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Mr. Lindgren



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**REPORT TO
THE CONGRESS OF THE UNITED STATES**

**REVIEW OF
CERTAIN ACTIVITIES OF
THE GOVERNMENT OF THE VIRGIN ISLANDS
OF THE UNITED STATES**

FISCAL YEAR 1961



**BY
THE COMPTROLLER GENERAL OF THE UNITED STATES**

AUGUST 1962

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON 25

B-114808

AUG 30 1962

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

Herewith is our report on the review of certain activities of the Government of the Virgin Islands of the United States for the fiscal year ended June 30, 1961.

Because the Government of the Virgin Islands and the Virgin Islands Corporation are jointly involved, this report includes a summary of our comments on the resolution adopted by the Corporation's Board of Directors in December 1961 recommending that the Corporation's assets and operations be transferred to the Government of the Virgin Islands. Our views on this resolution were expressed in detail in our report to the Congress dated April 16, 1962, on the audit of the Virgin Islands Corporation for the fiscal year ended June 30, 1961.

We are reporting principally on the office and activities of the Government Comptroller of the Virgin Islands. This office audits and settles the accounts of the insular government and is subject to annual review by the Comptroller General of the United States. A proposed Virgin Islands Home Rule Act, introduced during the second session of the Eighty-seventh Congress, provides, among other matters, for the Governor of the Virgin Islands to appoint an auditor to take the place of the Government Comptroller, effective July 1, 1963. On May 29, 1962, we commented on this proposal, at the request of the cognizant committees of the Congress, expressing the view that, because of the substantial Federal financial contributions provided for the activities of the Government of the Virgin Islands, it may be desirable for the General Accounting Office to be authorized to periodically review the auditor's work if the proposed position is established.

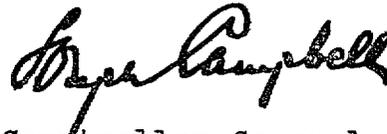
During the fiscal year 1961 the Government Comptroller issued 18 audit reports which disclosed continued serious weaknesses in the insular government's financial and accounting controls. We believe that the audit reports would be more useful if certain desirable improvements in the reporting process were achieved. Also, no procedures have been

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established for resolving differences between the Governor of the Virgin Islands and the Government Comptroller over certain audit exceptions, and we believe that efforts should be made by the responsible officials to arrive at mutually satisfactory procedures.

Other matters commented on in this report concern inadequate maintenance of the 11-mile Scenic Road on the island of St. Croix, which was financed mostly with Federal matching funds; inadequacies in the administration of the insular government's income tax laws; and taxation of real property in the Islands.

Copies of this report are being sent to the President of the United States, the Secretary of the Interior, the Governor of the Virgin Islands, and the Government Comptroller of the Virgin Islands.

A handwritten signature in cursive script, appearing to read "Roger Campbell".

Comptroller General
of the United States

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REPORT ON REVIEW
OF CERTAIN ACTIVITIES
OF
THE GOVERNMENT OF THE VIRGIN ISLANDS
OF THE UNITED STATES
FISCAL YEAR 1961
GENERAL COMMENTS

The General Accounting Office has reviewed certain activities of the GOVERNMENT OF THE VIRGIN ISLANDS OF THE UNITED STATES for the fiscal year ended June 30, 1961, pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67). In view of section 19 of the Revised Organic Act of the Virgin Islands (48 U.S.C. 1632), our review centered on the office and activities of the Government Comptroller of the Virgin Islands, since these are subject to review annually by the Comptroller General of the United States. In addition, we made reviews of selected activities of the Government of the Virgin Islands. The scope of our review is summarized on page 42.

The Virgin Islands were purchased from Denmark for \$25 million in 1917 and are an unincorporated territory of the United States. The present insular government is organized and has powers as set forth in the Revised Organic Act of the Virgin Islands, as amended (48 U.S.C. 1541). This act provides for a unicameral legislature of 11 members and a centralized government comprising 9 executive branch departments each headed by a commissioner.

The seat of government is located at Charlotte Amalie, St. Thomas, Virgin Islands. The executive power of the Virgin Islands is vested in a Governor of the Virgin Islands appointed by the President with the advice and consent of the Senate. The executive power is exercised under the general supervision of the Secretary of the Interior. Ralph M. Paiewonsky, the present Governor, was inaugurated on April 5, 1961, succeeding John D. Merwin who had been appointed Governor effective September 25, 1958. See appendix III, page 63, of this report for a listing of officials generally responsible for the affairs of the Government of the Virgin Islands during the fiscal year 1961.

As of April 1, 1960, the reported population of the Islands was 32,099, an increase of 5,434 over the population of 26,665 shown in the 1950 census. The Government of the Virgin Islands had about 2,500 employees as of June 30, 1961, and during the fiscal year 1961 its general fund revenues were \$8.8 million. This amount includes income tax collections of \$5.7 million. The United States, by law, has given up its right to collect Federal income taxes from inhabitants of the Virgin Islands who discharge their liability for such taxes by direct payment into the Treasury of the Virgin Islands. In addition, during the fiscal year 1961 the insular government obtained \$6.5 million in the form of Federal grants representing the net duties levied on Virgin Islands products imported into the United States.

Certain activities of the Government of the Virgin Islands are closely related to activities of the Virgin Islands

Corporation, a wholly owned Government corporation. The generation and distribution of electric power and the operation and maintenance of certain water supply facilities are activities of the Corporation. Also, the Corporation is the Islands' principal grower of sugar cane and operates the only raw sugar mill in the Islands. In December 1961 the Corporation's Board of Directors proposed that the Congress transfer the Corporation's assets and operations to the insular government. Comments on certain aspects of this proposal, included in our audit report to the Congress dated April 16, 1962, on the Virgin Islands Corporation for the fiscal year ended June 30, 1961, are summarized on pages 10 to 12 of this report.

The views of the Department of the Interior on the matters in this report were furnished to us on August 2, 1962, by the Administrative Assistant Secretary of the Interior and are included in pertinent sections of our report.

SUMMARY OF PRINCIPAL FINDINGS

REVIEW OF THE OFFICE AND ACTIVITIES
OF THE GOVERNMENT COMPTROLLER

During the fiscal year 1961 the Government Comptroller issued 18 audit reports which disclosed continued serious weaknesses in the insular government's financial and accounting controls. Responses by operating officials evidenced general agreement with the need to strengthen such controls.

Late in fiscal year 1960 the Office of the Government Comptroller had suspended its practice of requesting the views of the departments audited, through discussion meetings and written comments, for consideration in preparing the final audit reports. During our current review the Government Comptroller informed us that he would reinstate the practice of discussing the audit reports with insular government officials, except that some reports would be discussed only if the Governor was present.

The Government Comptroller's audit reports and certain improvements that would be desirable in reporting processes are discussed on pages 18 to 20.

In the audit reports issued during the fiscal year 1961, the Government Comptroller stated 73 exceptions against payments by the insular government, thereby indicating that in his opinion the payments questioned--totaling \$1,148,247--were illegal, improper, or incorrect. The exceptions did not identify the certifying or disbursing officers responsible for the payments questioned, nor were records disclosing the status of the exceptions maintained by

the Government Comptroller's office. Also, we found that no procedures had been established for clearing exceptions when the Governor and the Government Comptroller disagree on the action to be taken. We believe that efforts should be made by the responsible officials to arrive at a mutually satisfactory procedure for expeditiously resolving uncleared exceptions. (See pp. 21 to 24.)

A proposed Virgin Islands Home Rule Act, introduced during the second session of the Eighty-seventh Congress, provides, among other matters, for the Governor of the Virgin Islands to appoint an auditor for the insular government. The auditor would take the place of the Government Comptroller, effective July 1, 1963. At present the Government Comptroller's office is subject to review annually by the Comptroller General of the United States. On May 29, 1962, at the request of the cognizant committees of the Congress, we commented on the proposed Virgin Islands Home Rule Act. With respect to the proposed change in audit authority, we expressed the view that, because of the substantial Federal financial contributions provided for the activities of the Government of the Virgin Islands, it may be desirable for the General Accounting Office to be authorized to periodically review the auditor's work if the proposed office is established. The Government Comptroller's present statutory responsibilities and the proposed change in audit authority are summarized on pages 14 to 17.

SCENIC ROAD NOT ADEQUATELY MAINTAINED
BY THE INSULAR GOVERNMENT

At the time of our review the 11-mile Scenic Road on the island of St. Croix was not being adequately maintained. This road was developed in connection with the insular government's program of assisting the local economy by encouraging tourism in the Virgin Islands, and through June 30, 1961, \$236,200 was provided for its construction. This amount includes \$232,000 of Federal internal revenue collections appropriated to the insular government in the form of matching funds.

On several occasions we observed that there was almost no traffic on Scenic Road. By November 1961, portions of the road were covered by high grass and many of its scenic views were no longer visible because of thick foliage. The land required for the Scenic Road right of way had been acquired through donation. The Governor advised us that, by agreement with the insular legislature, all but emergency work would be postponed until the property owners executed deeds of dedication thereby expressly appropriating the road's right of way for public use. At the completion of our fiscal year 1961 review of the insular government's activities, 10 property owners had not yet executed deeds of dedication. (See pp. 30 to 32.)

NEED FOR IMPROVEMENTS IN ADMINISTRATION OF REVENUE LAWS

During the fiscal year 1961, the Tax Division of the Department of Finance made only very limited examinations of partnership and corporation income tax returns. The Division was handicapped

by a shortage of qualified personnel and lack of adequate working space. Responsible officials agree that the insular government is failing to collect substantial revenues because of weak tax enforcement practices.

The insular government's 18-month project to reassess real property in the Virgin Islands was completed in fiscal year 1961; this reassessment increased taxable values from \$30.5 million to \$96 million. In order to lessen the immediate impact of the substantial increase in taxes which would result from adoption of the revised assessments, most tax billings for calendar year 1960 real property taxes were limited to an increase of not more than 25 percent of the prior year's billings.

Through the property reassessment project, the insular government located unassessed properties which it listed at \$3.9 million. At the time of our review, the owners of these properties had not been billed for any back taxes. We brought this matter to the attention of the Governor who advised us that the property owners would be billed for 5 years' back taxes based on the 1960 assessments. The Governor estimated that the back taxes would total \$60,000.

The need for improvements in administration of revenue laws is discussed on pages 33 to 38.

STATUS OF PRINCIPAL FINDINGS IN PREVIOUS REPORT

NEED FOR CHANGE IN LAW AND PRACTICES RELATING TO INVESTMENT OF CASH

The insular government at June 30, 1960, had on deposit about \$6 million not needed for current disbursements and not invested to yield a satisfactory return. About \$2 million was on deposit in non-interest-bearing checking accounts throughout fiscal year 1960 because the insular government did not make adequate periodic analyses to determine when cash was available for investment. About \$4 million was on deposit at June 30, 1960, in savings accounts drawing only 1 percent interest because Virgin Islands law requires the insular government to invest excess funds in savings accounts in local banks. In addition to our commenting on this condition, it was brought to the attention of the insular government by the Government Comptroller and is discussed in his annual report for fiscal year 1961. (See appendix I, page 46, of this report.)

