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OFFICE OF THE VIRGIN ISLANDS INSPECTOR GENERAL
Fiscal Year 2017 Budget Proposal

INTRODUCTION

Good afternoon Senator Clifford Graham, Chairman of the Committee on Finance, members of the Committee, other members of the 31st 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 2017 Budget for the operations of the Office of the Virgin Islands Inspector General (OVIIG) and to answer any questions that you might have.

In keeping with my tradition, I will give you a summary of our activities to date for Fiscal Year 2016, and then I will discuss our budget request for Fiscal Year 2017.

STATE OF THE VI INSPECTOR GENERAL'S OFFICE

To date, Fiscal Year 2016 has been a very positive year for OVIIG and its staff. We have been able to fill all of our vacant positions, hiring three young and energetic entry level auditors, an administrative officer in our St. Croix office, as

well as a writer-editor to assist the staff in quickly preparing effective reports. Accordingly, all of our 18 budget positions are filled. This does not by any means signify that we don't need additional staff; however, we are close to our office space capacity, especially on St. Thomas, and any significant increases in staff will require additional office space.

Early in this fiscal year, we were able to improve the working conditions of the staff by getting new furniture and workstations in the St. Thomas district. On St. Croix, our office was completely refurbished about two ago. In addition, we acquired new computers for the entire staff in both districts.

As one of the few non-union agencies in the VI Government, in late Fiscal Year 2015, with the support of the current Administration, we were able to implement an across-the-board salary increase. In addition, more recently, we were able to bring all classified employees to their 2015 salaries with within-grade increases in accordance with the Personnel Merit System. For some employees it resulted in a four step increase. As will be discussed later, we hope to bring all classified employees to their correct 2016 salary levels and to remain current in Fiscal Year 2017. In addition, there are a few former employees who are also entitled to compensation for their time while employed by OVIIG.

At the operational level, we continue to have the support of the Administration; most recently when Governor Mapp referred to our recently released inspection report on the Government Employees Retirement System's handling of their investments, in particular the Alternative Investment Program. In addition, we are encouraged by Governor Mapp's firm but fair position when dealing with businesses requesting to join or continue their participation in the Tax Incentive Program of the Economic Development Authority.

As it relates to our personnel, as mentioned earlier, all 18 of our budgeted Fiscal Year 2016 positions are filled; and as previously stated, by no means does this imply that we do not need additional personnel; for example, we do need a legal counsel. In addition, a recommendation/implementation follow-up program is non-existent due to the lack of additional audit personnel. At some time in the not too distant future, these issues are going to need to be addressed, if the full effectiveness of the organization is going to be realized. Our organizational chart is attached as an exhibit on page 17 of this document.

Regarding the audit and inspection aspect of our operations, our 2016 Audit Plan is attached on page 18. As stated at our budget hearing last year, we have continued the trend to do audits and inspections that have more of an impact on the

Government and deal with issues that affect the daily lives of the people of the Virgin Islands.

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

✓ **Inspection of the Alternative Investment Program Administered by the Government Employees Retirement System (GERS)**

- The objective of the inspection was to determine whether the investment practices used by GERS under the non-traditional investment methods were; authorized by the Virgin Islands Code (Code), secured, monitored, and effectively managed to reduce GERS' exposure to the risk of loss.
- The Alternative Investment Program as administered by GERS is not meeting the intended purpose of safely increasing the return on investments. Specifically, (i) viatical senior and/or life settlements (viaticals) and some real estate investments considered by the industry as alternative investments are not included in the alternative investments section of the Code; (ii) GERS' current non-traditional investments limit is higher than the industry standards; (iii) in the 2005 revisions to the Code, there are two sections dealing with

alternative investments and one section dealing with viaticals; (iv) a 2015 revision to the Code added five additional categories of alternative investments; (v) GERS entered into loan agreements that were not authorized under the Alternative Investment Program or any other authority as defined by the Code; (vi) the interest rate charged for four of the loans was below the rate charged to GERS members and the industry desired investment rate of return; (vii) GERS entered into an extremely risky and questionable viatical investment; (viii) GERS also granted a \$10 million line of credit to the same partnership that is handling the viatical investment; (ix) GERS entered into numerous agreements and investments without performing the necessary due diligence evaluation to ensure limited risk and a reasonable rate of return on the funds used; (x) GERS did not conduct efficient monitoring and oversight activities of investments under the Alternative Investment Program to protect GERS' interest; and, (xi) GERS did not establish any procedures, policies, or benchmarks to ensure that funds were being utilized for the requested purpose of the investments.

