



**Virgin Islands Port Authority**  
(A Component Unit of the Government of the  
U.S. Virgin Islands)

Schedule of Expenditures of Federal Awards  
and Reports Required by *Government Auditing  
Standards* and OMB Circular A-133  
Year Ended September 30, 2013

**Virgin Islands Port Authority**  
(A Component Unit of the Government of  
the U.S. Virgin Islands)

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Schedule of Expenditures of Federal Awards  
and Reports Required by *Government Auditing*  
*Standards* and OMB Circular A-133  
Year Ended September 30, 2013

**Virgin Islands Port Authority**  
(A Component Unit of the Government of the U.S. Virgin Islands)

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## Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Governing Board  
Virgin Islands Port Authority

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Virgin Islands Port Authority (the Authority), a component unit of the Government of the U.S. Virgin Islands, as of and for the year ended September 30, 2013, and the related notes to the financial statements, and have issued our report thereon dated April 28, 2014.

### Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in greater detail in accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency identified below and described in greater detail in the accompanying schedule of findings and questioned costs as item 2013-01 to be a material weakness.

- Reconciliation and Review Processes



A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies identified below and described in greater detail in accompanying schedule of findings and questioned costs as items 2013-02 to 2013-05 to be significant deficiencies.

- Cash Based Revenue
- Lease Agreement(s) Administration
- Reversionary Property Leases
- User Access and Program Change Management

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

#### The Authority's Responses to Findings

The Authority's responses to the findings identified in our audit are included in accompanying schedule of findings and questioned costs. The Authority's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

#### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BDO USA, LLP

April 28, 2014



## **Independent Auditor's Report on Compliance For Each Major Program, Report on Internal Control Over Compliance, and Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

To the Governing Board  
Virgin Islands Port Authority

### **Report on Compliance for Each Major Federal Program**

We have audited the Virgin Islands Port Authority's (the Authority) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended September 30, 2013. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

#### ***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

#### ***Basis for Qualified Opinion on Major Federal Programs***

As described in the accompanying schedule of findings and questioned costs, the Authority did not comply with the requirements regarding the Davis Bacon Act, equipment and real property management, and procurement and suspension and debarment as described in items 2013-07, 2013-08, 2013-09, 2013-10 and 2013-11.



Compliance with such requirements is necessary, in our opinion, for the Authority to comply with the requirements applicable to its major federal programs as identified in Section I of the accompanying schedule of findings and questioned costs.

#### *Qualified Opinion on Major Federal Programs*

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended September 30, 2013.

#### *Other Matters*

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2013-06, 2013-12 and 2013-13. Our opinion on each major federal program is not modified with respect to these matters.

The Authority's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Authority's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on them.

#### **Report on Internal Control Over Compliance**

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.



We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2013-07 to 2013-11 to be material weaknesses.

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2013-06, 2013-12 and 2013-13 to be significant deficiencies.

The Authority's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Authority's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on them.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

#### **Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

We have audited the financial statements of the Virgin Islands Port Authority, a component unit of the Government of the U.S. Virgin Islands, as of and for the year ended September 30, 2013, and have issued our report thereon dated April 28, 2014, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

*BDO USA, LLP*

June 13, 2014

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**Schedule of Expenditures of Federal Awards**

<i>Year ended September 30,</i>			2013
<i>Federal Grantor / Pass-Through Grantor / Program or Cluster Title</i>	<i>Federal CFDA Number</i>	<i>Pass-Through Entity Identifying Number</i>	<i>Federal Expenditures</i>
<b>U.S. Department of Transportation:</b>			
<b>Federal Aviation Administration</b>			
<b>Direct Programs</b>			
Airport Improvement Program Cyril E. King Airport	20.106		\$ 4,462,623
Airport Improvement Program Henry E. Rohlsen Airport	20.106		264,300
<i>Total U.S. Department of Transportation Direct Programs</i>			4,726,923
<b>U.S. Department of Homeland Security:</b>			
<b>Transportation Security Administration</b>			
<b>Direct Programs</b>			
Port Security Grant Program St. Thomas and St Croix Port Facilities	97.056		1,073,778
National Explosive Detection Canine Team Program Cyril E. King Airport	97.072		181,000
Law Enforcement Officer Reimbursement Agreement Program Cyril E. King Airport	97.090		191,230
Law Enforcement Officer Reimbursement Agreement Program Henry E. Rohlsen Airport	97.090		102,200
<i>Subtotal U.S. Department of Homeland Security Direct Programs</i>			1,548,208
<b>Federal Emergency Management Agency</b>			
<b>Pass Through Program from:</b>			
<b>Virgin Islands Territorial Emergency Management Agency</b>			
Hazard Mitigation Grant Program	97.039	FEMA-1807-DR-VI	177,033
<i>Total U.S. Department of Homeland Security</i>			1,725,241
<b>Total Expenditures of Federal Awards</b>			<b>\$ 6,452,164</b>

*See accompanying note to the Schedule.*

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**Note to the Schedule of Expenditures of Federal Awards**

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**1. Summary of Significant Accounting Policies**

*Reporting Entity*

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of the Virgin Islands Port Authority (the Authority) under programs of the Federal government for the year ended September 30, 2013. The information in this Schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements.

