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REPORT TO THE CONGRESS

Financial Management Of Virgin Islands Government Needs Substantial Improvements

B-114808

Department of the Interior

BY THE COMPTROLLER GENERAL OF THE UNITED STATES

MARCH 2,1971

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B-114808

To the President of the Senate and the
C1 Speaker of the House of Representatives

This is our report on substantial improvements needed in the financial management of the Virgin Islands Government. C.1405 Our review was made at the request of the Governor of the Virgin Islands who asked that any reporting on the results of D.1933 our examination be made in accordance with the requirements applicable to our examinations of the activities of the Government Comptroller of the Virgin Islands (48 U.S.C. 1599(j)).

Copies of this report are being sent to the Director, Office of Management and Budget; the Secretary of the Interior; and the Governor of the Virgin Islands.

Elmer B. Staats

Comptroller General
of the United States

COMPTROLLER GENERAL'S REPORT TO THE CONGRESS

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DIGEST

WHY THE REVIEW WAS MADE

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3 The Governor of the Virgin Islands requested the General Accounting Office (GAO) to appraise the adequacy of the accounting system and the related financial management controls within the Government of the Virgin Islands. The Governor said that a substantial Federal interest would be served by GAO's independent appraisal of those aspects of the system which GAO was in a position to review. GAO's review was concerned primarily with the controls over assets and with certain selected financial activities.

FINDINGS AND CONCLUSIONS

Principal Deficiencies

The Virgin Islands Government's control over its assets was inadequate.

--Accounting records did not provide reliable information on the amount of cash on deposit in banks. Errors made by the banks and by the government months, and even years, before had not been corrected. Bank reconciliation procedures provided no assurance that all checks paid by the banks were recorded properly in the records of the government. (See p. 7.)

--Accounts receivable records did not provide a reliable record of the amounts owed to the government. Many receivables remained unpaid for long periods, and little effort had been made to collect these receivables. (See p. 13.)

--No reliable record existed of the government's investment in land, buildings, and equipment because fixed asset records had not been maintained properly and because the required physical inventories had not been taken. (See p. 20.)

--Similarly, no reliable records existed of the government's investment in materials and supplies. (See p. 25.)

Other Deficiencies

--Some funds were overobligated; some obligations were not recorded; and some duplicate allotment records were being maintained.

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--Many procurements were made without the benefit of competition. Waiving of the requirement for formal advertised bids was questionable in some cases.

--Internal audit activities were confined mainly to accounting and financial matters, and even in this area little emphasis was given to making audits where major problems existed.

RECOMMENDATIONS OR SUGGESTIONS

GAO is making various recommendations designed to establish and maintain control over the government's assets (see pp. 11, 18, 24, and 28), to improve the fund allotment procedures (see p. 32), to improve procurement practices (see p. 38), and to provide for more effective audit of government activities (see p. 42).

AGENCY ACTIONS AND UNRESOLVED ISSUES

A draft of this report was sent to the Governor and to the Secretary of the Interior for comment on September 30, 1970. GAO requested their comments on the draft within 30 days. No comments have been received so the report is being issued without their comments.

MATTERS FOR CONSIDERATION BY THE CONGRESS

This report is being issued to the Congress because (1) the Virgin Islands Government has inadequate control over its assets and (2) the Governor, in his letter asking GAO to undertake this assignment, requested that the report on the results of the examination be handled in accordance with the requirements applicable to GAO examinations of the activities of the Government Comptroller of the Virgin Islands. GAO reports on the activities of the Government Comptroller are required to be sent to the Congress.

Contents

ABBREVIATIONS

GAO General Accounting Office

GVI Government of the Virgin Islands

TBA Treasurer's Bank Account

VINB Virgin Islands National Bank

COMPTROLLER GENERAL'S REPORT TO THE CONGRESS

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CHAPTER 1

INTRODUCTION

In response to a request dated February 20, 1970, from the Governor of the Virgin Islands (see app. I), the General Accounting Office has examined into certain aspects of the financial management system of the Government of the Virgin Islands (GVI). Our review was concerned primarily with the internal controls and accounting operations relating to selected financial accounts and activities and did not include an overall evaluation of the financial management system. The scope of our review is on page 48.

The Virgin Islands are about 40 miles east of Puerto Rico and some 1,400 miles southeast of New York City. Although there are approximately 50 islands and cays, the islands of significance--in terms of population and commerce--are St. Thomas, St. John, and St. Croix. The capital and seat of government is located at Charlotte Amalie on St. Thomas.

According to the U.S. Bureau of the Census, the population of the Virgin Islands as of April 1, 1960, the date of the last published census, was 32,099--consisting of 16,201 on St. Thomas, 14,973 on St. Croix, and 925 on St. John. More recent figures published by the Virgin Islands Bureau of Vital Statistics showed that the population of the Virgin Islands had increased to about 74,000 as of December 31, 1969, consisting of about 37,000 on St. Thomas, 35,000 on St. Croix, and 2,000 on St. John.

The Virgin Islands, which were purchased from Denmark in 1917 for $25 million, are an unincorporated territory of the United States. The powers of the present insular government are set forth in the Revised Organic Act of the Virgin Islands, as amended (48 U.S.C. 1541). Distinct executive, legislative, and judicial branches of government have been established. The present Governor was initially appointed by the President of the United States with the advice and consent of the Senate. Pursuant to the Organic Act, however, as revised in August 1968, he was elected in November 1970 for a 4-year term beginning on the first

Monday in January 1971. General elections for Governor and Lieutenant Governor will hereafter be held every 4 years.

The unicameral legislature consists of 15 senators, each elected for a 2-year term. Regular annual sessions are held for a period fixed by the legislature. The Governor, however, can call special sessions.

At the time of our review, the Governor, in exercising his responsibilities as chief executive, was assisted by a Government Secretary, commissioners of the executive departments, and organizational units and personnel in his executive offices. There were 13 executive departments, as follows: Agriculture, Commerce, Conservation and Cultural Affairs, Education, Finance, Health, Housing and Community Renewal, Labor, Law, Public Safety, Property and Procurement, Public Works, and Social Welfare.

There were also several separate governmental instrumentalities, such as the Urban Renewal Board, the Virgin Islands Housing Authority, the Virgin Islands Water and Power Authority, the College of the Virgin Islands, and the Virgin Islands Port Authority. Each of these instrumentalities, except the Port Authority, had its own treasury, maintained its own accounts, and published its own reports.

The Office of the Government Comptroller of the Virgin Islands was established in 1954 pursuant to section 17 of the Revised Organic Act of the Virgin Islands (48 U.S.C. 1599). The Government Comptroller is appointed by the Secretary of the Interior and is under the Secretary's general supervision. He is a Federal official and employees of his office are Federal employees. Responsibilities of the Government Comptroller include:

1. Auditing all accounts pertaining to the revenues, receipts, and expenditures of GVI.

2. Submitting to the Governor and to the Secretary of the Interior an annual report on the fiscal condition of GVI.

3. Making audits directed toward improving the efficiency and economy of the programs of GVI and

discharging the responsibility assigned by the Congress to ensure that Federal revenues deposited into the treasury of GVI are properly accounted for.

4. Certifying to the Secretary of the Interior the net amount of GVI revenues which form the basis for Federal grants to GVI.

GVI, in its annual report for fiscal year 1969, showed gross operating revenues of $95 million. The Government Comptroller, in his report for the same fiscal year, adjusted the revenues reported in the GVI report to correct certain understatements and omissions and to offset tax refunds and tax subsidies against gross operating revenues. The Government Comptroller's report showed that the net revenues of GVI for fiscal year 1969 were as follows:

	Amount (millions)
Taxes:	
Income taxes	$41.4
Trade and excise taxes	3.2
Real property taxes	2.2
Gross receipts taxes	6.1
Gasoline, stamp, and other taxes	1.6
Total taxes	54.5
Government operating income	2.9
Custom duties	1.9
Licenses, fees, etc.	2.0
Other revenues	2.8
Royalties	2.8
Matching funds	12.6
Federal grants-in-aid	6.1
Total revenue	$85.6

As shown above, GVI's two major sources of income are income taxes and matching funds. The income taxes are Federal income taxes which, by law (48 U.S.C. 1642), permanent residents of the Virgin Islands pay directly into the treasury of GVI. The matching funds consist of net tax revenues collected during a fiscal year by the U.S. Treasury on articles produced in the Virgin Islands (chiefly rum) and transported to the United States. The Revised Organic Act (26 U.S.C. 7652(b)) provides that these revenues less collection costs be paid by the U.S. Government to GVI in the year subsequent to the year in which they are collected, in an amount not to exceed local tax revenue.