➤ As a result, (i) the law as it now exists does not provide adequate controls to protect against the risk of losing pension funds; (ii) a high percentage of GERS' investment portfolio is exposed to highly volatile and risky alternative investments; (iii) duplications in the Code create confusing and unmanageable requirements when dealing with non-traditional investments; (iv) the 2015 revisions to the Code allow the entire investment portfolio of GERS to be invested in the five risky alternative investments; (v) at least \$77.1 million of the investment portfolio was used to fund seven unauthorized loans; (vi) potential interest earned on the loans did not justify the high risk taken or meet the desired 7 to 8% rate of return established by the Board of Trustees; (vii) GERS has already written-off \$8.4 million of its investment portfolio, with about \$42 million in additional investment funds in jeopardy of being lost due to an ill-advised viatical investment; (viii) in addition to being illegal, an additional \$10 million line of credit to the same viatical is also in jeopardy of being lost; (ix) there was no assurance that funds disbursed in non-traditional investments will produce the desired rate of return, or even

if the funds disbursed will be recovered; and, (x) funds may have been used for purposes not agreed to or authorized by GERS.

✓ **Inspection of the Professional Services Contract for the Pursuit of Damages to the South Shore of St. Croix, Virgin Islands**

- The objectives of the inspection were to determine if (i) the procurement procedures used to engage the Contractor were in accordance with the Code and the applicable Rules and Regulations, (ii) proper safeguards were followed to ensure that the contract administration was adequate, and (iii) fees and expenses claimed by the Contractor were allowable, allocable and reasonable.
- We found that (i) the Government of the Virgin Islands (Government) did not follow all competitive procurement laws, when they entered into the costly professional services contract, (ii) the Contractor was allowed to take control of the litigation process acting as the “Lead Attorney” without the necessary controls in place for the Department of Justice (DOJ) to direct and monitor all actions of the Contractor per the United States Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) litigation process, (iii) the Contractor claimed as fees and expenses a total of \$17.9 million of

the \$27.9 million in settlement funds received from three Settlement Agreements, with no substantiation of the amounts by DOJ, (iv) funds were withheld by the Contractor in violation of the compensation terms of the contract, (v) three summaries submitted by the Contractor were premature and included expenses and fee computations that were not in accordance with the provisions of the contract, (vi) \$27.9 million was inappropriately disbursed from the trust account that was to be established for the Government, and violated the intent of CERCLA, which prioritizes environmental recovery, restoration and health assessment costs over that of legal expenses, (vii) the Contractor miscalculated, by \$5.1 million, the potential contingency fees due from the funds received and inappropriately claimed \$4.1 million in expenses, and (viii) the \$27.9 million collected should have earned about \$761,000 in interest.

- The Government and the Contractor are currently arbitrating the compensation issues as outlined in the contract.

✓ **Audit of the Inventory Controls for Selected School Nutrition Programs at the Department of Education**

- The audit objectives were to determine if the Department of Education, (i) administered its inventory systems for the School Nutrition Programs (more commonly known as the School Lunch Program) in accordance with established criteria and best practices, and (ii) had controls in place to effectively safeguard and monitor nutrition program inventories.
- A draft report is currently under review by our writer-editor before I review the report for submission to the administration of the Department of Education.

✓ **Audit of Selected School Nutrition Program Claims and Reimbursements Procedures at the Department of Education**

- This audit is the second part of our review of selected School Nutrition Programs.
- The objectives of the audit is to assess whether the Department of Education had sufficient internal controls and monitoring procedures to ensure that the meal counting and claiming process adhered to USDA requirements.

- All field work has been completed and the audit team is in the report writing phase of the audit.

✓ **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 is to determine whether the Public Finance Authority managed its operations, bond proceeds, and other income effectively and in accordance with established laws, rules, and regulations.
- The draft report is currently under review by DOI and should be issued by late 2016 or early 2017.

✓ **Inspection of 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 is to determine if the funds collected during the real property auctions were properly distributed in accordance with the provisions of the Virgin Islands Code.
- The draft report is currently being reviewed by our writer-editor before I do my review.

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

- The objective is 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 covers fiscal years 2013 through 2016.
- We are in the process of preparing a risk assessment plan to determine the areas of risk that require our attention.

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

- The objective is 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.

- The audit announcement letter was recently sent, and an entrance conference is scheduled for next week, after which, a risk assessment plan will be prepared to determine the areas of risk for us to focus on.

Reports and inspections issued in Fiscal Year 2015 and to date in Fiscal Year 2016 have identified in excess of \$280 million of potential savings or funds that could have been put to better use.

Our transition to the electronic audit and work paper management system called AutoAudits is progressing smoothly. We used it for the first time with our audit of selected School Nutrition Program claim and reimbursement procedures at the Department of Education, making revisions to the forms and templates as we proceed. We have now incorporated all of our new assignments into the system, thereby generating all of our work papers electronically, and communicating and transferring documents between the two districts through the system.

In the area of investigations, we continue to be active members of the United States Attorney Office's Public Corruption Task Force, with several investigations ongoing.

