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OFFICE OF THE VIRGIN ISLANDS INSPECTOR GENERAL
Fiscal Year 2018 Budget Proposal

INTRODUCTION

Good afternoon Senator Kurt Vialet, Chairman of the Committee on Finance, members of the Committee, other members of the 32nd Legislature, staff of the Legislature, ladies and gentlemen in the viewing and listening audience. I am Steven van Beverhoudt, 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 2018 Budget for the operations of the Office of the Virgin Islands Inspector General and to answer any questions that you might have.

STATE OF THE VI INSPECTOR GENERAL'S OFFICE

Established in 1982 as the Virgin Islands Bureau of Audit and Control, Act 6333, in 1999, abolished the Bureau and created the Office of the Virgin Islands Inspector General (V. I. Inspector General's Office). As a separate, independent agency of the Virgin Islands Government, the V. I. Inspector General's Office functions as the major auditing arm of the Government with a more encompassing audit function extending to all three branches of the Government including the

instrumentalities, and the autonomous and semi-autonomous agencies. In addition to providing for a more independent audit function, the Act also gave the V. I. Inspector General's Office the authority to conduct investigations as part of its responsibilities in promoting economy, efficiency and effectiveness, and preventing and detecting fraud, waste and abuse.

As the only local or federal permanent audit presence in the Virgin Islands, the V. I. Inspector General's Office is committed to its 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 Virgin Islands."

In Fiscal Year 2017, the V. I. Inspector General's Office has endured the same challenges encountered by the other agencies of the Virgin Islands Government. We too were asked to share in the financial shortfall with a proposed 10% reduction in funding, the non-filling of vacant positions and the curtailment of out of the territory travel. Accordingly, two positions, an auditor and the legal counsel, have not been filled, and out of the territory training was not offered to the staff this year. As will be mentioned later, despite these impediments, we were still able to meet our training requirements for 2017.

Currently there are 17 filled positions within the organization, and we are working with the Division of Personnel to ensure that all employees are at their correct salary level.

I would like to complement my co-workers in their commitment and dedication to the agency's mission and to better their proficiency in the profession. We have some young and energetic individuals who we hope will be the future of the organization. I would like to take this opportunity to publicly congratulate Ms. Thomas for recently completing her requirements to be designated a Certified Fraud Examiner. We have four other staff members currently working to meet their certification requirements. In addition, in December 2016, one of our auditors completed the requirements for a master's degree in Business Administration, and three others are currently working on their master's degrees in accounting and criminal justice. We are committed to encouraging the continued education and professional development of our staff.

In the area of capital purchases, we were able to update our vehicles, changing two with encumbered funds from Fiscal Year 2016 and two others with approved Fiscal Year 2017 capital funds.

Regarding the audit and inspection aspect of our operations, our 2017 Audit Plan is attached on page 19. Some of the planned projects in Fiscal Year 2018

include audits of: (i) non-Executive Branch's use of credit instruments; (ii) administrative functions of the Waste Management Authority; and, (iii) selected administrative functions of the Governor Juan Luis Hospital.

To date, the following audits and inspections have either been completed or are progressing through various phases of the audit and inspection process:

✓ **Audit of the Department of Education's Inventory Controls Over the School Lunch Program**

- The audit objectives were to determine if Education: (i) administered its inventory systems for the School Lunch Program in accordance with established criteria; and, (ii) had controls in place to effectively safeguard and monitor School Lunch Program inventories.
- Our final report was issued on June 30, 2017.
- We found that:
 - Complete, accurate, and current records of receipt, distribution and warehousing of inventory were not kept.
 - Inventory records were modified or adjusted without proper written justification.

- Education officials were negligent in securing and accounting for inventory received, delivered, stored, and/or used at district warehouses and schools.
- Monthly and annual inventory reconciliations were not regularly conducted as required.
- Warehouse duties were not properly segregated.
- School inventory management practices in the districts were not uniform and consistent with federal and state requirements.
- Education officials did not accurately know the actual total values and quantities of inventory on hand as of specific times.
- School Lunch Program inventory was susceptible to the risk of loss due to negligence or unauthorized use.
- An ineffective and inefficient system for ordering food items and planning cycle menus was used.
- There were no written and uniform procedures for placing orders and accounting for inventory.

