BASIC FINANCIAL STATEMENTS AND
OMB CIRCULAR A-133 REPORT

Government of the United States Virgin Islands
Year Ended September 30, 2008
With Report of Independent Auditors

ERNST & YOUNG

Government of the United States Virgin Islands

Basic Financial Statements and
OMB Circular A-133 Report

Year Ended September 30, 2008

Contents

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Report of Independent Auditors

The Honorable Governor
of the Government of the United States Virgin Islands:

We have audited the accompanying financial statements of the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Government of the United States Virgin Islands (the Government), as of and for the year ended September 30, 2008, which collectively comprise the Government's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Government's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the following component units:

- The Virgin Islands Public Finance Authority (PFA), a blended component unit, which represents 100% of the assets, fund balance, and revenue of the PFA Debt Service Fund (a major fund); 100% of the assets, fund balance, and revenue of the PFA Capital Projects Fund (a major fund); 100% of the assets, net assets, and revenue of the West Indian Company (a major fund); 1.1%, 0.4% and 1.2%, respectively, of the assets, net assets/fund balance, and revenue of the aggregate remaining fund information; 80.8% and 6.1% of the assets and revenues of the governmental activities; 65.4%, 80.5%, and 19.2%, respectively, of the assets, net assets, and revenue of the business-type activities, respectively. The PFA net assets represent $28.6 million of the $253.7 million net deficit of the governmental activities.

- The Virgin Islands Lottery (VI Lottery), a nonmajor enterprise fund, which represents 0.6%, 0.2% and 4.3%, respectively, of the assets, net assets/fund balance, and revenues of the aggregate remaining fund information, and 12.4%, 6.1%, and 35.1%, respectively, of the assets, net assets, and revenue of the business-type activities.

- The Tobacco Settlement Financing Corporation, a blended component unit, which represents 0.2%, 0.2%, and 0.6%, respectively, of the assets, net assets/fund balance, and revenue of the aggregate remaining fund information, and 1.2%, 2.8%, and 0.2%, respectively, of the assets, net deficit, and revenue of the governmental activities.

- The Employees' Retirement System of the Government of the Virgin Islands (GERS), a fiduciary component unit (pension trust fund), which represents 89.8%, 91.9%, and 43.4%, respectively, of the assets, net assets/fund balance, and revenue of the aggregate remaining fund information.

- The Virgin Islands Housing Authority (VIHA), Virgin Islands Public Television System (VIPTS), Virgin Islands Economic Development Authority (VIEDA), Magens Bay Authority, Virgin Islands Government Hospital and Health Facilities Corporation (Roy L. Schneider Hospital and Juan F. Luis Hospital and Medical Center), the Virgin Islands Housing Finance Authority (VIHFA), and the Waste Management Authority, discretely presented component units, which collectively represent 28.1%, 31.2%, and 39.6%, respectively, of the assets, net assets, and revenue of the aggregate discretely presented component units.

These financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the activities, funds, and component units indicated above, are based on the reports of other auditors.

Except as discussed in the following six paragraphs, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Government's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Government's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

The report of other auditors on the 2008 financial statements of VIEDA, a discretely presented component unit, was qualified because the auditors were unable to obtain sufficient audit evidence to determine whether loans receivable of $5.4 million were fairly stated.

The report of other auditors on the 2008 financial statements of VIPTS, a discretely presented component unit, was qualified because the auditors were unable to obtain sufficient audit evidence to determine whether capital assets of $10.1 million were fairly stated.

The report of other auditors on the 2008 financial statements of GERS, a fiduciary component unit (pension trust fund), was qualified because GERS maintained investments in a limited partnership valued at $42.8 million whose fair value has been estimated in the absence of a readily determinable fair value. GERS' estimate was based on information provided by the general partner of the limited partnership. The effect on the financial statements as a result of GERS' inability to document its procedures for determining fair value of the investment was not determinable. In addition, GERS maintained its real estate investment in the GERS complex related to the St. Thomas building held for lease based on historical cost. This real estate investment amounted to approximately $20.9 million. Such investment should have been presented at fair value in accordance with U.S. generally accepted accounting principles.

The report of other auditors on the 2008 financial statements of the VI Lottery, a nonmajor enterprise fund, was qualified because the auditors were unable to obtain sufficient audit evidence to determine whether the amount due to the general fund of $4.5 million was fairly stated.

The Government did not maintain the requisite documentation to support its accrued compensated absences liability and its landfill closure and post-closure liability of $60.9 million and $39.6 million, respectively. As a result, we were unable to obtain sufficient audit evidence to determine whether adjustments to these balances in the governmental activities were required.

The basic financial statements do not include a liability for medical malpractice claims in the reciprocal insurance fund (a non-major enterprise fund) and, accordingly, the Government has not recorded an expense for the current period change in that liability. In addition, the Government recorded in the government insurance fund (a major enterprise fund) a workers' compensation liability of $16.2 million in 2008 of which an unknown portion pertains to prior periods. The Government's records do not permit it, nor is it practical to extend our auditing procedures sufficiently to determine the extent by which the business-type activities, government insurance fund, and aggregate remaining fund information as of and for the year ended September 30, 2008 may have been affected by this condition.

Because of the matter discussed in the preceding paragraph of this report, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial position of the business-type activities and aggregate remaining fund information as of September 30, 2008. In addition, we do not express an opinion on the changes in financial position of the business-type activities, government insurance fund, and aggregate remaining fund information and, where applicable, cash flows for the year ended September 30, 2008.

In our opinion, based on our audit and the reports of other auditors, except for the effect of the adjustments, if any, as might be determined to be necessary, had the other auditors been able to obtain sufficient audit evidence to determine whether (1) loans receivable of $5.4 million in the financial statements of VIEDA and (2) capital assets of $10.1 million in the financial statements of VIPTS were fairly stated as described in paragraphs four and five above, and the effect of the adjustments, if any, as might be determined to be necessary, had we been able to obtain sufficient audit evidence to determine whether the accrued compensated absences liability and landfill closure and post-closure liability in the governmental activities were fairly stated as described in paragraph eight above, the financial statements referred to previously, present fairly, in all material respects, the respective financial position of the aggregate discretely presented component units and the governmental activities, respectively, of the Government of the United States Virgin Islands, as of September 30, 2008, and the respective changes in financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

Finally, in our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of the Government of the United States Virgin Islands, as of September 30, 2008, and the respective changes in financial position of the general fund, PFA debt service fund, PFA capital projects fund, and WICO; and respective budgetary comparison for the general fund for the year then ended in conformity with U.S. generally accepted accounting principles.

As described more fully in Note 16 to the financial statements, as of October 1, 2007, the fund balance/net assets of the general fund and governmental activities were restated by $8.1 million and $57.0 million, respectively.

As discussed in Note 13 to the financial statements, effective October 1, 2007, the Government changed its accounting policy related to accounting for its Other Post-Employment Benefits to comply with the provisions of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2010, on our consideration of the Government's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, and the schedules of funding progress and employer contributions listed under required supplementary information in the table of contents are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Government's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis, as required by U.S. Office of Management and Budget Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The schedule of expenditures of federal awards has been subjected to auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Ernst & Young LLP

August 31, 2010

Introduction

The following discussion and analysis presents an overview of the financial position and activities of the Government of the United States Virgin Islands (the Government) as of and for the fiscal years ended September 30, 2008 and 2007.

Government-wide Financial Statements

The government-wide financial statements are designed to present an overall picture of the financial position of the Government. These statements consist of the statement of net assets and the statement of activities, which are prepared using the economic resources measurement focus and the accrual basis of accounting. This means that current year's revenue and expenses are included regardless of when cash is received or paid, producing a view of financial position similar to that presented by most private-sector companies.

The statement of net assets combines and consolidates the Government's current financial resources with capital assets and long-term obligations.

Both of the above-mentioned financial statements have separate sections for three different types of the Government programs or activities. These three types of activities are as follows:

> ***Governmental Activities*** – The activities in this section are mostly supported by taxes and intergovernmental revenue (federal grants). Most services normally associated with the primary government (PG) fall into this category, including general government, public safety, health, public housing and welfare, education, transportation and communication, and culture and recreation.
>
> ***Business-Type Activities*** – These functions normally are intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. These business-type activities of the Government include the operations of the (i) unemployment insurance program and (ii) the West Indian Company (WICO). Both of these programs operate with minimal assistance from the governmental activities of the Government.

Discretely Presented Component Units – These are operations for which the Government has financial accountability even though they have certain independent qualities as well. For the most part, these entities operate similar to private sector businesses and the business-type activities described above. The Government's discretely presented component units are presented in two categories, major and nonmajor. This separation is determined by the relative size of the entities' assets, liabilities, revenue, and expenses in relation to the total of all component units.

Fund Financial Statements

Fund financial statements focus on the most significant (or major) funds of the Government. A fund is a separate accounting entity with a self-balancing set of accounts. The Government uses funds to keep track of sources of funding and spending related to specific activities. The Government uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

A major fund is a fund whose revenue, expenditures or expenses, assets, or liabilities (excluding extraordinary items) are at least 10% of the corresponding totals for all governmental or enterprise funds and at least 5% of the aggregate amount for all governmental and enterprise funds for the same item. The general fund is always considered a major fund. In addition to funds that meet the major fund criteria, any other governmental or enterprise fund that the Government believes is particularly important to the financial statements may be reported as a major fund.

All of the funds of the Government are divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds

Governmental funds are accounted for using the modified accrual basis of accounting, which measures cash and other assets that can be readily converted to cash. The governmental funds statements provide a detailed short-term view of the PG's general governmental operations and the basic services it provides. The reconciliation following the fund financial statements explains the differences between the governmental activities, reported in the government-wide financial statements, and the governmental funds' financial statements. The General Fund, the PFA debt service fund and the PFA capital projects fund are reported as major governmental funds.

The General Fund is the PG's primary operating fund. It accounts for all financial resources of the PG, except those required to be accounted for in another fund.

The PFA debt service fund accounts for the resources accumulated, and payments made, for principal and interest on long-term general obligation debt issued by the Virgin Islands Public Finance Authority (PFA) on behalf of the Government.