Locally, earlier this fiscal year two Government employees and two businessmen were charged in a twenty-five count information based on their alleged participation in a real property tax auction scheme. A trial is scheduled for

later this year. Several other questionable property tax auction transactions are being reviewed to be presented to the V. I. Attorney General for consideration. 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 pending a ruling from the VI Supreme Court after yet another appeal.

In Fiscal Year 2015 we received 30 complaints about possible fraud, waste or abuse in the Government and through May 31, 2016 an additional 17 complaints were received. As usual, the majority of the complaints lacked sufficient information; were resolved administratively, or were matters for other departments and agencies. The latter complaints were referred to the respective entities for their disposition.

Once again, we met our 40 hours of continued professional education (CPE) requirements by attending the 27th Global Certified Fraud Examiners Conference in Las Vegas, Nevada this past June. In addition, our new auditors will be meeting their 40 hours of CPE in July, by attending a one-week introductory auditor training course sponsored by the USDA Graduate School in Washington DC.

2017 BUDGET

We are here today to fully support the Administration's 2017 Budget proposal of \$2,118,450 for the operations of OVIIG. The proposal is \$118,450, or 5.9% higher than the fiscal years 2015 and 2016 appropriated amounts. The increase in funding is due to the across the board pay plan increase, the retroactive increments that were due to the classified employees, the planned 2016 and 2017 increments that will be due and the related changes to the fringe benefits for the employees. We have attached, as an exhibit to this presentation on page 19, the proposed distribution of the 2017 funds.

As of June 24, 2016, we have spent or have obligated a little over \$1,550,000 or 77.5% of the Fiscal Year 2016 appropriation.

The following are our comments relating to each prime account of the Fiscal Year 2017 proposed spending plan.

Personal Services and Fringe Benefits. Our budget proposal provides for 18 filled positions. The total proposed funding level for personnel and related services is \$1,773,874, or \$1,316,050 and \$457,824 for Personal Services and Fringe Benefits respectively.

Personal Services	\$1,316,050
Fringe Benefits	<u>457,824</u>
	<u>\$1,773,874</u>

Capital Outlays. We are requesting \$60,000 in Capital Outlays, in order to begin the acquisition of new vehicles in the St. Thomas district. Our current fleet consists of a 2002 and three 2008 vehicles.

Capital Outlays **\$60,000**

Supplies. Budgeted supplies costs for Fiscal Year 2017 are estimated at \$60,000.

Supplies **\$60,000**

Other Services. Budgeted other services costs for Fiscal Year 2017 are estimated at \$175,372.

Other Services **\$179,576**

Utility Services. Finally, our utilities costs for Fiscal Year 2017 are estimated at \$45,000.

Utility Services **\$45,000**

SUMMARY

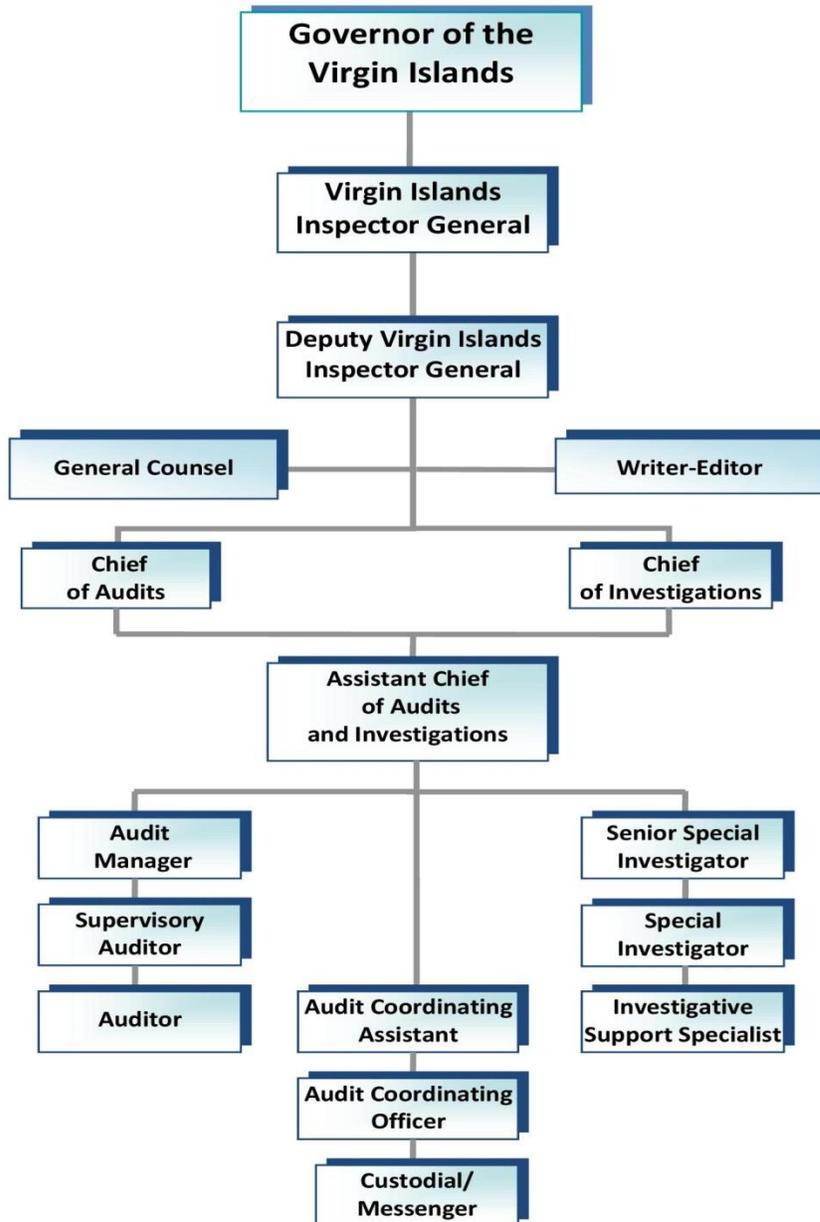
In summary, in Fiscal Year 2016, OVIIG has taken some positive steps in fulfilling our mission “to promote economy, efficiency and effectiveness, and to further the prevention of fraud, waste and abuse in the administration of the programs and operations of the Government of the United States Virgin Islands.”