- Education officials were using a menu planning system that was primarily based on existing warehouse inventory rather than on prearranged menu cycles.
- Education officials could not properly forecast and plan the ordering of food items to meet monthly cycle menu requirements.
- Key recommendations made by a management and consulting firm were not implemented.
- Education officials did not ensure the timely and complete installation and implementation of food service management software.
- Education officials did not ensure that warehouse and school personnel had been given sufficient training to use the software.
- More than \$920,000 has been expended for consulting services and food management software and Education officials did not aggressively resolved issues to improve School Lunch Program operations.

- Education officials at all levels of the department have failed in their responsibility to ensure that the School Lunch Program was functioning in an efficient and effective manner.
 - As a result an inefficient and ineffective School Lunch Program has continued for decades, and unless significant improvements are made, the School Lunch Program will continue to be susceptible to fraud, waste and abuse.
 - Education officials agreed with the findings and recommendations made in the report and indicated that steps were being taken in the 2017/2018 school year to address the deficiencies noted in the report.
 - We indicated that we will do an assessment of their corrective actions later in 2018.
- ✓ **Audit of the Department of Education’s Claims and Reimbursement Procedures for the School Lunch Program**
- This audit is the second part of our review of the School Lunch Program.

- The audit objectives were to: (i) determine whether the School Food Authorities (Authorities) have effective internal controls in place to ensure that districts' meals offered and served comply with USDA nutrition and pattern requirements; (ii) assess whether the Authorities had sufficient internal controls to ensure that meal claims for reimbursement were completely and accurately reported; (iii) determine whether performance measures were established to ensure that decreases in claims were promptly assessed and corrective actions were taken; and, (iv) determine whether the Authorities have pursued opportunities for the districts to receive additional federal funds to help support the School Lunch Program.
- The draft report was issued to education officials on June 30, 2017, and their response was just received this week.
- We are in the process or review the responses to the recommendations and are preparing the report for final issuance by the end of the month or the first week of September.
- We found that:

- Federal reimbursement and entitlement food decreased during 2013 to 2015 school years.
- Student participation in the school meal program decreased.
- Recommended strategies to boost student participation were not implemented.
- Over three academic school years, there has been a funding loss of \$1.7 million.
- Internal controls were not established to ensure that meal reimbursement claims were accurate and met federal guidelines.
- Policies and procedures were not established.
- Education officials did not address the problem of poorly trained employees and understaffing.
- Over 95,000 meals were improperly claimed, with anywhere from \$32,000 to \$259,000 in funds being placed in jeopardy of repayment to the USDA.
- Education officials may have been placed in a position of a conflict of interest.

- Education officials did not effectively maximize opportunities to obtain additional federal funds to sustain the School Lunch Program.
- The territory lost certification that resulted in the loss of \$206,000 in additional reimbursements.
- Education officials did not ensure that meals offered and served complied with USDA nutrition and pattern requirements.
- Students did not always receive the recommended daily nutritional supplement to aid in their academic performance and maintain good health.

✓ **Audit of the Public Finance Authority**

- This audit is a joint project between the VI Inspector General's Office and the Office of Inspector General for the Department of the Interior (DOI).
- The objective of the audit was to determine whether the Public Finance Authority managed its budget funds, and bond proceeds by:
 - (i) maintaining sufficient internal controls that safeguard assets and provide reasonable assurance that financial transactions and related

reports were accurate; and, (ii) performing its duties in accordance with contract terms and conditions, the VI Code, the US Internal Revenue Code, and PFA board resolutions.

- In addition to the findings at the PFA, there were significant procurement and management issues resulting in a Management Advisory report also being issued.
- A partial response was received from the Executive Director of the PFA, however, additional responses are still due and are expected by August 21, 2017.
- DOI has indicated that final reports will be issued before the end of September.

