Schedule of Expenditures of Federal Awards and Reports Required by *Government Auditing Standards* and the Uniform Guidance Year Ended September 30, 2017



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#### Contents

Independent Auditor's Reports	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	3-4
Independent Auditor's Report on Compliance for Each Major Federal Program, Report on Internal Control over Compliance, and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance	5-8
Schedule of Expenditures of Federal Awards	9
Notes to the Schedule of Expenditures of Federal Awards	10-12
Schedule of Findings and Questioned Costs	13-24
Management's Appendices	
Appendix A: Status of Prior Audit Findings	25-26
Appendix B: Corrective Action Plan	27-30



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

To the Governing Board Virgin Islands Port Authority

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Virgin Islands Port Authority (the Authority), a component unit of the Government of the U.S. Virgin Islands, which comprise the statement of net position as of September 30, 2017, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 30, 2019.

#### Internal Control over Financial Reporting

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

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

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

Finding #	ng # Nature of Finding			
2017-001	Reconciliation and Review Processes			
2017-002	Accounting in the Aftermath of Disasters			
2017-003	Lease Agreement(s) Administration			
2017-004	Cash Based Revenues			

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

Finding #	Nature of Finding
2017-005	Capital Assets and Related Expenditures
2017-006	Logical Security - User Access

#### **Compliance and Other Matters**

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

#### The Authority's Responses to Findings

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

#### Purpose of this Report

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

BDD USA, LLP

September 30, 2019



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Independent Auditor's Report on Compliance for Each Major Federal Program, Report on Internal Control Over Compliance, and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

To the Governing Board Virgin Islands Port Authority

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

We have audited the Virgin Islands Port Authority's (the Authority) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement that could have a direct and material effect on each of the Authority's major federal programs for the year ended September 30, 2017. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. The Authority is a component unit of the Government of the U.S. Virgin Islands.

#### Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

#### Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

#### Basis for Qualified Opinion on CFDA 20.106, Airport Improvement Program

As described in the accompanying schedule of findings and questioned costs, the Authority did not comply with requirements regarding the following:

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Finding #	CFDA #	Program (or Cluster) Name	Compliance Requirement
			Procurement and Suspension
2017-008	20.106	Airport Improvement Program	and Debarment
2017-009	20.106	Airport Improvement Program	Reporting

Compliance with such requirements is necessary, in our opinion, for the Authority to comply with the requirements applicable to that program.

#### Qualified Opinion on CFDA 20.106, Airport Improvement Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA 20.106, Airport Improvement Program for the year ended September 30, 2017.

#### Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs, and as listed below. Our opinion on the major federal program is not modified with respect to this matter.

Finding #	CFDA #	Program (or Cluster) Name	Compliance Requirement
2017-007	20.106	Airport Improvement Program	Data Collection Form and Single Audit Reporting Package

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

#### Report on Internal Control Over Compliance

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



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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs, and as listed below, that we consider to be material weaknesses.

Finding #	CFDA #	Program (or Cluster) Name	Compliance Requirement
i manig "	CI DA II	110grain (or elaster) Hame	Data Collection Form and Single
2017-007	20.106	Airport Improvement Program	Audit Reporting Package
			Procurement and Suspension and
2017-008	20.106	Airport Improvement Program	Debarment
2017-009	20.106	Airport Improvement Program	Reporting

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

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

#### Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

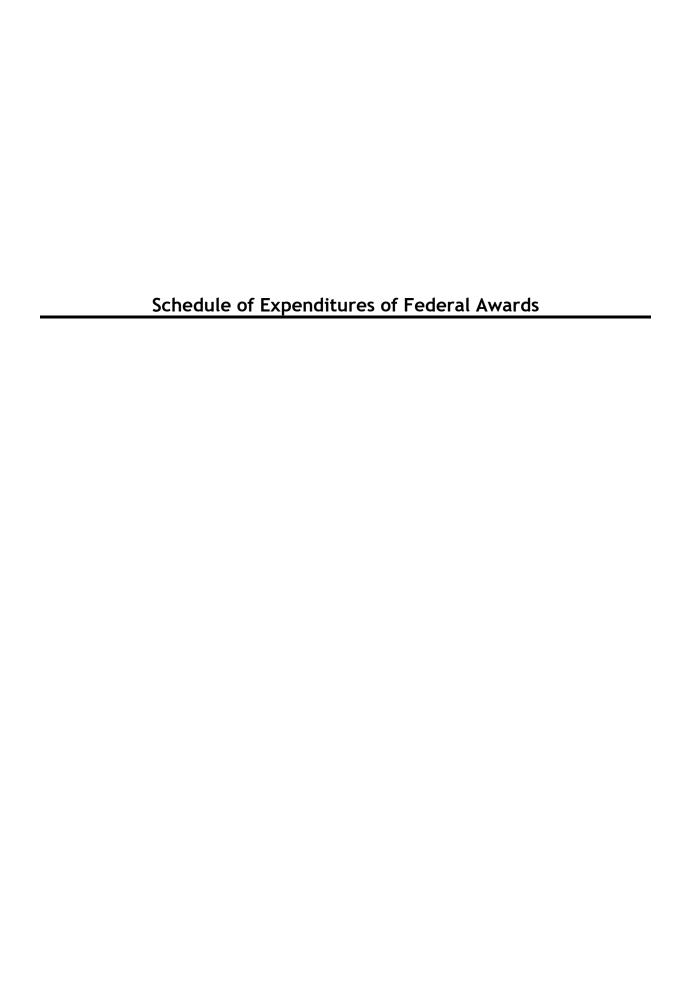
We have audited the financial statements of the Virgin Islands Port Authority, a component unit of the Government of the U.S. Virgin Islands, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements. We issued our report thereon dated September 30, 2019, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements.



Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

BOD USA, LLP

September 9, 2020



#### Schedule of Expenditures of Federal Awards

Year ended September 30, 2017		0		
Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Federal CFDA Number	Pass- Through Entity Identifying Number	Passed Through to Subrecipients	deral penditures
U.S. Department of Transportation: Federal Aviation Administration Direct Programs				
Airport Improvement Program Cyril E. King Airport	20.106	-	-	\$ 1,329,847
Airport Improvement Program Henry E. Rohlsen Airport	20.106	-	-	8,038,331
Total U.S. Department of Transportation Direct Programs				9,368,178
U.S. Department of Homeland Security: Transportation Security Administration Direct Programs				
National Explosive Detection Canine Team Program				
Cyril E. King Airport	97.072	-	-	122,399
Law Enforcement Officer Reimbursement Agreement Program Cyril E. King Airport	97.090	-	-	208,750
Law Enforcement Officer Reimbursement Agreement Program Henry E. Rohlsen Airport	97.090	-	-	102,080
Total U.S. Department of Homeland Security Direct Programs				433,229

Total Expenditures of Federal Awards \$ 9,801,407

See accompanying notes to the Schedule of Expenditures of Federal Awards.

#### Notes to the Schedule of Expenditures of Federal Awards

#### 1. Reporting Entity

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the Virgin Islands Port Authority (the Authority) under programs of the Federal government for the year ended September 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements.

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

#### 2. Summary of Significant Accounting Policies

#### **Basis of Accounting**

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

#### **Matching Costs**

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

#### Relationship to Federal Financial Reports

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

#### 3. Indirect Cost Rate

The Authority has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

#### 4. Contingencies

The Authority is subject to audit examination by funding sources to determine compliance with grant conditions. In the event that expenditures would be disallowed, repayment could be required. Management believes that the impact of any disallowed grant expenditures would not have a material adverse effect on the Authority's financial position, changes in net position, or liquidity.

#### Notes to the Schedule of Expenditures of Federal Awards

In March 2020, the Authority signed a settlement agreement with the Federal Aviation Administration (FAA) and agreed to remit payment of a \$1.5 million civil penalty in four installments. The first installment of \$0.4 million was paid in March 2020. However, due to the COVID-19 pandemic, the other installment payments have been deferred.

#### 5. Subsequent Events

#### Natural Disasters - Hurricanes Irma and Maria

On September 6 and 19, 2017, the United States Virgin Islands were struck by two Category 5 hurricanes. The extent and severity of the storms was unprecedented and resulted in catastrophic damage to the Territory, as a whole. On or about September 7 and 20, 2017, the President of the United States declared the United States Virgin Islands a disaster area and eligible for Federal Emergency Management Agency (FEMA) recovery assistance.

The Authority is making significant progress towards restoring its facilities which were damaged by Hurricanes Irma and Maria. Rebuilding the Authority's air and seaports has taken precedence over other activities and the Authority continues to tabulate the associated costs and expenses with respect to remediation, mitigation, and the restoration of services.

Subsequent to year end, the Authority received a reimbursement of \$0.3 million as part of the Territory's FEMA disaster recovery grant. Additionally, the Authority has received approximately \$20.0 million in connection with its insurance claims related to the damages incurred.

In an effort to close potential shortfalls and to serve returning citizens, the Authority continues to work closely with Federal agencies, such as FEMA and the FAA, to maximize its recovery from all available sources, subject to any sublimits and retentions. While inflows of Federal and private funds continue to bolster the reconstruction activity, the eventual amount and timing for receipt of such funds cannot be predicted at this time.

#### Global Pandemic

In March 2020, the Governor of the U.S. Virgin Islands declared a state of emergency due to the coronavirus pandemic known as COVID-19. The state of emergency was approved by the President of the United States under the provisions of the Stafford Act and the National Emergencies Act. A federally approved state of emergency activates federal assistance to states in the form of financial, logistical, and technical assistance. The state of emergency also activates other emergency response protocols and systems to protect citizenry such as stay-at-home orders, travel restrictions, and social distancing requirements.