Further, because the Schedule presents only a selected portion of the operations of the Authority, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Authority.

*Basis of Accounting*

Expenditures included in the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

*Matching Costs*

Matching costs, the nonfederal share of certain program costs, are not included in the Schedule.

*Relationship to Federal Financial Reports*

The regulations and guidelines governing the preparation of Federal financial reports vary by Federal agency and among programs administered by the same agency. Accordingly, the amounts reported in the Federal financial reports do not necessarily agree with the amounts reported in the accompanying Schedule, which is prepared on the basis described above.

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**Schedule of Findings and Questioned Costs**

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**Section I - Summary of Auditor's Results**

*Financial Statements*

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?  Yes  No
- Significant deficiency(ies) identified?  Yes  None reported
- Noncompliance material to financial statements noted?  Yes  No

*Federal Awards*

Internal control over major programs:

- Material weakness(es) identified?  Yes  No
- Significant deficiency(ies) identified?  Yes  None reported

Type of auditors' report issued on compliance for major programs: Qualified

Any audit findings disclosed that are required to be reported in accordance with section .510(a) of Circular A-133?  Yes  No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
20.106	Airport Improvement Program
97.056	Port Security Grant Program

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee?  Yes  No

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**Schedule of Findings and Questioned Costs**

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**Section II - Financial Statement Findings**

**Finding 2013-01: Reconciliation and Review Processes**

Accounting tasks, such as periodic reconciliations, play a key role in proving the accuracy of accounting data and information included in various interim financial statements and/or reports. We noted that in some cases, reconciliations were finalized in mid-February 2014, which represents a significant delay when compared to the Authority's fiscal year-end.

- The main bank account reconciliations were not completed until February 2014. Cash is the most liquid of assets and has the highest risk for theft, embezzlement, and misappropriation. Not reconciling such accounts on a periodic basis means that errors or other problems might not be recognized and resolved on a timely basis. Further, unreconciled differences that appear immaterial can obscure significant but offsetting items (such as bank errors or improperly recorded transactions) that would be a cause for investigation if the items were apparent.
- Capital asset reconciliations, deferred charges, prepaid supplies, allowance for bad debts, expense data, journal entry analysis, and various other schedules, that form part of the year-end closing process, had not been reconciled on a periodic basis.

As a result, detailed schedules supporting general ledger accounts did not always agree with the respective general ledger balances. Approximately eighty (80) post-closing adjustments were provided during the audit process. Such a continuing and growing backlog of transactions and journal entries that are not posted into the accounting system on a timely basis, renders the accounting information virtually useless in making well informed business decisions.

In order to prevent significant errors in the financial records and financial statements as well as prevent possible irregularities, including fraud, to exist and continue without notice, we recommend that all accounts, accruals, and reconciliations be reviewed on a periodic basis. The review could include tests of mechanical accuracy and tracing of items on the reconciliations to the relevant source documents. The composition of any unreconciled differences should be determined and followed up on, and any journal entries, deemed necessary as a result, should be recorded.

We further believe that the year-end closing could proceed more quickly and smoothly by developing a logical order for closing procedures and assigning responsibility for completing the procedures to specific personnel. The closing procedures could be documented in a checklist that indicates who will perform each procedure and when completion of each procedure is due and is accomplished.

***Views of Responsible Officials and Planned Corrective Actions:***

**Corrective Action Plan:**

The Authority concurs with the identified deficiency and recommendations. Risk mitigation procedures will include the following:

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- The Authority will use a closing checklist and reconcile its bank accounts by the 25<sup>th</sup> of the next month. Accounting has formalized with its banks the process of allowing the general ledger accountant, who reconciles the accounts, to investigate and resolve issues that become apparent during reconciliations to shorten the time frame of said issues.
- The Authority will also implement the use of online bank statements to shorten the timeframe of receipt of bank statements through the mail which prolong the reconciliation process.
- Any bank issues are to be resolved by the next bank reconciliation and in the excepted cases, a documented log of the steps being taken to resolve the issue will be attached to the monthly bank reconciliations.
- The reconciling of general ledger accounts is to be completed at least quarterly with review for accuracy and missing transactions.
- Internal Audit is also to conduct periodic reviews of accounts with a focus on tracing items to relevant source documents and accuracy of transactions.
- Utilization of a monthly, quarterly, and yearly closing checklist will be used as a tactical plan to ensure tracking that all owners of a process have completed their responsibilities and as a management control of any potential areas that may lead to the delay of a timely closing process.

Implementation Date:

4<sup>th</sup> Quarter of Fiscal Year 2014

Responsible Official(s) for Corrective Action:

Chief Financial Officer and Accounting Manager

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**Finding 2013-02: Cash Based Revenue**

A well-designed system for the revenue cycle is very important for the success of any business enterprise. There must be a process that appropriately bills and collects. Further, a strong revenue cycle contains adequate segregation of duties and overall organization and timing are critically important to its effectiveness.