✓ **Follow-up Review on the Disposition of Funds Collected During the Real Property Auctions Held in 2012 and 2013**

- As a result of our September 2014 inspection of real property auctions, we found the need to review the dispositions of funds collected, deposited and returned to the various bidders and original property owners.
- The objective of the inspection was to determine: (i) if the Lieutenant Governor's Office correctly paid property owners the net proceeds

generated from sold properties, and (ii) if the Lieutenant Governor's Office deducted and accounted for the taxes and public sewer system user fees, penalties and costs as prescribed by the Title 33 Section 2547 (c) of the Code.

- Revisions to the draft report are currently being made, and an exit should be held within the next few weeks.

✓ **Audit of the Administrative Functions of the Virgin Islands Board of Education**

- The objective was to determine whether the VI Board of Education effectively utilized its resources and carried out its administrative functions in accordance with established laws, rules and regulations.
- The initial scope of the audit covered fiscal years 2013 through 2016.
- All field work has been completed, work papers are being finalized and a preliminary draft report should be completed in early Fiscal year 2018.

✓ **Audit of the Administrative Functions of the Virgin Islands Casino Control Commission**

- The objective was to determine whether the VI Casino Control Commission effectively utilized its resources and carried out its

administrative functions in accordance with established laws, rules and regulations.

- All field work has been completed, work papers are being finalized and a preliminary draft report should be completed by the end of this fiscal year.

✓ **Audit of Executive Branch Credit Cards and Lines of Credit Practices and Procedures**

- The objective was to review the policies and procedures, and evaluate the internal controls relative to credit instruments utilized by the Executive Branch.
- All field work has been completed, work papers are being finalized and a preliminary draft report should be completed by the end of this fiscal year.

Reports and inspections issued to date in Fiscal Year 2017 have identified in excess of \$31 million of potential savings or funds that could have been put to better use.

In Fiscal Year 2018, we are scheduled to have our required Quality Control Peer Review, which is an assessment of our compliance with the required General Accountability Office standards.

In the area of investigations, recently four individuals accepted plea agreements based on their alleged participation in a real property tax auction scheme. As a result the Government collected in excess of \$600,000 in penalties and fines. There are also several ongoing investigations and leads that we are actively pursuing.

The on again, off again, on again local prosecution of the former executives of the Schneider Regional Medical Center is once again on, with a trial date now set for November 2017.

Through August 9, 2017, we have received 32 complaints alleging wrongdoing by Government officials. The majority of the complaints lacked sufficient information; were resolved administratively, or were matters for other departments and agencies. The latter of which were referred to the respective entities for their disposition.

Regarding training, we were fortunate to meet our training requirements this year by getting the USDA Graduate School, through the VITI Program, to sponsor a one-week course on Interviewing Techniques for Auditors. Unfortunately, in Fiscal Year 2018, this opportunity may not be available due to changes in personnel managing the VITI Program. Accordingly, included in the 2018 Budget request is funding for out-of-the-territory training.

2018 BUDGET

In light of the financial constraints currently experienced by the Government, we are willing to do our part in supporting the Administration's 2018 Budget proposal of \$2,023,605 for the operations of the V. I. Inspector General's Office. The proposal is \$224,845, or 10% lower than the Fiscal Year 2017 appropriated amount. The decrease in funding is due to the elimination of an auditor position and the related fringe benefits, the reduced requirements for retroactive salary payments, and the elimination of capital outlays. We have attached, as an exhibit to this presentation on page 20, the proposed distribution of the 2018 funds.

As of August 17, 2017, we have spent or have obligated a little over \$1,575,000 or 70.1% of the Fiscal Year 2017 appropriation.

The following are our comments relating to each prime account of the Fiscal Year 2018 proposed spending plan.

Personal Services and Fringe Benefits. Our budget proposal provides for 17 filled positions and 1 vacant position, that of a legal counsel. The total proposed funding level for personnel and related services is \$1,738,653, or 85.9% of the overall budget request. This amount consists of \$1,277,416 and \$461,237 for Personal Services and Fringe Benefits respectively.

Personal Services	\$1,277,416
Fringe Benefits	<u>461,237</u>
	<u>\$1,738,653</u>

Capital Outlays. We are not requesting any funds for capital outlay in Fiscal Year 2018.