During the fiscal year 1961, the insular government appropriately increased its interest-bearing savings account balances. Also, the Governor met with representatives of the two banks in the Virgin Islands to secure increased interest rates on government deposits.

DEFICIENCIES IN FINANCIAL RECORDKEEPING AND INTERNAL CONTROLS

In our report for the fiscal year 1960, we stated that financial administration of the insular government continued to be deficient and that internal auditing was inactive. We also reported

that it was not possible to determine completely or accurately the financial position or the results of all activities and that the insular government expected to improve financial recordkeeping and internal control by changing to a system of centralized accounting in the Department of Finance.

Subsequently the insular government engaged a firm of management consultants to help install the centralized accounting system, which is expected to be placed in operation in fiscal year 1963. In this connection, we believe it appropriate to emphasize that there exists a continuing need to recruit additional qualified employees for the Department of Finance so that the Department can effectively carry out its enlarged responsibilities. For our comments on this matter, and on performance of internal auditing activities, see pages 39 to 42.

STATUS OF PROPOSALS TO CHANGE THE FINANCING
OF THE VIRGIN ISLANDS CORPORATION'S ACTIVITIES,
EXPAND ITS POWER FACILITIES,
AND TRANSFER OR SELL ITS ASSETS AND OPERATIONS

The activities of the Virgin Islands Corporation, a wholly owned Government corporation, are closely interrelated with the activities of the Government of the Virgin Islands. The Corporation is the Islands' sole supplier of electric power and operates a salt water distillation plant, in combination with its St. Thomas power facilities, from which potable water is produced for sale to the insular government. The Corporation is also the largest grower of sugar cane on the island of St. Croix, and operates that island's only raw sugar mill. Molasses, a by-product of raw sugar production, is sold to private distillers for the production of rum. The net Federal internal revenue collections on rum and other Virgin Islands products imported into the United States are paid as a grant to the insular government, pursuant to section 28(b) of the Revised Organic Act, 26 U.S.C. 7652(b). These grant funds finance the insular government's public works program and also defray the costs of other activities.

In our prior reports for the fiscal year 1960, we stated that increased commercial activity in the Virgin Islands had intensified the need to expand the electric power and water supply services. The capital investment needed to expand power and water supplies to meet indicated requirements over the next decade was estimated to be in the range of 10 to 20 million dollars, and we reported

that vigorous interest in buying the Corporation's electric power generating facilities had been indicated by several private groups. We suggested that the Congress might wish to examine into the alternate sources of financing as well as the role of the insular government in the management and financing of the present activities of the Corporation.

During the first session of the Eighty-seventh Congress, hearings were held on House bill 5358, a bill which would require the Administrator of General Services to liquidate the Corporation's assets and wind up its affairs. Also, in appropriating funds to the Corporation for the fiscal year 1962, the Congress provided that the Corporation's net operating loss for the fiscal year 1960 and the costs of its nonreimbursable programs for the fiscal year 1962, amounting to \$669,000, be paid out of the Federal internal revenue collections appropriated to the Government of the Virgin Islands.

The Corporation's power generating facilities are inadequate to serve the Islands' expanding power loads, and therefore a \$4.5 million supplemental appropriation was requested for the fiscal year 1962 to finance the installation of two steam generating units. Periodic investments totaling \$20.5 million will be required to meet the Islands' power expansion needs through 1971. Because the Corporation's available generating facilities were inadequate, widespread service interruptions occurred throughout the St. Thomas power division in October and November 1961.

Our detailed views on these matters are set forth in our audit report to the Congress dated April 16, 1962, on the Virgin Islands Corporation for the fiscal year ended June 30, 1961.

OFFICE OF THE GOVERNMENT COMPTROLLER
OF THE VIRGIN ISLANDS

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 for a 10-year term, is under the Secretary's general supervision, and is subject to removal by the Secretary for cause. The present Government Comptroller, Peter A. Bove, was appointed effective August 1, 1957, and is the second person to hold the office.

The duties of the Government Comptroller are as follows:

1. To audit and settle all accounts and claims pertaining to the revenues, receipts, and expenditures of the Government of the Virgin Islands.
2. To bring to the attention of the proper administrative officials failures to collect amounts due the Government of the Virgin Islands and expenditures of funds or property which in his opinion are extravagant, excessive, unnecessary, or irregular.
3. To certify to the Secretary of the Interior the net amount of government revenues which forms the basis for Federal grants to the Government of the Virgin Islands.
4. To render final decisions on claims, except that, under certain conditions, appeal therefrom may be taken to the Secretary of the Interior.
5. To submit an annual report to the Governor on the fiscal condition of the Government of the Virgin Islands showing the receipts and disbursements of the various departments and agencies of the government.
6. To prepare such other reports as may be required by the Governor, the Comptroller General of the United States, or the Secretary of the Interior.

Pursuant to section 19 of the Revised Organic Act (48 U.S.C. 1632), the office and activities of the Government Comptroller are

subject to annual review by the Comptroller General of the United States, who shall report thereon to the Governor of the Virgin Islands, to the Secretary of the Interior, and to the Congress.

PROPOSED CHANGE IN AUDIT AUTHORITY

House bill 11281 and companion Senate bill 3159, introduced during the second session of the Eighty-seventh Congress and entitled the Virgin Islands Home Rule Act, include provisions for the repeal, effective July 1, 1963, of sections 17 and 19 of the Revised Organic Act. If these bills or similar legislation are enacted, the Government Comptroller's office would be abolished and the Governor of the Virgin Islands would appoint an auditor with the advice and consent of the legislature. The auditor would hold office for a term of 10 years, unless sooner removed by the Governor for cause, and would audit all the revenues, accounts, and expenditures of the Government of the Virgin Islands. He would also render annual reports and any special reports that may be required of him. The account of the Government of the Virgin Islands would be subject to audit by the Comptroller General of the United States, chiefly for the purpose of verifying the obligations and expenditures of matching funds obtained by the insular government from the internal revenue collections on products of the Virgin Islands imported into the United States, as prescribed by 26 U.S.C. 7652(b)(3).

On May 29, 1962, at the request of the cognizant committees of the Congress, we commented on this proposed change in audit authority and other provisions of the proposed Virgin Islands Home

Rule Act. In letters to the Chairmen of the Committees on Interior and Insular Affairs, we expressed the view that the Congress had provided substantial financial contributions for the activities of the Government of the Virgin Islands and our belief that the effectiveness with which these contributions are administered is a matter of continuing congressional concern. The insular government's principal local revenue consists of income tax collections, which, under authority of Federal law, are retained by the Government of the Virgin Islands. For fiscal year 1962 these collections constituted \$6.3 million of the insular government's estimated local collection of \$10 million. The insular government also expected to obtain \$6.5 million of matching funds for its local revenues from the net Federal internal revenue collections on Virgin Islands products imported into the United States. We believe that it may be desirable for the General Accounting Office to have authority to periodically review the activities of the insular auditor, if such a position is established by the Congress, in addition to having the authority to audit expenditures and obligations of Federal matching funds proposed by House bill 11281 and Senate bill 3159.

In his letter dated August 2, 1962, the Administrative Assistant Secretary advised us that the Department of the Interior would be opposed to an authorization for the General Accounting Office to review the activities of any insular auditor on a continuing basis on the premise that this would be a serious deterrent to local self-government. The Department expressed hope, however, that the

General Accounting Office would be available for consultative work, at the request of the executive branch, to determine from time to time whether the insular auditor is doing an effective job.

ORGANIZATION AND STAFFING

During the fiscal year, the Government Comptroller's staff decreased from 17 to 15 employees. At June 30, 1961, the technical staff included the Assistant Government Comptroller, an attorney, five auditors-in-charge, and three audit clerks. The Assistant Government Comptroller resigned effective August 31, 1961, and at the close of our review, in November 1961, the Government Comptroller was seeking a replacement qualified to supervise the audit staff, make assignments, review draft reports, and perform other related duties.

Three of the five auditors-in-charge were employed in the latter half of fiscal year 1961. Considerable difficulty has been experienced in recruiting and retaining qualified personnel. The number of qualified accountants and auditors in the Islands is not adequate, causing the Government Comptroller to recruit employees from Puerto Rico and the continental United States. The recruiting efforts have been none too successful, partly because of the remote location of the Islands, a housing shortage, and the high cost of living. These conditions, to some extent, also make it difficult to retain qualified personnel.

Allotments for the Government Comptroller's office were \$147,888 in the fiscal year 1960 and \$161,996 in the fiscal year 1961.

AUDIT REPORTS

During the fiscal year 1961 the Government Comptroller issued 18 audit reports--listed in appendix II, page 61--compared with

8 audit reports issued in the prior fiscal year. These reports disclosed continued serious weaknesses in the insular government's financial management and accounting practices. For example, the Government Comptroller reported travel overpayments, lack of adequate property records, failure to follow prescribed contracting and purchasing procedures, deficiencies in controls over cash and receivables, and inadequate collection efforts in obtaining payment of amounts due the insular government.

Responses by operating officials on the findings of the Government Comptroller evidenced general agreement with the need to strengthen the insular government's financial and accounting controls.

In our prior report we stated that, late in fiscal year 1960, the Office of the Government Comptroller suspended its practice of requesting the views of the departments audited, through discussion meetings and written comments, for consideration in preparing the final audit reports. We were informed that the practice was suspended because it proved to be unproductive; we commented that a useful and fruitful result usually can be achieved when the audit report can serve as the basis for corrective action and all groups concerned cooperate fully and constructively in discussions and presentations of views.

During our current review the Government Comptroller informed us that he would reinstate the practice of discussing audit reports with officials of the insular government except that he would not discuss audit reports with the Commissioner of Finance

unless the Governor was present. We believe that this practice is particularly important for reports on the Department of Finance, since the Government Comptroller's workload in that department is substantial and is expected to increase with the installation of the centralized accounting system.

While the Government Comptroller's audit reports served to disclose significant deficiencies in activities of the insular government, in our opinion the reports would be more useful to the Department of the Interior, the Governor of the Virgin Islands, and operating officials if certain desirable improvements in the reporting process, indicated below, were achieved.

1. Care should be taken in preparing the reports to assure that all relevant facts are effectively and fairly presented.
2. Citations to sections of the Virgin Islands Code prescribing fines, imprisonment, and dismissal from the government service should be avoided when reporting minor infractions of laws and regulations.
3. The tone of the audit reports should be constructive and the report conclusions and recommendations should be sound and consistent with the facts demonstrated in the audit findings.
4. Before audit reports are issued, the correctness of the information contained therein should be checked to the supporting workpapers by staff members not associated with the audit assignment. Also, generally the findings should be discussed with responsible officials before being included in the reports. This procedure is important to assure that all facts relevant to the audit findings have been fully developed and affords administrative officials an opportunity to explain questioned transactions.