At present, marine docking, marine pilotage, private yachts/small boat dues, ferry passenger fees, and various marine and aviation parking lot fees are collected by various dock masters and/or other operators in the form of cash. We noted the following:

- A review is not being performed to ensure that source information (e.g., vessel dimension, number of passengers for billing, etc.) that the dock masters input into the Authority's E-Collect system is accurate and correct.
- The dock masters who are in-charge of billing are also collecting the corresponding fees.
- A system of pre-numbered tickets exists at the parking lots. However, the final step of reconciling the daily tickets issued to the actual deposit made into the bank is not performed on a regular basis. Performing this procedure greatly strengthens controls over cash receipts and ensures that all cash received is being deposited into the bank.
- Passenger Facility Charges (PFC) are recorded as and when cash is remitted from collecting air carriers. At present, the Authority does not utilize any procedures for validating the completeness or accuracy of the carrier remittances, thereby, increasing the risk of understatement of said collections which may unnecessarily extend the life of a PFC charge. We noted the Authority engages an aviation specialist to analyze various forms of enplanement data and we recommend that the Authority consider utilizing such data, together with other forms of budgetary analysis, to devise expected PFC collections on a monthly basis that can be compared to air carrier remittances, in order to validate the reasonableness of revenues recorded.

A study by the Association of Certified Fraud Examiners found that more than 80 percent of occupational fraud cases involve asset misappropriation, and cash is the targeted asset 90 percent of the time. We understand that management is working on various steps in separating closely related functions in the cash receipts system in order to reduce the risk that receipts could be improperly deposited, lost, or misappropriated. We recommend that management continue with and accelerate its effort(s).

***Views of Responsible Officials and Planned Corrective Actions:***

**Corrective Action Plan:**

The Authority concurs with the identified deficiency and recommendations. Risk mitigation procedures will include the following:

- Review documented business processes performed by the bookkeeper.
- Identify and assess source(s) of information utilized by the dock master to record billing information, including physical observation of vessels, passengers, etc.

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- Confirm organizational structure/reporting responsibility of the dock master, validate the flow of transactional data and end-of-day reports.
- Strengthen the level and/or frequency of reviewing source information by the bookkeeper and other marine employees.
- Implement handheld devices that will accept credit and debit card transactions at the point-of-sale. Communicate the elimination of cash transactions to the boating community by a date certain and restrict the collection of cash to the closest marine terminal.
- Revise parking lot procedures to ensure that the Parking Lot Supervisor reviews and signs the reconciliation of daily parking tickets to actual deposits that is compiled by the Parking Lot Attendant.
- Establish and communicate the Authority's PFC collection threshold of 85%.
- Validate the supplementary information submitted to the Accounting Division by airline carriers in support of the PFC payments submitted to the Authority (e.g., passenger enplanement data, dates of service, etc.).
- Perform a comparison of actual PFC collections versus enplanement data (by airline) compiled by the Authority on a quarterly basis.
- Correspond, in writing, with airlines that fall below the 85% threshold.

Implementation Date:

4<sup>th</sup> Quarter of Fiscal Year 2014

Responsible Official(s) for Corrective Action:

Chief Financial Officer, Marine Manager and Accounting Manager

**Virgin Islands Port Authority**  
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**Finding 2013-03: Lease Agreement(s) Administration**

The Authority leases properties to outside users which are governed under the terms of a significant number of lease agreements. Leased facilities can include warehouse space, terminal counter space, terminal retail space, commercial space, and office space. We selected a sample of leases for our test work and noted the following:

- Various lease agreements required rental increases every three (3) years, based on the higher of the change in the Consumer Price Index (CPI) or 5%, which had not been implemented by the Authority.
- Several lease agreements noted that the lease should not be renewed after the expiration period; however, the lease had not been terminated or revised accordingly.
- Several occurrences where lease agreements, supporting rental collections recorded in the general ledger, were not available. We understand that the Authority has several leases that have lapsed and are on month-to-month terms; however, in these instances, there were no previous lease agreements available to evidence that the leases had in fact, lapsed and were now operating on a month-to-month basis.
- Instances where lease agreements required a set amount to be deposited with the Authority and the actual amount deposited did not agree to the lease terms.

Given the significant number of leases entered into by the Authority, these issues can result in a loss of control and efficiency. We recommend that the Authority develop a lease rental database application package that would integrate with the general ledger package. This should also serve as the central database of all business documents. A system-generated lease revenue summary should be analyzed and reconciled with the general ledger on a periodic basis. This procedure will help ensure that proper billing and related information is posted to the general ledger and that lease revenues are accurate.

Furthermore, a workable mechanism should be maintained to alert management to important dates that require timely attention, such as renewal clauses, rate changes, option dates, addendum values, and expiration dates.