The Government Comptroller had reported that, for the past 10 years, local tax collections have exceeded the revenues collected on Virgin Islands articles transported to the United States and that since 1960 the total amounts collected by the U.S. Treasury, less collection costs, have been paid to GVI.

GVI is required by the Revised Organic Act to maintain the matching funds in a separate account. The funds may be expended as determined by the Virgin Islands Legislature, subject to the prior approval of the President or his designated representative. The Secretary of the Interior has been designated as the President's representative for this purpose.

The act also provides that matching funds received by GVI during a fiscal year but not obligated or expended for approved purposes by the end of that fiscal year be used only for emergency relief and essential public projects and that any such funds in excess of $5 million be returned to the U.S. Treasury. The Government Comptroller, in his annual report on the operations of GVI for fiscal year 1969, stated that there had been no reversions of matching funds to the U.S. Treasury.

The principal officials responsible for the administration of activities discussed in this report are shown in appendix II.

CHAPTER 2

IMPROVEMENTS NEEDED IN CONTROL OVER ASSETS

We found that GVI's control over its assets was inadequate. Our review showed that improvements were needed by GVI to strengthen the control of its assets, as indicated by the fact that (1) cash on deposit in various bank checking and savings accounts had not been reconciled with the amounts shown as on deposit by the GVI records, (2) accounts receivable were not adequately controlled and there was no up-to-date detailed record of amounts due, and (3) control over fixed assets and supplies was inadequate.

These deficiencies and our recommendations for improvements are described below.

NEED TO IMPROVE CONTROLS OVER CASH

Improved procedures are needed to ensure accurate accounting for cash resources and to minimize the possibility of irregularities. An important feature in controlling cash on deposit in banks is the reconciliation of the balances shown on bank statements with the balances shown in the general ledger cash-in-bank accounts.

GVI maintains the major part of its funds in checking and savings accounts in two commercial banks, the Chase National Bank and the Virgin Islands National Bank (VINB) located in Charlotte Amalie, St. Thomas. General fund receipts available for financing the general operations of GVI are deposited in and disbursed from the Chase checking account. Other funds' receipts, representing monies earmarked for specific uses, are deposited in and disbursed from the VINB checking account. To maximize interest income, cash not needed for current operations is transferred to savings accounts and the checking accounts are replenished from the savings accounts as needed.

The general ledger cash-in-bank accounts are maintained by type of fund, not by bank account. The balances of these fund cash-in-bank accounts amounted to about $46 million at June 30, 1969, as shown below.

General fund	$ 9,852,682
Matching fund	9,503,127
Essential projects fund	158,551
Special funds	8,586,204
Enterprise and revolving fund	5,660,300
Agency trust and deposit fund	13,058,384
Total	$46,819,248

In addition to the general ledger cash-in-bank accounts, a report designated as the Treasurer's Bank Account (TBA) is maintained, which shows for each bank checking and savings account the balance on deposit at the beginning of each day, the daily deposits and withdrawals, and the balance on deposit at the end of each day. The GVI accounting procedures provide for the Department of Finance to reconcile monthly the bank checking and savings account balances shown on the bank statements with the amounts shown on TBA and the general ledger cash-in-bank accounts.

The need for improved cash control procedures is indicated by the substantial unreconciled differences that existed between the amounts on deposit in the two principal checking accounts at June 30, 1969, according to confirmations obtained by us from the banks and according to the amounts shown on TBA and the general ledger cash-in-bank accounts, as summarized below.

Account title	Cash balance at June 30, 1969		
	Bank confirmations	TBA	General ledger
Chase:			
Common checking account	$ 3,433,816	$ 915,056 cr.	
Savings accounts:			
General fund	3,535,362	29,980	
Federal appropriations	3,193,696	3,158,263	
Special and other funds	14,157,628	14,010,550	
Unemployment insurance fund--local	4,299,684	4,254,237	
Subtotal	28,620,186	20,537,974	
VINB:			
Common checking account	3,924,693	119,702 cr.	
Savings accounts:			
General fund	4,986,221	4,881,271	
Federal appropriations	11,138,171	11,032,095	
Special and other funds	1,264,258	1,242,158	
Subtotal	21,313,343	17,035,822	
Other local bank:			
Checking account:			
Moderate-income housing	231,363	220,785	
Savings accounts:			
Moderate-income housing reserve	94,840	94,840	
Conservation fund	2,789,325	2,759,740	
Subtotal	3,115,528	3,075,365	
Total	$53,049,057	$40,649,161	$46,819,248

Our review of the reconciliation of the Chase and VINB checking account balances with TBA as of June 30, 1969, showed that they actually were not reconciled because the amounts included in the balances for outstanding checks (checks not paid by the banks), in the amount of $4,761,406 for the Chase account and of $2,977,591 for the VINB account, were not supported by detailed listings of the items.

Also, the balances on deposit in bank checking and savings accounts, as shown by TBA, were not in agreement with the general ledger cash-in-bank accounts. Insofar as we were able to determine, these records were not reconciled for other than the general fund since November 1966. A purported reconciliation of these records pertaining to the general fund was prepared as of June 1969 and January 1970; but, in our opinion, these reconciliations were meaningless since TBA had not been reconciled with the amounts on deposit.

We were informed by Department of Finance officials that the amounts shown above as outstanding checks represented amounts that had been computed by starting with the amounts of checks outstanding on the Chase checking account in February 1968 and on the VINB checking account in July 1968, by adding to them the amount of checks that had been issued, and by subtracting the amount of checks paid by the banks in each following month. Our examination of the reconciliation for the Chase checking account as of February 29, 1968, showed, however, that the amount of $1,474,097 shown on that reconciliation as outstanding checks may not have been correct because it exceeded by $237,897 the amount shown in the detailed listing of the outstanding checks.

A review of the June 30, 1969, reconciliation of the Chase checking account also showed that the amount for outstanding checks used in the reconciliation had not been calculated in the manner described above by Department of Finance officials. The initial reconciliation of this account showed a reconciling item of $5,299,623 for outstanding checks at June 30, 1969. Also shown as a reconciling item was an item for $733,324, described as an item requiring a reduction of the TBA balance for payroll items paid by the bank but not recorded in the warrant register, which is a detailed record of payments, or in TBA.

The Government Comptroller, in reviewing this reconciliation, noted that the item of $733,324 had been entered in the warrant register and in TBA and should not have been included in the reconciliation. To account for this correction in the reconciliation, the Department of Finance merely decreased the amount shown for outstanding checks by a like amount.

Also, the Department of Finance, in preparing a revised bank reconciliation as of June 30, 1969, to account for items totaling about $195,000, which were noted by the Government Comptroller as being incorrectly charged to this checking account, merely increased the reconciling item for outstanding checks. It is obvious that the reconciling item for outstanding checks used in the reconciliations is a meaningless "plug" figure used to account not only for outstanding checks but also for any differences between the amounts on deposit as shown by the bank statement and by TBA that could not otherwise be identified.

Aside from the fact that the exact amount of checks outstanding for both bank checking accounts at June 30, 1969, was unknown, the so-called reconciliations as of that date included many other reconciling items, representing either errors by the banks or errors in TBA, which had been identified by the Department of Finance but had not been corrected by the banks or by the department. For the Chase checking account, there were 273 such items totaling about $4.8 million, of which several pertained to periods in 1962. For the VINB checking account, there were 307 uncorrected items totaling about $1.6 million, of which one pertained to a period in 1955.

We were informed by Department of Finance officials that the inability to determine the actual checks outstanding at June 30, 1969, had been caused by a malfunctioning of the computer program for matching issued and paid checks and by computer breakdowns. As a result of these difficulties, information on each check issued was not recorded in the computer, which made it impossible to use the computer to compare the issued and paid checks to produce a listing of outstanding checks. We were unable to obtain a reasonable explanation from the officials concerning why the numerous other reconciling items, representing errors either by the banks or by GVI, had not been corrected. They informed us, however, that the banks' errors were being brought to the attention of the banks for correction and that steps would be taken to correct errors in the GVI records.

Also, the Department of Finance, in response to a recommendation by the GVI Comptroller, has developed a computer program designed to determine the correct amounts of checks that were outstanding on the bank checking accounts at June 30, 1969. Under this program, all checks issued on the bank checking accounts after June 30, 1969, will be matched against the checks paid by the banks after that date and all paid checks that were issued prior to that date will represent those outstanding at June 30, 1969.