AUDIT EXCEPTIONS

In the audit reports issued during fiscal year 1961, the Government Comptroller stated 73 exceptions against payments by the insular government, thereby indicating that in his opinion the payments questioned--totaling \$1,148,247--were illegal, improper, or incorrect.

Section 17(b) of the Revised Organic Act (48 U.S.C. 1599(b)), authorizes the Government Comptroller to audit and settle, in accordance with law and administrative regulations, all expenditures of funds and property pertaining to the Government of the Virgin Islands. This authority pertains to the accounts of the insular government's certifying and disbursing officers, whose responsibilities are set forth in the Virgin Islands Code. Pursuant to 33 V.I.C. 3204, a certifying officer is accountable for and required to repay the amount of any illegal, improper, or incorrect payment resulting from any false, inaccurate, or misleading certificate made by him, as well as any payment prohibited by law which did not represent a legal obligation under the appropriation involved. For disbursing officers, 33 V.I.C. 3203 provides that such officers shall disburse monies only upon, and in strict accordance with, vouchers duly certified by the head of the department, establishment, or agency concerned and shall be held accountable accordingly. Disbursing officers are also required to make such examinations of vouchers as may be necessary to ascertain whether they are in proper form, duly certified and approved, and correctly computed on the basis of the facts certified.

We found that the printed forms of the Government Comptroller's office designed for taking and clearing exceptions were not used; instead, the exceptions were listed in the audit reports. As listed, the exceptions did not identify the responsible certifying or disbursing officer and many exceptions were not clear as to which officer was accountable for the payments questioned. Nor were records maintained by the Government Comptroller's office disclosing the status of exceptions against individual certifying and disbursing officers so that action could be taken to enforce their accountability pursuant to sections 3203 and 3204 of the Virgin Islands Code.

In fiscal year 1961 the Government Comptroller's exceptions ranged from 2 cents to \$659,000. Nine exceptions were taken against payments of less than \$5. Certain other exceptions were taken because of minor clerical errors by employees of the insular government.

The Government Comptroller's largest exception, for \$659,000, pertained to payments under the Islands' industrial incentive program refunding 75 percent of a magazine publisher's 1951-58 income taxes paid to the insular government. The refunds were questioned principally because, in the Government Comptroller's opinion, the magazine publisher's application for tax exemption was not approved pursuant to the requirements of law and the magazine publisher's business was not a new business in the Virgin Islands. The Government Comptroller recommended that the Board of Tax Review (1) review the granting of tax exemption and payments of

subsidies to the magazine publisher, for the purpose of revoking the grant, and (2) require the publisher to return \$659,000 to the Government of the Virgin Islands, as well as the substantial amount of taxes and fees for which tax exemption had been granted.

On March 17, 1961, the former Governor advised the Government Comptroller that his action in questioning the judgment of a legally constituted administrative board (in approving the granting of tax exemption) was clearly outside the scope of the jurisdiction of the Government Comptroller's office and that no action would be taken to implement his recommendation.

The industrial incentive program laws of the insular government provide that decisions of the Board of Tax Exemption as to questions of fact shall be deemed final in any proceedings of any court except in such cases as it shall be conclusively shown that any such decision was arrived at by arbitrary or fraudulent means.

Customarily, after the Government Comptroller's audit reports are issued, the agency audited prepares a report for the Governor explaining the questioned transactions. In some cases the Governor requires that the overpayments be refunded, and other exceptions are cleared after the agency comments are considered by the Government Comptroller. However, the insular government and the Government Comptroller have disagreed over a number of exceptions--for example, the \$659,000 exception discussed above. The Government Comptroller considers this exception still in effect. No procedures have been established for clearing exceptions when the Governor and the Government Comptroller disagree on the action to be

taken. We believe that efforts should be made by the responsible officials to arrive at a mutually satisfactory procedure for expeditiously resolving uncleared exceptions.

REVIEW OF INCOME TAX RETURNS
BY THE GOVERNMENT COMPTROLLER

In his annual report dated February 2, 1961, on the financial condition of the Government of the Virgin Islands of the United States for the fiscal year ended June 30, 1960, the Government Comptroller recommended that authorization be granted to his office or some other Federal agency to review all income source documents in order to ascertain that amounts due the Government of the Virgin Islands for income taxes have been properly accounted for and that failures to collect amounts due are brought to the attention of the Director of the Tax Division.

For a number of years the Government Comptroller has requested authority to review income source documents (i.e., income tax returns) on the basis of section 17(b) of the Revised Organic Act (48 U.S.C. 1599(b)), which provides that the Government Comptroller shall audit and settle all accounts and claims pertaining to the revenues and receipts, from whatever source, of the Government of the Virgin Islands. In addition, section 17(c) of the same act provides that it shall be the duty of the Government Comptroller to bring to the attention of the proper administrative officer failures to collect amounts due the government. However, the Department of the Interior, in an opinion dated June 2, 1959, by its Associate Solicitor for Territories, Wildlife, and Parks, held that the Government Comptroller may not examine income tax returns without the permission of the Commissioner of Finance, given in accordance with Executive Order No. 37-59 issued by the

Governor of the Virgin Islands on April 20, 1959. This executive order provides for inspection of income tax returns by officials or employees of the Federal or insular governments upon written application to the Commissioner of Finance showing in detail why the inspection is desired.

On March 3, 1961, the Governor of the Virgin Islands granted the Government Comptroller authority to review all income source documents in order to ascertain that amounts due the Government of the Virgin Islands have been properly accounted for and that failures to collect amounts due are brought to the attention of the Governor. Thereafter, on several occasions, the Government Comptroller's staff attempted to perform this review work. However, no arrangements for the review were discussed with the Commissioner of Finance and the Government Comptroller halted the work because he was not granted access to income tax returns by the Commissioner's subordinates. On November 3, 1961, the Governor of the Virgin Islands requested the Government Comptroller to henceforth request in writing permission from the Commissioner of Finance to inspect an income tax return or returns, stating, at the same time, the purpose for which inspection is desired.

In its letter to us dated August 2, 1962, the Department of the Interior concurred with comments on this matter made by the Governor wherein it was pointed out that the Government Comptroller had not been stopped from making an audit of the Tax Division of the Department of Finance and that the procedure prescribed for access

to the returns is the same as that followed in the examination of Federal income tax returns in the United States Treasury. The Governor stated further that arrangements had been made with the Inspection Service of the Internal Revenue Service, United States Treasury Department, to conduct periodically an audit of income tax returns in the Virgin Islands as soon as conditions in the Tax Division, resulting from its reorganization (see p. 35), warrant such audits.

CERTIFICATION OF NET REVENUES

The Government Comptroller is required by law to certify the amount of net revenues collected during each fiscal year by the insular government. The amount certified forms the basis for Federal grants to the insular government under section 28(b) of the Revised Organic Act (68 Stat. 508; 26 U.S.C. 7652(b)). This section provides for the Government of the Virgin Islands to be paid, out of the internal revenue collections derived from articles produced in the Virgin Islands and transported to the United States, a sum equal to the local revenues of the insular government as certified by the Government Comptroller. The Government Comptroller on September 15, 1961, certified that in the fiscal year 1961 local revenues of the Government of the Virgin Islands amounted to \$8,704,868, compared with \$7,532,162 for the fiscal year 1960.

For fiscal years 1960 and 1961 the insular government's local revenues exceeded the net internal revenue collections on Virgin Islands products transported to the United States. The net revenues of the insular government and the internal revenue collections available for matching purposes pursuant to section 28(b) of the Revised Organic Act are shown below:

| <u>Fiscal year</u> | <u>Net revenues certified by Government Comptroller</u> | <u>U.S. Treasury collections available for matching purposes</u> | <u>Excess or deficiency (-) of local revenues</u> |
|--------------------|---|--|---|
| 1954 | \$2,026,208 | \$3,899,200 ^a | -\$1,872,992 |
| 1955 | 2,309,003 | 4,354,336 ^a | -2,045,333 |
| 1956 | 2,469,426 | 5,023,745 | -2,554,319 |
| 1957 | 3,379,133 | 5,098,283 | -1,719,150 |
| 1958 | 3,872,865 | 5,564,026 | -1,691,161 |
| 1959 | 4,917,952 | 5,693,341 | -775,389 |
| 1960 | 7,532,162 | 6,494,445 | 1,037,717 |
| 1961 | 8,704,868 | 6,842,478 | 1,862,390 |

^aAll net collections for fiscal years 1954 and 1955 were paid to the insular government in fiscal years 1955 and 1956, respectively, pursuant to section 28(b) of the Revised Organic Act.

Net internal revenue collections for the fiscal year 1961 amounted to \$6,842,478, of which \$669,000 was appropriated to the Virgin Islands Corporation by the Department of the Interior and Related Agencies Appropriation Act, 1962 (75 Stat. 246). Thus the amount available in fiscal year 1962 for transfer to the insular government was \$6,173,478.

The insular government's local revenues are expected to continue to substantially exceed the internal revenue collections available for transfer to the Government of the Virgin Islands. Accordingly, extensive audits of local revenues, as performed by the Government Comptroller in previous years, to establish the net amount of Federal matching funds payable to the insular government are no longer needed.

REVIEW OF SELECTED ACTIVITIES OF THE
GOVERNMENT OF THE VIRGIN ISLANDS

SCENIC ROAD NOT ADEQUATELY MAINTAINED
BY THE INSULAR GOVERNMENT

At the time of our review the 11-mile Scenic Road on the island of St. Croix was not being adequately maintained. This road was widened, and extended from 9 to 11 miles, in connection with the insular government's program of assisting the local economy by encouraging tourism in the Virgin Islands. Funds provided through June 30, 1961, for Scenic Road totaled \$236,200, including \$232,000 of Federal internal revenue collections appropriated to the insular government as matching funds. By September 1961 the fence gates, which had kept traffic off Scenic Road while it was being improved, were opened but on several occasions thereafter we observed that there was almost no traffic on Scenic Road. By November 1961, high grass covered portions of one traffic lane and many of the road's scenic views were no longer visible because of thick foliage.

In a report dated May 15, 1957, the coordinator for essential public projects described Scenic Road as a 9-mile road, constructed with previously appropriated funds, and just wide enough for a single car passage. The coordinator recommended that \$20,000 appropriated for Scenic Road by the insular legislature be released. This appropriation, approved by the Secretary of the Interior on September 29, 1956, was from the Federal matching funds made available for appropriation by the insular legislature

pursuant to section 28(b) of the Revised Organic Act (26 U.S.C. 7652(b)). Later acts of the insular legislature increased the Federal matching funds appropriated for Scenic Road to \$232,000.

The insular government had obtained easements free of charge from 14 property owners for the 11-mile right of way needed for Scenic Road. Each easement provided that its continuance was conditional upon reasonable promptness on the part of the Government in obtaining similar licenses from other property owners and upon persistent, diligent progress by the Government in constructing Scenic Road. In August 1961 the sufficiency of these easements was questioned on the basis that the landowners, under the terms of their easements, could convert Scenic Road to a private road. The Governor accordingly requested the Attorney General of the Virgin Islands to obtain deeds of dedication, whereby the road's right of way would be expressly appropriated by the landowners for public use. At the time we completed our review, the largest property owner and 9 others, including 5 new property owners, had not yet executed deeds of dedication.