***Views of Responsible Officials and Planned Corrective Actions:***

**Corrective Action Plan:**

The Authority concurs with the identified deficiency and recommendations. Risk mitigation procedures will include implementing SAP's Lease Management Module (LMM) to:

- Account for all active, non-active or month-to-month arrangements in LMM's bona fide subsidiary ledger.
- Reconstitute the data elements underlying each active, non-active or month-to-month arrangement in LMM to improve the accuracy of billing and reconciliation to the general ledger.

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- Record all "trigger dates" in each active, non-active or month-to-month arrangements in LMM and integrate with Microsoft Outlook to automate and ensure timely attention to renewal clauses, rate changes, option dates, addendum values and expiration dates.

Implementation Date:

4<sup>th</sup> Quarter of Fiscal Year 2014

Responsible Official(s) for Corrective Action:

Chief Financial Officer, Director of Property, General Manager - Crown Bay Center, Accounting Manager and SAP System Consultant

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**Finding 2013-04: Reversionary Property Leases**

The Authority has entered into several long-term ground leases, some of which contain provisions allowing tenants to improve said premises over time in order to recover their investment in the improvements and to enjoy those premises through the end of the lease agreement, including any option periods. Such provisions also state that upon the expiration of the lease term, the property reverts back to the Authority.

We noted that the Authority was not able to provide a comprehensive schedule of all leased properties with reversionary clauses. We recommend that management conduct a thorough review of its lease agreements and identify those with reversionary clauses. A schedule should then be drawn up to include the name of the property, the lease period, the nature of the leasehold improvement expected to revert to the Authority and lastly, the dates when the reversion is anticipated to occur. This schedule should then be made available to the Accounting department.

As the reversion dates approach, plans should be coordinated amongst the concerned departments and appraisals should also be obtained, from independent sources, on the reversionary properties. Upon receipt of the appraisal report(s), we recommend that an internal exercise involving senior members of the Accounting and Property Management departments be carried out whereby the report(s) are analyzed for reasonability of the assumptions employed, methods utilized and the fair market values assigned to the improvements made on the reverted properties. The Accounting department should then use this analysis as the basis for assigning and recording values to the improvements made on the reverted properties.

In recent years, management has made a significant correcting entry during the annual audit process, to properly reflect the improvements made on the reverted properties. We believe the recommended practice(s) will aid in maintaining the accuracy of accounting data and financial information that comprise both interim and year-end financial statements along with producing an efficient and smooth year-end closing.

***Views of Responsible Officials and Planned Corrective Actions:***

**Corrective Action Plan:**

The Authority concurs with the identified deficiency and recommendations. Risk mitigation procedures will include implementing SAP's Lease Management Module (LMM) to:

- Account for and uniquely codify all active leases with reversionary clauses in LMM's bona fide subsidiary ledger.
- Modify the data elements underlying each active reversionary lease to enhance reporting (e.g., name of the property, the lease period, the nature of the leasehold improvement expected to revert to the Authority and the date(s) when the reversion is anticipated to occur).
- Integrate "reversionary dates" with Microsoft Outlook to automate and ensure timely attention is given to commencing appraisals from independent sources.

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- Conduct collaborative review of appraisal reports by the Accounting Division and the Property Department for purposes of assessing the reasonability of the assumptions employed, methods utilized and the fair market values assigned to the improvements.
- Assign and record values to the improvements made on the reverted properties in the Authority's general ledger prior to the close of the nearest fiscal year.

Implementation Date:

4<sup>th</sup> Quarter of Fiscal Year 2014

Responsible Official(s) for Corrective Action:

Chief Financial Officer, Director of Property, Accounting Manager and SAP System Consultant

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**Finding 2013-05: User Access and Program Change Management**

Inappropriate or excessive access may result in unauthorized data changes or transactions. As such, user access and administration (user addition, modification, removal) controls should be adhered to in order to ensure that appropriate access is granted and terminated employees are removed in a timely manner.

- We noted that supervisors request new (and infrequently, changes to) access for staff via an email to the Information Technology (IT) manager who, in turn, grants the access. As such, the IT manager is also the approving authority for the end user access. We recommend that corroborating input from the business or accounting controls focused leader(s) should also be obtained and evidence over the review process should be documented and retained.
- We noted that a periodic review of user access is not performed to support continuing appropriate rights or to manage the risk of terminated employees retaining access. For terminated employees, among other procedures, there should be a process for immediate deletion of passwords on the network and various applications, as well as passwords for hardware and software. In addition, management may consider a periodic reconciliation of application accounts as compared to active Authority employees.

At the present time, there are varying degrees of formality of controls over program changes.

- Once changes are developed and tested by the Authority's outside consultant, they are moved to a test environment at the Authority where the enhancements are piloted. Subsequent to a successful pilot effort, the Information Technology (IT) Manager and outside IT consultant collaborate to identify when and how to move the changes to a production environment. All documentation of development and testing is exchanged via email and no ongoing evidence is maintained.
- It is further noted that support for authorizing the move to production is limited to a successful pilot process; it does not consider an analysis of other potential risks.