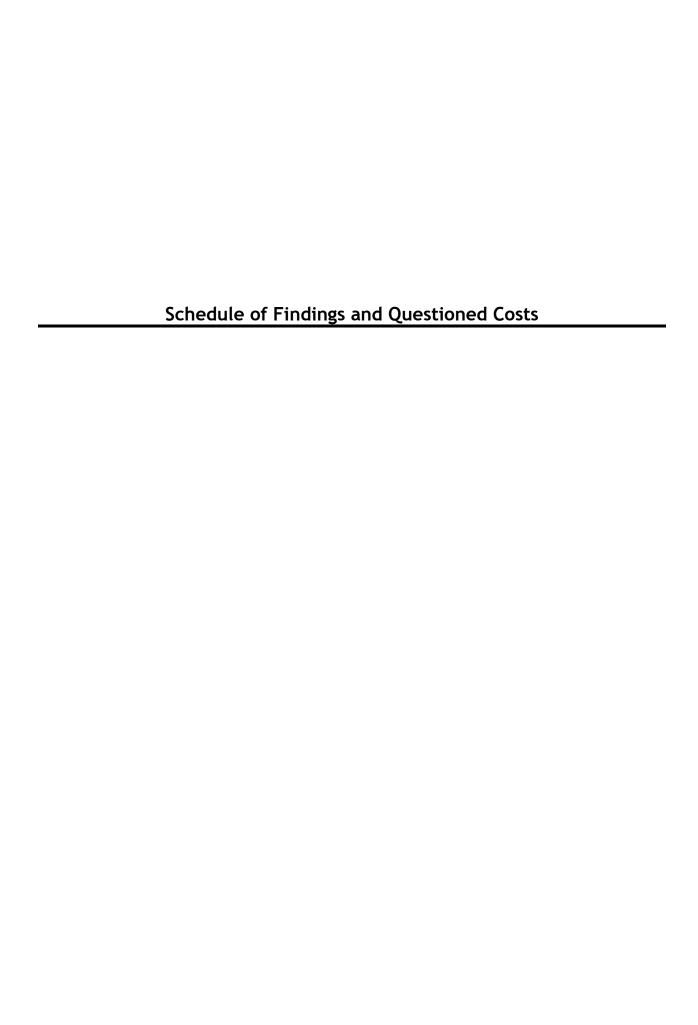
The extent of the impact of COVID-19 on the operational and financial performance of the Authority will depend on certain developments, including the duration and spread of the outbreak. Prolonged travel and social gathering restrictions could negatively impact the fiscal outlook for the Authority's vendors and customers due to business disruptions and increased unemployment. The Authority may also experience revenue volatility from cruise lines and airlines which have announced reduction in operations. Although the Authority cannot estimate the length or gravity of the impact of the COVID-19 outbreak at this time, if the pandemic continues, it may have an adverse effect on the Authority's results of future operations, financial position, and liquidity.

#### Notes to the Schedule of Expenditures of Federal Awards

#### **Economic Relief Legislation**

Also, in March 2020, the President of the United States signed into law the "Coronavirus Aid, Relief, and Economic Security (CARES) Act." The CARES Act, among other things, appropriated funds for the Coronavirus Relief Fund to be used to make payments for specified uses to state, territorial, local, and tribal governments.

In April 2020, the Authority executed a CARES Act grant with the FAA for a total of \$38.9 million. The Authority continues to examine the impact that the CARES Act may have on its operations.



#### **Schedule of Findings and Questioned Costs**

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

Financial Statements				
Type of report the auditor issued on whether the financial statements audited were pre in accordance with generally accepted acception principles:	epared	Unmodified		
Internal control over financial reporting:				
• Material weakness(es) identified?		X Yes		_No
• Significant deficiency(ies) identified?		X Yes		None reported
Noncompliance material to financial stateme	ents noted?	Yes	X	_No
Federal Awards				
Internal control over major federal programs	s:			
• Material weakness(es) identified?		XYes		_No
• Significant deficiency(ies) identified?		Yes	X	_None reported
Type of auditor's report issued on compliance major federal programs:	for	Qualified		
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	l to	XYes		_No
Identification of major federal programs:				
<u>CFDA Number</u> 20.106		ral Program or ( ement Program	Cluster	
Dollar threshold used to distinguish between Type A and Type B programs:		\$750,000		
Auditee qualified as low-risk auditee?		Yes	Χ	No

#### Schedule of Findings and Questioned Costs

#### Section II - Financial Statement Findings

#### Finding 2017-001: Reconciliation and Review Processes

Accounting tasks, such as periodic reconciliations, play a key role in proving the accuracy of accounting data and information included in various interim financial statements and/or reports.

#### Finding and Recommendation:

We noted a significant delay in the year-end closing process and preparation of year-end financial statements. We noted that in some cases, reconciliations were finalized in July 2019, which represents a substantial delay when compared to the Authority's fiscal year-end. Capital assets reconciliations, allowance for bad debts, various accruals, and net position schedules, that form part of the year-end closing process, had not been reconciled on a periodic basis.