We were advised by the Commissioner of Public Works that the easements obtained for Scenic Road were similar to those customarily secured for road construction projects in the Virgin Islands and that the issue of converting Scenic Road into a private road came about because the insular government permitted fence gates to be used to keep traffic off the road while it was being constructed.

We discussed with the Governor the failure to properly maintain Scenic Road and were advised that, by agreement with the insular legislature, all but emergency work would be postponed until the property owners executed their deeds of dedication. The Governor advised us also that no signs guiding tourists to Scenic Road would be erected until the insular government obtained unchallenged title to the right of way.

The Department of the Interior, in its letter to us dated August 2, 1962, concurred with comments of the Governor on this matter wherein the Governor stated that he refused to authorize the expenditure of additional funds for the construction or maintenance of Scenic Road until the various property owners could be convinced to give fee simple deeds to the Government of the Virgin Islands. The Governor advised further that a report of the Department of Law indicated that the insular government had acquired title to a substantial portion of the highway and that the matter of maintaining Scenic Road in proper condition would be given early attention.

NEED FOR IMPROVEMENT IN
ADMINISTRATION OF REVENUE LAWS

In the fiscal year 1961 net local revenues of the insular government, as certified by the Government Comptroller, totaled \$8,704,868, compared with \$7,532,162 for the fiscal year 1960. Payments of United States income taxes by inhabitants of the Virgin Islands, which pursuant to section 28(a) of the Revised Organic Act (48 U.S.C. 1642) are covered into the Treasury of the Virgin Islands, are the insular government's chief local revenue. These payments amounted to \$5,674,379 and \$4,791,611 in fiscal years 1961 and 1960, respectively.

In recent years net local revenues of the insular government have increased significantly, as shown below:

| | <u>Fiscal year ended June 30</u> | | |
|-------------------------------|----------------------------------|--------------------|--------------------|
| | <u>1961</u> | <u>1960</u> | <u>1959</u> |
| Net local revenues certified: | | | |
| Income taxes | \$5,674,379 | \$4,791,611 | \$2,921,295 |
| Real property taxes | 347,993 | 372,046 | 276,028 |
| Gross receipts taxes | 584,779 | 433,266 | 348,500 |
| Gasoline taxes | 211,225 | 205,881 | 156,326 |
| Trade and excise taxes | 1,274,004 | 1,233,164 | 766,673 |
| Licenses, fees, and permits | 383,058 | 329,693 | 271,534 |
| Other revenues | <u>229,430</u> | <u>166,501</u> | <u>177,596</u> |
| Total | <u>\$8,704,868</u> | <u>\$7,532,162</u> | <u>\$4,917,952</u> |

Fiscal year 1961 income tax collections increased by 94 percent over the amounts collected in fiscal year 1959 and were 65 percent of the insular government's net local revenues, compared with 59 percent in fiscal year 1959. In contrast, all other revenues increased 52 percent, but not uniformly. For example, gross receipts taxes increased 68 percent while gasoline taxes increased 35 percent.

Income tax collections administered
by the Tax Division of the Department of Finance

During the fiscal year 1961 the Tax Division of the Department of Finance made only limited examinations of partnership and corporation income tax returns. This condition existed also in the prior fiscal year. During these fiscal years, 85 partnership and 477 corporation income tax returns were filed and the Tax Division completed examinations of only 5 partnership and 14 corporation returns.

A summary of all the returns filed and examinations completed follows.

| | Fiscal year ended June 30 | |
|------------------------------|------------------------------|-------------|
| | <u>1961</u> | <u>1960</u> |
| Individuals: | | |
| Returns filed | 6,074 | 4,693 |
| Examinations completed | 257 | 168 |
| Partnerships: | | |
| Returns filed | 51 | 34 |
| Examinations completed | 3 | 2 |
| Corporations: | | |
| Returns filed | 257 | 220 |
| Examinations completed | 9 | 5 |
| Fiduciaries: | | |
| Returns filed | 7 | 10 |
| Examinations completed | <u>-</u> | <u>-</u> |
| Total returns filed | 6,389 | 4,957 |
| Total examinations completed | <u>269</u> | <u>175</u> |

The examination of returns by the Tax Division resulted in deficiency assessments of \$108,000 in the fiscal year 1961 and \$74,000 in the fiscal year 1960. The deficiency assessments were

almost equal to the Tax Division's total expenditures of \$110,057 and \$87,543 in these same fiscal years.

The Tax Division has been handicapped by a shortage of personnel and lack of adequate working space. In November 1961 two authorized positions for agent (auditor) were vacant and the incumbents of two of the four remaining positions had submitted their resignations. The Governor of the Virgin Islands has undertaken to move the Tax Division to larger quarters. Also, at the Governor's request, the United States Treasury Department in February 1962 dispatched an Internal Revenue Service team to the Islands to perform a survey of the Tax Division and related activities. Responsible officials agree that the insular government is failing to collect substantial revenues because of weak tax enforcement practices.

On August 2, 1962, the Département of the Interior furnished us comments by the Governor indicating that the Internal Revenue Service has submitted a report recommending a complete reorganization of the Tax Division and including detailed recommendations for effective examination, processing, and accounting procedures. The Governor stated that as a result of this report the reorganization of the Tax Division had already commenced and that substantial additional appropriations for the Division had been made by the Legislature. In addition, the Division was shortly to be moved to spacious quarters.

The Department expected that, upon completion of the reorganization and bolstering of the staff, there would be sufficient strengthening of tax enforcement practices to prevent a substantial loss of revenue.

Real property taxes administered
by the Government Secretary

Collections from real property taxes during the fiscal year 1961 were \$347,993, compared with collection of \$372,046 in the fiscal year 1960.

The insular government's collections for calendar year 1959 real property taxes, received and recorded in fiscal year 1961, were based on real property assessments of \$30.5 million. In March 1961 the insular government completed a project, started in September 1959, to reassess all real property in the Virgin Islands; through this project calendar year 1960 assessment rolls totaling \$96 million were prepared. Section 2301 of title 33 of the Virgin Islands Code provides that for every calendar year there shall be assessed, levied, and collected by the Government of the Virgin Islands a tax of 1.25 percent of the actual value of all real property in the Virgin Islands. Real property taxes of 1.25 percent on assessments of \$96 million would amount to \$1.2 million. However, by order of the former Governor, the calendar year 1960 real property tax bills, first issued in March 1961, were based on actual property values estimated to be 50 percent of the land and improvement values established in the reassessment project. These bills totaled about \$615,000. In order to further

lessen the immediate impact of the substantial increase in taxes resulting from adoption of the revised assessments, the present Governor, on June 2, 1961, approved Act. No. 690, directing the recall and withdrawal of the March 1961 tax bills. By Act No. 768, approved June 20, 1961, the insular legislature limited the increased liability for 1960 real property taxes to an amount not in excess of 25 percent of the tax liability for calendar year 1959, except that improvements added since the calendar year 1959 assessments were not to be considered as part of such excess. The revised billings were anticipated to yield at least \$480,000 in real property tax collections during fiscal year 1962.

Our reports for the fiscal years 1952 to 1960 included comments on deficiencies in the administration of real property taxes. We reported inadequate staffing of the Office of the Tax Assessor, incomplete tax assessment records, and appraisals of real property which appeared to be too low considering current property values in the Virgin Islands. In reviewing the Government Comptroller's audit report on the Office of the Tax Assessor, dated July 11, 1961, we noted that the Government Comptroller mentioned the discovery through the reassessment project of properties valued at \$5.5 million which had not been previously assessed. No consideration had been given to billing the owners of these properties for back taxes. On two occasions we discussed this matter with the Governor who subsequently advised us that the property owners would be billed for 5 years' back taxes based on the calendar year 1960 assessments. The insular government's listing of the newly

assessed properties totals \$3.9 million; the Governor estimated that the back taxes would total \$60,000.

The Government Comptroller's annual report for fiscal year 1961 also comments on real property reassessments. (See appendix I, page 46, of this report.)

FINANCIAL RECORDKEEPING AND INTERNAL CONTROLS

Progress toward centralized accounting system

In our report for the fiscal year 1960, we stated that the insular government's financial administration continued to be deficient and that it was still not possible to determine completely and accurately its financial position or the financial results of all its activities. Recognizing this situation, the Governor proposed to change from a decentralized accounting system, under which each department and activity maintains separate financial records, to a centralized accounting system maintained by the Department of Finance.

A firm of management consultants was employed to survey the insular government's accounting system, and in their report dated June 30, 1961, the consultants recommended that centralized accounting be adopted for the insular government. With the approval of the Governor, the consultants were employed to implement their proposals and to assist the Commissioner of Finance with the change-over. The centralized accounting system is expected to be in operation in fiscal year 1963.

A lack of qualified accountants for the Department of Finance and other departments and activities of the insular government, has seriously handicapped accounting operations. The Commissioner of Finance expressed concern over the difficulties experienced in recruiting qualified personnel for his department and its high rate of employee turnover. The Commissioner attributed these conditions to the insular government's inadequate salary structure

and to its personnel laws and regulations. We believe it appropriate to emphasize that there exists a continuing need to recruit additional qualified employees for the Department of Finance so that the Department can effectively carry out its enlarged responsibilities under the centralized accounting system.

Internal auditing

Section 18(c) of the Revised Organic Act (48 U.S.C. 1631(c)) prescribes an appropriate internal audit of the fiscal activities of the insular government. In our prior report we commented that only a limited amount of internal auditing was performed during the fiscal year 1960 because a shortage of qualified accounting personnel forced the Commissioner of Finance to assign the internal auditors other duties.

The Government Comptroller on July 20, 1960, reported significant deficiencies in the financial administration and internal controls of the Department of Tourism and Trade. On August 10, 1960, the Governor requested the Commissioner of Finance to institute a preaudit of all Department of Tourism and Trade vouchers prior to their payment by the Department of Finance. This preaudit work was assigned to the Internal Auditing Section, and later a number of the insular government's smaller departments and activities also came under preaudit.

Although the preaudit program fills an important need in the financial control system of the insular government, we believe that a need remains for a small but effective internal audit activity to provide management with periodic appraisals and reviews of

the effectiveness of financial controls. A start toward this objective was made when in October 1961 one auditor from the Government Comptroller's staff was recruited by the Department of Finance for the performance of internal auditing duties.

In its letter dated August 2, 1961, the Department of the Interior advised us of comments by the Governor stating that the legislature has increased the total operating budget of the Department of Finance for fiscal year 1963, thereby providing for additional staffing and for more adequate salaries to attract competent persons to that Department. The Governor believes that there will be considerable improvement in financial recordkeeping, auditing, and internal controls as a result of these actions.