The PFA capital projects fund accounts for bond proceeds of debt issued by the PFA on behalf of the Government. The bond proceeds have been designated for certain necessary public safety and capital development projects which are accounted for in this fund.

Proprietary Funds

Services provided to outside (nongovernmental) customers are reported in enterprise funds. Enterprise funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. These are the same business-type activities reported in the government-wide financial statements.

The West Indian Company (WICO) fund is a major proprietary fund. The WICO fund accounts for the activities of WICO, which owns a port facility including a cruise ship pier, and manages a shopping mall and a rental complex.

The Government insurance fund is a major-fund, which accounts for revenues charged and claims paid in connection with workers' compensation for employees in the U.S. Virgin Islands.

Fiduciary Funds

The Government is the trustee, or fiduciary, for several agency funds.

The fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Financial Analysis of the Government as a Whole

The PG experienced several financial challenges during the fiscal year ended September 30, 2008. The PG was unable to issue property tax assessments for fiscal year 2008, or the previous two fiscal years (2007 and 2006) due to a court injunction related to a class action lawsuit filed by commercial taxpayers. The PG and its component units continue to experience a downturn in the economy following the economic recession of 2008. The PG has experienced a decline in participation in economic development programs due to new federal income tax regulations on residency requirements and sourcing of income to the United States Virgin Islands. The PG also recorded a liability in the current year for postemployment health care costs for retirees amounting to $62 million.

The Government has initiated several actions to offset the negative impact of these financial challenges. The Government continues to promote environmentally safe industries into the Territory. To improve cash flow, the PG overhauled the property tax assessment and valuation system, developed a series of revenue enhancement measures, enacted expenditure reduction initiatives.

In fiscal year 2008, the Government issued the 2008 Series Note in the amount of $7.65 million to finance the purchase of police vehicles and communication equipment. In fiscal year 2007, the Government did not issue any bonds or loans. In fiscal year 2006, the Government issued the 2006 Series A Tobacco Settlement Asset-Backed Capital Appreciation Bonds amounting to $48 million with an issue value of $7.3 million for the purpose of financing several capital, hospital and health development projects. Also, issued in 2006 were the 2007 Series A Revenue Bonds and the 2006 Series Revenue Notes. The 2006 Series A Revenue Bonds amounting to $219.5 million were issued for the purpose of advance refunding the 1999 Series A bonds and funding capital projects of the PG. The 2006 Series Note in the amount of $4 million was issued to finance the purchase of fire equipment, train fire fighters and make renovations and repairs to the Territory's fire stations.

Financial Analysis of the Primary Government

Total assets of the Government as of September 30, 2008 and 2007 were $1.82 billion and $1.83 billion, respectively, a decrease of approximately $11.8 thousand. Total liabilities as of September 30, 2008 and 2007 were $2.0 billion and $1.9 billion, respectively, an increase of approximately $162.5 million.

As of September 30, 2008, the PG net deficit of $215 million consisted of $159.0 million invested in capital assets, net of related debt; $158.2 million restricted by statute or other legal requirements that were not available to finance day-to-day operations of the Government; and an unrestricted net deficit of $532.2 million. As of September 30, 2007, the PG net deficit of $20.6 million, as restated, consisted of $122.5 million invested in capital assets, net of related debt; $176.2 million restricted by statute or other legal requirements that were not available to finance day-to-day operations of the Government; and an unrestricted net deficit of $319.4 million.

For the fiscal year ended September 30, 2008, the PG earned program and general revenue amounting to $1.2 billion, and reported expenses of $1.4 billion, resulting in a decrease in net assets of $194.4 million.

For the fiscal year ended September 30, 2007, the PG earned program and general revenue amounting to $1.1 billion, and reported expenses of $1.1 billion, resulting in a decrease in net assets of $29.8 million.

Overall, revenue increased by approximately $31.7 million in fiscal 2008, when compared to fiscal 2007, mainly due to the receipt of $41.5 million in economic stimulus reimbursement from the federal government and a reduction in tax revenue of $28.3 million. Expenses increased in fiscal 2008 when compared to fiscal 2007 by $253 million, mainly due to an increase in estimated postemployment health costs for retirees of $62 million and increased general government expenses amounting to $108 million.

A summary of net assets (deficit) and changes in net assets (deficit) for the primary government follows:

Net Assets (Deficit) – Primary Government

September 30, 2008 and 2007

(In thousands)

	Governmental activities		Business-type activities		Total	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**
		(As restated)				*(As restated)*
Assets						
Current assets	**$ 1,023,854**	$ 1,050,665	**$ 37,266**	$ 52,256	**$ 1,061,120**	$ 1,102,921
Capital assets	**678,772**	649,821	**52,579**	50,113	**731,351**	699,934
Other assets	**22,651**	23,995	**228**	347	**22,879**	24,342
Total assets	**1,725,277**	1,724,481	**90,073**	102,716	**1,815,350**	1,827,197
Liabilities						
Long-term debt outstanding	**1,114,378**	1,142,518	**23,557**	22,015	**1,137,935**	1,164,533
Other liabilities	**864,614**	691,330	**27,764**	11,952	**892,378**	703,282
Total liabilities	**1,978,992**	1,833,848	**51,321**	33,967	**2,030,313**	1,867,815
Net Assets						
Invested in capital assets, net of related debt	**128,095**	92,552	**30,954**	29,947	**159,049**	122,499
Restricted	**147,956**	154,025	**10,266**	22,259	**158,222**	176,284
Unrestricted	**(529,766)**	(335,924)	**(2,468)**	16,543	**(532,234)**	(319,381)
Total net assets (deficit)	**$ (253,715)**	$ (89,347)	**$ 38,752**	$ 68,749	**$ (214,963)**	$ (20,598)

Changes in Net Assets (Deficit) – Primary Government

Years Ended September 30, 2008 and 2007

(In thousands)

	Governmental Activities		Business-type Activities		Total	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**
Revenue:		(As restated)				(As restated)
Program revenue:						
Charges for services	**$ 37,859**	$ 48,689	**$ 54,483**	$ 52,080	**$ 92,342**	$ 100,769
Operating grants and contributions	**160,817**	143,096	**–**	–	**160,817**	143,096
General revenue:						
Taxes	**792,415**	820,665	**–**	–	**792,415**	820,665
Interest and other	**72,306**	65,157	**1,468**	4,715	**73,774**	69,872
Other general revenue	**48,953**	2,157	**–**	–	**48,953**	2,157
Total revenue	**1,112,350**	1,079,764	**55,951**	56,795	**1,168,301**	1,136,559
Expenses:						
General government	**573,020**	385,546	**–**	–	**573,020**	385,546
Public safety	**72,682**	92,606	**–**	–	**72,682**	92,606
Health	**148,120**	145,922	**–**	–	**148,120**	145,922
Public housing and welfare	**107,409**	104,675	**–**	–	**107,409**	104,675
Education	**255,874**	254,668	**–**	–	**255,874**	254,668
Transportation and communication	**53,375**	54,919	**–**	–	**53,375**	54,919
Culture and recreation	**7,364**	10,183	**–**	–	**7,364**	10,183
Interest on long-term debt	**58,773**	55,281	**–**	–	**58,773**	55,281
Unemployment insurance	**–**	–	**12,524**	10,190	**12,524**	10,190
West Indian Company	**–**	–	**10,415**	10,369	**10,415**	10,369
Workmen's Compensation	**–**	–	**27,205**	8,451	**27,205**	8,451
VI Lottery	**–**	–	**18,600**	16,591	**18,600**	16,591
Other business-type activities	**–**	–	**17,305**	16,978	**17,305**	16,978
Total expenses	**1,276,617**	1,103,800	**86,049**	62,579	**1,362,666**	1,166,379
Changes in net assets (deficits) before transfers	**(164,267)**	(24,036)	**(30,098)**	(5,784)	**(194,365)**	(29,820)
Transfers	**(101)**	921	**101**	(921)	**–**	–
	(101)	921	**101**	(921)	**–**	–
Change in net assets (deficits)	**(164,368)**	(23,115)	**(29,997)**	(6,705)	**(194,365)**	(29,820)
Net assets (deficit) at beginning of year, as restated	**(89,347)**	(66,232)	**68,749**	75,454	**(20,598)**	9,222
Net assets (deficit) at end of year	**$ (253,715)**	$ (89,347)	**$ 38,752**	$ 68,749	**$ (214,963)**	$ (20,598)

The Virgin Islands Office of Management and Budget of the PG prepares an annual executive budget subject to approval by the Governor and the Legislature of the Virgin Islands. The executive budget is prepared on a budgetary basis similar to the cash basis of accounting. The executive budget includes only those funds that are subject to appropriation by law. More information regarding budgetary procedures is provided in Note 3 of the basic financial statements. A summary of the budgetary report for the General Fund of the PG, included on page 25 of the financial statements, follows:

Revenue and Expenditures – Budget and Actual –
Budgetary Basis – General Fund

Year Ended September 30, 2008
(In thousands)

	Original Budget	Amended Budget	Actual	Variance
Total revenue	$ 710,300	$ 710,300	$ 668,538	$ (41,762)
Total expenditures	819,900	890,823	813,922	76,901
Excess of expenditures over revenue	(109,600)	(180,523)	(145,384)	35,139
Other financing sources	93,394	93,394	105,037	11,643
Excess of expenditures over revenues and sources	$ (16,206)	$ (87,129)	$ (40,347)	$ 46,782

For fiscal 2008, the PG realized a revenue variance of $41.8 million mainly due to a court-imposed injunction on the issuance of property tax bills. The PG realized a $76.9 million variance in expenditures due to controlled spending. The PG realized a $11.6 million variance in other financing sources due to the fact that transfers to the general fund were higher than budgetary estimates.

Capital Assets

Capital assets additions during fiscal 2008 amounted to $43.2 million for governmental activities and $4.9 million for business-type activities.

Capital assets additions during fiscal 2007 amounted to $102.7 million for governmental activities and $5.9 million for business-type activities.