As a result, detailed schedules supporting general ledger accounts did not always agree with the respective general ledger balances. Approximately two-hundred (200) post-closing adjustments were provided during the audit process. Such a continuing and growing backlog of transactions and journal entries that are not posted into the accounting system on a timely basis, renders the accounting information virtually useless in making well informed business decisions.

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

Further, strict adherence to the year-end closing schedule should be required because this will allow the Authority to comply with its financial reporting covenants, and for the year-end work and audit preparation to be a much less time-consuming and arduous process, without sacrificing the quality of the accounting records or minimizing existing internal controls.

#### Views of Responsible Officials:

#### Schedule of Findings and Questioned Costs

#### Finding 2017-002: Accounting in the Aftermath of Disasters

On September 6 and 19, 2017, the United States Virgin Islands were struck by two Category 5 hurricanes. The extent and severity of the storms was unprecedented and resulted in catastrophic damage to the Territory, as a whole.

Specifically impacting the finance functions, there was extensive damage of business premises, furniture and equipment, electronic servers, and various files and supporting documentation along with displacement of employees and operations.

#### **Capital Assets Impairment Process**

#### Finding and Recommendation:

The Authority is required to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Such events or changes in circumstances that may be indicative of impairment include amongst others, evidence of physical damage. We noted the following regarding the Authority's capital assets impairment process:

- Beyond the significant buildings and structures, there was lack of a coordinated inventory process to evaluate the damages suffered. These individually smaller items such as, machinery and equipment, were cumulatively significant for financial reporting purposes.
- While various damage assessment reports were performed by distinct experts hired in the aftermath of the disasters, there was a lack of coordination with the accounting team in ensuring that the reports would also be sufficient for recording impairment loss(es) on the books and records.
- We noted that some damage assessments for the departments were informally done, or were not performed at all, until the accounting team requested them.
- Damage assessments were not readily matched to the asset registers due to incomplete and inaccurate descriptions in the respective registers. This resulted in additional time and effort in calculating and applying impairment accounting to specific capital assets.

Because of the above factors, the capital assets impairment process had to be reperformed at a much later date and resulted in significant delays and adjustments during the audit process. We recommend that the Authority implement a formal process whereby, annual impairment assessments are conducted, independent of the external audit.

Further, the results of periodic physical counts should be readily available for analysis by external parties and should be compared to the detailed capital asset subsidiary ledger and communicated to the Accounting Department so that necessary adjustments can be recorded. This will help improve the tracking of assets for disposal and impairment purposes. It should also be noted that as a recipient of federal grant funds, the Authority is required to have in place an inventory management system to track items purchased with federal funds.

#### **Schedule of Findings and Questioned Costs**

#### Views of Responsible Officials:

The Authority concurs with the auditor's findings and recommendations. The planned corrective actions are presented in the Authority's Corrective Action Plan which is attached as Appendix B.

#### Formalize Emergency Payroll Procedures

#### Finding and Recommendation:

Payroll processing commences with timesheets which are approved by Department heads in the ABRA system (timesheet system), which then forms the basis for payroll processing at the Accounting Department. It was noted that payroll processing during the last month of the fiscal year was severely impacted as result of the September 2017 hurricanes. The hurricanes resulted in a major loss of power and displacement of personnel. Employees could not attend work for days as the roads were rendered inaccessible. As a result, the recording of timesheets in the ABRA system was temporarily shelved.

As a transitory relief measure, the Authority instituted the "Straight 80" payroll process where all "active" employees in the employee database were paid for 80 hours during the last payroll. Management could not provide a formal documented policy regarding how the "Straight 80" payroll process would be performed.

We recommend that a formal written emergency procedures manual be developed for use by the Authority in case of a major disruption to operations. This manual should address the processes to be performed, the key contacts or personnel, and the reconciliations that would be required.

#### Views of Responsible Officials:

#### Schedule of Findings and Questioned Costs

#### Finding 2017-003: Lease Agreement(s) Administration

The Authority leases properties to outside users which are governed under the terms of a significant number of lease agreements. Leased facilities can include warehouse space, terminal counter space, terminal retail space, commercial space, and office space.

#### Finding and Recommendation:

We selected a sample of leases for our test work and noted the following:

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

Given the significant number of leases entered into by the Authority, these issues can result in a loss of control and efficiency. We recommend that the Authority develop a lease rental database application package that would integrate with the general ledger package. This should also serve as the central database of all business documents. A system-generated lease revenue summary should be analyzed and reconciled with the general ledger on a periodic basis. This procedure will help ensure that proper billing and related information is posted to the general ledger and that lease revenues are accurate. Furthermore, a workable mechanism should be maintained to alert management to important dates that require timely attention, such as renewal clauses, rate changes, option dates, addendum values, and expiration dates.

#### Views of Responsible Officials:

#### **Schedule of Findings and Questioned Costs**

#### Finding 2017-004: Cash Based Revenues

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

#### Finding and Recommendation:

We noted that information, such as a vessel's specifications (e.g. length, draft, gross tonnage) in the eCollect marine database, which is used for billing calculations, is not reviewed on a periodic basis.