The Government Comptroller, in a series of letters to the Commissioner of Finance in the latter part of fiscal year 1970, stressed the seriousness of the Department of Finance's failure to properly reconcile the amounts shown by the GVI records as cash on deposit in the banks with the amounts shown on the banks' statements and to make the necessary adjustments in the GVI records. On July 14, 1970, we advised the Governor that immediate action should be taken to establish procedures for ensuring the maintenance of adequate cash controls.

Recommendations to the Governor

We recommend that the Governor instruct the Commissioner of Finance to require the Department of Finance to:

--Complete the program initiated in June 1970 for determining the actual checks outstanding on the bank checking accounts both as of June 30, 1969, and currently.

--Determine that the balances on deposit in the bank checking accounts as of June 30, 1969, are adjusted by the banks for all identified errors.

--Adjust the TBA account balances for identified errors and for differences, if any, between the amounts of the checks determined to have been outstanding on the bank checking accounts as of June 30, 1969, and the amounts shown in the so-called checking account reconciliations as of that date.

--Adjust the general ledger cash-in-bank account balances as of June 30, 1969, for any differences necessary to bring the balances into agreement with the amounts shown by TBA, as adjusted, to have been on deposit in the banks as of that date.

--Follow prescribed accounting procedures to (1) correctly record daily transactions on TBA so that it will show the amounts on deposit in all bank accounts at the end of each day, (2) reconcile each month the amounts shown by TBA as on deposit in the bank checking and savings accounts with the amounts on deposit as reported by the banks, and (3) reconcile each month the amounts shown by TBA as on deposit in all banks with the general ledger cash-in-bank account balances.

NEED FOR STRENGTHENING CONTROLS OVER ACCOUNTS RECEIVABLE

At June 30, 1969, the general ledger and the annual report of GVI showed a net accounts receivable balance of $14.1 million, of which $12.1 million pertained to accounts maintained and recorded on a central computer. Our review was confined to those receivables recorded on the central computer, since they represented the major part of the reported amount.

For those receivables included in our review, we noted that

--there was no reliable record of amounts due,

--many of the receivables had been outstanding for long periods of time,

--little effort had been made to collect outstanding receivables, and

--existing procedures had hampered the write-off of uncollectible accounts receivable.

Proper accounting for receivables is an important form of control over agency resources. Such accounting should result in a systematic record of amounts due from others, which must be accounted for. The general ledger accounts receivable accounts should function as control accounts over the detailed, or subsidiary, ledger records of amounts due. Individual billings should be summarized periodically, usually monthly, the total should be recorded in the general ledger control accounts, and the billings should be recorded in the individual accounts in the subsidiary ledger.

Similarly, cash collections and approved adjustments should be summarized, the total should be recorded in the general ledger control accounts, and the amounts of the collections and adjustments should be recorded in the individual accounts in the subsidiary ledger. Periodically, usually monthly, the individual accounts in the subsidiary ledger should be totaled and reconciled with the balances of the general ledger control accounts.

Lack of reliable record of amounts due

The accounting system for accounts receivable did not result in a reliable record of amounts due. The general ledger accounts did not serve as control accounts for the detailed record of amounts due as recorded in the subsidiary records maintained on the central computer. Instead, the general ledger accounts for the accounts receivable maintained on the computer merely were adjusted monthly to agree with the total of the amounts due as compiled on the computer.

Individual billings recorded on the computer were not summarized, and the total was not recorded in the general ledger accounts. Amounts collected were recorded on the computer on the basis of information supplied by the various departments. These collections were not summarized, and the total was not recorded in the general ledger accounts receivable account. Also, there was no procedure for verifying that the amounts reported as collections by the departments agreed with the accounts receivable collections recorded in the general ledger cash accounts. Therefore, in the absence of a control account, there was no assurance that all amounts billed and collected had been correctly recorded in either the individual accounts or the general ledger.

We noted that delays by the various departments and agencies in reporting billings to the Accounts Receivable Section had precluded the accumulation of an up-to-date record of amounts due. Our test of 20 schedules of billings submitted for processing on the computer during fiscal year 1970 showed that two hospitals and a clinic had been particularly slow in reporting receivables. For these agencies, the elapsed time between the dates of the billings and the dates on which they were reported for recording on the central computer ranged from 70 to 111 days.

We also noted that Hansen Memorial Hospital, which accounted for about 20 percent of the billings recorded on the computer as of December 31, 1969, had not issued timely billings for services provided. Our analysis of one hospital schedule of 98 bills totaling about $3,500 showed that the elapsed time between the date on which the patients were discharged or the services were rendered and the date of the billings for the services in 15 instances was 8 months, in 48 instances was 4 months, and in only 35 instances was less than 1 month. Since the schedule listing these billings was not reported to the Accounts Receivable Section for an additional 5 months, the time span between the date on which the patients were discharged or the services were rendered and the date on which the billings were reported to the Accounts Receivable Section for recording ranged from 6 to 13 months.

In another test of 63 outstanding hospital bills recorded on the central computer at December 31, 1969, we were unable to locate 12 of the bills in the outstanding bill files at the Hansen Memorial Hospital. Seven of the bills were over 4 years old, three were between 2 and 4 years old, and two were between 1 and 2 years old.

Inadequate collection practices

At December 31, 1969, the accounts receivable maintained on the central computer amounted to approximately $12 million. Our analysis of an aging schedule prepared by GVI of these accounts showed that about $6.9 million, or 58 percent, had been outstanding for 1 year or more and that about $1.4 million, or about 12 percent, had been outstanding for more than 4 years. In our opinion, the age of the receivables indicates that many are of questionable collectibility.

The Commissioner of Finance has the overall responsibility for the collection of all revenues for GVI. To carry out this responsibility, a collection enforcement group was created within the Treasury Division of the Department of Finance to facilitate collection of delinquent accounts through direct contact with debtors. This group, however, concentrated its efforts on the collection of delinquent real property taxes.

The initial responsibility for making collections rests with the billing departments and agencies, which are required to exhaust all means at their disposal to effect collection of past-due receivables. Our review of the collection efforts of the Department of Public Works for amounts owed for potable water and of the Hansen Memorial Hospital showed that little effort had been made to collect delinquent accounts. Of the $12 million of accounts receivable maintained on the central computer at December 31, 1969, about $1.26 million, or about 11 percent, was owed to the Department of Public Works for potable water and about $1.2 million, or about 10 percent, was owed to the Hansen Memorial Hospital.

Our review showed that about 29 percent of the amounts owed to the Department of Public Works and about 78 percent of the amounts owed to the hospital were over 1 year old. About 18 percent of the hospital receivables were over 4 years old. Officials of the Department of Public Works offered no explanation for the lack of effort to collect the accounts. Officials of the Hansen Memorial Hospital advised us that their lack of effort was due to a shortage of available manpower.

We noted that audit reports issued by the Government Comptroller and by the Audit Division of the Department of Finance had been critical of the efforts to collect the accounts receivable.

Basic authority for writing off uncollectible accounts needs revision

The basic authority for GVI to write off uncollectible accounts receivable is granted in section 3406, title 33 of the Virgin Islands Code, approved in February 1966. The act permits the Commissioner of Finance to certify for cancellation amounts which have been wholly or partially in arrears for more than 4 years. The Commissioner is required to submit to the legislature, through the Governor, a certified list showing the dates and actions taken by GVI to collect amounts owed, which, in the Commissioner's judgment, are uncollectible and warrant cancellation.

A memorandum dated August 1, 1966, issued by the Department of Finance to implement the provisions of the act, required the GVI departments to refer to the Attorney General amounts in arrears for more than 4 years, along with information showing the dates and steps taken to effect collection. Specific criteria were established to determine the uncollectibility of an account, as follows:

1. Debtor is deceased and left no known assets.

2. Debtor left jurisdiction of the courts.

3. Debtor is indigent and has no means of liquidating indebtedness.

One or more of the criteria had to apply before the Commissioner would certify the account for write-off.

We were informed that the Department of Public Works had not referred any delinquent potable water bills to the Attorney General. Also, the Hansen Memorial Hospital had referred only a limited number of its accounts to the Attorney General.

Subsequent legislation approved by the Governor in January 1970 gave the Commissioner of Finance the authority to write off uncollectible accounts, without prior approval by the legislature, on the basis of the Commissioner's determination that the probable cost of collection would exceed the amount due. This authority, however, was restricted to accounts not exceeding $20 and to an aggregate of not more than $2,000 in any one year.