The Government's capital assets include land, land improvements, buildings, building improvements, machinery, equipment, infrastructure, and construction in progress as follows:

Capital Assets – Primary Government

(In thousands)

	Governmental Activities		Business-type Activities		Total	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**
Land and improvements	$ **191,697**	$ 186,120	$ **5,328**	$ 5,328	$ **197,025**	$ 191,448
Building and improvements	**377,975**	353,703	**60,414**	52,868	**438,389**	406,571
Machinery and equipment	**105,033**	88,618	**6,925**	5,810	**111,958**	94,428
Infrastructure	**195,071**	161,146	–	–	**195,071**	161,146
Construction in progress	**51,499**	88,491	**3,314**	7,050	**54,813**	95,541
Total capital assets	**921,275**	878,078	**75,981**	71,056	**997,256**	949,134
Less accumulated depreciation	**(242,503)**	(208,257)	**(23,402)**	(20,943)	**(265,905)**	(229,200)
Total capital assets, net	$ **678,772**	$ 669,821	$ **52,579**	$ 50,113	$ **731,351**	$ 719,934

Note 9 provides detailed information regarding the capital assets of the primary government and the component units of the Government.

Debt Administration

The Government issues both general obligation bonds and revenue bonds. The Revised Organic Act [48 U.S.C. Section 1574 (b)(ii)] restricts the principal amount of general obligation debt that the Government may issue to no greater than 10% of the aggregate assessed valuation of taxable real property in the U.S. Virgin Islands. Following is a summary of bonds outstanding as of September 30, 2008:

Primary Government – Bonds Payable

(In thousands)

Bonds Payable	Maturity	Rates (%)	Balance
1998 Series A, C, D, and E Revenue and Refunding Bonds	2025	5.50 to 7.11	$ 412,875
1999 Series A General Obligation Bonds	2010	6.50	1,740
1999 Series A Revenue Bonds	2020	4.20 to 6.50	99,825
2001 Series A Tobacco Bonds	2031	5.00	19,940
2002 Series Garvee Bonds	2009	2.50 to 5.00	3,475
2003 Series A Revenue Bonds	2033	4.00 to 5.25	259,045
2004 Series A Revenue Bonds	2025	4.00 to 5.25	85,595
2006 Series A, B, C & D Tobacco Turbo and Capital Appreciation Bonds	2035	6.25 - 7.625	7,290
2006 Series A Revenue Bonds	2029	3.50 - 5.00	218,985
Subtotal			1,108,770
Deferred costs on refundings			(15,862)
Bond premium			16,955
Bond discount			(5,589)
Bond accretion			1,259
Total			$ 1,105,533

Note 10 provides detailed information regarding all bonds of the PG.

In fiscal year 2008, the Government issued the 2008 Series Note amounting to $7.6 million to finance the purchase of police vehicles and communication equipment. During fiscal 2007 no bonds or notes were issued.

During fiscal 2006, the 2006 Series A Revenue Bonds amounting to $219.5 million, the 2006 Series Note amounting to $4 million and the 2006 Series A Tobacco Settlement Asset-Backed Bonds with an issue value of $7.3 million and a face value of $48 million, were issued.

The PG made bond principal payments on all outstanding general and special revenue bonds amounting to $34.7 million during fiscal year 2008 and $31 million during fiscal year 2007.

The Government's bonds carry insured ratings of "AAA" and "Aaa" from Fitch Ratings and Moody's Investors Services, respectively. Ratings reflect only the respective views of the rating agencies and an explanation of the significance of each rating may be obtained from the respective rating agency.

Other liabilities of the PG include:

Primary Government – Other Liabilities

September 30, 2008 and 2007

(In millions)

	2008	2007
Accrued compensated absences	**$ 61**	$ 47
Retroactive union arbitration liability	**277**	272
Accrued litigation	**14**	8
Arbitrage payments - bond issuances	**2**	–
Other postemployment benefits	**62**	–
Landfill closure and post closure costs	**40**	37
Total other liabilities	**$ 456**	$ 364

Economic Condition and Outlook

The PG continues its recovery efforts from the recessions of fiscal years 2002 and 2008 through a combination of revenue initiatives and budgetary restraint on expenditures.

Revenue Initiatives

The PG has implemented several initiatives to create jobs and promote economic growth by: providing economic incentives to attract a major rum distiller (Diageo), enactment of tax increment financing legislation, participation in the American Recovery and Reinvestment program, negotiation with the Secretary of the Treasury for a loss reimbursement under the Economic Stimulus Act, and continued promotion of tourism through national advertising.

In connection with a real property tax case instituted against the PG in the U.S. District Court of the Virgin Islands, the PG was enjoined from appraising and assessing any real property taxes until it modified its system of appraisal to comply with certain court mandates. The PG retained a consultant to modify its system of appraisal and to perform reassessment of properties. This project was completed in fiscal 2008. The U.S. District Court also required an over-haul of the tax review board responsible for hearing tax assessment reviews. The PG is taking steps to comply with the Court order.

The Government is currently in litigation challenging the computation of its corporate franchise tax. Of the four cases brought against the Government, one is currently before the Virgin Islands Territorial Court, and the remaining three cases are on appeal.

Budgetary Control of Expenditures

The PG faces the challenge of carryforward expenditures from prior fiscal years and increasing expenditures in fiscal 2008. Carryforward expenditures consist mainly of retroactive salary increases, which accumulated following Hurricanes Hugo, Marilyn and Bertha in the years of 1990 through 1998. At September 30, 2008 and 2007, unpaid retroactive salary increases amounted to $277 and $272 million, respectively, which are reported as a liability of the Government within other noncurrent liabilities.

Increasing expenditures in fiscal year 2008 included estimated other postemployment benefits amounting to $62 million, the first year the PG was obligated to record the liability.

Other increasing general governmental expenditures include increased health insurance premiums, pharmaceutical premiums, and salary expense.

Expenditures are closely monitored and controlled through the budgetary process.

Deficit Reduction Measures

In fiscal years 2008 and 2007, the PG reported an unrestricted net deficit, as restated, of $532.2 million and $319.4 million, respectively.

The PG has implemented a number of deficit reducing measures including: (i) withholding of local gross receipts taxes on Government invoice payments, (ii) increasing local taxes such as property tax assessments on time-shares; (iii) exerting greater control of expenditures through the budgetary process, and (iv) implementation of a tax amnesty for gross receipts taxes.

Contacting the Government's Financial Management

This financial report is designed to provide the Government's citizens, taxpayers, customers, and investors and creditors with a general overview of the Government's finances. If you have questions about this report, or need additional financial information, contact the Government of the United States Virgin Islands, Department of Finance, No. 2314 Kronprindsens Gade, St. Thomas, VI 00802.

Government of the United States Virgin Islands

Statement of Net Assets (Deficit)

September 30, 2008
(In thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Assets				
Cash and cash equivalents	$ 267,111	$ 17,709	$ 284,820	$ 70,609
Investments	468,411	7,200	475,611	37,264
Receivables, net	244,589	2,708	247,297	58,660
Internal balances	8,306	(8,306)	–	–
Due from component units, net	16,453	–	16,453	–
Notes receivable	–	–	–	16,177
Due from primary government	–	–	–	39,254
Due from federal government	18,120	–	18,120	9,454
Inventories	–	24	24	33,270
Other assets	864	871	1,735	18,405
Restricted:				
Cash and cash equivalents	–	17,060	17,060	58,984
Investments	–	–	–	78,396
Other	–	–	–	392
Capital assets, net	678,772	52,579	731,351	868,486
Deferred and other expenses	22,651	228	22,879	45,530
Total assets	1,725,277	90,073	1,815,350	1,334,881
Liabilities				
Accounts payable and accrued liabilities	122,313	5,434	127,747	126,819
Tax refunds payable	82,743	–	82,743	–
Unemployment insurance benefits	–	5,978	5,978	–
Customer deposits	–	–	–	20,761
Due to primary government	–	–	–	57,398
Due to component units	14,074	–	14,074	–
Due to federal government	–	–	–	5,047
Interest payable	29,022	–	29,022	5,939
Unearned revenue	142,498	202	142,700	4,710
Other current liabilities	18,329	–	18,329	17,499
Noncurrent liabilities:				
Due within one year:				
Loans payable	3,839	416	4,255	2,245
Bonds payable	37,516	–	37,516	12,018
Other liabilities	42,595	6,002	48,597	1,574
Due in more than one year:				
Loans payable	5,006	23,141	28,147	24,826
Bonds payable	1,068,017	–	1,068,017	300,624
Other liabilities	413,040	10,148	423,188	49,567
Total liabilities	1,978,992	51,321	2,030,313	629,027

(Continued)

Government of the United States Virgin Islands

Statement of Net Assets (Deficit) (continued)

September 30, 2008
(In thousands)

	Primary Government			
	Governmental Activities	**Business-type Activities**	**Total**	**Component Units**
Net assets (deficit)				
Invested in capital assets, net of related debt	128,095	30,954	159,049	591,044
Restricted for:				
Unemployment insurance	–	10,266	10,266	–
Debt service	142,320	–	142,320	–
Capital projects	5,636	–	5,636	–
Other purposes	–	–	–	96,099
Unrestricted	(529,766)	(2,468)	(532,234)	18,711
Total net assets (deficit)	$ (253,715)	$ 38,752	$ (214,963)	$ 705,854

See accompanying notes.