Management had represented that a policy of periodic audits of the marine database was being conducted to ensure accuracy of the billing information. However, we did not note evidence that such reviews were being performed.

#### Views of Responsible Officials:

#### Schedule of Findings and Questioned Costs

#### Finding 2017-005: Capital Assets and Related Expenditures

Capital assets constitute an investment of substantial amounts, thereby, requiring an excellent system of controls for the maintenance and safeguarding of these assets. While we noted the Authority has taken certain preliminary steps, we recommend continued diligence with respect to the monitoring and review of capital assets and in ensuring the reconciliation of supporting registers to the primary registers.

#### **Review of Subsidiary Registers**

#### Finding and Recommendation:

The process of maintaining capital asset records (i.e. recording additions, disposals, and transfers) is a manually intensive process conducted when performing the annual financial statement close. As such, supervisory review and other checks and balances may not be timely and/or effective in some instances. We recommend that the Authority evaluate the year end cut-off procedures and policies in order to monitor purchases for capitalizable assets and in order to accurately account for all open and unpaid invoices and payments subsequent to year end.

During our sampled procedures over capital assets, we noted the following:

- Thirty-two (32) assets with an aggregate net book value of \$1.9 million were already past their respective useful lives but had not been fully depreciated.
- Twelve (12) assets with acquisition costs below the capitalization threshold had not been removed from the asset registers.
- We noted various misclassifications pertaining to useful lives as contained in the Authority's revised capitalization policy.

Although these items were adjusted and rectified during the audit process, to prevent the need for adjustments at the end of each year, we recommend a thorough review of the capital assets registers during the closing process to ensure that errors are addressed on a timely basis. This review should be comprised of a review of acquisition dates and costs, asset descriptions, useful lives, and depreciation calculations.

#### **Views of Responsible Officials:**

#### Schedule of Findings and Questioned Costs

#### Construction in Progress (CIP) Monitoring

#### Finding and Recommendation:

The Authority has a significant number of on-going construction projects. The necessary analysis to identify the status of projects was only completed and/or necessary adjustments were made during the close process.

- During our sampled procedures over the construction in progress activity, we noted the following:
  - Two (2) projects were confirmed to be complete but had not been closed out and transferred to the completed asset category.
  - One (1) project was confirmed as in-process but had already been closed out and transferred to the completed asset category.
  - Two (2) completed projects were not closed out timely and were consequently under-depreciated during the year.
- The Authority closes out CIP projects only once at the end of each fiscal year and accordingly, any completed projects will be depreciated only at the start of the next fiscal year. Although this methodology has been consistently applied, this has not yet been formalized in the capital assets policies and procedures. We recommend the Authority update its policies to reflect this procedure.

In anticipation of the increase in the number of CIP projects after fiscal year 2017 due to the hurricane restoration activity, it is imperative to maintain a good system of recording project costs accurately and timely, and monitoring project status on a consistent basis with the respective project owners. It is critical that the Authority reconciles these costs with the reports and records of the respective project managers, ensuring agreement to contract costs and capital expenditure budgets, and applying a consistent method of determining project completion and transfer to the related depreciable asset class.

#### Views of Responsible Officials:

#### Schedule of Findings and Questioned Costs

#### Finding 2017-006: Logical Security - User Access

We reviewed the major applications and systems which are utilized for the Authority's day-to-day processing needs.

#### Finding and Recommendation:

We noted the following:

- A periodic review of user access was not performed to support continuing appropriate rights
  to manage the risk of terminated employees retaining access and additionally, for personnel
  having access commensurate with their job responsibilities. Management should consider a
  periodic reconciliation of application and system accounts to ensure that terminated
  employees do not have access and further, that user access rights for active employees are
  appropriate based on job responsibilities.
- We noted that several individuals have access rights to create, approve, and post journal
  entries. We understand that this represents an internal management decision with respect to
  access which is deemed necessary for day-to-day operations. However, in order to maintain a
  desirable separation of duties, we recommend that the Authority continue to re-evaluate the
  appropriateness of this access.

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

#### Views of Responsible Officials:

#### **Schedule of Findings and Questioned Costs**

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

Finding Number: 2017-007
Prior Year Finding Number: N/A

Compliance Requirement: Data Collection Form and Single Audit Reporting Package

<u>Information on Federal Program(s)</u> - U.S. Department of Transportation:

Federal Aviation Administration

Airport Improvement Program

CFDA Number: 20.106

<u>Criteria or Specific Requirement</u> - 2 CFR 200.512, *Report Submission*, establishes that the audit shall be completed and the data collection form and reporting package shall be submitted to the Federal Audit Clearinghouse (FAC) within the earlier of 30 days after receipt of the auditor's report or nine (9) months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit.