Inappropriate system modifications to applications can cause incorrect calculations and compromise functionality. The Authority may consider centralizing its documentation process to mitigate the risk of any potential change being implemented without the appropriate approval(s). Further, the Authority should consider if significant changes to existing applications should also be supported by a study of costs and benefits.

***Views of Responsible Officials and Planned Corrective Actions:***

**Corrective Action Plan:**

The Authority concurs with the identified deficiency and recommendations. Risk mitigation procedures will include the following:

- Formalize access requests between user departments and the IT Manager by developing a "User Access Form" to properly evidence corroborating input from the business or accounting controls focused leader(s) and the Chief Financial Officer.

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- Develop a formal compliance checklist to assist the IT Manager in conducting semi-annual reviews of user access to support continuing appropriate rights or to manage the risk of terminated employees.
- Outsource project management services related program changes and centralization of the documentation process.

Implementation Date:

4th Quarter of Fiscal Year 2014

Responsible Official(s) for Corrective Action:

Chief Financial Officer, Information Technology (IT) Manager and SAP System Consultant

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**Section III - Federal Award Findings and Questioned Costs**

**Finding 2013-06: Cash Management**

Information on Federal Program(s) - U.S. Department of Homeland Security:  
Transportation Security Administration

Port Security Grant Program  
CFDA Number: 97.056

Criteria or Specific Requirement - OMB Circular A-133 Subpart C Section .300 (b) states, "The auditee shall maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

Condition - We reviewed 2 drawdowns made during the year totaling approximately \$1.1 million and noted that in both instances, the drawdown requests did not include evidence of review and/or approval prior to the drawdown.

Questioned Costs - Not applicable.

Context - This is a condition identified per review of the Authority's compliance with specified requirements.

Effect - There is increased risk that errors or misappropriation could occur and go undetected.

Cause - The Authority did not appear to exercise due diligence in requesting federal funds consistent with its existing policies and procedures.

Recommendation - We recommend the Authority re-evaluate its existing policies and procedures and strengthen processes surrounding its grants management drawdown cycle.

Views of Responsible Officials and Planned Corrective Actions:

*Corrective Action* - The Authority will implement a similar sign-off system for this drawdown portal as is followed for the FAA Grants.

*Implementation Date* - The Authority will ensure compliance, effective immediately.

*Responsible Official(s) for Corrective Action* - Chief Financial Officer and Accounting Manager

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**Finding 2013-07: Davis-Bacon Act**

Information on Federal Program(s) - U.S. Department of Transportation:  
Federal Aviation Administration

Airport Improvement Program  
CFDA Number: 20.106

Criteria or Specific Requirement - All laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of \$2,000 financed by Federal assistance funds must be paid wages not less than those established for the locality of the project (prevailing wage rates) by the Department of Labor (DOL). This includes a requirement for the contractor or subcontractor to submit to the non-federal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls).

Further, non-federal entities shall include in their construction contracts, subject to the Davis-Bacon Act, a requirement that the contractor or subcontractor comply with the requirements of the Davis-Bacon Act and DOL regulations.

Condition - We reviewed eight (8) weekly certified payroll reports submitted to the Authority as required under the Davis-Bacon Act. While the contractor appropriately submitted the reports to the Authority, there was no evidence that the Authority reviewed the weekly certified payroll reports in order to determine if the federal prevailing wages had been paid.

In addition, we reviewed two (2) construction contracts with federal awards expended during the fiscal year. One (1) contract did not include the prevailing wage rate clause. Federal expenses incurred on this contract for fiscal year 2013 aggregated to \$153,903.

Questioned Costs - Not applicable.

Context - This is a condition identified per review of the Authority's compliance with specified requirements.

Effect - The Authority is not in compliance with federal program requirements for timely review of supporting documentation (i.e. certified payrolls). There is a potential that contractors or subcontractors could have paid their employees less than the prevailing wage rates established by the DOL.

Cause - The Authority did not strictly implement the terms of the construction contracts and Davis-Bacon Act requirements when monitoring its contractors or subcontractors.

Recommendation - The Authority should ensure that responsible project management personnel obtain and review, on a timely basis, the required certified payroll reports for each week in which a contractor or subcontractor's work is performed. The review should include, but not be limited to, ensuring that the federal prevailing wages were paid and should include evidence that such a review has been performed. The Authority should further review all contracts in order to ensure the required clauses are included.

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Views of Responsible Officials and Planned Corrective Actions:

*Corrective Action* - The Authority recognizes the need for compliance with the Davis-Bacon Act and as such, going forward from fiscal year 2014, all contracts where applicable shall have the prevailing wage rate clause. In addition, payrolls of vendors/developers will be monitored on a periodic basis to ensure compliance with the Davis-Bacon Act.

*Implementation Date* - The above mentioned recommendation will be implemented for contracts starting in fiscal year 2014.

*Responsible Official(s) for Corrective Action* - Legal Counsel and Federal Programs Coordinator

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**Finding 2013-08: Equipment and Real Property Management**

Information on Federal Program(s) - U.S. Department of Transportation:  
Federal Aviation Administration

Airport Improvement Program  
CFDA Number: 20.106

Criteria or Specific Requirement - Per the A-102 Common Rule, property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.