Government of the United States Virgin Islands

Statement of Activities

Year Ended September 30, 2008

(In thousands)

		Program Revenues			Net Revenue (Expense) and Changes in Net Assets – Primary Government			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Component Units
Functions:								
Primary government:								
Governmental activities:								
General government	$ 573,020	$ 32,025	$ 28,210	$ –	$ (512,785)	$ –	$ (512,785)	$ –
Public safety	72,682	1,373	4,484	–	(66,825)	–	(66,825)	–
Health	148,120	339	30,231	–	(117,550)	–	(117,550)	–
Public housing and welfare	107,409	864	45,473	–	(61,072)	–	(61,072)	–
Education	255,874	921	40,776	–	(214,177)	–	(214,177)	–
Transportation and communication	53,375	796	11,593	–	(40,986)	–	(40,986)	–
Culture and recreation	7,364	1,541	50	–	(5,773)	–	(5,773)	–
Interest on long-term debt	58,773	–	–	–	(58,773)	–	(58,773)	–
Total governmental activities	1,276,617	37,859	160,817	–	(1,077,941)	–	(1,077,941)	–
Business-type activities:								
Unemployment insurance	12,524	2,248	–	–	–	(10,276)	(10,276)	–
West Indian Company	10,415	10,072	–	–	–	(343)	(343)	–
Workmen's compensation	27,205	8,176	–	–	–	(19,029)	(19,029)	–
VI Lottery	18,600	19,664	–	–	–	1,064	1,064	–
Other	17,305	14,323	–	–	–	(2,982)	(2,982)	–
Total business-type activities	86,049	54,483	–	–	–	(31,566)	(31,566)	–
Total primary government	$ 1,362,666	$ 92,342	$ 160,817	$ –	(1,077,941)	(31,566)	(1,109,507)	–
Component units:								
Virgin Islands Housing Authority	$ 44,521	$ 5,414	$ 33,881	$ 2,923	–	–	–	(2,303)
Virgin Islands Port Authority	58,331	46,259	–	6,677	–	–	–	(5,395)
Virgin Islands Water and Power Authority:								
Electric system	280,049	263,723	–	678	–	–	–	(15,648)
Water system	35,768	41,077	–	5,921	–	–	–	11,230
Virgin Islands Government Hospital and Health Facilities Corporation:								
Roy L. Schneider Hospital	92,045	51,270	34,168	124	–	–	–	(6,483)
Juan F. Luis Hospital	71,253	35,756	31,988	8,241	–	–	–	4,732
University of the Virgin Islands	69,109	15,576	48,390	3,192	–	–	–	(1,951)
Other component units	58,550	5,912	54,434	5,276	–	–	–	7,072
Total component units	$ 709,626	$ 464,987	$ 202,861	$ 33,032	–	–	–	(8,746)

(Continued)

Government of the United States Virgin Islands

Statement of Activities (continued)

Year Ended September 30, 2008
(In thousands)

	Net Revenue (Expense) and Changes in Net Assets — Primary Government: Governmental Activities	Business-type Activities	Total	Component Units
Total primary government and component units	(1,077,941)	(31,566)	(1,109,507)	(8,746)
General revenues:				
Taxes	792,415	–	792,415	–
Interest and other	72,306	1,468	73,774	9,633
Tobacco settlement rights	2,543	–	2,543	–
Federal economic stimulus reimbursement	41,500	–	41,500	–
Basis swap termination fee income	4,910	–	4,910	–
Transfers – internal activities of primary government	(101)	101	–	–
Total general revenue and transfers	913,573	1,569	915,142	9,633
Changes in net assets (deficit)	(164,368)	(29,997)	(194,365)	887
Net assets (deficit), beginning of year, as restated	(89,347)	68,749	(20,598)	704,967
Net assets (deficit), end of year	$ (253,715)	$ 38,752	$ (214,963)	$ 705,854

See accompanying notes.

Government of the United States Virgin Islands

Balance Sheet – Governmental Funds

September 30, 2008
(In thousands)

	General	PFA Debt Service	PFA Capital Projects	Other Governmental	Total Governmental
Assets					
Cash and cash equivalents	$ 165,764	$ –	$ 28,906	$ 72,441	$ 267,111
Investments	182,883	175,186	95,225	15,118	468,412
Receivables:					
Taxes, net	199,060	43,612	–	–	242,672
Accrued interest and other	656	–	–	174	830
Due from:					
Other funds	8,807	–	324	13,400	22,531
Component units, net	16,453	–	–	–	16,453
Federal government	–	–	–	18,120	18,120
Other assets	–	–	–	34	34
Total assets	$ 573,623	$ 218,798	$ 124,455	$ 119,287	$ 1,036,163
Liabilities and Fund Balances					
Accounts payable and accrued liabilities	$ 101,304	$ –	$ 154	$ 20,855	$ 122,313
Tax refunds payable	82,743	–	–	–	82,743
Due to:					
Other funds	11,047	–	–	3,178	14,225
Component units	14,074	–	–	–	14,074
Deferred revenue	192,875	81,784	–	3,500	278,159
Other current liabilities	16,857	–	1,048	425	18,330
Total liabilities	418,900	81,784	1,202	27,958	529,844
Fund balances reserved for:					
Encumbrances	54,535	–	–	–	54,535
Debt service	–	137,014	–	5,306	142,320
Unreserved fund balance, reported in:					
General fund	100,188	–	–	–	100,188
Debt service funds	–	–	–	10,000	10,000
Special revenue funds	–	–	–	91,004	91,004
Capital projects funds	–	–	123,253	(14,981)	108,272
Total fund balances	154,723	137,014	123,253	91,329	506,319
Total liabilities and fund balances	$ 573,623	$ 218,798	$ 124,455	$ 119,287	

Amounts reported for governmental activities in the statement of net assets (deficit) are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	678,772
Deferred bond issue costs are not financial resources and, therefore, are not reported in the funds.	22,651
Other long-term assets, primarily taxes receivable, will not be available to pay for current period expenditures and, therefore, are deferred in the funds	137,578
Interest on long-term debt is not accrued in the funds, but rather is recognized as an expenditure when due.	(29,022)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(1,570,013)
Deficit of governmental activities	$ (253,715)

See accompanying notes.

Government of the United States Virgin Islands

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds

Year Ended September 30, 2008
(In thousands)

	General	PFA Debt Service	PFA Capital Projects	Other Governmental	Total Governmental
Revenues:					
Taxes	$ 621,422	$ 187,538	$ 3,356	$ 22,497	$ 834,813
Federal grants and contributions	–	3,646	–	157,171	160,817
Charges for services	25,769	–	–	12,089	37,858
Tobacco settlement rights	–	–	–	2,504	2,504
Interest and other	31,556	6,460	5,683	27,555	71,254
Total revenues	678,747	197,644	9,039	221,816	1,107,246
Expenditures:					
Current:					
General government	398,812	–	3,803	62,898	465,513
Public safety	63,814	–	5	5,360	69,179
Health	120,317	–	25	26,435	146,777
Public housing and welfare	55,192	–	73	51,233	106,498
Education	200,701	–	36	46,335	247,072
Transportation and communication	30,772	–	28	14,075	44,875
Culture and recreation	6,817	–	167	39	7,023
Capital outlays	12,758	–	20,626	9,813	43,197
Debt service:					
Principal	–	32,170	2,980	2,500	37,650
Interest	–	58,341	147	1,014	59,502
Total expenditures	889,183	90,511	27,890	219,702	1,227,286
Excess (deficiency) of revenue over (under) expenditures	(210,436)	107,133	(18,851)	2,114	(120,040)
Other financing sources (uses):					
Federal economic stimulus	41,500	–	–	–	41,500
Loans issued	–	–	7,650	–	7,650
Cost of issuance of loans	–	–	(151)	–	(151)
Basis swap termination fee	–	4,910	–	–	4,910
Transfers from other funds	115,011	–	14,858	16,020	145,889
Transfers to other funds	(9,974)	(110,025)	–	(25,990)	(145,989)
Total other financing sources (uses), net	146,537	(105,115)	22,357	(9,970)	53,809
Net change in fund balances	(63,899)	2,018	3,506	(7,856)	(66,231)
Fund balance at beginning of year, as restated	218,622	134,996	119,747	99,185	572,550
Fund balance at end of year	$ 154,723	$ 137,014	$ 123,253	$ 91,329	$ 506,319

See accompanying notes.

Government of the United States Virgin Islands

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities – Governmental Funds

Year Ended September 30, 2008
(In thousands)

Net change in fund balances – total governmental funds	$	(66,231)
Government funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		8,952
Tax revenue in the statement of activities, which do not provide current financial resources, are not reported as revenue in the funds.		(42,703)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of the governmental funds. This is the amount by which debt repayments of $37.6 million exceeded loan proceeds of $7.6 million.		30,000
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This is the amount by which the increase in certain liabilities reported in the statement of net assets of the previous year increased expenses reported in the statement of activities that do not require the use of current financial resources.		(91,911)
Bond issue costs are expended in the governmental funds when paid, and are capitalized and amortized in the statement of activities. This is the amount by which current year bond issue costs exceeded amortization expense in the current period.		(1,343)
Bond premiums and discounts are reported as other financing sources and uses in the governmental funds when the bonds are issued, and are capitalized and amortized in the government-wide financial statements. This amount represents additional net interest expense reported in the statement of activities related to the amortization of premiums, discounts deferred refunding loss, and accreted interest on capital appreciation bonds during the current year.		(1,861)
Certain interest reported in the statement of activities does not require the use of current financial resources and therefore is not reported as expenditures in the governmental funds. This amount represents the decrease in interest payable reported in the statement of net assets less the portion of accrued interest.		729
Change in net assets of governmental activities	$	(164,368)

See accompanying notes.

Government of the United States Virgin Islands

Statement of Revenues and Expenditures – Budget and Actual – Budgetary Basis – General Fund

Year Ended September 30, 2008

(In thousands)

	Original Budget	Amended Budget	Actual	Variance
Revenues:				
Taxes	$ 668,488	$ 668,488	$ 621,422	$ (47,066)
Charges for services	11,025	11,025	25,428	14,403
Interest and other	30,787	30,787	21,688	(9,099)
Total revenues	710,300	710,300	668,538	(41,762)
Expenditures:				
Current:				
General government	235,186	278,102	352,722	(74,620)
Public safety	109,303	120,676	63,814	56,862
Health	94,695	100,880	120,317	(19,437)
Public housing and welfare	65,014	65,019	55,192	9,827
Education	248,186	253,805	200,447	53,358
Transportation and communication	45,952	47,602	14,613	32,989
Culture and recreation	21,564	24,739	6,817	17,922
Total expenditures	819,900	890,823	813,922	76,901
Excess of expenditures over revenue	(109,600)	(180,523)	(145,384)	35,139
Other financing sources (uses):				
Transfers from other funds	109,640	109,640	115,011	5,371
Transfer to other funds	(16,246)	(16,246)	(9,974)	6,272
Total other financing sources, net	93,394	93,394	105,037	11,643
Excess of expenditures and other financing uses over revenues	$ (16,206)	$ (87,129)	$ (40,347)	$ 46,782

See accompanying notes.