SCOPE OF REVIEW

Our review of the Government of the Virgin Islands for the fiscal year 1961 was largely concerned with the activities of the Government Comptroller of the Virgin Islands. As part of our review, we examined the reports and supporting workpapers prepared by the Government Comptroller and made tests of his audit work. We also made a review of certain activities related to the administration of revenue laws--both local and Federal--applicable to the Government of the Virgin Islands. We did not verify account balances or financial statements of the insular government. Our examination was conducted at St. Thomas and St. Croix, Virgin Islands.

COMMENTS ON FINANCIAL STATEMENTS

We have included as appendix I of this report the complete narrative comments and certain financial statements presented in the Government Comptroller's annual report, dated March 22, 1962, on the financial condition of the Government of the Virgin Islands of the United States for the fiscal year ended June 30, 1961. The financial statements are: combined balance sheet--all funds, at June 30, 1961 (exhibit A); statement of cash receipts and disbursements for the fiscal year ended June 30, 1961 (exhibit B); and comparative statement of net revenues certified for matching funds for fiscal years 1954 through 1961 (exhibit C).

The balance sheet--all funds, at June 30, 1961, included in the Government Comptroller's annual report was taken from the annual report of the financial operations of the Government of the Virgin Islands for the fiscal year ended June 30, 1961, dated December 6, 1961, issued by the Commissioner of Finance. The Government Comptroller made only a limited examination of the financial statements issued by the Commissioner of Finance and expressed no opinion thereon. We have not audited the insular government's accounts, and accordingly we do not express an opinion on the accompanying financial statements.

APPENDIXES

OFFICE OF THE COMPTROLLER
ST. THOMAS, VIRGIN ISLANDS

March 22, 1962

The Honorable Ralph M. Palewonsky
Governor of the Virgin Islands
Government House
St. Thomas, Virgin Islands

Dear Governor Palewonsky:

Pursuant to Subsection 17(h) of the Revised Organic Act of the Virgin Islands, I submit herewith our report on the Financial Condition of the Government of the Virgin Islands for the fiscal year ended June 30, 1961.

For the purposes of this report we have made a limited review of the Government's fiscal operations during the past year. It had been our intention to make an audit of the Accounting and Treasury divisions of the Department of Finance shortly after the close of fiscal year 1961, but, in view of the fact that the department is in the process of establishing a centralized system of accounting, as well as making arrangements to move to new quarters, we thought it best to make a comprehensive audit at a later date.

Because of the above situation the Balance Sheet submitted is the same as the one the Commissioner of Finance has presented in his Annual Report of the Department of Finance; however, the auditor has made a review and examination of certain items as appears in the Scope of Examination of this report.

Upon completion of our audit of the Department of Finance, which is now underway, a complete report will be made based on our findings and conclusions.

Sincerely yours,

Peter A. Bove
Comptroller

cc: Secretary of the Interior
Director, Office of Territories
Legislature of the Virgin Islands
General Accounting Office
Director of the Budget
Commissioner, Dept. of Finance

ANNUAL REPORT OF THE FINANCIAL CONDITION
OF THE
GOVERNMENT OF THE VIRGIN ISLANDS
OF THE
UNITED STATES
FISCAL YEAR ENDED JUNE 30, 1961

This annual report¹ of the fiscal condition of the Government of the Virgin Islands is respectfully submitted to the Governor pursuant to Subsection 17 (h) of the Revised Organic Act of the Virgin Islands.

Cash Investment Policy

In our audit report of the Department of Finance for the fiscal year ended June 30, 1959, we pointed out that the Government of the Virgin Islands could obtain a yield of considerably more than the one percent (1%) paid by local banks on savings account deposits, if surplus funds were invested in United States Government securities. On June 30, 1961, savings accounts on deposit with local banks amounted to about \$7,817,883. Because the present law requires that surplus funds be deposited with local banks, we recommended that legislation be proposed to amend the Virgin Islands Code, Chapter 117 of Title 33, so as to permit the government to invest surplus funds in United States Government securities. We have been advised that the Governor has met with representatives of the local banks and explained to them the necessity of increasing the interest rate on government deposits. The banks' proposals and decisions are expected shortly.

In the report referred to above, we also noted that at the close of fiscal years 1958, 1959 and 1960, several million dollars in excess of encumbrances were on deposit in non-interest bearing checking accounts. This however, was not so at June 30, 1961. Encumbrances on that date amounted to about \$4,637,963; and checking account balances amounted to about \$4,318,018.

The Real Property Reassessment Project

The project for the reassessment of all property in the Virgin Islands, which was started in April 1959, was initially completed in March 1961 at a cost of about \$204,000.

¹Exhibit D and schedules B-1 through D-1 are not included in this appendix.

The 1960 tax bills based on the initial reassessments were issued in May 1961. Because of the number of protests that resulted from the reassessments, which in instances were reportedly 900 percent higher than in 1959, legislation was enacted to recall and cancel all of the bills and to provide for their revision. The revision was made pursuant to Act 768 approved June 30, 1961, which limited the 1960 tax increase to 25 percent of the tax liability for 1959. The revised assessments for 1960 are \$58,904,381 compared to \$33,007,466 in 1959, an increase of 78.5 percent.

The reassessment project was long overdue. In prior years any review of property values was restricted to occasional reassessments of particular parcels brought to the attention of the assessor because of transfers of ownership, death, or permits for new construction or alterations. These reappraisals, moreover, were not based on scientific or systematic standards, but on the individual judgment of the appraiser. Tax maps did not exist, and many properties were not even on the tax rolls. The project has disclosed properties valued at about \$5 million that had not been taxed in prior years. These properties have now been billed for five years' back taxes based on the 1960 assessments.

Planned Improvements in Fiscal Management and Property Control

The major improvements planned for fiscal year 1962 are the revision of the accounting system and the physical inventorying of all government property.

The revision of the accounting system was started with a management study of the present accounting structure. The study was made by the management consultant firm of Collett and Clapp, San Juan, Puerto Rico. The consultants have now been retained to assist the Commissioner of Finance in carrying out the revision based upon recommendations made in their report. The major revision will be the change from decentralized to centralized accounting procedures. We believe that when the revised system is put into operation the Department of Finance will have taken an important step forward.

The Department of Property and Procurement plans to make a physical inventory of all government property in the Virgin Islands. The inventory will be started when the new property manual is approved. The manual was prepared by the Department of Property and Procurement and was submitted on November 13, 1961, to the Governor for approval. Many of our reports have pointed out the lack of control over government property, and the inaccuracies in the general ledger accounts for these assets. The proposed inventory, if properly carried out, should enable the Department of Property and Procurement to correct these deficiencies.

Also planned for fiscal year 1962 is the relocation of the Department of Finance to more adequate quarters.

SCOPE OF EXAMINATION

Our examination consisted of a review of subsidiary records for fixed assets, and loans receivable. We also examined bank reconciliations for June 1961 and obtained confirmations for balances on the banks' statements for that month. In addition, a detailed examination was made of all cashiers' receipts; voucher schedules were examined on a selective basis; and these documents were traced to income and expense accounts. Trial balances were checked to control and subsidiary accounts in the general ledgers.

Balance Sheet (Exhibit A)

The balance sheet appears as presented in the Commissioner of Finance's annual report of the financial operations of the Government of the Virgin Islands for the fiscal year ended June 30, 1961. The Commissioner's comments on certain assets shown in the statement appear on page 57 of this exhibit.

Because of the limited scope of our examination, as outlined in the preceding section of this report, we are unable to express an opinion as to the over-all fairness of the balance sheet herein presented. We, however, direct attention to the following comments and opinions on certain assets shown on the balance sheet.

Cash in Bank and on Hand

These balances comprise the following:

| | <u>Cash in Bank</u> | <u>Cash on Hand</u> | <u>Total</u> |
|-------------------------------|------------------------|---------------------|------------------------|
| General Fund | \$ 1,062,087.12 | \$.04 | \$ 1,062,087.16 |
| Matching Fund | 4,722,221.73 | - - - | 4,722,221.73 |
| Essential Projects Fund | 3,587,280.05 | - - - | 3,587,280.05 |
| Special Fund | 1,282,203.51 | 10.00 | 1,282,213.51 |
| Enterprise & Revolving Fund | 430,080.49 | 59.40 | 430,139.89 |
| Trust, Agency & Deposit Funds | <u>1,053,369.19</u> | <u>2.00</u> | <u>1,053,371.19</u> |
| | <u>\$12,137,242.09</u> | <u>\$71.44</u> | <u>\$12,137,313.53</u> |

We reviewed the Treasurer's bank reconciliations and verified balances on deposit by certifications obtained from the depositaries. We noted that the Payroll Fund bank account had not been reconciled since June 1960. The unreconciled Payroll Fund balance of \$30.69 is included in the total of \$1,053,369.19 for Trust, Agency and Deposit Funds. We also noted the following differences between the Treasurer's bank balances and the balance sheet amounts shown above.

| | <u>Cash in Bank</u> | | <u>Difference</u> |
|-------------------------------|----------------------|----------------------------|-----------------------------------|
| | <u>Balance Sheet</u> | <u>Treasurer's Balance</u> | <u>Balance Sheet Over/(Under)</u> |
| General Fund | \$1,062,087.12 | \$1,062,057.62 | \$ 29.50 |
| Special Fund | 1,282,203.51 | 1,326,666.66 | (44,463.15) |
| Enterprise & Revolving Fund | 430,080.49 | 384,464.69 | 45,615.80 |
| Trust, Agency & Deposit Funds | 1,053,369.19 | 1,053,210.45 | 158.74 |

The differences in the Special Fund and Enterprise and Revolving Fund are due in part to the fact that the balance of \$45,616.00 for the Special Altona Community Development Fund has been incorrectly included in the Enterprise and Revolving Fund balance. We have not attempted to account for the other differences shown.

Cash on hand for the Trust, Agency and Deposit Funds is understated by \$2,049.24. On June 30, 1961, checks in this amount were drawn from other funds for deposit in the Special Deposit Fund. These checks, however, were not receipted until July 1961.

Materials and Supplies

This amount represents the inventory of materials and supplies at the central warehouses of the Department of Property and Procurement, as follows:

| | |
|----------------------|--------------------|
| St. Thomas warehouse | \$15,631.08 |
| St. Croix warehouse | <u>935.34</u> |
| | <u>\$16,566.42</u> |

Our audit of the Department of Property and Procurement which was recently completed, included certain test-checks and reviews of the records supporting the inventory of these materials and supplies. Although we did not test the inventory quantities by physical counts, our examination revealed numerous discrepancies in pricing and certain errors in extension. We also observed that the internal controls are inadequate. For example, perpetual inventory records were not maintained, and the inventories were taken independently by the storekeepers.