As such, in a memorandum to Federal awarding agencies from the Office of Management and Budget, Office of Federal Financial Management (OFFM) dated October 29, 2017, the OFFM identified administrative relief for grantees impacted by Hurricanes Harvey, Irma, and Maria wherein, grantees were allowed to delay the completion and submission of the 2017 data collection form and single audit reporting package to twelve (12) months beyond the normal due date.

<u>Condition</u> - The Authority did not comply with the required submission date of the data collection form and reporting package to the FAC for the fiscal year ended September 30, 2017. The delayed due date for this report was no later than June 30, 2019.

Questioned Costs - Not applicable.

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

<u>Effect</u> - The Authority could be exposed to a reduction or elimination of funds by the Federal awarding agencies.

 $\underline{\text{Cause}}$  - The Authority did not have controls in place to ensure that the reporting package was submitted to the FAC within the required timeframe.

<u>Recommendation</u> - We recommend that the Authority establish controls to ensure the reporting package is submitted to the FAC annually within the required timeframe.

#### **Schedule of Findings and Questioned Costs**

Finding Number: 2017-008 Prior Year Finding Number: 2016-004

Compliance Requirement: Procurement and Suspension and Debarment

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

Federal Aviation Administration

Airport Improvement Program

CFDA Number: 20.106

<u>Criteria or Specific Requirement</u> - Certain prescribed requirements dictate that recipients of Federal awards have adequate procedures and controls in place to ensure that practices are properly documented in the entity's files, provide a vendor debarment or suspension certification, provide for retention of files, and that supporting documentation corroborate compliance with these requirements.

<u>Condition</u> - In our review of two (2) procurement transactions meeting the test threshold, we noted the following:

- The first selected transaction did not have sufficient supporting documents available to validate the procurement decisions made, including evidence of a debarment search of the contractor, along with certain Airport Improvement Program grant specific required clauses.
- The second selected transaction did not have evidence that a debarment search of the contractor had been conducted and that an Airport Improvement Program grant specific required clause had been included.

Questioned Costs - Not determinable.

<u>Context</u> - This is a condition identified per review of the Authority's compliance with specified requirements. We reviewed two (2) procurement files with expenditures totaling \$3,143,518, for fiscal year 2017.

<u>Effect</u> - The Authority could inadvertently contract with or make sub-awards to parties that are suspended or debarred from doing business with the Federal government as well as award contract to vendors whose contract prices are unreasonable. In addition, contracts may be executed to unqualified vendors.

Cause - The Authority did not strictly adhere to its policies and procedures.

<u>Recommendation</u> - We recommend that the Authority follow its internal controls to ensure adherence to Federal regulations relating to the procurement of goods and services. There should be timely coordination and communication amongst all departments that are responsible for handling and managing procurement tasks.

#### **Schedule of Findings and Questioned Costs**

Finding Number: 2017-009
Prior Year Finding Number: 2016-005
Compliance Requirement: Reporting

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

Federal Aviation Administration

Airport Improvement Program

CFDA Number: 20.106

<u>Criteria or Specific Requirement</u> - In accordance with the OMB Compliance Supplement for this program, each State or Territory must file various financial, programmatic, and special reports. Additionally, the requirements necessitate that all submitted reports should be supported by the underlying performance records and presented in accordance with program requirements.

<u>Condition</u>: During our review of the financial reports expected to be filed with the grantor agency, we noted that the Authority had failed to prepare and submit the annual SF-425 reports for all grant awards. Additionally, we selected three (3) out of the fifteen (15) required programmatic reports and noted two (2) instances where the selected reports were not available for review.

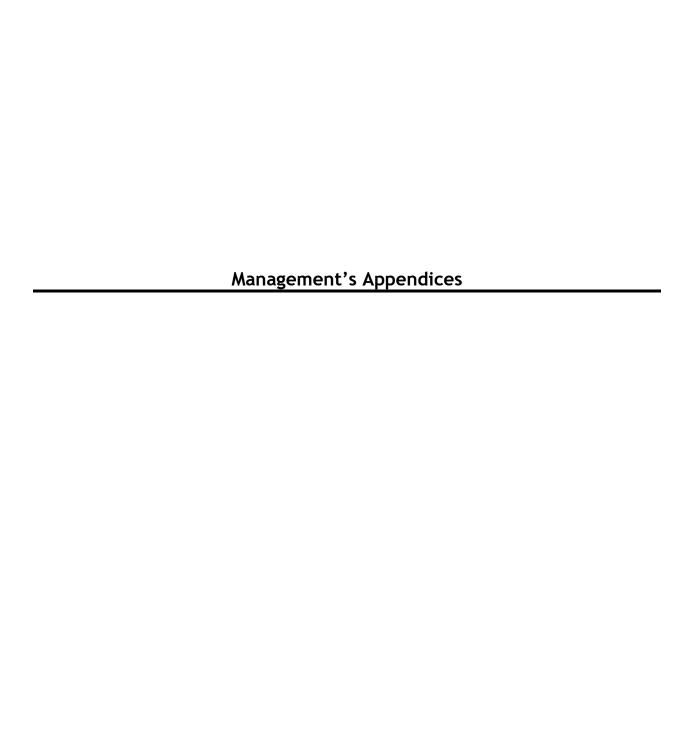
Questioned Costs - Not determinable.

