank records were destroyed at the location where they were stored due to flooding. However, at a later date we were provided with a checkbook register for the period under review, Fiscal Year 2002 and Fiscal Year 2003. Although bank records, to include bank statements and cancelled checks were obtained from the two banks, many of the copies were of poor quality and were illegible.

Based on the checkbook register and the bank records that were legible, we identified \$116,928 (\$32,073 in Fiscal Year 2002 and \$84,855 in Fiscal Year 2003) in payments to the former chairman of the Commission. The former chairman stated to us that the payments were stipend payments and reimbursements for out-of-pocket expenses.

Title 23, Section 201(e) of the Code states that, “in addition to actual traveling expenses, each appointed member of each Commission shall receive \$50 for each day or part thereof spent in the work of the Commission.” Therefore the maximum stipend any member of the Commission could receive, if they worked everyday or 365 days of the year, would be \$18,250 or an average of \$1,521 per month.

Because of the lack of supporting documentation, we could not determine what portions of the total payments made represented stipends as opposed to reimbursements for operational expenses. Some of the stipend checks indicated that they included reimbursements for credit card expenses, airline tickets and upgrades, telephone bills, and special projects. In those situations where it was indicated that the payment was a stipend, we could not determine the rate that the former chairman was paid over the two-year period, the payments ranged from \$1,500 to \$3,000 per month.

The lack of supporting documentation further complicated other payments to the former chairman.

- On November 12, 2002, a check for \$10,000 captioned “loan” written to the former chairman. It was indicated on the check register that the “loan” was for three months and was to be repaid by February 12, 2003. The “loan” was never repaid. There was no evidence of a “loan” agreement or evidence that the transaction was approved by the Board. The former chairman told us that the “loan” was never repaid because, it was money owed to him by the Commission for stipends.
- In another instance there were checks written to the former chairman for traveler’s checks totaling \$5,000, again we were unable to verify the use of these traveler’s checks because of lack of supporting documents.

When contacted, the former chairman indicated that regarding the stipend payments, the scope of the Commission’s work had changed drastically since its inception and that the running of the Commission was a full time job. The former chairman indicated that the Commission had no full time staff leaving much of the daily duties to the former chairman. At some point the former chairman realizing the role was a full-time position sought payment for himself.

This former chairman held the position from July of 1997 to December of 2003. He indicated that at times, revenues were not as frequent, so stipend payments to officers were delayed. As the Commission's revenues increased, the former chairman decided to reimburse himself for all of the days that services were rendered. According to the former chairman, he worked almost 24 hours per day, seven days per week. As a result, the former chairman stated that the infrequent and varied stipend payments were an effort to make restitution for work already performed. Again, because of a lack of documentation this claim could not be verified.

The schedule below lists the checks written to the former chairman for fiscal years 2002 and 2003:

Commission Payments to Former Chairman - Fiscal Year 2002			
Date	Check Number	Amount	Comments Per Check Register
10/23/01	1358	\$1,500	Oct fee
02/04/02	1385	1,000	Monthly fee (Jan)
02/25/02	1392	1,400	Monthly fee (Feb)
04/12/02	1407	1,340	Monthly fee (Apr) advance website special project \$500, \$660 AMEX refund
05/13/02	1416	1,740	Monthly fee (May) advance refund telephone 719-3978
05/30/02	1421	1,083	Upgrade to business class
06/13/02	1423	1,500	Monthly fee (Jun)
07/01/02	1427	4,500	Balance monthly fee Jun admin
07/16/02	1434	3,000	Chair/ex director fee
07/26/02	1437	3,000	Chair/ex director fee, pay period 7/25
08/15/02	1444	3,000	Fee (ex director) pay period 8/8/02
08/26/02	1447	3,500	Chair/ex director 8/22/02 pay period plus reimbursement
09/06/02	1451	2,500	Chair/ex director 9/4/02 pay period
09/17/02	1455	3,000	Chair/ ex director fee & refund
Total Paid in FY 2002		\$32,073	

Commission Payment to Former Chairman - Fiscal Year 2003			
Date	Check Number	Amount	Comments Per Check Register
10/04/02	1461	\$5,055	Chair/ ex director fee, airline ticket & credit card refunds
10/22/02	1466	3,000	Chair/ex director ... pay period
10/31/02	1470	1,500	Airline ticket to MIA 11/6/02
11/06/02	1471	3,000	Chair/ ex director fee ... pay period 10/31/02
11/12/02	1472	10,000	Loan, terms 3 months to be repaid by 2/12/03
11/15/02	1475	3,000	Chair/ex director fee pay period 11/14/02
11/27/02	1479	3,000	Chair. Ex director fee pay period 11/28/02
12/05/02	1483	3,500	Airline tickets, hotel & car, credit card refund
12/11/02	1485	1,200	Advance pay period 12/12/02
12/11/02	1487	1,800	Balance fee pay period 12/12/02
12/23/02	1488	3,000	Chair/ex director fee pay period 12/26/02
01/08/03	1499	3,000	Chair/ ex director pay period 1/9/03
01/15/03	1501	1,000	Refund Hertz & Ho Jo's Miami and other Commission expenses
01/27/03	1505	2,500	Chair/ex director fee
02/06/03	1508	8,000	Credit card refund, Lariat productions visit, hotel, rental car, etc, pay period 2/6/03 Chair/ex director
02/21/03	1513	2,500	Chair/ex director fee pay period 2/20/03
03/05/03	1519	3,000	Chair/ex director fee pay period 3/6/03
03/24/03	1523	2,500	Chair/ex director fee pay period 3/20/03
04/07/03	1530	2,500	Chair/ex director fee pay period 4/3/03
04/30/03	1566	5,000	Traveler's checks
06/16/03		1,500	
07/02/03	1605	1,500	
07/10/03	1623	1,500	
07/31/03	1631	1,500	
08/07/03	1633	1,800	
08/22/03	1640	1,500	
09/02/03	1665	7,500	Part of \$50 per day fee owed
Total Paid in FY 2003		\$84,855	

Internal Controls. The Commission did not establish a system of internal controls to ensure that all receipts were deposited into the Commission's account and all expenditures were related to Commission activities. There was no evidence of supervisory reviews, and no system of checks and balances. As a result, records were not maintained nor adequately secured. The few documents reviewed by us were minutes from Commission meetings and financial reports that had no supporting documents. The Commission's former chairman told us that most information we requested was destroyed in an area at the racetrack that was damaged due to floods.