With the additional funding requested in the Fiscal Year 2017 proposed Budget, we can continue to take additional steps in the right direction.

Accordingly, we ask for your full support of the 2017 Budget request of \$2,118,450.

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 2016

	<u>Staff Days</u>
RESOURCED AUDITS	
<u>Fiscal Year 2015 Carrvover</u>	
Inspection of the Alternative Investment Program of the Government Employees Retirement System	120
Audit of the Controls over the Department of Education's School Lunch Program	180
Inspection of Contract for Claim of Environmental Damages to St. Croix's South Shore	180
Follow-up on the Handling of Funds Received During the Property Tax Auctions	90
Audit of the Public Finance Authority (Joint Project OVIIG/OIG-DOI)	180
Audit of the Child Nutrition Programs Claims and Reimbursement Controls	<u>360</u>
	<u>1110</u>
<u>Fiscal Year 2016 New Starts</u>	
Audit of the Administrative Functions of the Casino Control Commission	360
Audit of the Administrative Functions of the Government Employees Retirement System	420
Audit of Government-wide Travel Practices	<u>420</u>
	<u>1200</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>2610</u>
UNRESOURCED AUDITS	
Audit of the Construction of the Charles W. Turnbull Library	340
Audit of the Administrative Functions of the Governor Juan Luis Hospital	360
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	350
Waste Management Authority Administration and Performance	<u>360</u>
Total Un-resourced Man-days	<u>4145</u>

OFFICE OF THE VI INSPECTOR GENERAL

EXPENDITURES BY PRIME ACCOUNTS

DEPARTMENT/AGENCY/OFFICE NAME:

Fiscal Period

PERSONNEL SERVICES

CLASSIFIED EMPLOYEE SALARIES

UNCLASSIFIED EMPL. SALARIES

LUMP SUM PAYMENTS

SUB-TOTAL

PROJECTED 2017

673,802

461,600

180,648

1,316,050

CAPITAL OUTLAYS

VEHICLES

SUB-TOTAL

60,000

60,000

FRINGE BENEFITS

EMPLOYER CONTR. RETIREMENT

F.I.C.A.

MEDICARE

HEALTH INSURANCE PREMIUM

WORKERS COMP. PREMIUMS

SUB-TOTAL

225,918

81,595

19,083

130,470

758

457,824

SUPPLIES

OFFICE SUPPLIES

OPERATING SUPPLIES

SMALL TOOLS/MINOR EQUIPMENT

REPAIRS /MAINTENANCE SUPPLIES

DATA PROCESSING SOFTWARE

PROFESSIONAL REFERENCE BOOKS

SUB-TOTAL

10,000

10,000

5,000

5,000

25,000

5,000

60,000

OTHER SERVICES & CHARGES

COMMUNICATION

TRAVEL

TRANSPORTATION - NOT TRAVEL

REPAIRS AND MAINTENANCE

RENTAL- LAND/BUILDING

RENTAL - MACHINES/EQUIPMENT

TRAINING

AUTO REPAIRS

SUB-TOTAL

30,000

25,000

9,576

45,000

20,000

5,000

35,000

10,000

179,576

UTILITY SERVICES

ELECTRICITY

WATER

SUB-TOTAL

40,000

5,000

45,000

TOTAL EXPENSES

2,118,450