We believe that the laws of the Virgin Islands do not provide adequate authority to remove uncollectible accounts from the records. As noted on page 15, the accounts receivable maintained on the central computer at December 31, 1969, amounted to about $12 million, of which about 58 percent was more than 1 year old. This amount consisted of about 189,000 unpaid bills averaging about $64 each. Included in the outstanding bills were about 139,000 billings by the hospitals, totaling $3.4 million, an average of about $25 each.

The present law states that, if a bill is outstanding for less than 4 years, it must be $20 or less before it can be written off and that the total dollar amount that can be written off in 1 year cannot exceed $2,000. Any other uncollectible bill can be written off only after it is at least 4 years old and is included in a listing sent to the legislature, outlining the collection action taken and the reason that it has been determined to be uncollectible.

Thus under present law, accounts receivable are probably carried in the records long after they have become uncollectible or after the date that the cost of further collection effort exceeds the amount of the receivable. We therefore believe that there is a need to consider liberalizing the laws dealing with the write-off of uncollectible accounts.

Recommendations to the Governor

We recommend that the Governor require that the following actions be taken to establish adequate control over and collection of the accounts receivable of GVI.

- --Prepare a detailed listing of all accounts receivable recorded on the central computer and compare this listing with the outstanding bills maintained by the various departments, to establish from the available records a starting point for determining the amounts due.

- --Propose legislation which would liberalize the GVI authority to remove uncollectible accounts from the records. The proposed legislation should provide criteria on the age and amount of accounts that may be written off and should authorize the write-off of accounts when the estimated cost of collection exceeds the amounts due.

- --Require the billing departments to initiate and maintain aggressive action to collect amounts due.

- --Revise the accounting system to require the use of the general ledger accounts as control accounts for the subsidiary receivable records. The system should provide for the recording in the general ledger accounts of totals of individual billings recorded in the subsidiary receivable accounts. Similarly, the collections, adjustments, and write-offs recorded in the subsidiary receivable accounts should be summarized, and the total should be recorded in the general ledger accounts. Also, the collections should be compared with the amounts recorded in the cash accounts. Periodically, usually monthly, the total of the amounts due, as recorded in the subsidiary receivable accounts, should be reconciled with the balances in the general ledger accounts.

--Require billing agencies to issue billings for services within a reasonable period after the services are rendered or after a determination has been made of the amounts due and to promptly report the amounts for recording in the general ledger and subsidiary receivable accounts.

DEFICIENCIES IN CONTROL OVER FIXED ASSETS

The GVI accounting methods did not provide for adequate control over its substantial investment in fixed assets. Prescribed procedures were not being followed, and there was no complete record of GVI's fixed assets.

Accurate financial and quantitative information on fixed assets--such as land, buildings, and equipment--for management's use and for financial reporting can be obtained only from a properly designed and operated system of general ledger fixed asset accounts and subsidiary property records. The value of all fixed assets acquired or disposed of should be recorded in the general ledger accounts on the basis of the related financial transactions. Subsidiary property records should be maintained for each asset or group of assets, showing as a minimum its value, date acquired, location, and identification number.

Periodically, the total values of the items recorded in the subsidiary property records should be reconciled with the balances in the general ledger fixed asset accounts. Also, at regular intervals, usually annually, a physical inventory of all assets should be taken to ascertain whether all recorded assets are accounted for.

The general ledger fixed asset accounts and the financial statements as of June 30, 1969, showed that the fixed assets had a total value of about $58.5 million, as shown below.

	Enterprise and revolving funds	General fixed asset group	Total
Land	$2,056,243	$20,797,549	$22,853,792
Buildings	13,876	27,286,423	27,300,299
Equipment	38,013	8,343,313	8,381,326
Total	$2,108,132	$56,427,285	$58,535,417

The above values include the value of the fixed assets transferred to the Virgin Islands Port Authority in February 1969. (See ch. 6 for comments on the Port Authority.)

The authority for the management and control of the GVI fixed assets is vested by law in the Commissioner of Property and Procurement. Pursuant to this authority, the Commissioner issued a property manual to assist the various departments and agencies in controlling and accounting for the fixed assets.

The manual required the Department of Property and Procurement to take an initial physical inventory of all GVI-owned fixed assets and to prepare a property record card for each asset. Each department was required to prepare and submit property record cards for subsequent acquisitions to the Department of Property and Procurement. Each acquisition was to be recorded at actual cost except when such value was unrealistic in terms of current value. In such cases it was to be recorded at appraised value.

Each department was required to take an annual inventory of equipment and a biannual inventory of realty. The manual required the Department of Property and Procurement to audit the physical inventories to test the accuracy of the inventory reports.

The prescribed accounting procedures required the Department of Finance to record the fixed assets in one of two categories of accounts, the enterprise and revolving funds or the general fixed asset group. The first category was to account for the fixed assets of self-supporting GVI owned and operated enterprises and for working capital funds serving various GVI departments or agencies. All other fixed assets were to be accounted for in the general fixed asset group of accounts. The procedures provided for the general ledger fixed asset accounts to be charged with the value of all acquisitions and to be credited with the recorded value of all disposals and for the accounts to function as controls over the subsidiary property records, showing pertinent details regarding the acquisition, disposal, retirement, or replacement of each asset.

We found that, contrary to the prescribed accounting procedures, the balances of the general ledger fixed asset accounts had not been derived by the Department of Finance on the basis of recording financial transactions covering the acquisitions and disposal of assets but represented values based on reports by the Department of Property and Procurement. At the close of each fiscal year, the Department of Finance adjusted the general ledger account balances to show the investment in land, buildings, and equipment on the basis of information included in a document entitled "Dollar Value Report," submitted by the Department of Property and Procurement.

We were advised by an official in the Department of Property and Procurement that the amounts reported for land and buildings in the Dollar Value Report had been based on an inventory listing of GVI-owned realty, entitled "Property Owned by the Government of the Virgin Islands," which was based on records of the tax assessor in 1967 and was adjusted for subsequent acquisitions and disposals. We were advised also that the amount for equipment in the Dollar Value Report had been taken from the detailed property records maintained by the Department of Property and Procurement.

Our review showed, however, that the amounts reported in the Dollar Value Report for recording in the general ledger fixed asset accounts for land and buildings had not been supported by a complete record of GVI-owned realty. We compared the amounts shown in the May 1970 Dollar Value Report with the totals of the amounts shown in the subsidiary property record maintained by the Department of Property and Procurement and found that they differed by about $15 million, as shown below.

Dollar Value Report:	
Land	$20,270,808.29
Buildings and structures	27,290,697.85
Total	$47,561,506.14
Subsidiary property record:	
Land	$18,455,262.52
Improvements	14,125,941.00
Total	$32,581,203.52

Factors contributing to the difference follow.

1. The Dollar Value Report was based on the acquisition and disposal of some land and buildings which were not recorded in the subsidiary property record.

2. The Dollar Value Report was based on the acquisition cost of some assets which were recorded in the subsidiary property record at assessed values.

We also noted that several properties included in the subsidiary property record as owned by GVI had not been included in the records of the tax assessor and that, conversely, properties shown in the tax assessor records as owned by GVI had not been included in the subsidiary property record.

We also noted that there were errors in the amounts reported in the Dollar Value Report and in the recording of these amounts in the general ledger fixed asset accounts by the Department of Finance. For example, an enterprise and revolving fund asset, homestead lands, valued at $1.7 million, was entered in the general ledger accounts three times--once correctly as an enterprise and revolving fund item and twice erroneously as a general fixed asset. This error was apparently caused by a misinterpretation of the Dollar Value Report by the Department of Finance. Also, a typographical error in the Dollar Value Report resulted in a $20,000 understatement in the Dollar Value Report and in the general ledger account for fixed assets.

We also compared the amount of the inventory of equipment shown in the Dollar Value Report for three departments with the total of the values of the detailed property record cards that were maintained for each of the departments by the Department of Property and Procurement. Our comparison showed that, for each of the departments, the detailed records did not agree with the Dollar Value Report.

Our review of a limited number of receiving and disposal reports for equipment in another department showed that property record cards had not been prepared for equipment acquisitions valued at about $115,000 and that cards for disposed equipment valued at about $22,000 were still on file.

Our review also revealed that periodic physical inventories of fixed assets to provide a check on the accuracy of the property records and to indicate the need for any improvements in procedures to prevent errors, losses, or irregularities had not been taken. The Government Comptroller reported that a complete physical inventory of equipment under the control of every department and agency had not been taken during the period July 1, 1961, through June 30, 1968, the period covered by his audits of property functions.