Condition - The Authority was unable to provide us with property records that met the requirements of OMB Circular A-102, or evidence of the performance of a physical inventory of property within the past two years. In addition, the Authority does not separately tag or identify equipment purchased with federal funds.

Questioned Costs - Not applicable.

Context - This is a condition identified per review of the Authority's compliance with specified requirements.

Effect - There is a risk that inadequate recordkeeping of equipment could lead to misappropriation of assets and noncompliance with federal regulations resulting in a return of federal awards received.

Cause - The Authority does not appear to have a process in place for performing physical inventories, including a reconciliation of the inventory observed with inventory records, for property acquired with federal funds. Also, the Authority does not have a process in place to tag or otherwise identify equipment purchased with federal funds.

Recommendation - The Authority should perform a physical inventory of equipment purchased with federal funds at least every two years, as required. The Authority should also tag or otherwise identify assets acquired with federal funds in its accounting system.

Views of Responsible Officials and Planned Corrective Actions:

*Corrective Action* - The Authority has reinvigorated its efforts to perform a physical inventory on a bi-annual basis, continuing in fiscal year 2014. An audit was performed in 2012 but the Authority does concur that the equipment purchased with federal funds could not be separately identified in the fixed assets system; however, all federal funded equipment that can be, is tagged with an orange federal tag manually. As such, equipment purchased will be separately identified in the fixed asset system, such that a listing of federal equipment can be generated, commencing with any fixed asset purchases in fiscal year 2012.

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*Implementation Date* - The Authority will ensure that a physical inventory is completed in fiscal year 2014 and at least every two years thereafter. Equipment listing(s) will be updated to show any federally funded equipment from fiscal year 2012 onwards.

*Responsible Official(s) for Corrective Action* - Chief Financial Officer, Accounting Manager and Purchasing and Procurement Supervisor

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**Finding 2013-09: Equipment and Real Property Management**

Information on Federal Program(s) - U.S. Department of Homeland Security  
Transportation Security Administration

Port Security Grant Program  
CFDA Number: 97.056

Criteria or Specific Requirement - Per the A-102 Common Rule, property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.

Condition - The Authority was unable to provide us with property records that met the requirements of OMB Circular A-102, or evidence of the performance of a physical inventory of property within the past two years. In addition, the Authority does not separately tag or identify equipment purchased with federal funds.

Questioned Costs - Not applicable.

Context - This is a condition identified per review of the Authority's compliance with specified requirements.

Effect - There is a risk that inadequate recordkeeping of equipment could lead to misappropriation of assets and noncompliance with federal regulations resulting in a return of federal awards received.

Cause - The Authority does not appear to have a process in place for performing physical inventories, including a reconciliation of the inventory observed with inventory records, for property acquired with federal funds. Also, the Authority does not have a process in place to tag or otherwise identify equipment purchased with federal funds.

Recommendation - The Authority should perform a physical inventory of equipment purchased with federal funds at least every two years, as required. The Authority should also tag or otherwise identify assets acquired with federal funds in its accounting system.

Views of Responsible Officials and Planned Corrective Actions:

*Corrective Action* - The Authority has reinvigorated its efforts to perform a physical inventory on a bi-annual basis, continuing in fiscal year 2014. An audit was performed in 2012 but the Authority does concur that the equipment purchased with federal funds could not be separately identified in the fixed assets system; however, all federal funded equipment that can be, is tagged with an orange federal tag manually. As such, equipment purchased will be separately identified in the fixed asset system, such that a listing of federal equipment can be generated, commencing with any fixed asset purchases in fiscal year 2012.

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*Implementation Date* - The Authority will ensure that a physical inventory is completed in fiscal year 2014 and at least every two years thereafter. Equipment listing(s) will be updated to show any federally funded equipment from fiscal year 2012 onwards.

*Responsible Official(s) for Corrective Action* - Chief Financial Officer, Accounting Manager and Purchasing and Procurement Supervisor

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**Finding 2013-10: Procurement and Suspension and Debarment**

Information on Federal Program(s) - U.S. Department of Transportation:  
Federal Aviation Administration

Airport Improvement Program  
CFDA Number: 20.106

Criteria or Specific Requirement - OMB Circulars A-133 and A-102 require that recipients of federal awards have adequate procedures and controls in place to ensure that procurement transactions are properly documented in an entity's files, provide full and open competition supported by a cost or price analysis, provide a vendor debarment or suspension certification, provide for retention of files, and that supporting documentation collaborate compliance with these requirements. Specifically, when a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the *Excluded Parties List System* (EPLS) maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity.

In addition, the Airport Improvement Program has specific requirements as stipulated in the respective grant agreement(s) as it relates to various required clauses and other U.S. Department of Transportation procurement requirements.