Government of the United States Virgin Islands

Statement of Net Assets (Deficit) – Proprietary Funds

September 30, 2008
(In thousands)

	Business-type Activities – Enterprise Funds			
	West Indian Company	**Government Insurance**	**Other Enterprise**	**Totals**
Assets				
Current assets:				
Cash and cash equivalents	$ 5,159	$ 1,396	$ 11,154	$ 17,709
Investments at fair value	–	–	7,200	7,200
Receivables, net:				
Premiums receivable	–	–	473	473
Other receivables	1,139	–	1,096	2,235
Due from other funds	–	–	300	300
Inventories	–	–	24	24
Other assets	796	–	75	871
Total current assets	7,094	1,396	20,322	28,812
Noncurrent assets:				
Restricted cash and cash equivalents	1,875	–	15,185	17,060
Capital assets	40,527	–	12,052	52,579
Deferred expenses	228	–	–	228
Total noncurrent assets	42,630	–	27,237	69,867
Total assets	49,724	1,396	47,559	98,679
Liabilities				
Current liabilities:				
Accounts payable and accrued liabilities	1,039	192	4,203	5,434
Due to other funds	1,400	–	7,206	8,606
Unemployment insurance benefits	–	–	5,978	5,978
Unearned revenue	–	–	202	202
Workers compensation	–	6,002	–	6,002
Loans payable related to capital assets	416	–	–	416
Total current liabilities	2,855	6,194	17,589	26,638
Noncurrent liabilities:				
Workers compensation	–	10,148	–	10,148
Loans payable related to capital assets	23,141	–	–	23,141
Total noncurrent liabilities	23,141	10,148	–	33,289
Total liabilities	25,996	16,342	17,589	59,927
Net assets				
Invested in capital assets, net of related debt	18,845	–	12,109	30,954
Restricted	–	–	10,266	10,266
Unrestricted	4,883	(14,946)	7,595	(2,468)
Total net assets (deficit)	$ 23,728	$ (14,946)	$ 29,970	$ 38,752

See accompanying notes.

Government of the United States Virgin Islands

Statement of Revenues, Expenses, and Changes in Fund Net Assets (Deficit) – Proprietary Funds

Year Ended September 30, 2008
(In thousands)

	Business-type Activities – Enterprise Funds			
	West Indian Company	Government Insurance	Other Enterprise	Total
Operating revenues:				
Charges for services	$ 10,072	$ 8,176	$ 36,235	$ 54,483
Total operating revenues	10,072	8,176	36,235	54,483
Operating expenses:				
Cost of services	7,369	27,205	47,610	82,184
Depreciation and amortization	1,660	–	819	2,479
Total operating expenses	9,029	27,205	48,429	84,663
Operating income (loss)	1,043	(19,029)	(12,194)	(30,180)
Non-operating revenue (expenses):				
Interest income	147	–	1,321	1,468
Interest expense	(1,386)	–	–	(1,386)
Total non-operating revenue (expenses), net	(1,239)	–	1,321	82
Income (loss) before operating transfers	(196)	(19,029)	(10,873)	(30,098)
Transfers from other funds	–	–	201	201
Transfers to other funds	(100)	–	–	(100)
Change in net assets	(296)	(19,029)	(10,672)	(29,997)
Net assets at beginning of year	24,024	4,083	40,642	68,749
Net assets (deficit) at end of year	$ 23,728	$ (14,946)	$ 29,970	$ 38,752

See accompanying notes.

Government of the United States Virgin Islands

Statement of Cash Flows – Proprietary Funds

Year Ended September 30, 2008
(In thousands)

	Business-type Activities – Enterprise Funds			
	West Indian Company	**Government Insurance**	**Other Enterprise**	**Total**
Cash flows from operating activities				
Receipts from customers and users	$ 10,623	$ 8,178	$ 36,964	$ 55,765
Payments to beneficiaries, suppliers and employees	(8,040)	(11,434)	(46,543)	(66,017)
Net cash provided by (used in) operating activities	2,583	(3,256)	(9,579)	(10,252)
Cash flows from noncapital financing activities				
Contributions to th USVI Government	(700)	–	–	(700)
Transfer from other funds	–	–	201	201
Net cash provided by (used in) noncapital financing activities	(700)	–	201	(499)
Cash flows from capital and related financing activities				
Proceeds from the sales of property and equipment	3	–	–	3
Acquisition and construction of capital assets	(3,795)	–	(1,185)	(4,980)
Principal paid on long-term debt	1,631	–	–	1,631
Interest paid on long-term debt	(1,356)	–	–	(1,356)
Net cash used in capital and related financing activities	(3,517)	–	(1,185)	(4,702)
Cash flows from investing activities				
Interest and dividends on investments	147	–	1,321	1,468
Sale (purchase) of investments	1,093	–	(4,200)	(3,107)
Net cash provided by (used in) investing activities	1,240	–	(2,879)	(1,639)
Net decrease in cash and cash equivalents	(394)	(3,256)	(13,442)	(17,092)
Cash and cash equivalents at beginning of year	7,428	4,652	39,781	51,861
Cash and cash equivalents at end of year	$ 7,034	$ 1,396	$ 26,339	$ 34,769
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities				
Operating income (loss)	$ 1,043	$ (19,029)	$ (12,194)	$ (30,180)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	1,695	–	819	2,514
Gain on sale of property and equipment	(3)	–	–	(3)
Change in assets and liabilities:				
Receivables, net	551	2	660	1,213
Deferred revenue	–	–	69	69
Other assets	59	–	24	83
Accounts payable and accrued expenses	(762)	(379)	(1,288)	(2,429)
Unemployment benefits	–	–	2,022	2,022
Workers compensation	–	16,150	–	16,150
Due to other funds	–	–	309	309
Net cash provided by (used in) operating activities	$ 2,583	$ (3,256)	$ (9,579)	$ (10,252)
Reconciliation of cash and cash equivalents to the statement of net assets				
Cash and cash equivalents – current	$ 5,159	$ 1,396	$ 11,154	$ 17,709
Cash and cash equivalents – restricted	1,875	–	15,185	17,060
Cash and cash equivalents at end of year on statement of cash flows	$ 7,034	$ 1,396	$ 26,339	$ 34,769

See accompanying notes.

Government of the United States Virgin Islands

Statement of Fiduciary Net Assets – Fiduciary Funds

September 30, 2008
(In thousands)

	Pension Trust Fund	Agency Funds
Assets		
Cash and cash equivalents:		
Unrestricted	$ 139,296	$ 10,696
Restricted	78	–
Investments	1,287,722	2,951
Receivables, net:		
Loans and advances	125,877	–
Accrued interest	5,799	–
Other	11,652	–
Other assets	25,818	–
Total assets	1,596,242	13,647
Liabilities		
Accounts payable and accrued liabilities	–	13,647
Cash overdraft with bank	3,458	–
Unsettled securities purchased	6,333	–
Securities lending collateral	197,593	–
Notes payable	7,313	–
Other liabilities	6,780	–
Total liabilities	221,477	13,647
Net assets held in trust for employees' pension benefits	$ 1,374,765	$ –

See accompanying notes.

Government of the United States Virgin Islands

Statement of Changes in Fiduciary Net Assets - Fiduciary Funds

Year Ended September 30, 2008
(In thousands)

	Pension Trust Fund
Additions:	
Contributions:	
Employer	$ 75,871
Plan members	36,958
Total contributions	112,829
Investment income:	
Net depreciation of fair value of investments	(231,086)
Interest, dividends, and other, net	62,212
Real estate – net rental income	3,209
	(165,665)
Less investment expense	15,477
Net investment loss	(181,142)
Other income	20,423
Total additions	(47,890)
Deductions:	
Benefits paid	170,097
Refunds of contributions	2,689
Administrative and operational expenses	11,928
Total deductions	184,714
Change in net assets	(232,604)
Net assets, beginning of year	1,607,369
Net assets, end of year	$ 1,374,765

See accompanying notes.

1. Summary of Significant Accounting Policies

The Government of the United States Virgin Islands (the Government) is an unincorporated organized territory of the United States of America (United States). The powers of the Government are derived from and set forth in the Revised Organic Act of 1954, as amended. The Government assumes responsibility for public safety, health, public housing and welfare, education, transportation and communication, and culture and recreation.

The accompanying basic financial statements of the Government have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as prescribed by the *Governmental Accounting Standards Board* (GASB).

The accompanying basic financial statements have been prepared primarily from accounts maintained by the Department of Finance of the Government. Additional data has been derived from reports prepared by other departments, agencies, and public corporations based on independent or subsidiary accounting systems maintained by them.

Financial Reporting Entity

The Government follows the provisions of GASB Statement No. 14, *The Financial Reporting Entity,* as amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. These standards require that the Government's financial reporting entity be defined according to specific criteria. According to the standard, for financial reporting purposes, the Government is a primary government (PG). The PG includes all Government departments, agencies, boards, and organizations that are not legally separate. In addition to the PG, the financial reporting entity includes blended and discretely presented component units. Component units include all legally separate organizations for which the Government's elected officials are financially accountable, and other organizations for which the nature and significance of their relationship with the Government are such that exclusion would cause the basic financial statements to be misleading or incomplete. The criteria used to define financial accountability include appointment of a voting majority of an organization's governing body and (i) the ability of the PG to impose its will on that organization or (ii) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the PG.