Recommendations to the Governor

We recommend that the Governor instruct the Commissioner of Property and Procurement to require that:

--A complete physical inventory of all GVI fixed assets be taken, each of the assets to be valued at acquisition cost when such information is readily available or at appraised fair values when such information is not readily available. The general ledger fixed asset accounts and the subsidiary property record should be adjusted to agree with the results of the physical inventory.

--All property unaccounted for by the physical inventory be investigated to identify the procedures needed to prevent errors, losses, or other irregularities.

We recommend also that the Governor instruct the Commissioner of Property and Procurement, in conjunction with the Commissioner of Finance, to require that:

--The general ledger fixed asset accounts and the subsidiary property record be maintained on the basis of financial transactions covering the acquisition and disposal of assets.

--The subsidiary property record be reconciled periodically, at least at year-end, with the general ledger fixed asset accounts.

NEED FOR STRENGTHENING CONTROLS OVER MATERIALS AND SUPPLIES

Improved control is needed over the inventories of materials and supplies. The type of control that should be adopted is dependent on the quantities and costs of the various inventories and on management's needs.

In the case of inventories that consist of items of relatively small quantities and low cost, an acceptable practice is to charge the costs to general ledger expense accounts at the time of acquisition and periodically, at least at fiscal year-end, to take an inventory count of the items on hand, to adjust the balance of the general ledger materials and supplies asset account to agree with the value of the inventories, and to make a corresponding contra-adjustment to the general ledger materials and supplies expense account.

In the case of inventories that consist of large quantities of items or items that are susceptible to pilferage, the usual practice is to (1) charge the cost of all acquisitions to a general ledger materials and supplies asset account and to maintain subsidiary perpetual inventory records showing for each type of item the quantities and cost, (2) credit the general ledger asset account and the perpetual inventory records for the cost value of items issued on the basis of approved requisitions, and (3) periodically, at least at fiscal year-end, take a physical inventory of the items on hand, to adjust the balance of the general ledger materials and supplies asset account to agree with the value of the inventory, and to make a corresponding adjustment to the general ledger expense accounts.

Also, at the time that the physical inventory is taken, all major differences between the inventory quantities of the various items and those shown by the subsidiary perpetual inventory records should be investigated to determine the reasons for the differences. An important function under this system of control is the periodic determination, usually at month-end, that the total dollar value of the various items, as shown by the perpetual inventory records, is in agreement with the balance of the general ledger materials and supplies asset account.

The GVI methods of accounting did not provide for adequate control over its inventories of materials and supplies or for accurate and complete information for financial reporting purposes. Specifically, we found that:

1. Although some of the warehouses maintained perpetual inventory records, these records had not been maintained under general ledger accounting control as provided for under the perpetual inventory system described above.

2. The balance of the general ledger materials and supplies asset accounts as of June 30, 1969, and the amounts shown on the statement of financial condition as of that date did not include the value of all inventories on hand.

As of June 30, 1969, the value of the inventory of materials and supplies, as shown by the general ledger asset account, was $578,813, representing the value of the inventories as reported by the Department of Property and Procurement and the Department of Health. In September 1969 the Government Comptroller, in developing his required report on the fiscal condition of GVI, requested these two departments and three other departments--Agriculture, Public Works, and Education--to report the cost value of their inventories of materials and supplies on hand as of June 30, 1969.

As a result of this request, the Department of Property and Procurement and the Department of Health reported inventories with a total value of $578,813 and the other three departments reported inventories with a total value of $249,241--a total inventory value of $828,054 for the five departments. This amount was reported to the Department of Finance, and the general ledger materials and supplies account was adjusted to show the total value of $828,054. Of this total amount, three departments--Agriculture, Health, and Public Works--indicated that the values reported, totaling $685,469, represented estimated values, not cost values based on a physical inventory of the items actually on hand as of June 30, 1969.

The GVI records showed that about $4.7 million was expended for the purchase of materials and supplies in fiscal year 1969. To determine whether any departments, other than the five referred to above, had any inventory on hand at June 30, 1969, the nature of any such inventories, and the type of controls maintained, we sent a questionnaire to each of the 13 GVI departments and to some independent GVI offices. Of the six departments which responded to the questionnaire, two--Agriculture and Health--had previously reported values for their inventories, one was not responsive to the questionnaire, one reported that it had no inventory, one reported a value of $2,800 for its inventory, and the remaining department reported that it had inventory at 13 warehouses and storerooms but did not report the value of the inventory.

The Department of Agriculture stated that it did not maintain any perpetual inventory records and that the value of its inventory was $10,550, although it had previously reported to the Government Controller that the inventory had an estimated value of $25,000. The Department of Health reported only with respect to its inventory at St. Croix. The department's response indicated that it maintained uncontrolled inventory records for office supplies and food but not for drugs, medicine, and surgical and dental supplies with an indicated value of about $190,000.

Our review at two of the departments that had reported their inventories to GVI showed that the Department of Property and Procurement at its St. Thomas warehouse and the Department of Education at its warehouse had maintained uncontrolled perpetual inventory records. We noted that the Department of Property and Procurement's reported value of its inventory at June 30, 1969, had been based on a physical inventory of the items on hand. We were informed, however, that the count of the items on hand had not been compared with the perpetual inventory records. We also noted that the perpetual records were not being maintained on a current basis in fiscal year 1970.

The Department of Education informed us that its inventory at June 30, 1969, had not been based on an actual count of the items on hand but had been based partly on information taken from its perpetual inventory records and partly on estimates.

We also noted that the Commissioner of Property and Procurement--who, under the law, is responsible for control over and supervision of all warehouses and storerooms of GVI--had not actively participated in the management of the warehouses other than those within his department.

Recommendations to the Governor

We recommend that the Governor instruct the Commissioner of Property and Procurement to:

--Review all warehouses and storerooms to determine those which should be maintained under a perpetual inventory system of control.

--Establish, in conjunction with the Commissioner of Finance, the necessary accounting procedures for maintaining the perpetual inventory records under general ledger accounting control.

--Require (1) all departments to take periodic, at least at fiscal year-end, physical inventories of all materials and supplies, (2) all departments maintaining perpetual inventory systems to compare the quantities of the physical inventories with those shown by the perpetual records and to investigate all major differences, and (3) all departments to report the total value of their inventories to the Department of Finance for adjusting the general ledger materials and supplies asset and expense accounts.

CHAPTER 3

NEED TO IMPROVE FUND ACCOUNTING PROCEDURES

Adequate procedures, if properly implemented, should provide assurance that funds are used for authorized purposes only and that obligations and expenditures do not exceed the budgeted amounts or limitations imposed by law. Fund control can be achieved either on a centralized basis for all funds and allotments or on a decentralized basis with each operating department or suborganization responsible for the control of its own funds and allotments. If fund control is maintained centrally, the operating departments should not maintain formal allotment ledgers.

We found that (1) some duplicate allotment records were being maintained, (2) some funds were substantially overobligated, and (3) some obligations had not been recorded.

ALLOTMENT ACCOUNTING

Although the GVI accounting system was centralized in the Department of Finance in July 1962, certain departments of GVI have continued to maintain formal allotment ledgers. In our opinion, this practice is time consuming, costly, and unnecessary.

In 1961, a consultant to GVI recommended that accounting and budgetary control for all regular government operations be centralized in the Department of Finance. The recommendation provided that centrally maintained allotment accounts be updated daily to negate the need for each department to maintain corresponding records and that the Department of Finance furnish a copy of the allotment ledgers to the departments each day.

The procedures for the operation of the centralized system require that each department verify the accuracy of the allotment ledgers received daily from the Department of Finance and that they adjust the ledgers for in-transit transactions.

We visited five departments of GVI and found that two of them had adopted the procedures concerning allotment accounting prescribed by the Department of Finance. We found, however, that the other three departments--Education, Health, and Social Welfare--were maintaining the same allotment records that they had maintained prior to centralization of the accounting and budgetary control systems.

We were unable to obtain exact data on the amount of effort expended by the three departments in maintaining these records. Estimates by officials of these departments ranged from 8 hours a day for the Department of Health to 12 hours a day for the Department of Social Welfare. In the Department of Education, an IBM 6425 machine which was being rented for about $9,800 a year was being used solely for maintaining the allotment ledgers. We were informed by the departmental business manager that the acquisition of the machine was approved for the purpose of performing other work but that the other work was never undertaken because of improper programming.