Loans Receivable

These receivables are due from individuals to the following funds from which the loans were made:

| | <u>General Fund</u> | <u>Special Fund</u> | <u>Enterprise & Revolving Fund</u> | <u>Trust, Agency & Deposit Funds</u> |
|-----------------------------------|-------------------------|-------------------------|--|--|
| Water Supply Loan Fund | \$ 178.80 | \$ - - - | \$ - - - | \$ - - - |
| St. Croix Disaster Fund | 1,200.00 | - - - | - - - | - - - |
| Sanitary Facili- ties Fund | - - - | 9,005.00 | - - - | - - - |
| Homestead & Home Loan Fund | - - - | - - - | 105,578.57 | - - - |
| Territorial Scholar- ship Fund | - - - | - - - | - - - | 144,315.27 |
| Poor Fund | - - - | - - - | - - - | 18,783.30 |
| Employees' Retire- ment Fund | - - - | - - - | - - - | 13,822.77 |
| Public Purpose Fund | - - - | - - - | - - - | 1,739.27 |
| Upper Guardian Capital #953 | - - - | - - - | - - - | 373.44 |
| Lancasterian School Fund | - - - | - - - | - - - | 197.96 |
| Total | <u>\$1,378.80</u> | <u>\$9,005.00</u> | <u>\$105,578.57</u> | <u>\$179,232.01</u> |

Our review of these accounts has disclosed that the Department of Finance has corrected most of the deficiencies previously reported by this office, as follows:

1. Receivables from the Territorial Scholarship Fund have been adjusted to exclude scholarship grants and to agree with the subsidiary accounts. Also, steps were taken to collect delinquent accounts. Payroll deductions are now being made from the salaries of most of the government employees who are indebted to the fund.

2. Receivables from the Retirement Fund have been adjusted to agree with the subsidiary accounts.

3. The outstanding loan from the St. Croix Disaster Fund, now abolished, has been recorded.

The Homestead and Home Loan Fund receivables amounting to \$105,578.57 are overstated by \$180.79, and include about \$5,300.00 which is not expected to be repaid. Our adjustments and details of the doubtful accounts will be furnished to the Commissioner of Finance with our audit report of the Department of Property and Procurement which will be issued shortly.

In our opinion, except for the over-statement noted, and that no allowance has been made for doubtful accounts, the receivables shown appear to be fairly stated.

Accounts Receivable

These receivables comprise the following:

| | <u>General Fund</u> | <u>Special Fund</u> | <u>Enterprise & Revolv- ing Fund</u> | <u>Trust, Agency & Deposit Funds</u> |
|--|-------------------------|-------------------------|--|--|
| Delinquent Real Prop- erty Taxes | \$ 12,161.67 | \$ - - - | \$ - - - | \$ - - - |
| Income Taxes | 248,102.20 | - - - | - - - | - - - |
| Trade and Excise Taxes | 106,066.76 | 4,755.00 | - - - | - - - |
| Hospital Services | 304,972.45 | - - - | - - - | - - - |
| Water Services | 30,564.96 | - - - | - - - | - - - |
| Sewage Services | 11,091.85 | - - - | - - - | - - - |
| Miscellaneous | 31,180.98 | 11,769.88 | - - - | 1,865.90 |
| Accounts with Dis- trict Attorney | 450.00 | - - - | - - - | - - - |
| Insurance Premiums | - - - | - - - | 21,857.69 | - - - |
| Telephone Service | - - - | - - - | 25,292.80 | - - - |
| Veterinary Services | - - - | - - - | 590.25 | - - - |
| Homestead Accounts | - - - | - - - | 11,611.82 | - - - |
| Force Accounts | - - - | - - - | 57,351.62 | - - - |
| Sub-total, sub- ject to allow- ance for esti- mated uncol- lectible accts. | 744,545.87 | 16,524.88 | 116,704.18 | 1,865.90 |
| Estimated uncol- lectible ac- counts, 10% of above | -74,454.59 | -1,652.49 | -11,670.42 | -186.59 |
| Warehouse issues | - - - | - - - | 5,760.31 | - - - |
| Total Accounts Receivable (Net) | <u>\$670,091.28</u> | <u>\$14,872.39</u> | <u>\$110,794.07</u> | <u>\$1,679.31</u> |

As in prior years the accounts receivable balances continue to be inaccurate and unreliable. Except that an allowance has been established for uncollectible accounts, the Department of Finance has not corrected the deficiencies reported in our previous reports. The control accounts have not been reconciled with the unpaid bills kept by the various cashiers, nor with the subsidiary records maintained by the billing agencies.

The allowance for uncollectible accounts has been arbitrarily estimated at 10 percent of all receivables recorded in the general ledgers with the exception of the Central Warehouse Receivables.

Fixed Assets

In prior reports we have pointed out the lack of control over government property, and the inaccuracies in the general ledger control accounts for these assets. The amounts shown continue to be inaccurate and unreliable as no action was taken during the year to correct the deficiencies previously reported.

Our limited review of the supporting records for the Land and Buildings accounts has disclosed understatements of \$146,500.00 and \$1,525,002.07, respectively. The understatements are revealed in the following tabulation which shows the change in values during the year.

| | <u>Land</u> | <u>Buildings</u> |
|---|----------------------|------------------------|
| Acquisitions during fiscal year 1961: | | |
| Altona Community Development Property Acquisition Account | \$ 204,384.00 | \$ - - - |
| Other | 154,951.00 | - - - |
| Other | 30,874.00 | - - - |
| Adjustment for homestead land not reported at June 30, 1960 | 18,845.90 | - - - |
| Completed Essential Public Projects - Cost | - - - | 1,525,002.07 |
| Less disposals during fiscal year 1961 | <u>-7,431.00</u> | <u>- - -</u> |
| Net additions | 401,623.90 | 1,525,002.07 |
| Value at June 30, 1960 | <u>802,425.75</u> | <u>10,336,909.23</u> |
| Value at June 30, 1961 | 1,204,049.65 | 11,861,911.30 |
| Per Balance Sheet | <u>1,057,549.65</u> | <u>10,336,909.23</u> |
| Value understated on Balance Sheet | \$ <u>146,500.00</u> | \$ <u>1,525,002.07</u> |

We are aware that during the current year the Department of Property and Procurement plans to make a physical inventory of all government property in the Virgin Islands. The proposed inventory, if properly carried out, should enable that department to establish physical and financial control over government property in the future.

Statement of Receipts and Disbursements (Exhibit B)

This statement shows the amount of receipts and disbursements for the fiscal year ended June 30, 1961.

Disbursements cover expenditures authorized by appropriations for the fiscal years 1960 and 1961 from the General Fund and the Single-i Fund. The monies in the other funds, when appropriated, are available until spent.

The supporting schedules show the details of the receipts and disbursements by departments and agencies.

Intra and inter Fund transfers are analyzed on Schedule B-14. Most of these transfers represent the following:

1. Transfers from other funds to the Payroll Fund for the payment of salaries and wages.
2. Transfers from the Single-i Fund to the Double-i Fund pursuant to the provisions of the Revised Organic Act of the Virgin Islands.
3. Contributions from the appropriations of some departments to finance special programs (required in most cases to obtain Federal grant-in-aid funds).
4. Contributions authorized by the Legislature to certain educational and cultural organizations and to the Retirement and Pension Funds.
5. Transfer of tax payments held in escrow pending determination of the taxpayers' residence or subsidies due.
6. Transfers to correct erroneous deposits and payments.

Comparative Statement of Net Revenues Certified For Matching Funds (Exhibit C)

This statement compares the net amounts of revenues certified by the Government Comptroller with the amounts of matching funds received from the United States Government pursuant to the provisions of the Revised Organic Act of the Virgin Islands.

Net revenue collections for fiscal year 1961 exceeded those of the previous year by 15.57 percent, and are 329.61 percent above collections in fiscal year 1954. Major increases over collections in 1960 are shown in the following tabulation.

| <u>Revenue item</u> | <u>Amount of increase</u> | <u>Percentage of increase</u> |
|---------------------|---------------------------|-------------------------------|
| Inheritance Taxes | \$ 19,530 | 85% |
| Revenue Stamp Taxes | 41,426 | 58% |
| Gross Receipt Taxes | 151,512 | 35% |
| Income Taxes | 882,769 | 18% |

Real Property Tax collections decreased by 6.47 percent due to the recall of property tax bills which were based on the new assessments.

The item, income from Use of Money and Property was excluded in the certification for fiscal year 1961 in accordance with the opinion of members of the General Accounting Office with whom we conferred.

For the second consecutive year, net revenues have exceeded the net internal revenue taxes collected in the United States on Virgin Islands products imported there. The internal revenue taxes collected on these imports are the funds which are transferred to the Virgin Islands based on the annual certification of net revenues by the Government Comptroller pursuant to the provisions of the Revised Organic Act of the Virgin Islands.

Statement of Disposition of Appropriations (Exhibit D)

The amounts shown for the General, Single-i and Double-i funds on this statement pertain solely to appropriations for fiscal year 1961.

The unallotted and unobligated balances in the General and Single-i funds are not available for obligation after June 30, 1961. The unexpended balances of the appropriations for fiscal year 1961 are transferred after June 30, 1961, as follows:

| | |
|----------------|--|
| General Fund: | Transferred to amounts available for appropriation from the General Fund |
| Single-i Fund: | Transferred to Double-i Fund for appropriation, where necessary. |

The unallotted and unobligated balances in the Double-i and Special Funds remain available for obligation until the projects, and other purposes for which the appropriations were made, have been completed.

The amount of \$576,551.01 shown as total appropriated from the Special Fund includes unexpended and unobligated balances

amounting to \$199,805.72 from appropriations in prior fiscal years. As noted in the preceding paragraph, these balances remain available for obligation until the projects are completed.

Overobligations amounting to \$163,253.95 are reported by the departments of Commerce and Health, as follows:

| <u>Department</u> | | <u>Over- obligation</u> |
|--------------------------|------------------|-----------------------------|
| Commerce: | | |
| Marine and Aviation Fund | \$109,936.41 | |
| General Fund | <u>11,795.45</u> | \$121,731.86 |
| Health: | | |
| Single-i Fund | | <u>41,522.09</u> |
| | | <u>\$163,253.95</u> |

We have deferred further examination of these overobligations until comprehensive audits are made of the departments concerned.

An analysis of the appropriations for fiscal year 1961 by departments and agencies is shown on Schedule D-1.