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

The financial statements of the following component units are included in the financial reporting entity either as blended or as discretely presented component units in accordance with GAAP:

(a) Blended Component Units

The following public benefit corporations, while legally separate from the Government, meet the criteria to be reported as part of the PG because they provide services entirely or almost entirely to the Government:

Virgin Islands Public Finance Authority (PFA)

PFA was created as a public corporation and autonomous governmental instrumentality by Act No. 5365, the Government Capital Improvement Act of 1988, with the purpose of aiding the Government in the performance of its fiscal duties and in effectively carrying out its governmental responsibility of raising capital for essential public projects. Under the enabling legislation, PFA has the power, among other matters, to borrow money and issue bonds and to lend the proceeds of its bonds to the Government or any governmental instrumentality. The powers of PFA are exercised by a board of directors consisting of the Governor (Chairperson), the Commissioner of Finance, the Director of the Office of Management and Budget, and two representatives of the private sector appointed by the Governor with the advice and consent of the USVI Legislature (the Legislature). PFA activities are blended within the PG because it is so intertwined with the Government that, in substance, they are the same. The PFA funds are reported as major funds, with the exception of PFA Special Revenue Fund, which is included in the other aggregate remaining fund information.

PFA has a component unit, the West Indian Company (WICO), which is presented as an enterprise fund in the Government's basic financial statements.

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

(a) Blended Component Units (continued)

Tobacco Settlement Financing Corporation (TSFC)

TSFC was created in September 2001 under Act No. 6428 as a separate and independent corporation of the Government to purchase the rights, title, and interest in tobacco settlement litigation awards and to issue revenue bonds supported by the tobacco settlement rights. The responsibility for the operations of TSFC is vested in a board of directors composed of three Government officials appointed by the Governor and two private citizens. The activities of TSFC are limited to activities conducted on behalf of the Government. The TSFC is reported in the other aggregate fund information.

Complete audited financial statements of the PFA and TSFC blended component units can be obtained directly by contacting their respective administrative offices:

Administrative Offices of Blended Component Units
Virgin Islands Public Finance Authority
32-33 Kongens Gade
St. Thomas, VI 00802

Tobacco Settlement Financing Corporation
32-33 Kongens Gade
St. Thomas, VI 00802

(b) Discretely Presented Component Units

The following component units, consistent with GASB Statements Nos. 14 and 39 are discretely presented in the basic financial statements because of the nature of the services they provide and the Government's ability to impose its will. The component units are reported in a separate column to emphasize that they are legally separate from the PG and governed by separate boards.

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

(b) Discretely Presented Component Units (continued)

Major Component Units

Virgin Islands Housing Authority (VIHA)

VIHA was created as a body corporate and politic constituting a public corporation and autonomous governmental instrumentality by Act No. 903 on June 18, 1962, with the purpose of providing housing for low-income families. From June 1962 through August 2003, the powers of VIHA were exercised by a board of commissioners consisting of seven members. In August 2003, the U.S. Department of Housing and Urban Development (HUD) determined that because of the severity of compliance violations, VIHA was declared to be in substantial default of its annual contributions contract (ACC) dated July 12, 1996 with HUD. VIHA was placed in receivership and HUD assumed possession of all assets, projects, and programs.

Given the nature of VIHA's operations and the significance of its relationship with the Government, management believes that its exclusion from the financial reporting entity would cause the Government's basic financial statements to be incomplete and misleading. Accordingly, VIHA continues to be reported as a major component unit of the Government even though the Government no longer appoints its commissioners.

Virgin Islands Port Authority (VIPA)

VIPA was created as a body corporate and politic constituting a public corporation and autonomous government instrumentality by Act No. 2375 on December 23, 1968, with the purposes of owning, operating, and managing all types of air and marine terminals. The powers of VIPA are exercised by a board of governors consisting of the Commissioner of Economic Development and Agriculture (Chairperson), the Attorney General, the Commissioner of Public Works, the Director of the Small Business Development Agency, and five other persons appointed by the Governor with the advice and consent of the Legislature.

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

(b) Discretely Presented Component Units (continued)

Major Component Units (continued)

Virgin Islands Water and Power Authority (WAPA)

WAPA was created as a body corporate and politic constituting a public corporation and autonomous governmental instrumentality by Act No. 1248 on August 13, 1964, with the purpose of operating the water production and electric generation plants in the U.S. Virgin Islands. The powers of WAPA are exercised by a governing board consisting of nine members, all appointed by the Governor with the advice and consent of the Legislature, from which three are heads of cabinet-level executive departments or agencies and six other persons, who shall not be employees of the Government. WAPA is required by its bond resolutions to maintain separate audited financial statements for each system (the Electric and Water Systems).

Virgin Islands Government Hospital and Health Facilities Corporation (VIGHHFC)

VIGHHFC was created by Act No. 6012 on August 23, 1994 and became active on May 1, 1999, with the purpose of providing healthcare services and hospital facilities to the people of the U. S. Virgin Islands. The powers of VIGHHFC are exercised by a board of directors consisting of 15 members as follows: the Director of the Office of Management and Budget, the Commissioner of Finance, and 13 other members appointed by the Governor with the advice and consent of the Legislature. The VIGHHFC is composed of the Roy L. Schneider Hospital located in St. Thomas and the Juan F. Luis Hospital and Medical Center located in St. Croix. Both entities issue separate audited financial statements. The Roy L. Schneider Hospital's financial statements include its component units: the Myra Keating Smith Community Health Center ("Health Center") of St. John and the Charlotte Kimelman Cancer Institute ("Cancer Institute") on St. Thomas. The Health Center and Cancer Institute are legally separate organizations for which the Roy L. Schneider Hospital is financially accountable.

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

(b) Discretely Presented Component Units (continued)

Major Component Units (continued)

University of the Virgin Islands (the University)

The University was organized as an instrumentality of the Government under Act No. 852 on March 16, 1962, in accordance with Section 16(a) of the Revised Organic Act of 1954, as amended. The purpose of the University is the stimulation and utilization of the intellectual resources of the people of the U.S. Virgin Islands and the development of a center of higher education. The powers of the University are exercised by a board of trustees consisting of 17 members as follows: Chairman of the Board of Education, Commissioner of Education, and the President of the University, all serving as members ex-officio, 9 other members appointed by the Governor with the advice and consent of the Legislature, two other members elected by the board of trustees, one representative of the student body, one alumnus of the University, and another of the teaching faculty. The University was not organized as a self-sustaining entity and therefore receives substantial financial and other support from the Government.

The University's financial statements include its component units: The Foundation for the University of the Virgin Islands and The Reichhold Foundation. The Foundation for the University of the Virgin Islands is a not-for-profit corporation whose purpose is to assist and support the University in accomplishing its charitable and educational mission. The Reichhold Foundation is a not-for-profit corporation that supports the arts and provides financial assistance in operating the Reichhold Center for the Arts on St. Thomas.

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

(b) Discretely Presented Component Units (continued)

Nonmajor Component Units

Virgin Islands Economic Development Authority (EDA)

EDA was created by Act No. 6390 on December 21, 2000 as a body corporate and politic constituting a public corporation and semiautonomous instrumentality of the Government. EDA was created as an umbrella authority to assume, integrate, and unify the functions of the Economic Development Commission, the Small Business Development Administration, the Government Development Bank, and the Virgin Islands Industrial Development Park Corporation. The powers of EDA are exercised by a board of directors consisting of the members of the Virgin Islands Economic Development Commission, the Director of the Virgin Islands' Bureau of Internal Revenue, and five members not employed by the Government, but appointed by the Governor with the advice and consent of the Legislature.

Magens Bay Authority (MBA)

MBA was created as a corporate instrumentality by Act No. 2085 on December 20, 1967, with the purpose of acquiring, improving, and operating parks and beaches. The powers of MBA are exercised by a board of directors consisting of the Governor and six members initially appointed by the Governor. The board of directors is responsible for the appointment and reappointment of subsequent board members except that the Governor, with the advice and consent of the Legislature may, by appointment, fill any vacancy on the board of directors remaining unfilled for sixty days.

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

(b) Discretely Presented Component Units (continued)

Nonmajor Component Units (continued)

Virgin Islands Housing Finance Authority (VIHFA)

VIHFA was created as a body corporate and politic constituting a public corporation and autonomous governmental instrumentality of the Government by Act No. 4636 on October 20, 1981, with the purpose of stimulating low and moderate-income housing construction and home ownership through the issuance of revenue bonds to obtain funds to be used for low-interest mortgage loans to qualified purchasers of low and moderate-income housing. The powers of VIHFA are exercised by a board of directors consisting of the Commissioner of the Department of Housing, Parks, and Recreation (the Chairman), the Director of the Office of Management and Budget, and three persons not employed by the Government appointed by the Governor with advice and consent of the Legislature.

Virgin Islands Public Television System (VIPTS)

VIPTS was created as a body corporate and politic constituting a public corporation and autonomous instrumentality by Act No. 2364 on November 15, 1968, with the purpose of advancing the general welfare, education, cultural development, and awareness of public affairs of all the population of the U.S. Virgin Islands as well as to provide an effective supplement to the in-school education of children. The powers of VIPTS are exercised by a board of directors consisting of the Commissioner of Education, the Chairman of the Board of Education, three members appointed by the President of the Legislature, and four members, not more than two of whom should be employed by the Government and appointed by the Governor with the advice and consent of the Legislature. In addition, the Director of the Office of Management and Budget, the President of the University of the Virgin Islands, and the General Manager of VIPTS are ex-officio members of the board who are not entitled to vote.

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

(b) Discretely Presented Component Units (continued)

Nonmajor Component Units (continued)

Virgin Islands Waste Management Authority (VIWMA)

VIWMA was established as a nonprofit, public, autonomous instrumentality of the Government by Act No. 6638 and approved by the Governor of the Virgin Islands on January 23, 2004. VIWMA provides environmentally sound management for the collection and disposal of solid waste in the territory, including operation and closure of landfills and wastewater collection, treatment and disposal. VIWMA is governed by a Board of Directors consisting of seven members.

University of the Virgin Islands Research and Technology Park (RTPark)

RTPark was established as a public, autonomous instrumentality of the Government by Act 6502 on February 21, 2002, as amended, by Act 6725, the Protected Cell Amendments Act of 2005. RTPark was organized for internet commerce and technology, providing an enabling environment for research, development, business incubation and technology-driven businesses. RTPark is governed by a Board of Directors consisting of seven members, including the Chairman of the Board of Trustees of the University, the President of the University, two trustees selected from among the Board of Trustees of the University, and three members selected by the Governor.