The major reason advanced by the three departments for maintaining separate records was that the allotment ledgers received from the Department of Finance were inaccurate and untimely. We believe, however, that compliance with the verification procedures (see p. 29) would produce accurate and current ledgers.

We noted that, every year since 1965, the Government Comptroller has reported that, contrary to existing procedures, the departments were maintaining duplicate allotment records. In his annual report for fiscal year 1968, the Government Comptroller stated that the Departments of Health and Social Welfare would discontinue maintaining allotment ledgers effective July 1, 1968. We found, however, that 2 years later these records were still being maintained by the two departments.

The Commissioner of Finance agreed with us that the maintenance of formal allotment ledgers at the departmental level was costly and unnecessary. In addition, he expressed the belief that this practice deprived the Department of Finance of the use of experienced personnel. Our review indicated, however, that the Department of Finance had not taken aggressive action to effect discontinuance of the maintenance of these records by the departments.

BUDGETARY CONTROL OVER THE OBLIGATION AND EXPENDITURE OF FUNDS

Our review showed that the procedures established by the Department of Finance for recording obligations of funds and for the subsequent liquidation of these obligations were adequate but were not being complied with in all instances.

For control purposes a separate subsidiary ledger was maintained by the Department of Finance for each appropriation and fund account. For all transactions, except for payrolls and purchases of $100 or less, funds were required to be obligated before an expenditure could be made.

To assure that all valid obligations of GVI were recorded at the end of the fiscal year, the Department of Finance required that the departments estimate those obligations which had been incurred but not recorded, such as payrolls, and that the departments process miscellaneous obligation documents to assure that the obligations were recorded. In addition, the Department of Finance furnished each department with a monthly listing of unliquidated obligations. Each department was required to review its obligations and to notify the Department of Finance of any necessary adjustments.

We were informed by officials of the Department of Finance that some departments complied with the prescribed procedures for verifying obligations and other did not. As a result, invalid obligations have remained on the records for several years; conversely, some valid obligations have not been recorded. For example, about $1.9 million of obligations recorded in fiscal years 1965-67 were not written off until fiscal years 1968 and 1969 when it was determined that they did not represent valid obligations.

In other cases valid obligations were not recorded in the year in which they had been incurred. To allow for their liquidation, the operating budgets for fiscal years 1969-71 have stipulated that prior years' obligations could be liquidated with current year's funds.

We believe that allowing the liquidation of prior years' obligations with current year's funds contributes to a disregard of budgetary controls. In this regard the Government Comptroller reported that, as of June 30, 1969, there were 175 accounts in the allotment ledgers that showed overdrafts of $3.3 million due to overexpenditures and/or overobligations. As of January 30, 1970, the Government Comptroller found that 87 of those accounts still had overobligated balances totaling $1.3 million.

RECOMMENDATIONS TO THE GOVERNOR

We recommend that the Governor require the departments to

- Discontinue maintaining the duplicate allotment records.

- Review, at least annually, the unliquidated obligations as recorded in the copies of the Department of Finance allotment ledgers to assure that all known obligations are included and that all recorded unliquidated obligations are valid and correct.

CHAPTER 4

IMPROVEMENT NEEDED IN PROCUREMENT AND PAYMENT PRACTICES

PROCUREMENT PRACTICES

Improvement in GVI's procurement practices is needed to provide assurance that items, such as equipment, materials, and supplies, are acquired at fair and reasonable prices. It has been generally recognized that this is accomplished best under full and free competition to provide such items--that is, by formally advertising for competitive bids, as provided for by the Virgin Islands Code. The authority to negotiate, rather than to advertise formally, should be used only when procurement based on advertising is definitely impracticable or ineffective.

Although the GVI procurement regulations require, with certain exceptions, that all purchases aggregating more than $1,000 be formally advertised for competitive bids, our review showed that many purchases were made without the benefit of competition. The Department of Property and Procurement reported that its purchases during fiscal year 1969 totaled $3.1 million under approximately 2,100 supply contracts. The Department of Property and Procurement's St. Thomas office made $1.6 million of these purchases. Our review of supply contracts awarded by the St. Thomas office during fiscal year 1969 showed that purchases totaling $959,000 under 292 individual contracts, each of which aggregated more than $1,000 were made without the benefit of formal advertising for bids.

Some of these purchases were justified under sections of the Virgin Islands Code which allow purchases of medical supplies and items to be purchased from the General Services Administration. Other purchases were for certain organizations, such as the Virgin Islands Legislature, which are not subject to the requirement that purchases aggregating more than $1,000 be made under formally advertised bids and awards.

Purchases amounting to $803,000 under 270 of the 292 contracts were justified under three clauses of section 239 of title 31, Virgin Islands Code, which permits the requirement for formally advertised bids to be waived in certain circumstances, as follows:

1. Section 239(a)(1)--Purchase is necessary in the public interest during an emergency	$ 8,962.75
2. Section 239(a)(2)--The public exigency will not permit the delay incident to advertising	545,965.42
3. Section 239(a)(8)--The purchase is for property or services for which it is impracticable to obtain competition	248,366.63
Total	$803,294.80

Purchases under items (1) and (2) above require the approval of the Governor, and written justification must be submitted to the Department of Property and Procurement by the buying agency for purchases under item (3).

The waiving of the requirement to advertise formally for bids was questionable for some of these procurements. For example, in fiscal year 1969 the St. Thomas office purchased 20 passenger vehicles under section 239(a)(2) and purchased seven under section 239(a)(8). From July 1, 1969, through May 10, 1970, this office purchased 29 additional passenger vehicles under these two clauses--17 were justified by section 239(a)(2) and 12 by section 239(a)(8).

Some of the purchases under section 239(a)(2) were justified to the Governor by the Commissioner of Property and Procurement solely on the basis of a statement that the public exigency would not permit the delay incident to advertising. The reason as to why the vehicles were needed immediately was not given.

We noted that, for those procurements in which some other written justification was included, the emergency nature of the request appeared to be attributable to poor planning. For example:

1. A 5-year old car was replaced by a new one at a cost of about $2,400 because it had been determined that maintenance costs on the old car exceeded its worth. The requisition was submitted after the old car became inoperable due to a deficient transmission and frontend. Replacement of another 5-year old car was similarly requested after a department decided that the car had passed the point of economical repair. The replacement vehicle cost $4,600.

2. Road equipment costing about $224,000 was purchased to supplement and replace existing equipment for the construction and maintenance of roads.

In our opinion, the replacement of equipment can and should be anticipated far enough in advance to permit procurement through formal advertising. If the departments wait until equipment is inoperable, GVI will always be faced with emergency situations which limit the opportunity to obtain competition.

We discussed with the Commissioner of Property and Procurement the justification for procurement of vehicles on the basis that competition was not available. He stated that competition was always available, theoretically; but, when there was only one Virgin Islands' supplier and only one or two vehicles to be procured, he believed that the best price was obtained without advertising because the cost of advertising was avoided. He also noted that the Virgin Islands law permitted GVI to purchase from suppliers in the Virgin Islands when the cost did not exceed by more than 15 percent the cost of the same supplies outside the Virgin Islands.

We believe that, with proper planning, the purchase of passenger vehicles would not be limited to a single or a few units and that the advantage of competition would make advertising worthwhile. If GVI determined, in advance, its annual passenger vehicle requirements by type (sedan, station wagon, 4-wheel drive, etc.), we believe that it would be able to obtain the benefits of formal advertising by requesting bids on its requirements. We believe further that the absence of planning is demonstrated by the fact that, during the first 10 months of fiscal year 1970, 18 contracts for one or two passenger vehicles each were awarded without the benefit of formal advertising for bids. No advertised procurements of passenger vehicles were made during this period.

The Commissioner of Property and Procurement agreed with us that the extent of purchases made without formal advertising was significant and unwarranted. He stated, however, that he believed that his department was essentially bound to make purchases on the open market if approval had been obtained from the Governor or if the buying agency submitted the justification required for purchases under section 239(a)(8). Although the Commissioner of Property and Procurement advised us that he may recommend to the Governor that a request for approval of a purchase without formal advertising not be granted, he rarely took such action.

The Commissioner also stated that, since the approval to purchase supplies without advertising for bids was relatively simple to obtain, the agencies were not motivated to anticipate their needs and plan their purchases. For example, in a memorandum to all departments in September 1969, the Commissioner requested estimates of requirements for materials, supplies, and equipment to be purchased during the second half of fiscal year 1970. He advised us that there had been practically no response to his request.