Recommendations

We recommend that the Commission:

1. Ensure that a proper system of internal controls is established to ensure the integrity of revenues received and expenditures disbursed. The controls should include: the proper maintenance of receipts/invoices for revenues and expenditures; the performance of monthly bank reconciliations and financial reports; and regular reporting on the status of the Commission.
2. Request an opinion from the Virgin Islands Department of Justice of the legality of the actions of the former chairman's in compensating himself.
3. Take the appropriate action as recommended by the Virgin Islands Department of Justice.

Your response to the recommendations dated April 21, 2007 is attached to this report as an appendix. The information provided is sufficient for us to consider them fully resolved.

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

Sincerely,



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

ST. CROIX HORSE RACING COMMISSION'S RESPONSE



St. Croix Racing Commission

Wayne Biggs
Chairman

April 21, 2007

Betty L. Wilson
Vice Chairman/Secretary

Steven van Beverhoudt, CFE, CGFM
Virgin Islands Inspector General
Government of the U. S. Virgin Islands
Office of the Inspector General
2315 Kronprindsens Gade, #75
St. Thomas, VI 00802-6468

Norman Cuencas
Treasurer

Louis Hassell, II
Member

Dear Mr. van Beverhoudt:

Olaf Hendricks, MD
Member

The following correspondence is in reference to your letter dated March 28, 2007 regarding the draft letter report of the audit your office conducted of the St. Croix Racing Commission (Commission) for fiscal years 2002 and 2003, and our subsequent meeting held in your office on April 3, 2007. The Commission agrees with the audit results as outlined in the draft letter report, and will comply with all three (3) recommendations as indicated therein.

Ray Iles
Member

Edward Milligan
Member

Lawrence E. Motta, Jr.
Member

Ever since my chairmanship of the Commission began in March 2006, I have worked diligently, along with the current Commission members, to maintain the character and integrity of all financial transactions. The Commission has:

St. Claire Williams
*Acting Commissioner, DHFR
Ex Officio Member*

1. Established a system of internal controls that insures the integrity of its revenues received and expenditures disbursed. These controls include:

- (a) The proper maintenance of receipts for revenues and expenditures. The Commission records all revenues it receives, based on source of revenue (government allotments, simulcast payments, licensing fees, registration fees, etc.), in its revenue logs. Numbered receipts are issued for all payments collected by the Commission for the licensing of racing personnel and the registration of horses. In addition, copies of transmittal letters along with copies of the checks for allotments and simulcast payments are kept on file. The Commission also records all its expenditures, based on types of expenditure (member stipends, payments to racing officials, office equipment, etc.), in its expenditure logs. The Commission requires receipts for all of its expenditures. Receipts are kept on file based on the date of

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Kinghill, St. Croix, U. S. V. I. 00851
(340) 719-3978

V. I. INSPECTOR GENERAL'S NOTE: DOCUMENTS INCLUDED WITH THE RESPONSE ARE NOT ATTACHED.

ST. CROIX HORSE RACING COMMISSION'S RESPONSE



St. Croix Racing Commission

payment. (Receipts on thermal paper are photocopied for preservation prior to filing).

- (b) The performance of monthly bank reconciliations and the preparation of monthly financial statements. The Commission reconciles its checking account on a monthly basis upon receipt of the statements from its financial institution and prepares a monthly financial statement (Income Statement). The Commission also prepares a "Financial Transactions Register" that indicates all payments received and made by the Commission from the being of the fiscal year to the end of monthly period. Copies of the Commission's Fiscal Year 2006 Financial Statements are attached.
- (c) Regular reporting on the status of the Commission. The Commission issues financial statements to its members at each of its regularly scheduled monthly meetings. Commission members are also notified regularly about incoming revenues (and the potential of incoming revenues) and anticipated expenditures. Financial expenditures for items other than basic office supplies are made via a motion vote of the Commission members.

In addition to the above financial controls, the Commission maintains only one checking account. The checking account is held in the name of the St. Croix Racing Commission. The account has four (4) signatories – the three (3) executive members and one (1) regular member. This financial control measure insures that not only executive officers are privy to financial information from the Commission's banking institution, but that the general membership of the Commission also has equal access to same financial information. Two (2) signatures are required on each check written by the Commission.

Finally, to insure that stipend payments are made to Commission members for appropriate activity, the Commission has established a "Stipend Payment Policy" for payments of stipends to its members. A copy of the "Stipend Payment Policy" is attached.

2. Has requested an opinion of the legality of the actions of the former chairman's compensating himself as outlined in the draft letter

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ST. CROIX HORSE RACING COMMISSION'S RESPONSE



St. Croix Racing Commission

report from the Virgin Islands Department of Justice. A copy of the referral letter to the Department of Justice is attached.

3. Will take the appropriate action as recommended by the Virgin Islands Department of Justice.

If you have any questions or need additional information, please contact me at 773-2161 or 277-4181.

Respectfully,


Wayne Biggs
Chairman

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