Complete audited financial statements of the discretely presented component units can be obtained directly by contacting their administrative offices:

Administrative Offices

Virgin Islands Housing Authority
402 Estate Anna's Retreat
P. O. Box 7668
St. Thomas, VI 00801

Virgin Islands Port Authority
PO Box 301707
St. Thomas, VI 00803

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

Administrative Offices (continued)

Virgin Islands Water and Power Authority
PO Box 1450
St. Thomas, VI 00804

Virgin Islands Government Hospital and Health Facilities Corporation
9048 Sugar Estate
St. Thomas, VI 00802

University of the Virgin Islands
2 John Brewer's Bay
St. Thomas, VI 00802

Virgin Islands Economic Development Authority
1050 Norre Gade #5
St. Thomas, VI 00802

Magens Bay Authority
PO Box 10583
St. Thomas, VI 00802

Virgin Islands Housing Finance Authority
3202 Demarara
Frenchtown Plaza, Suite 200
St. Thomas, VI 00802

Virgin Islands Public Television System
PO Box 7879
St. Thomas, VI 00801

Virgin Islands Waste Management Authority
#1 La Grande Princesse, Suite BL1
Christiansted, VI 00820

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

Administrative Offices (continued)

University of the Virgin Islands Research and Technology Park Corporation
RR1 Box 10000
Kingsholl, St. Croix, VI 00850-9781

All financial statements of the discretely presented component units have a fiscal year-end of September 30, 2008, except for WAPA and VIHA that have a year-end of June 30, 2008 and December 31, 2007, respectively.

(c) Fiduciary Component Unit

The following public benefit corporation is legally separate from the Government, meets the definition of a blended component unit, and is presented in the fund financial statements along with other fiduciary funds of the Government; fiduciary funds are not reported in the government-wide financial statements:

Employees' Retirement System of the Government of the Virgin Islands (GERS)

GERS was created as an independent and separate agency of the Government with the purpose of administering the Government's defined-benefit pension plan established on October 1, 1959. Component units of the Government also participate in the cost-sharing, multiple employer defined benefit plan. The responsibility for the operation of GERS is vested in a board of trustees composed of seven members appointed by the Governor with the advice and consent of the Legislature.

Employee and employer contributions to GERS are recognized as additions to net assets held in trust for employees' pension benefits in the period in which employee services are performed, except for contributions pursuant to the Early Retirement Act of 1994, which are recorded as the cash is received. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan, except for benefits pursuant to sections 8(a) and 8(b) of the Early Retirement Act of 1994, which are recorded when the subsidy provided by the Government is receivable and payable.

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

(c) Fiduciary Component Unit (continued)

Complete audited financial statements of this component unit can be obtained directly by contacting their administrative office:

Employees' Retirement System of the Government of the Virgin Islands
3438 Kronprindsens Gade
St. Thomas, VI 00802

Government-wide and Fund Financial Statements

The government-wide financial statements (that is, the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the PG and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the PG is reported separately from certain legally separate component units for which the PG is financially accountable. The statement of net assets (deficit) presents the reporting entities' nonfiduciary assets and liabilities, with the difference reported as net assets or net deficit. The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes (i) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (ii) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenue are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

1. Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

(a) Government-wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

(b) Governmental Fund Financial Statements

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Government considers most revenue to be available if collected within 90 days of the end of the current fiscal year-end. Specifically, gross receipts taxes, property taxes, and income taxes are considered to be available if collected within 30, 60, and 90 days, respectively, after the end of the current fiscal year-end. Grant revenue is considered to be available if collected within the 12 months after the end of the current fiscal year-end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Income taxes, gross receipts taxes, real property taxes, and grant funding are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period to the extent they are considered available. All other revenue items are considered to be measurable and available only when cash is received by the Government.

(c) Proprietary Funds, Fiduciary Funds, and Discretely Presented Component Units Financial Statements

The financial statements of the proprietary funds, fiduciary funds, and discretely presented component units are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide financial statements described above.

1. Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

(c) Proprietary Funds, Fiduciary Funds, and Discretely Presented Component Units Financial Statements (continued)

Each proprietary fund has the option under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting,* to elect and apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless these conflict with a GASB pronouncement. The PG and most blended and discretely presented component units have elected not to apply FASB pronouncements issued after November 30, 1989 for its proprietary fund types. VIPA has elected to follow the FASB's pronouncements issued after November 30, 1989.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

Fund Accounting

The Government reports its financial position and results of operations in funds, which are considered separate accounting entities and discrete presentations of those component units, which are not required to be blended. The operations of each fund are accounted for within a set of self-balancing accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial, and contractual provisions. GASB No. 34, *Basic Financial Statements – and Management's Discussions and Analysis – for State and Local Governments*, establishes criteria (percentage of the assets, liabilities, revenue, or expenditures/expenses of either fund category or the governmental and enterprise funds combined) for the determination of major funds. Indirect costs are automatically allocated and reported in the program expense for each fund. Nonmajor funds are combined in a single column in the fund financial statements. The Government reports the following major funds:

1. Summary of Significant Accounting Policies (continued)

Fund Accounting (continued)

(a) Governmental Funds

The Government reports the following major governmental funds:

- General Fund – The general fund is the Government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

- PFA Debt Service Fund – The PFA debt service fund accounts for the resources accumulated, and payments made, for principal and interest on long-term general obligation debt issued by PFA on behalf of the Government.

- PFA Capital Projects Fund – The PFA capital projects fund accounts for bond proceeds of debt issued by the PFA on behalf of the Government. The bond proceeds have been designated for certain necessary public safety and capital development projects which are accounted for in this fund.

(b) Proprietary Funds

These funds account for those activities for which the intent of management is to recover, primarily through user charges, the cost of providing goods or services to the general public. The government reports the following major proprietary funds:

- West Indian Company – WICO, a component unit of PFA, accounts for the activities of a cruise ship pier and shopping mall complex on the island of St. Thomas.

- Government Insurance – The government insurance fund accounts for revenues charged and claims paid in connection with workers' compensation for employees in the U.S. Virgin Islands.

1. Summary of Significant Accounting Policies (continued)

Fund Accounting (continued)

(c) Fiduciary Funds

Fiduciary funds are used to account for assets held by the Government in a trustee capacity, or as an agent for individuals, private organizations, and other governmental units. The following are the Government's fiduciary funds:

- Pension Trust Fund – The pension trust fund accounts for the activities of GERS, which accumulates resources for pension benefit payments to qualified employees.
- Agency Fund – The agency fund is custodial in nature (assets equal liabilities) and does not involve measurement of the results of operations.

Cash and Cash Equivalents

The Government follows the practice of pooling cash. The balance in the pooled cash accounts is available to meet current operating requirements, and any excess is invested in various interest-bearing accounts and time deposits with eligible depository institutions.

Cash equivalents of the proprietary funds and discretely presented component units consist of demand accounts, money market accounts, certificates of deposit with maturities of not more than 90 days from the date of acquisition, short-term U.S. government and its agencies' obligations and repurchase agreements with a U.S. commercial bank maturing within three months and collateralized by U.S. government obligations. Cash and cash equivalents of the discretely presented component units are maintained in separate bank accounts from those of the PG, in their own names. By law, banks, or trust companies designated as depository of public funds of the Government are to maintain corporate surety bond or pledge collateral satisfactory to the Commissioner of Finance to secure all governmental funds deposited.

Investments

The PG and its component units follow the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures, an Amendment of GASB Statement No. 3*. GASB Statement No. 40 establishes and modifies the following disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk), interest rate risk, and foreign currency risk.

1. Summary of Significant Accounting Policies (continued)

Investment Policies

Investment policies of the PG, its blended component units, major funds, and major component units are as follows:

- ***Primary Government Investment Policies*** – Title 33, Chapter 117 of the Virgin Islands Code (V.I. Code) authorizes the Government to invest in U.S. Government and its agencies' obligations, mortgage-backed securities, repurchase agreements, commercial paper, local government obligations, and corporate debt and equity obligations. As of September 30, 2008, the General Fund, a non-major governmental fund, and an agency fund had invested in certificates of deposit with two local banks. Investments are reported at fair value.

- ***PFA Investment Policies*** – Under GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for Most External Investment Pools*, investments of the PFA are reported at fair value. Various bond resolutions of the PFA restrict investments to direct obligations of the U.S. Government, territories, possessions and states, specific bank obligations, investment agreements or similar funding agreements, shares or other interests in mutual funds, trusts or investment companies, corporate commercial paper, and money market portfolios consisting of any of the foregoing. The PFA has retained investment managers and investments are held in trust by a commercial bank on behalf of the PFA. The PFA handles investments for two major governmental funds of the Government: the PFA debt service fund and the PFA capital projects fund.

- ***Tobacco Settlement Financing Corporation Investment Policies*** – Various bond resolutions of this blended component unit restrict investments to direct obligations of the U.S. Government, territories, possessions and states, specific bank obligations, investment agreements or similar funding agreements, shares or other interests in mutual funds, trusts or investment companies, corporate commercial paper, and money market portfolios consisting of any of the foregoing. The PFA has retained investment managers and investments are held in trust by a commercial bank on behalf of the PFA. Investments are reported at fair value in the non-major governmental fund of the Government.

1. Summary of Significant Accounting Policies (continued)

Investment Policies (continued)

- ***West Indian Company Limited Investment Policies*** – This blended business-type major fund of the Government maintains an investment policy that 1) limits investments in bonds to a maximum remaining maturity of 30 years (or estimated average life on mortgage-backed issues), 2) limits fixed income securities to a maximum of 40% and a minimum of 30% of the overall assets of the WICO portfolio, 3) limits corporate bond exposure to 45% of the fixed income portfolio, and 4) has no provision which limits or restricts investments in U.S. Government Treasury or Agency issues. WICO reports investments at fair value.