LATE PAYMENTS OF BILLS BY GVI

Our review of vouchers paid in March 1970 showed that GVI did not pay its creditors on a timely basis. The number of days between the receipt of a voucher for payment by two departments and the date of payment is summarized below.

Department	Number of days		
	High	Low	Average
Public Works	353	15	72
Education	718	9	150

The Commissioner of Finance acknowledged that considerable delays exist in this area of GVI's operations. He indicated the following items as contributing to the delays.

1. Departments do not submit completed receiving reports to the Department of Finance promptly.

2. Payments cannot be made because of insufficient balances in appropriation accounts.

3. There is a shortage of staff in the Department of Finance.

The Director of the Accounting Division, Department of Finance, said that the matter of late payments was a continuing one. He said that, although it was not possible to measure the bad effects of the practice, they could include:

1. Fewer suppliers bidding on advertised contracts.

2. Suppliers not offering discount terms.

3. Suppliers factoring into their prices the cost of anticipated late payments.

4. Late payment of invoices being countered with late delivery of goods.

The Government Comptroller has also reported on this matter in his prior annual reports; in his annual report for fiscal year 1969, he stated that test checks indicated that there had not been any significant improvement.

ISSUANCE OF NUMEROUS CHECKS

We also have noted that, in accordance with established procedures, the Department of Finance issued a check to a vendor for each purchase for which the vendor submitted an invoice. Invoices from each vendor were not accumulated and paid at regular intervals by one check.

Our review of March 1970 disbursement vouchers disclosed many instances in which more than one check was issued to vendors during the month. Several examples, relating to only one department--Public Works--follow.

Vendor	Number of payments	Total payments
Antilles Air Boats	53	$ 1,008
St. John Corporation	11	38
Consolidated Parts	22	2,342
Control Concrete Products	51	64,455
A. J. Wadsworth Sales	20	958

The issuance of numerous checks to the same vendor during a month results in increased administrative costs to the Department of Finance. To eliminate these unnecessary costs, we believe that consideration should be given to requiring vendor invoices to be accumulated and paid at regular intervals by one check.

RECOMMENDATION TO THE GOVERNOR

We recommend that action be taken to:

1. Require the GVI departments to forecast their requirements for equipment, materials, and supplies sufficiently in advance of need to permit the increased use of formal advertising for bids.

2. Assure that the requirements for formal advertising be waived only in true emergencies or upon demonstration that it is impractical to obtain competition.

3. Determine the steps necessary to correct the conditions identified by the Commissioner of Finance (see p. 37) as causing delays in the payment of bills and identify and correct any other factors which may be contributing to this problem.

4. Amend the requirement that a check be issued for each invoice submitted and require that invoices from each vendor be accumulated and paid by one check to be issued weekly or monthly, as appropriate.

CHAPTER 5

NEED FOR STRENGTHENING INTERNAL AUDIT

We believe that the effectiveness of the GVI internal audit could be increased if certain changes in this activity were adopted. The Revised Organic Act of 1954 requires that the Governor of the Virgin Islands provide for internal audits. The authority for performing such audits has been delegated to the Commissioner of Finance who reports directly to the Governor.

Internal audits are made by the Internal Audit Section of the Department of Finance's Audit Division. The internal audit function, as it now exists, was established in 1962. The internal auditors, however, performed very little auditing work until January 1966.

During fiscal year 1969 internal audit activities were confined mainly to accounting and financial matters, and, even in this area, very little emphasis was given to performing audits where major problems existed. Two major problem areas noted during our review--control over fixed assets and the reconciliation of cash balances in savings and checking accounts--received no audit coverage during fiscal year 1969. We were informed by the Deputy Commissioner, Audit Division, that the internal auditors had never performed an audit of either fixed assets or cash reconciliations.

The annual report of the Department of Finance for fiscal year 1969 stated that internal audits were limited to accounting and financial matters and effort was concentrated on the follow-up of findings and recommendations in the Government Comptroller's audit reports. The report also showed that, during the year, 124 internal audits were performed; 16 of these related to follow-up of the Government Comptroller's reports and 20 were concerned with surprise cash counts and clearance of exceptions issued by the Government Comptroller. The report classified the remaining 88 audits as limited and special audits.

We reviewed 35 of the 88 reports issued as the result of the limited and special audits; 24 of these reports dealt with minor financial matters, such as travel transactions, unofficial long-distance calls, and petty cash; 10 dealt with financial and accounting procedures, documentation of transactions, and maintenance of files; and one dealt with controls over the purchasing and receiving of supplies in one GVI department.

Although the types of audits performed in fiscal year 1969 are necessary, we believe that greater audit effort should be devoted to the examination and appraisal of the operations of GVI to be of more assistance to management.

In addition, the position of the internal auditor in the organization should be such that he is independent of the officials who are directly responsible for the operations he reviews. The Commissioner of Finance is responsible for the collection of all revenues, the administration of disbursement activities, and the maintenance of the centralized accounting system, in addition to the internal audit function. As shown in chapter 2, the operations relating to these functions are in need of the type of attention which could be provided by an effective internal audit organization. To be most effective, however, we believe that the internal audit functions should not be located in the Department of Finance.

The Governor and the Commissioner of Finance both agreed that the internal audit function should be organized within the Office of the Governor. As far as broadening the scope of audits to include more reviews of operations, however, the Commissioner of Finance believed that any action in this regard would have to await an increase in the size of the internal audit staff and an upgrading of its technical capabilities.

We found that, with regard to the size of the internal audit staff, one third of the authorized auditor positions were unfilled as of June 1970, as shown in the following table.

Job title	Strength	
	Authorized	Actual
Supervisory auditor	2	2
Senior auditor	9	4
Junior auditor	3	3
Audit technician	4	3
Total	18	12

We were advised that four of the 12 auditors on the internal audit staff were college graduates.

RECOMMENDATION TO THE GOVERNOR

We recommend that the internal audit function be transferred to the Office of the Governor and that additional emphasis be placed on audits of the operations of GVI.

CHAPTER 6

THE VIRGIN ISLANDS PORT AUTHORITY

The Port Authority was established as an autonomous instrumentality of GVI by Act No. 2375 enacted by the Seventh Legislature of the Virgin Islands; this act was approved by the former Governor on December 24, 1968. The Secretary of the Interior approved the establishment of the Port Authority on January 16, 1969; and the Eighth Legislature passed Act No. 2405 making the establishment of the Port Authority effective as of February 11, 1969.

Act No. 2375 established a governing board composed of nine members to act for the Port Authority. The membership consisted of the Governor, the Director of the Budget, three members appointed for 2-year terms by the President of the Legislature, and four members appointed for 3-year terms by the Governor with the advice and consent of the legislature. Act No. 2611, which was passed by the Eighth Legislature on December 16, 1969, and approved by the Governor on January 21, 1970, amended the provisions of Act No. 2375 by giving the Governor authority to appoint all seven of the appointed members of the governing board.

Act No. 2375 combined the functions of the Resources Agency and the Marine Division of GVI in the new organization. The Resources Agency had been responsible for the operation of air terminals and various industrial, commercial, residential, and recreational facilities, and the Marine Division was responsible for the operation of seaports and marine terminals.

The law provided that the Port Authority was to obtain title to all property administered by the predecessor agencies and assume the personnel, records, contracts, deeds, leases, subleases, mortgages, rights, and franchises of those organizations. In addition, the act provided for the transfer to the Port Authority of any other property that could be identified as airport related, property of the former submarine base, and all public docks, piers, wharves, or bulkheads.

The purpose of the Port Authority was:

> "*** to establish, acquire, construct, develop and improve, own, operate and manage any and all types of air terminals, marine terminals, and industrial, commercial, residential and recreational developments, and to make available the benefits thereof in the widest economic manner ***."

Although the Port Authority became a separate entity on February 11, 1969, GVI continued to perform the accounting for the functions transferred to the Port Authority through June 30, 1969. The Port Authority assumed accounting responsibility for these functions on July 1, 1969, but because of numerous deficiencies in the GVI accounting system had not been able, as of May 1970, to prepare financial statements for the Port Authority as of the beginning of fiscal year 1970.

We were advised by a Port Authority official that there had been no formal planning prior to the transfer of the former GVI activities and functions to the Port Authority. We were also advised by the Government Comptroller and the Chief Internal Auditor that neither the Government Comptroller nor the Audit Division, Department of Finance, GVI, was involved in the transition either before or after the Port Authority became effective.