Condition - We selected six (6) contracts for testing and noted the following exceptions:

- In four (4) instances, we were unable to verify that the Authority performed the required verifications to ensure contractors under covered transactions had not been suspended or debarred from participating in federally-assisted programs. Furthermore, we did not observe any clause or condition in the project contracts reviewed, or certification from the contractor asserting they were not suspended or debarred. Nevertheless, we verified through EPLS that none of these contractors had been suspended or debarred from participating in federally-assisted programs.
- As it relates to the specific requirements of the Airport Improvement Program, we were unable to verify that four (4) contracts included the appropriate checks as it relates to the assurance(s) that the contracts had not been awarded to vendors excluded from doing business with any U.S. Department of Transportation (DOT) element and appearing on the DOT Unified List.
- As it relates to the specific requirements of the Airport Improvement Program, we were unable to verify that two (2) contracts contained the appropriate clauses in accordance with Executive Orders 11246 and 11375 on Equal Employment Opportunity.

Questioned Costs - Not applicable.

Context - This is a condition identified per review of the Authority's compliance with specified requirements.

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Effect - Inefficient control systems related to procurement files can lead to noncompliance with laws and regulations. The Authority could inadvertently contract with or make sub-awards to parties that are suspended or debarred from doing business with the Federal government as well as award contracts to vendors whose contract prices are unreasonable or award contracts to unqualified vendors.

Cause - The Authority did not maintain proper documentation for procurement contracts and policies and procedures were not functioning as intended.

Recommendation - We recommend that the Authority review its current contracting policies with special focus on needed enhancements to ensure compliance with suspension and debarment provisions and completeness of required clauses or conditions in various project contracts.

Views of Responsible Officials and Planned Corrective Actions:

*Corrective Action* - For purposes of determining whether a prospective contractor is not suspended or debarred or is otherwise excluded from or ineligible for participation in federal assistance programs under Executive Order 12549, Debarment and Suspension, the Authority will revise its policies and procedures to include the verification of prospective contractors via the *Excluded Parties List System* (EPLS) maintained by the General Services Administration, obtaining a certification from the entity, and/or adding a clause or condition to the contract with the entity.

*Implementation Date* - The Authority will ensure compliance, effective immediately.

*Responsible Official(s) for Corrective Action* - Executive Director, Chief Financial Officer, General Counsel and Director of Engineering

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**Finding 2013-11: Procurement and Suspension and Debarment**

Information on Federal Program(s) - U.S. Department of Homeland Security  
Transportation Security Administration

Port Security Grant Program  
CFDA Number: 97.056

Criteria or Specific Requirement - OMB Circulars A-133 and A-102 require that recipients of federal awards have adequate procedures and controls in place to ensure that procurement transactions are properly documented in an entity's files, provide full and open competition supported by a cost or price analysis, provide a vendor debarment or suspension certification, provide for retention of files, and that supporting documentation collaborate compliance with these requirements. Specifically, when a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the *Excluded Parties List System* (EPLS) maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity.

Condition - We selected two (2) contracts for testing and were unable to verify that the Authority performed the required verifications to ensure contractors under covered transactions had not been suspended or debarred from participating in federally-assisted programs. Furthermore, we did not observe any clause or condition in the project contracts reviewed, or certification from the contractor asserting they were not suspended or debarred. Nevertheless, we verified through EPLS that none of these contractors had been suspended or debarred from participating in federally-assisted programs.

Questioned Costs - Not applicable.

Context - This is a condition identified per review of the Authority's compliance with specified requirements.

Effect - Inefficient control systems related to procurement files can lead to noncompliance with laws and regulations. The Authority could inadvertently contract with or make sub-awards to parties that are suspended or debarred from doing business with the Federal government as well as award contracts to vendors whose contract prices are unreasonable or award contracts to unqualified vendors.

Cause - The Authority did not maintain proper documentation for procurement contracts and policies and procedures were not functioning as intended.

Recommendation - We recommend that the Authority review its current contracting policies with special focus on needed enhancements to ensure compliance with suspension and debarment provisions and completeness of required clauses or conditions in various project contracts.

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Views of Responsible Officials and Planned Corrective Actions:

*Corrective Action* - For purposes of determining whether a prospective contractor is not suspended or debarred or is otherwise excluded from or ineligible for participation in federal assistance programs under Executive Order 12549, Debarment and Suspension, the Authority will revise its policies and procedures to include the verification of prospective contractors via the *Excluded Parties List System* (EPLS) maintained by the General Services Administration, obtaining a certification from the entity, and/or adding a clause or condition to the contract with the entity.

*Implementation Date* - The Authority will ensure compliance, effective immediately.

*Responsible Official(s) for Corrective Action* - Executive Director, Chief Financial Officer, General Counsel and Director of Engineering

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**Finding 2013-12: Reporting**

Information on Federal Program(s) - U.S. Department of Transportation  
Federal Aviation Administration

Airport Improvement Program  
CFDA Number: 20.106

Criteria or Specific Requirement - Accurate, current, and complete disclosure of the financial results of financial assisted activities must be made in accordance with the financial reporting requirements of the grant.