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

<u>Effect</u> - The Authority is not in compliance with the stated provisions and required information may not have been reported to the Federal government.

<u>Cause</u> - It appears that policies and procedures, including review over reporting procedures were not functioning as intended. Further, the Authority does not have adequate control over maintenance of the underlying documentation used in preparing various reports.

<u>Recommendation</u> - We recommend that the Authority reevaluate its policies and procedures to ensure proper monitoring and review of the required reports by an appropriate official who would ensure the information submitted is complete, accurate, consistent, and submitted within the required timeframe.





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September 9, 2020

BDO USA, LLP 12505 Park Potomac Ave, Suite 700 Potomac, MD 20854

In connection with the Single Audit of the Virgin Islands Port Authority (the Authority) for the year ended September 30, 2017, transmitted herewith is the Fiscal Year 2017 Status of Prior Audit Findings and a Corrective Action Plan in accordance with 2 CFR §200.511, *Audit Findings Follow-Up*. These schedules provide the status of the *Government Auditing Standards* and the Single Audit findings for fiscal years 2017 and 2016.

The Authority is focused on improving its procedures to ensure that these findings are resolved.

If you have any questions, please contact us.

Respectfully,

Mr. Carlton Dowe Executive Director

Ms. Anna Mauricia Penn Chief Financial Officer

#### Appendix A: Status of Prior Audit Findings Year Ended September 30, 2017

Finding 2016-001, 2015-002, 2014-002, and 2013-02: Lease Agreement(s) Administration

Current Status: Repeated as finding 2017-003.

<u>Reason for Recurrence</u>: The Authority is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

<u>Corrective Action Plan</u>: The Authority is still in the process of implementing its Lease Management Module. The implementation was delayed due to the issue of incompatibility with the required lease information, but the Authority is working on the matter and expects the system to be fully functioning by the 3<sup>rd</sup> quarter of fiscal year 2020.

#### Finding 2016-002, 2015-004, 2014-004, and 2013-04: Cash Based Revenues

**Current Status:** Partially corrected; repeated as finding 2017-004.

<u>Reason for Recurrence</u>: The Authority is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

<u>Corrective Action Plan</u>: The Authority will ensure that the source documentation used in the billing database is reviewed and signed-off on by the reviewer from the Marine Department. In addition, the reviewed documents will be stored in an online folder for each customer.

### Finding 2016-003, 2015-005, 2014-005, and 2013-05: User Access and Program Change Management

Current Status: Partially corrected; repeated as finding 2017-006.

<u>Reason for Recurrence</u>: The Authority is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

<u>Corrective Action Plan</u>: The Authority will provide documentation that quarterly review of user access is performed. In addition, access by various individuals is due to a few employees having to act in a higher capacity at times and this allows the transition without compromising the higher position(s). When the acting capacity is initiated, the original account is disabled because the license for that account is used to activate the second account. The Authority will ensure proper documentation that the acting position has been triggered.

#### Appendix A: Status of Prior Audit Findings Year Ended September 30, 2017

Finding 2016-004: Procurement and Suspension and Debarment

Federal Program: CFDA Number 20.106, Airport Improvement Program.

Current Status: Repeated as finding 2017-008.

<u>Reason for Recurrence</u>: The Authority is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

<u>Corrective Action Plan</u>: A Procurement and Contracting Officer was hired in 2019 for further oversight, coordination, and adherence of the contracting process. The deficiencies noted in contracts will be addressed on all contracts going forward.

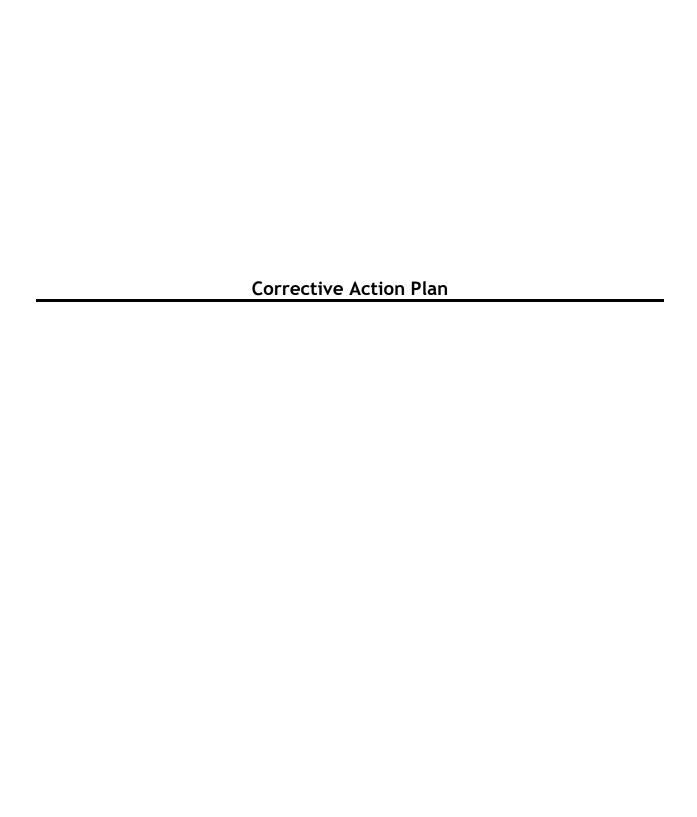
Finding 2016-005: Reporting

Federal Program: CFDA Number 20.106, Airport Improvement Program.