The certified public accounting firm of Price Waterhouse & Co. was retained by the Port Authority in July 1969 to develop an accounting system and to prepare fiscal year 1969 financial statements. By March 1970, Price Waterhouse & Co. had developed tentative June 30, 1969, account balances for the Port Authority. We were advised by the Price Waterhouse & Co. representatives that these balances were subject to change because they had been derived from incomplete and uncoordinated operating and statistical records. Final statements for fiscal year 1969 for the Port Authority were not completed by June 1970.

The problem associated with the transfer to the Port Authority of assets and liabilities of the former GVI activities is illustrated by the difficulties encountered in determining the value of the GVI fixed assets transferred to the Port Authority. Section 3 of the law establishing the Port Authority required that a listing of real property transferred to the Port Authority be prepared for approval by the legislature. To comply with the law, the Port Authority prepared a listing of the 19 parcels of land which had been transferred. The listing did not show the dollar values of the parcels transferred. A separate listing prepared by GVI showed assessed values rather than acquisition costs and did not include all of the properties.

We found, as stated on page 20 of this report, that GVI did not have a complete record of its land, buildings, and equipment including those transferred to the Port Authority.

On May 11, 1970, the U.S. Attorney for the Virgin Islands filed a civil suit in the U.S. District Court of the Virgin Islands, Division of St. Thomas and St. John, representing the plaintiffs--the United States of America, the Secretary of the Interior, and the Governor. Named as defendants were eight members of the governing board of the Port Authority. The suit sought to have the several acts that created the Port Authority, Acts No. 2375, 2405, and 2611, declared null and void and of no legal effect. The court was also asked to issue a permanent injunction restraining the defendants and their agents from operating the Port Authority properties and facilities and to order the defendants to restore to GVI all property, increments, facilities, and funds under their control. The suit further sought an accounting of monies received and expended by the Port Authority. No action had been taken on the suit at the time of the completion of the review.

The basic premise of the suit is that the acts which created the Port Authority are in excess of the authority granted to the Virgin Islands Legislature by the U.S. Congress and are in conflict with the Revised Organic Act because of the following reasons.

1. The Governor was provided the power to exercise general supervision and control over all of the departments and other instrumentalities of the executive branch of GVI. The Secretary of the Interior has general administrative and audit responsibilities with respect to GVI. The governing

board of the Port Authority has unlawfully assumed a large share of the powers, duties, and prerogatives delegated to the Governor to be exercised under the supervision of the Secretary.

2. The legislative power vested in the legislature is limited to legislation consistent with the laws of the United States which are applicable to the Virgin Islands, of which the Revised Organic Act is a part. The legislature exceeded its authority by creating a separate, perpetual entity to control and supervise the operations of the harbors and airports, to have the power to sue and be sued, to acquire property without limitation as to use or purpose, to collect all fees for the use of its facilities, to borrow money, and to issue bonds. The legislature acted illegally by altering the fundamental structure of the territorial government so as to infringe upon the powers vested by law in the Governor and upon the supervisory powers of the Secretary of the Interior.

3. The Revised Organic Act authorizes general obligation bond issues only for the construction and repair of hospitals, schools, libraries, gymnasia, athletic fields, sewers, sewage disposal plants, and water systems. Act No. 2375 authorizes the Port Authority to issue general obligation bonds in an amount up to $65 million, in addition to all bonds authorized by the legislature for particular purposes. The act permitted the use of the income-producing properties as a lien; thus, in the event of default, bondholders could take over the properties and operate them for personal gain.

The suit also charged that Act No. 2611, previously discussed in terms of the Governor's appointive powers to the governing board, was unintelligible and void. Although this act increased the number of appointive members to be named by the Governor from four to seven, it stipulated that "*** not more than two shall be residents of the same District." There are, however, only two districts in the Virgin Islands from which appointments can be made, the District of St. Thomas-St. John and the District of St. Croix.

RECOMMENDATION TO THE GOVERNOR

We believe that, before an adequate accounting of the assets and liabilities transferred to the Port Authority can be established, GVI must correct the deficiencies, summarized in chapter 2 of this report, dealing with improvements needed in control over assets. We believe also that a proper determination of the assets and liabilities which have been, or should have been, transferred to the Port Authority in accordance with the law establishing the Port Authority is necessary regardless of the outcome of the suit challenging the establishment of the Port Authority.

If the establishment of the Port Authority is upheld by the courts, a proper accounting is needed to comply with the law, to support the sale of bonds authorized by the law, to establish proper fees for services, and to be used for other management purposes. If the plaintiffs are successful in their suit, a proper accounting would still be necessary for the proper management by the GVI agencies which would again become responsible for the functions assumed by the Port Authority.

CHAPTER 7

SCOPE OF REVIEW

Our review of financial management activities of GVI included an examination of pertinent legislation and reports of the Government Comptroller of the Virgin Islands and independent consultants relating to the operations of the government. We reviewed policies and procedures applicable to financial management activities and examined accounting records, reports, statements, and transactions to the extent considered necessary to evaluate the adequacy of management controls and the reliability of selected financial data. In addition, we interviewed officials responsible for financial management in the Virgin Islands. Our review did not include the activities of independent government organizations, such as the Water and Power Authority and the College of the Virgin Islands.

Our review was conducted at St. Thomas, the seat of government for the Virgin Islands, and covered transactions occurring generally in fiscal years 1969 and 1970.

APPENDIXES

THE VIRGIN ISLANDS OF THE UNITED STATES
OFFICE OF THE GOVERNOR
CHARLOTTE AMALIE, ST. THOMAS

February 20, 1970

The Honorable Elmer B. Staats
Comptroller General of the United States
General Accounting Office
Washington, D. C. 20548

Dear Mr. Staats:

Since becoming Governor of the Virgin Islands in July 1969, I have concluded that in carrying out my responsibilities it would be helpful to have an independent appraisal made of the adequacy of the accounting system and the related financial management controls within the Government of the Virgin Islands. I am particularly interested in obtaining an appraisal of the adequacy of the internal controls over assets, liabilities, receipts and expenditures, and of the budgeting and reporting functions.

Although the specific audit responsibility of the General Accounting Office in the Government of the Virgin Islands is limited to an examination of the activities of the government comptroller, both the Comptroller of the Virgin Islands and I believe that in view of the amount of federal funds made available for carrying out the Islands' activities it would be desirable and appropriate for your office to review the adequacy of the system used to account for such funds.

I recognize that the General Accounting Office has limited manpower resources for carrying out its responsibility for auditing the activities of the various Federal Government departments and agencies and that it may not be practicable at this time for your staff to make a comprehensive examination of all aspects of the financial management system of the Government of the Virgin Islands. I believe, however, that a substantial federal interest would be served by an independent appraisal by your office of those aspects of the financial management system which you believe you are in a position to undertake at this time.

The Honorable Elmer B. Staats 2 February 20, 1970

It is requested that any reporting on the results of your examination be made in accordance with the reporting requirements applicable to your examinations of the activities of the Government Comptroller of the Virgin Islands.

I would appreciate your consideration of this request and if you are agreeable to your office making an appraisal of the financial management system--or aspects thereof--I will take the actions to assure that your staff receives complete cooperation from the officials and employees of the Government of the Virgin Islands.

Sincerely yours,

Melvin H. Evans

Melvin H. Evans
Governor

I concur in the above statements.

Howard L Ross

Howard L. Ross
U.S. Government Comptroller for the Virgin Islands

PRINCIPAL OFFICIALS RESPONSIBLE FOR THE ADMINISTRATION OF ACTIVITIES DISCUSSED IN THIS REPORT

	Tenure of office	
	From	To
SECRETARY OF THE INTERIOR:		
Walter J. Hickel	Jan. 1969	Nov. 1970
Stewart L. Udall	Jan. 1961	Jan. 1969
DIRECTOR, OFFICE OF TERRITORIES:		
Elizabeth P. Farrington	Jan. 1969	Present
Ruth G. Van Cleve	Mar. 1964	Jan. 1969
GOVERNOR OF THE VIRGIN ISLANDS:		
Melvin H. Evans	July 1969	Present
Ralph M. Paiewonsky	Apr. 1961	Feb. 1969
GOVERNMENT COMPTROLLER OF THE VIRGIN ISLANDS:		
Howard L. Ross	Oct. 1969	Present
C. Loring Jetton	Sept. 1968	Oct. 1969
Peter A. Bove	Aug. 1957	Sept. 1968

U.S. GAO Wash., D.C.