The Federal Aviation Administration (FAA) requires sponsors to file Form 5100-126 and Form 5100-127 within 120 days after the end of its fiscal year. Airport sponsors may upload the information directly into the report database using the Compliance Activity Tracking System (CATS). The FAA may grant an extension of 60 days after the filing due date. Airport sponsors requesting the extension may make the extension request on-line from the CATS website or in writing to the FAA Headquarter Airport Compliance Division.

Condition - We noted the following:

- Forms 5100-126 and 5100-127, as submitted by the Authority through CATS, did not agree with the Authority's general ledger and were not supported by reconciling schedules; therefore, we were unable to validate the accuracy of the amounts included in the respective reports.
- The Authority did not submit these required forms within the mandatory period(s) and did not obtain FAA approval for an extension of time.

Questioned Costs - Not applicable.

Context - This is a condition identified per review of the Authority's compliance with specified requirements.

Effect - Failure to maintain accurate supporting records and submit reports on a timely basis could result in disallowed costs or suspension of funding.

Cause - Policies and procedures were not appropriately adhered to. Further, accounting and review procedures over information recording and report completion did not appear to be functioning as intended.

Recommendation - The Authority should strengthen its policies and procedures to include proper recording, reconciliation, and review procedures over federal reporting requirements to ensure that there is consistency between the accounting system and the reports that are submitted. Further, policies and procedures governing timely submission of reports should be enforced.

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**Schedule of Findings and Questioned Costs**

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Views of Responsible Officials and Planned Corrective Actions:

*Corrective Action* - The Authority concurs that all supporting documentation should be maintained for financial reports filed. For those programs where the reports are submitted online, a manual report will be printed and manually signed with the date entered into the portal.

*Implementation Date* - The Authority will ensure compliance, effective immediately.

*Responsible Official(s) for Corrective Action* - Chief Financial Officer and Accounting Manager

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**Finding 2013-13: Reporting**

Information on Federal Program(s) - U.S. Department of Homeland Security  
Transportation Security Administration

Port Security Grant Program  
CFDA Number: 97.056

Criteria or Specific Requirement - Accurate, current, and complete disclosure of the financial results of financial assisted activities must be made in accordance with the financial reporting requirements of the grant.

Condition - We noted the following:

- We reviewed the SF-425 report for the quarter ended December 31, 2012 and the final FFR report. In both instances, we were unable to validate if the reports had been properly reviewed and approved by an appropriate individual(s).
- The selected SF-425 did not agree with the Authority's general ledger and was not supported by reconciling schedules; therefore, we were unable to validate the accuracy of the amounts included in the report. Additionally, we were unable to verify when the quarterly SF-425 report had been formally submitted.
- The Authority could not provide evidence with respect to the completion and submission of the SF-PPR.

Questioned Costs - Not applicable.

Context - This is a condition identified per review of the Authority's compliance with specified requirements.

Effect - Failure to maintain accurate supporting records and submit reports on a timely basis could result in disallowed costs or suspension of funding.

Cause - Policies and procedures were not appropriately adhered to. Further, accounting and review procedures over information recording and report completion did not appear to be functioning as intended.

Recommendation - The Authority should strengthen its policies and procedures to include proper recording, reconciliation, and review procedures over federal reporting requirements to ensure that there is consistency between the accounting system and the reports that are submitted. Further, policies and procedures governing timely submission of reports should be enforced.

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Views of Responsible Officials and Planned Corrective Actions:

*Corrective Action* - The Authority concurs that all supporting documentation should be maintained for financial reports filed. For those programs where the reports are submitted online, a manual report will be printed and manually signed with the date entered into the portal.

*Implementation Date* - The Authority will ensure compliance, effective immediately.

*Responsible Official(s) for Corrective Action* - Chief Financial Officer and Accounting Manager

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**Summary Schedule of Prior Audit Findings and  
Management's Corrective Action Plan**

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Individual(s) Responsible for Corrective Action Plan:

Valdamier Collens  
Chief Financial Officer  
340-714-6622

Anna Mauricia Penn  
Accounting Manager  
340-714-6612

<i>Finding Number</i>	<i>Program Name</i>	<i>Program CFDA Number</i>	<i>Type of Finding</i>	<i>Current Status</i>
12-01	Airport Improvement Program	20.106	Data Collection Form and Single Audit Reporting Package	Corrected for all programs.
	Law Enforcement Officer Reimbursement Agreement Program	97.090		
12-02	Airport Improvement Program	20.106	Reporting	Repeated; Finding Number 2013-12.
	Law Enforcement Officer Reimbursement Agreement Program	97.090	Reporting	Corrected
12-03	Airport Improvement Program	20.106	Procurement and Suspension and Debarment	Repeated. Finding Number 2013-10.
12-04	Airport Improvement Program	20.106	Equipment and Real Property Management	Repeated. Finding Number 2013-08.
12-05	Airport Improvement Program	20.106	Davis-Bacon Act	Repeated. Finding Number 2013-07.