GOVERNMENT OF THE VIRGIN ISLANDS
COMBINED BALANCE SHEET - ALL FUNDS
AT JUNE 30, 1961

| | General Fund | Matching Fund | Essential Projects Fund | Special Funds | Enterprise & Revolving Funds | Trust, Agency and Deposit Funds | General Fixed Assets |
|---|-----------------------|-----------------------|-------------------------------|-----------------------|------------------------------------|---------------------------------------|----------------------------|
| ASSETS | | | | | | | |
| Current Assets: | | | | | | | |
| Cash in Banks and on Hand | \$1,062,087.16 | \$4,722,221.73 | \$3,587,280.05 | \$1,282,213.51 | \$ 430,139.89 | \$1,053,371.19 | |
| Change and Petty Cash Funds | 6,475.00 | | | | 3,275.00 | | |
| Due from Other Funds | 430.73 | | | 5,650.00 | 112,337.00 | 45,000.00 | |
| Due from Federal Government | | | | 203,625.00 | | | |
| Materials and Supplies | | | | | 16,566.42 | | |
| Loans Receivable | 1,378.80 | | | 9,005.00 | 105,578.57 | 179,232.01 | |
| Accounts Receivable (Net) | 670,091.28 | | | 14,872.39 | 110,794.07 | 1,679.31 | |
| Accrued Interest Receivable | 425.00 | | | 59.34 | 9,683.42 | 15,079.15 | |
| Investments (U.S. Treasury and Saving Bonds) | | | | | 51,993.75 | 1,006,973.13 | |
| Total Current Assets | \$1,740,887.97 | \$4,722,221.73 | \$3,587,280.05 | \$1,515,425.24 | \$ 840,368.12 | \$2,301,334.79 | |
| Fixed Assets: | | | | | | | |
| Land | | | | | \$ 307,229.90 | | \$ 750,319.75 |
| Buildings | | | | | | | 10,336,909.23 |
| Equipment | | | | | 22,575.33 | | 2,311,034.58 |
| Total Fixed Assets | | | | | \$ 329,805.23 | | \$13,398,263.56 |
| GRAND TOTAL | \$1,740,887.97 | \$4,722,221.73 | \$3,587,280.05 | \$1,515,425.24 | \$1,170,173.35 | \$2,301,334.79 | \$13,398,263.56 |
| LIABILITIES | | | | | | | |
| Vouchers Payable | \$ 216,229.57 | \$ 195,942.49 | \$ 57,163.09 | \$ 44,846.59 | \$ 20,095.24 | \$ 86.56 | |
| Due to Other Funds | 5,650.00 | | | 92,337.00 | 65,000.00 | 430.73 | |
| Accounts Payable | 2,188.83 | | | | 7,751.66 | 302.61 | |
| Other Liabilities | 162.74 | | | | | 24,158.86 | |
| Total Liabilities | \$ 224,231.14 | \$ 195,942.49 | \$ 57,163.09 | \$ 137,183.59 | \$ 92,846.90 | \$ 24,978.76 | |
| APPROPRIATIONS, BALANCES, RESERVES AND SURPLUS | | | | | | | |
| Appropriations Carried Forward | | | \$1,711,110.57 | \$ 793,273.24 | | | |
| Fund Balances | | | | 243,368.68 | \$ 610,285.18 | \$2,176,616.57 | |
| Reserves: | | | | | | | |
| For Encumbrances (Unliqui- dated Obligations) | \$ 483,232.26 | \$1,795,554.65 | 1,485,259.75 | 326,727.34 | 12,360.86 | | |
| For Change and Petty Cash Funds | 6,475.00 | | | | 3,275.00 | | |
| For Receivables Unrealized | 672,325.81 | | | 14,872.39 | 105,033.76 | 1,679.31 | |
| For Legacies | | | | | | 98,060.15 | |
| For Inventories | | | | | 16,566.42 | | |
| Total Reserves | \$1,162,033.07 | \$1,795,554.65 | \$1,485,259.75 | \$ 341,599.73 | \$ 137,236.04 | \$ 99,739.46 | |
| Surplus: | | | | | | | |
| Invested Capital | | | | | \$ 329,805.23 | | |
| Investments in Fixed Assets | | | | | | | \$13,398,263.56 |
| Unappropriated Surplus | \$ 354,623.76 | \$2,730,724.59 | \$ 333,746.64 | | | | |
| Total Surplus | \$ 354,623.76 | \$2,730,724.59 | \$ 333,746.64 | | \$ 329,805.23 | | \$13,398,263.56 |
| GRAND TOTAL | \$1,740,887.97 | \$4,722,221.73 | \$3,587,280.05 | \$1,515,425.24 | \$1,170,173.35 | \$2,301,334.79 | \$13,398,263.56 |

SOURCE: Exhibit A, Commissioner of Finance's annual report of the financial operation of the Government of the Virgin Islands, fiscal year ended June 30, 1961.

The General Accounting Office does not express an opinion on this financial statement. See page 42.7

Exhibit A (Cont'd)GOVERNMENT OF THE VIRGIN ISLANDS
COMBINED BALANCE SHEET - ALL FUNDS
At June 30, 1961COMMISSIONER OF FINANCE'S COMMENTS

The combined balance sheet shown as Exhibit "A" in this report, is a statement of the assets, liabilities, appropriations, balances, reserves, and surplus of all the funds for which the Government of the Virgin Islands is responsible.

Materials and Supplies

This item shown in the combined balance sheet, represents the value of goods on hand in the Central Warehouse, Department of Property and Procurement, at June 30, 1961. This item was not verified by the Department of Finance and is, therefore, subject to possible adjustment following audit.

Accounts Receivable

This item shown in the combined balance sheet represents the total amount of accounts pending collection, less an allowance for uncollectible accounts. Information concerning these accounts are given as reported to the Department of Finance by the various cashiers, and has therefore, not been verified. Consequently, the accounts are subject to possible adjustment following audit. The allowance for uncollectible accounts is an arbitrary amount based on an estimated ten per cent of all receivables.

Loans Receivable

This item shown in the combined balance sheet includes certain accounts maintained by agencies independent of the Department of Finance. These accounts were not verified by this department, and are therefore, subject to possible adjustment following audit.

Investments

This item shown in the combined balance sheet represents the Government's investments in U.S. Treasury interest bearing bonds, which are shown at market value, and in U.S. Savings Bonds, which are shown at both cost and face value.

Fixed Assets

This item shown in the combined balance sheet is based on information furnished by the Department of Property and Procurement, the agency of the government responsible therefor. These

Exhibit A (Cont'd)

inventories were not verified by the Department of Finance, and the accounts are therefore subject to possible adjustment following audit.

Except for the qualifying statements made herein, it is our opinion that all other information shown in the balance sheet and other statements presented in this report, are accurately stated on the basis of information available and are subject to possible adjustment only as a result of audit.

GOVERNMENT OF THE VIRGIN ISLANDS
OF THE UNITED STATES
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
FISCAL YEAR ENDED JUNE 30, 1961

APPENDIX I

Exhibit B

| | Schedule Number | Total All Funds | General Fund | Matching Funds | | Special Fund | Enterprise and Revolving Fund | Agency Fund | Trust and Legacy Fund | Special Deposit Fund | Payroll Fund |
|----------------------------------|-----------------|------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-------------------------------|--------------------|-----------------------|-----------------------|-----------------------|
| | | | | Single i | Double i | | | | | | |
| RECEIPTS | | | | | | | | | | | |
| Agriculture and Labor | B-1 | \$ 124,781.68 | \$ 2,812.81 | \$ - - - | \$ - - - | \$ 109,309.78 | \$ 12,659.09 | \$ - - - | \$ - - - | \$ - - - | \$ - - - |
| Board of Public Accountancy | B-2 | 40.00 | - - - | - - - | - - - | 40.00 | - - - | - - - | - - - | - - - | - - - |
| Commerce | B-3 | 29,153.59 | - - - | - - - | - - - | 29,153.59 | - - - | - - - | - - - | - - - | - - - |
| Education | B-4 | 289,945.19 | 3,872.90 | - - - | - - - | 271,593.91 | - - - | - - - | 14,478.38 | - - - | - - - |
| Finance | B-5 | 15,559,452.47 | 7,279,177.48 | 6,524,899.82 | 32,931.60 | 1,944.00 | 655,700.70 | 11,420.28 | - - - | 1,053,378.59 | - - - |
| Government Secretary | B-6 | 1,031,393.82 | 530,127.60 | - - - | - - - | - - - | 2.91 | - - - | 501,263.31 | - - - | - - - |
| Health | B-7 | 450,250.10 | 90,148.02 | - - - | - - - | 356,012.69 | 44.97 | 4,044.42 | - - - | - - - | - - - |
| Law Library Fund | B-8 | 1,400.00 | - - - | - - - | - - - | 1,400.00 | - - - | - - - | - - - | - - - | - - - |
| Municipal Courts | B-9 | 26,538.00 | 26,538.00 | - - - | - - - | - - - | - - - | - - - | - - - | - - - | - - - |
| Property and Procurement | B-10 | 237,188.54 | 23,315.57 | - - - | - - - | 159,898.59 | 53,273.34 | - - - | 701.04 | - - - | - - - |
| Public Safety | B-11 | 179,429.24 | 177,207.66 | - - - | - - - | - - - | 2,220.51 | 1.07 | - - - | - - - | - - - |
| Public Works | B-12 | 672,324.17 | 190,572.56 | - - - | - - - | 459,215.09 | 22,514.86 | 21.66 | - - - | - - - | - - - |
| Social Welfare | B-13 | 332,038.65 | - - - | - - - | - - - | 329,870.82 | - - - | - - - | 2,167.83 | - - - | - - - |
| TOTAL RECEIPTS | | <u>18,933,935.45</u> | <u>8,323,772.60*</u> | <u>6,524,899.82</u> | <u>32,931.60</u> | <u>1,718,438.47*</u> | <u>746,416.38</u> | <u>15,487.43</u> | <u>518,610.56</u> | <u>1,053,378.59*</u> | <u>- - -</u> |
| TRANSFERS | B-14 | - - - | -6,152,782.91 | -3,106,567.42 | 2,294,741.68 | -159,217.35 | -127,529.50 | - - - | 134,201.35 | -388,862.61 | 7,506,016.76 |
| OPENING BALANCE | | <u>10,460,732.58</u> | <u>1,827,324.18</u> | <u>2,774,422.35</u> | <u>2,171,004.42</u> | <u>1,548,036.91</u> | <u>659,879.27</u> | <u>37,630.53</u> | <u>543,819.76</u> | <u>878,050.39</u> | <u>20,564.77</u> |
| ADJUSTMENT TO BALANCE | | <u>-1,372.09</u> | <u>- - -</u> | <u>- - -</u> | <u>- - -</u> | <u>-1,159.75</u> | <u>-35.46</u> | <u>- - -</u> | <u>-176.88</u> | <u>- - -</u> | <u>- - -</u> |
| AVAILABLE CASH (Carried Forward) | | <u>\$29,393,295.94</u> | <u>\$3,998,313.87</u> | <u>\$6,192,754.75</u> | <u>\$4,498,677.70</u> | <u>\$3,106,098.28</u> | <u>\$1,278,730.69</u> | <u>\$53,117.96</u> | <u>\$1,196,454.79</u> | <u>\$1,542,566.37</u> | <u>\$7,526,581.53</u> |
| CASH DISBURSEMENTS | | | | | | | | | | | |
| Agriculture and Labor | B-1 | 340,401.73 | 62,364.88 | - - - | - - - | 61,658.29 | 17,545.50 | - - - | - - - | - - - | 198,833.06 |
| Board of Public Accountancy | B-2 | 121.00 | - - - | - - - | - - - | 121.00 | - - - | - - - | - - - | - - - | - - - |
| Commerce | B-3 | 316,969.25 | 234,056.89 | - - - | - - - | 22,190.26 | - - - | - - - | - - - | - - - | 60,722.10 |
| Education | B-4 | 2,417,731.06 | 364,463.27 | - - - | - - - | 291,282.14 | - - - | - - - | 52,343.10 | - - - | 1,709,642.55 |
| Electoral Boards | B-15 | 16,475.88 | 16,475.88 | - - - | - - - | - - - | - - - | - - - | - - - | - - - | - - - |
| Executive Offices | B-15 | 357,227.26 | 164,755.67 | - - - | - - - | - - - | - - - | - - - | - - - | - - - | 192,471.59 |
| Finance | B-5 | 2,078,913.59 | 224,492.51 | - - - | - - - | - - - | 715,382.39 | 4,595.75 | - - - | 715,807.29 | 418,635.65 |
| Government Secretary | B-6 | 1,357,910.19 | 135,434.29 | - - - | - - - | - - - | - - - | - - - | 952,080.19 | - - - | 270,395.71 |
| Health | B-7 | 2,831,004.66 | 215,453.58 | 545,989.88 | - - - | 245,962.70 | - - - | 6,835.38 | - - - | - - - | 1,816,763.12 |
| Law Library Fund | B-8 | 57.00 | - - - | - - - | - - - | 57.00 | - - - | - - - | - - - | - - - | - - - |
| Legislature | B-15 | 197,869.41 | 197,869.41 | - - - | - - - | - - - | - - - | - - - | - - - | - - - | - - - |
| Municipal Courts | B-9 | 62,405.99 | 10,705.22 | - - - | - - - | - - - | - - - | - - - | - - - | - - - | 51,700.77 |
| Property and Procurement | B-10 | 692,787.50 | 94,386.76 | - - - | - - - | 366,577.59 | 80,414.84 | - - - | 687.03 | - - - | 150,721.28 |
| Public Safety | B-11 | 697,610.37 | 158,090.02 | - - - | - - - | - - - | 1,549.81 | - - - | - - - | - - - | 537,970.54 |
| Public Works | B-12 | 4,826,283.40 | 933,974.11 | 924,543.14 | 911,397.65 | 173,179.78 | 79,314.26 | - - - | - - - | - - - | 1,803,874.46 |
| Social Welfare | B-13 | 1,060,164.88 | 123,704.22 | - - - | - - - | 617,240.01 | - - - | - - - | 4,400.64 | - - - | 314,820.01 |
| LESS TOTAL DISBURSEMENTS | | <u>17,253,933.17</u> | <u>2,936,226.71</u> | <u>1,470,533.02</u> | <u>911,397.65</u> | <u>1,778,268.77</u> | <u>894,206.80</u> | <u>11,431.13</u> | <u>1,009,510.96</u> | <u>715,807.29</u> | <u>7,526,550.84</u> |
| CLOSING BALANCE | | <u>\$12,139,362.77</u> | <u>\$1,062,087.16</u> | <u>\$4,722,221.73</u> | <u>\$3,587,280.05</u> | <u>\$1,327,829.51</u> | <u>\$ 384,523.89</u> | <u>\$41,686.83</u> | <u>\$ 186,943.83</u> | <u>\$ 826,759.08</u> | <u>\$ 30.69</u> |