Current Status: Repeated as finding 2017-009.

<u>Reason for Recurrence</u>: The Authority is focused on improving its procedures. There are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

<u>Corrective Action Plan</u>: The Authority will put measures in place to make sure that all reports are submitted within the allotted time whether it be monthly, quarterly, or semi-annually. This includes coordinating with project managers, the grant accountant, and the controller and setting up a calendar reminder system that notifies when reports are due.



Page Number	Finding	Responsible Officials	Estimated Completion Date	Corrective Action
14	2017-001: Reconciliation and Review Process	Chief Financial Officer and Controller.	On-going.	The Authority is in the process of working towards revamping its processes to include quicker integration and reconciliation with the various Divisions and improved source documentation that is captured in the Accounting division.
15	2017-002: Accounting in the Aftermath of Disasters			
	Capital Assets Impairment Process	Controller and Fixed Assets Accountant.	Immediately.	Since the 2017 hurricanes, the Authority is reviewing and providing updates in ways to have a faster inventory turnaround of assets. The Fixed Assets team will send out a bi-annual attestation confirmation to Department heads regarding the completeness and accuracy of the assets under their custody and will perform a physical inventory annually. Additionally, a yearly training will be conducted for employees as it relates to the handling of assets (e.g. purchases, disposals, impairments, idle assets, etc.).
16	Formalize Emergency     Payroll Procedures	Controller and Payroll Administrator.	Immediately.	The Authority is in the process of updating its entity wide disaster and continuity plan. The plan will include a formal documented policy of how the Authority uses "Straight 80" payrolls and how the process is reconciled thereafter.

Page		Responsible	Estimated Completion	
Number 17	Finding 2017-003: Lease Agreement(s) Administration	Officials Property Manager.	Piscal Year 2020	The Authority is still in the process of implementing its Lease Management Module. The implementation was delayed due to the issue of incompatibility with the required lease information, but the Authority is working on the matter and expects the system to be fully functioning by the 3 <sup>rd</sup> quarter of fiscal year 2020.
18	2017-004: Cash Based Revenues	Marine Manager.	Immediately.	The Authority will ensure that the source documentation used in the billing database is reviewed and signed-off on by the reviewer from the Marine Department. In addition, the reviewed documents will be stored in an online folder for each customer.
19	2017-005: Capital Assets and Related Expenditures  • Review of Subsidiary Registers	Controller and Fixed Asset Accountant.	Immediately.	During the closing process, a thorough review of the registers will be conducted and documented as completed. To resolve the inconsistencies in the policy, an update of the capital assets policy will be presented to the Board for approval.
20	Construction in Progress     (CIP) Monitoring	Chief Financial Officer and Director of Engineering.	Immediately.	The Engineering Department has amended its project tracking review to provide timely project status updates to stakeholders.

Page Number	Finding	Responsible Officials	Estimated Completion Date	Corrective Action
				There will be a project meeting between the Accounting Department and the Engineering Department to determine the status of projects at each fiscal year-end. In addition, the capital assets policy will be revised.
21	2017-006: Logical Security - User Access	IT Manager.	Immediately.	The Authority will provide documentation that quarterly review of user access is performed. In addition, access by various individuals is due to a few employees having to act in a higher capacity at times and this allows the transition without compromising the higher position(s). When the acting capacity is initiated, the original account is disabled because the license for that account is used to activate the second account. The Authority will ensure proper documentation that the acting position has been triggered.
22	2017-007: Data Collection Form and Single Audit Reporting Package	Chief Financial Officer and Controller.	Immediately.	The Authority will demonstrate continued progress toward the required submission dates for the data collection form and reporting package to the FAC.
23	2017-008: Procurement and Suspension and Debarment	Chief Financial Officer and Director of Engineering.	Immediately.	A Procurement and Contracting Officer was hired in 2019 for further oversight, coordination, and adherence of the contracting process. The deficiencies noted in contracts will be addressed on all contracts going forward.

Page Number	Finding	Responsible Officials	Estimated Completion Date	Corrective Action
24	2017-009: Reporting	Chief Financial Officer, Controller, and Grant Accountant.	Immediately.	The Authority will put measures in place to make sure that all reports are submitted within the allotted time whether it be monthly, quarterly, or semi-annually. This includes coordinating with project managers, the grant accountant, and the controller and setting up a calendar reminder system that notifies when reports are due.