Supplies. Budgeted supplies costs for Fiscal Year 2018 are estimated at \$64,952 or 3.2% of the overall request.

Supplies	<u>\$64,952</u>
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Other Services. Budgeted other services costs for Fiscal Year 2018 are estimated at \$180,000, or 8.9% of the budget request.

Other Services	<u>\$180,000</u>
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Utility Services. Finally, our utilities costs for Fiscal Year 2018 are estimated at \$40,000, or 1.2% of the Fiscal Year 2018 budget request.

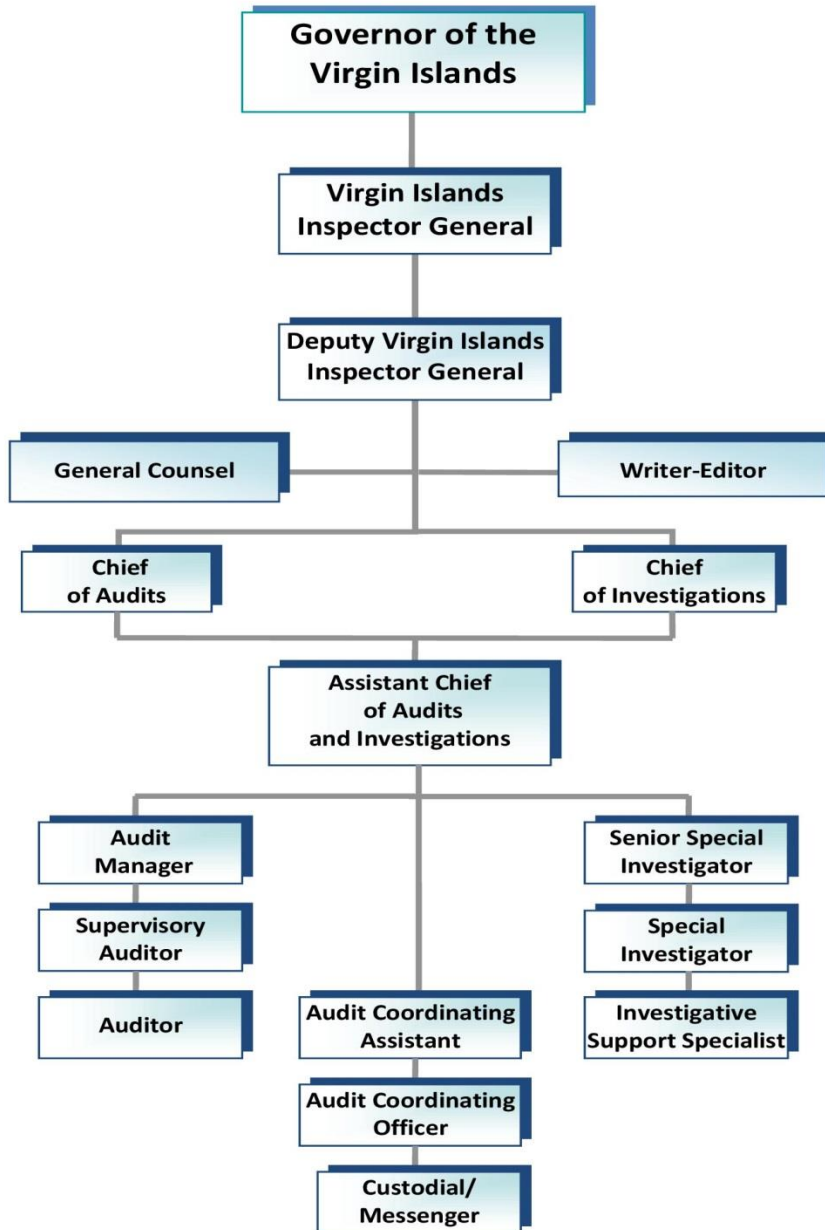
Utility Services	<u>\$40,000</u>
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SUMMARY

In summary, in this time of significant financial hardship and limited funding, the V. I. Inspector General’s Office is willing to do our share in reducing costs. Accordingly, we ask for your full support of the Fiscal Year 2018 Budget request of \$2,023,605.