*See also Schedule B-16

The accompanying comments Pages 46 to 55 are an integral part of this statement.

The General Accounting Office does not express an opinion on this financial statement. See page 42.

GOVERNMENT OF THE VIRGIN ISLANDS
OF THE UNITED STATES

COMPARATIVE STATEMENT OF NET REVENUES CERTIFIED FOR MATCHING FUNDS
FISCAL YEARS ENDED JUNE 30, 1954, THROUGH JUNE 30, 1961

| | 1961 | 1960 | 1959 | 1958 | 1957 | 1956 | 1955 | 1954 | Increase or Decrease (-) | |
|--|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|--------------------------|-----------|
| | | | | | | | | | 1961-1950 | 1961-1954 |
| | | | | | | | | | % | % |
| Income Taxes | \$5,574,379.39 | \$4,791,610.57 | \$2,921,294.73 | \$2,140,770.31 | \$1,802,009.72 | \$1,367,429.58 | \$1,031,504.11 | \$ 808,194.53 | 18.42 | 602.11 |
| Trade and Excise Taxes | 1,274,004.30 | 1,233,164.15 | 766,672.49 | 663,173.53 | 573,109.86 | 345,593.42 | 553,418.57 | 607,770.33 | 3.31 | 109.52 |
| Gross Receipts Taxes | 584,778.82 | 433,266.55 | 348,500.41 | 299,302.35 | 325,447.20 | 220,994.89 | 138,310.68 | 132,594.71 | 34.97 | 341.03 |
| Real Property Taxes | 347,992.51 | 372,046.27 | 276,028.40 | 278,139.94 | 268,455.64 | 205,006.23 | 252,158.82 | 209,580.12 | -6.47 | 66.04 |
| Corporate Franchise Taxes | { 16,454.50 | 16,657.56 | - - - | - - - | - - - | - - - | - - - | - - - | -1.22 | - - |
| Licenses, Fees and Permits | { 383,058.45 | 329,093.32 | 276,002.39 | 257,288.51 | 190,127.14 | 195,885.65 | 170,068.57 | 156,960.90 | 16.19 | 154.53 |
| Gasoline Taxes | { 211,225.12 | 205,881.19 | 156,326.24 | 149,781.95 | 152,119.40 | 109,805.18 | 118,769.18 | - - - | 2.60 | - - |
| Inheritance Taxes | { 42,541.45 | 23,011.19 | 37,960.44 | 13,304.82 | 13,489.47 | 3,695.82 | 35,226.31 | 100,247.45 | 84.37 | 153.14 |
| Revenue Stamp Taxes | 112,919.84 | 71,493.84 | 96,540.19 | 50,479.17 | 35,718.60 | 4,521.25 | - - - | - - - | 57.94 | * |
| Fines, Forfeits and Penalties | 57,513.02 | 55,237.12 | 38,078.42 | 20,267.64 | 18,437.10 | 15,802.33 | 9,546.47 | 10,859.65 | 4.12 | 429.61 |
| Income from Use of Money and Property | - - - | 100.68 | 548.44 | 356.94 | 169.08 | 690.82 | - - - | - - - | -100.00 | * |
| TOTAL | <u>\$3,704,868.00</u> | <u>\$7,532,162.44</u> | <u>\$4,917,952.15</u> | <u>\$3,872,865.16</u> | <u>\$3,379,133.21</u> | <u>\$2,469,426.17</u> | <u>\$2,309,002.71</u> | <u>\$2,026,207.70</u> | 15.57 | 329.61 |
| MATCHING FUNDS | | | | | | | | | | |
| Net Amount of Internal Revenue Taxes collected by the U. S. Treasury on Articles produced in the Virgin Islands and imported into the United States. | <u>\$6,842,477.87</u> | <u>\$6,494,445.33</u> | <u>\$5,693,341.27</u> | <u>\$5,564,026.30</u> | <u>\$5,096,283.00</u> | <u>\$5,023,745.18</u> | <u>\$4,354,335.69</u> | <u>\$3,899,200.37</u> | 5.36 | 75.48 |

*These items were not collected in 1954.

The accompanying comments [pages 46 to 55] are an integral part of this statement.

AUDIT REPORTS ISSUED BY THE GOVERNMENT COMPTROLLERDURING THE FISCAL YEAR ENDED JUNE 30, 1961

During the fiscal year ended June 30, 1961, the Government Comptroller issued 18 audit reports, as follows:

| <u>Activity audited</u> | <u>Report date</u> | <u>Period covered</u> |
|--|--------------------|-----------------------|
| Department of Tourism and Trade | 7-20-60 | Fiscal years 1958-59 |
| Transactions involving the claim of Goddard's Ltd. for alleged monetary losses resulting from enactment of Bill No. 1220 (Act No. 567) and payment of same | 1-13-61 | - |
| Annual report on the financial condition of the Government of the Virgin Islands | 2- 2-61 | Fiscal year 1960 |
| Accounting and Treasury Divisions, Department of Finance | 2- 6-61 | Fiscal year 1959 |
| Audit of the granting of tax exemption and subsidies to an individual and of industrial subsidy payments made to him from 1951 to 1958 | 2-20-61 | 1951 to 1958 |
| Subsidy payments under the purchases and sales of securities provisions of the industrial incentive program laws of the Virgin Islands | 5-25-61 | 7-1-54 to 3-10-61 |
| Office of the Governor's administrative assistant for St. John | 6-20-61 | Fiscal years 1959-60 |
| Office of the probation and parole officer | 6-20-61 | Fiscal years 1959-60 |
| Surety bonds for government personnel | 6-20-61 | |
| Office of the Governor's administrative assistant for St. Croix | 6-21-61 | Fiscal years 1959-60 |
| Essential public projects | 6-21-61 | 7-1-54 to 12-31-60 |

AUDIT REPORTS ISSUED BY THE GOVERNMENT COMPTROLLERDURING THE FISCAL YEAR ENDED JUNE 30, 1961 (continued)

| <u>Activity audited</u> | <u>Report date</u> | <u>Period covered</u> |
|---|--------------------|-----------------------|
| Virgin Islands Planning Board | 6-22-61 | Fiscal years 1959-60 |
| Department of Law | 6-23-61 | Fiscal years 1959-60 |
| Office of the Governor, including the Governor's contingent fund | 6-26-61 | Fiscal years 1959-60 |
| Office of the Director of the Budget | 6-29-61 | Fiscal years 1959-60 |
| Accounting and Treasury Divisions, Department of Finance | 6-29-61 | Fiscal year 1960 |
| Office of the Recorder of Deeds, St. Croix | 6-29-61 | Fiscal years 1958-60 |
| Office of the Recorder of Deeds, St. Thomas and St. John | 6-30-61 | Fiscal years 1958-60 |

OFFICIALS GENERALLY RESPONSIBLE FOR THE AFFAIRS
OF THE GOVERNMENT OF THE VIRGIN ISLANDS
DURING THE FISCAL YEAR ENDED JUNE 30, 1961

| <u>Position</u> | <u>Incumbent</u> | <u>Date of appointment</u> |
|---|--|--------------------------------|
| Secretary of the Interior | Fred A. Seaton Stewart L. Udall | June 8, 1956 Jan. 21, 1961 |
| Assistant Secretary of the Interior--Public Land Management | Roger C. Ernst John A. Carver, Jr. | June 10, 1957 Jan. 30, 1961 |
| Director, Office of Terri- tories, Department of the Interior | Anthony T. Lausi Richard F. Taitano | May 1, 1955 Mar. 6, 1961 |
| Governor of the Virgin Is- lands | John D. Merwin Ralph M. Paiewonsky | Sept. 25, 1958 Apr. 5, 1961 |
| Government Secretary of the Virgin Islands | Roy W. Bornn Cyril E. King | Sept. 25, 1958 May 5, 1961 |
| Government Comptroller of the Virgin Islands | Peter A. Bove | Aug. 1, 1957 |