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 2017

	<u>Staff Days</u>
RESOURCED AUDITS	
<u>Fiscal Year 2016 Carryover</u>	
Audit of the Controls over the Department of Education’s School Lunch Program	60
Audit of the Child Nutrition Programs Claims and Reimbursement Controls	240
Audit of the Public Finance Authority (Joint Project OVIIG/OIG-DOI)	30
Follow-up on the Handling of Funds Received During the Property Tax Auctions	90
Audit of the Administrative Functions of the Casino Control Commission	360
Audit of the Administrative Functions of the Board of Education	360
Audit of the Executive Branch’s Use of Credit Instruments	<u>360</u>
	<u>1,500</u>
<u>Fiscal Year 2017 New Starts</u>	
Audit of non-Executive Branch’s Use of Credit Instruments	270
Audit of the Administrative Functions of the Waste Management Authority	270
Audit of the Selected Administrative Functions of the Governor Juan Luis Hospital	<u>270</u>
	<u>810</u>
<u>Other</u>	
Special Assignments and Technical Assistance	60
Assistance to Investigations	180
Audit Recommendations Follow-up	30
Audit Work Plans	<u>30</u>
	<u>300</u>
Total Resourced Man-days	<u>2,610</u>
UNRESOURCED AUDITS	
Audit of the Administrative Functions of the Government Employees Retirement System	420
Audit of Government-wide Travel Practices	420
Audit of the Construction of the Charles W. Turnbull Library	340
Government-wide Use of Professional Service Contracts	360
Administrative Functions of the Licensing Division of Licensing and Consumer Affairs	300
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	<u>350</u>
Total Un-resourced Man-days	<u>4,265</u>

**OFFICE OF THE VI INSPECTOR GENERAL
EXPENDITURES BY PRIME ACCOUNTS**

	PROJECTED 2018
PERSONNEL SERVICES	
CLASSIFIED EMPLOYEE SALARIES	652,193
UNCLASSIFIED EMPL. SALARIES	577,000
TEMP/PART TIME SALARIES	
OVERTIME SALARIES	
LUMP SUM PAYMENTS	48,223
NIGHT DIFFERENTIAL COMP	
OTHER DIFFERENTIAL COMP	
FEES & COMPENSATION NOC	
HOLIDAY PAY	
ALL OTHER	
SUB-TOTAL	1,277,416
CAPITAL OUTLAYS	
MACHINERY & EQUIPMENT	
VEHICLES	
ALL OTHER	
SUB-TOTAL	0
FRINGE BENEFITS	
EMPLOYER CONTR. RETIREMENT	215,583
F.I.C.A.	79,200
MEDICARE	18,523
HEALTH INSURANCE PREMIUM	147,215
WORKERS COMP. PREMIUMS	716
ALL OTHER	
SUB-TOTAL	461,237
SUPPLIES	
OFFICE SUPPLIES	10,000
OPERATING SUPPLIES	10,000
SMALL TOOLS/MINOR EQUIPMENT	5,000
DATA PROCESSING SOFTWARE	29,952
REFERENCE BOOKS	10,000
ALL OTHER	
SUB-TOTAL	64,952
OTHER SERVICES & CHARGES	
PROFESSIONAL SERVICES	20,000
COMMUNICATION	30,000
TRAVEL	25,000
TRANSPORTATION - NOT TRAVEL	
ADVERTISING AND PROMOTION	
PRINTING AND BINDING	
AUTOMOTIVE REPAIR & MAINTENANCE	5,000
REPAIRS AND MAINTENANCE	45,000
RENTAL- LAND/BUILDING	20,000
RENTAL - MACHINES/EQUIPMENT	5,000
TRAINING	30,000
SECURITY	
ALL OTHER	
SUB-TOTAL	180,000
UTILITY SERVICES	
ELECTRICITY	35,000
WATER	5,000
SUB-TOTAL	40,000
TOTAL EXPENSES	2,023,605