- ***Pension Trust Fund Investment Policies*** – The board of trustees of GERS have enacted policies that limit investments in certain investment categories and provide requirements for the institutions with which investment transactions may be entered into. Under those policies, GERS may invest in U.S. Government and agencies obligations, bonds or notes of any state, territory or possession of the United States, municipal bonds and obligations, foreign bonds, bonds of domestic railroad corporations, public utility bonds, industrial corporate bonds or trust certificates, common and preferred shares of foreign and domestic corporations, mutual funds, mortgage or personal loans to GERS members or retirees, and mortgage and asset-backed securities. Investments in bonds are subject to rating restrictions of BBB and may not exceed 2% of the portfolio. Investments in stock of a single corporation may not exceed 1% of the market value of the fund, or exceed 1% of the outstanding stock of the corporation. The aggregate amount of investments in stock may not exceed 60% of the total investments of GERS. Investment in foreign stock should be limited to 10% of the market value of the total investments of GERS. Any investment of 20% or more of the aggregate value of the portfolio must be approved by two-thirds of the membership of the board of trustees. The investments are administered by several professional investment managers and are held in trust by a commercial bank on behalf of GERS.

  GERS is authorized to invest in life settlement policy contract investments provided the investment is in a group of life insurance policies, with a minimum number of 100 measured lives; the face value of any single policy investment does not exceed $5.0 million or 2% of the aggregate face value of policy investments, and; the aggregate face value on any individual life does not exceed the greater of $10.0 million or 1% of the aggregate face value of policies purchased as investments by GERS.

1. Summary of Significant Accounting Policies (continued)

Investment Policies (continued)

Investments in equity securities in the GERS pension trust fund are reported at quoted market values. Shares of mutual funds are reported at the net asset value of shares held by GERS at year-end. Purchases and sales are recorded on a trade-date basis. Realized gains and losses on securities are determined by the average cost method.

Investment by GERS in the Havensight Mall is carried at original purchase price plus appreciated value. Investment by GERS in GERS facilities in St. Thomas and St. Croix are carried at historical cost net of accumulated depreciation and amortization on the portion of the facilities occupied by GERS.

- ***WAPA and VIPA Investment Policies*** – These major component units are authorized under bond resolutions and the V.I. Code to invest in open accounts, time deposits, certificates of deposit, repurchase agreements, obligations of the United States government, and obligations of any state within the United States, mutual funds, and corporate commercial paper. Investments are reported at fair value.

- ***The University Investment Policies*** – The board of trustees of this major component unit is responsible for the management of the University's investments which consist of U.S. Government securities and securities backed by the U.S. Government or its agencies and instrumentalities, common and preferred stocks, and mutual funds. Currently, the University's policies do not address risks associated with investments.

- ***VIGHHFC Investment Policies*** – The board of trustees of this major component unit have not developed a formal investment policy. At September 30, 2008, investments were comprised of certificates of deposit which were reported at fair value, and a 40% interest in a U.S. Virgin Islands corporation that provides radiology services. The investment in the U.S. Virgin Islands corporation is accounted for under the equity method.

- ***VIHA Investment Policies*** – This major component unit is required by the U.S. Department of Housing and Urban Development ("HUD") to invest excess funds in obligations of the United States, certificates of deposit, or any other federally insured investment. HUD requires that deposits be fully collateralized at all times, and may be held by an unaffiliated bank or trust company for the account of the VIHA.

1. Summary of Significant Accounting Policies (continued)

Receivables

Taxes receivable represent amounts owed by taxpayers for individual and corporate income taxes, gross receipts taxes and real property taxes. Tax revenue is recognized in the governmental fund financial statements when they become both measurable and available based on actual collections during the months subsequent to the fiscal year end.

Federal government receivables represent amounts owed to the Government for reimbursement of expenditures incurred pursuant to federally funded programs.

Accounts receivable are reported net of estimated allowances for uncollectible amounts, which are determined based upon past collection experience and current economic conditions.

Subject to the provisions of the retirement law and subject to rules and regulations prescribed by the board of trustees of GERS, members of GERS have the right to obtain loans from GERS to finance a home, automobile, or other personal needs. The maximum mortgage loan that could be granted to members who have been contributing to GERS for at least five years is $250,000. The interest rate on new first mortgages was 8% and on second mortgages, 9% throughout the year. Members may also borrow up to $50,000 to buy land.

Members who have contributed to GERS for at least five years can borrow up to $18,000 for the purchase of an automobile. Auto loans bear interest at rates that range between 8.75% and 9.50% with a maximum term of five years. Active members may also borrow up to 75% of their contributions paid into GERS to a maximum borrowing of $50,000 as a personal loan. The interest rate offered on personal loans was 8.00% to 8.50% for the year. Retired members may qualify for personal loans up to $10,000 at the same interest rates as active members.

Member loans in GERS are valued at the outstanding loan principal balance less an allowance for estimated loan losses.

The accounts receivable from non-governmental customers of the discretely presented component units are net of estimated uncollectible amounts. These receivables arise primarily from service charges to users. Accounts receivable from the PG and other component units that arise from service charges do not have significant allowances for uncollectible accounts.

1. Summary of Significant Accounting Policies (continued)

Inventories

In governmental fund types, the costs of inventories are recorded as expenditures when purchased. The proprietary fund types and component units recognize an asset when the inventory is purchased and an expense when it is consumed or sold. Inventories in proprietary fund types are primarily valued at the lower of cost or market using the first-in, first-out method.

Restricted Assets

Restricted assets in the PG and discretely presented component units are set aside primarily for the payment of bonds, notes, construction funds, unemployment benefits, and other specific purposes.

Capital Assets

Capital assets, which include land, land improvements, buildings, building improvements, machinery and equipment, construction in progress, and infrastructure assets are reported in the applicable governmental, business-type activities, and component unit columns in the government-wide financial statements as well as in the applicable proprietary funds reported in the fund financial statements.

The PG defines capital assets as assets that have an initial, individual cost and useful lives of: (i) $5,000 for personal property with a useful life of five years; (ii) $50,000 for buildings and building improvements with estimated useful lives of 40 and 20 years, respectively; (iii) $100,000 for land improvements with an estimated useful life of 20 years; and (iv) $200,000 for infrastructure with an estimated useful life of 30 years. The value of all land acquired is capitalized.

Capital assets purchased or acquired are carried at historical cost or normal cost. The normal costing method to estimate cost based on replacement cost indexed by a reciprocal factor of the price increase from the appraisal date to the actual or estimated acquisition date was used to estimate the historical cost of certain land, buildings, and building improvements because invoices and similar documentation was no longer available in certain instances. Donated capital assets are recorded at fair value at the time of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest costs are capitalized during the construction period only for business-type activities and various component units. The costs of routine maintenance and repairs that do not add value to the assets or materially extend asset lives are expensed as incurred.

1. Summary of Significant Accounting Policies (continued)

Capital Assets (continued)

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements, as well as the proprietary funds and component units' financial statements.

Capital assets of the PG, excluding land and construction in progress, are depreciated on the straight-line method over the assets' estimated useful lives.

The capital assets of the component units are recorded in accordance with the applicable GASB and FASB statements and under their own individual capitalization thresholds. The estimated useful lives of capital assets reported by the component units are (i) 7 to 50 years for buildings and building improvements; (ii) 20 to 40 years for airports and marine terminals; and (iii) 3 to 20 years for vehicles and equipment.

Tax Refunds Payable

During the calendar year, the Government collects individual income taxes through withholdings and payments from taxpayers. At September 30, the Government estimates the amount owed to taxpayers for overpayments during the first nine months of the calendar year. These estimated amounts and the actual tax refunds claimed for prior years but not paid at year-end are recorded as tax refunds payable and as a reduction of tax revenue.

Deferred and Unearned Revenue

Deferred revenue at the governmental fund level arises when potential revenue neither meets measurable nor available criteria for revenue recognition in the current period. Deferred revenue also arises when resources are received before the Government has a legal claim to them. In subsequent periods, when the revenue recognition criteria are met, or when the Government has a legal claim to the resources, deferred revenue is reduced from the balance sheet and the revenue is recognized. Unearned revenue at the government-wide and proprietary fund levels arises only when the Government receives resources before it has a legal claim to them or revenue recognition criteria have not been met.

1. Summary of Significant Accounting Policies (continued)

Long-term Liabilities

The liabilities reported in the government-wide financial statements include the Government's bonds, long-term notes, and other long-term liabilities including: compensated absences, retroactive union arbitration salaries, landfill closure and post closure, arbitrage liabilities, workers compensation loss claims, postemployment benefit costs and legal claims. Bond premiums and discounts, losses incurred on bond refundings, and debt issuance costs are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premiums or discounts and deferred refunding losses.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Losses incurred on bond refundings are not recognized in the fund financial statements as the corresponding liability for the bonds is only recorded in the government-wide financial statements. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Balance

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Net Assets

Net assets are reported in three categories:

- ***Invested in Capital Assets, Net of Related Debt*** – These consist of capital assets, net of accumulated depreciation and amortization, and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets. Debt pertaining to significant unspent debt proceeds is not included in the calculation of invested in capital assets, net of related debt. The unspent portion of the debt is presented, net of the related debt, as restricted net assets for capital projects.

1. Summary of Significant Accounting Policies (continued)

Net Assets (continued)

- ***Restricted Net Assets*** – These result when constraints placed on net assets' use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.
- ***Unrestricted Net Assets*** – These consist of net assets, which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

When both restricted and unrestricted resources are available for use, generally it is the Government's policy to use restricted resources first, then the unrestricted resources as they are needed.

Compensated Absences

The vacation policy of the Government provides for the accumulation of four, six, or eight hours for each full biweekly pay period depending on the time of entry into government service. At the beginning of each calendar year, vacation leave is limited to 480 hours (60 days). However, the excess of 480 hours is considered by GERS for service credit towards the employees' retirement. This vacation policy does not apply to professional educational personnel of the Virgin Islands Department of Education, who receive compensation during the school breaks. Upon retirement, an employee receives compensation for unused vacation leave at the employee's base pay rate. As of September 30, 2008, the Government had accrued compensated absences amounting to approximately $60.9 million, including related benefits, of which $36.5 million was included in current liabilities in the government-wide financial statements.

Employees accumulate sick leave at a rate of four hours for each full biweekly pay period up to a maximum of 180 days. Separated employees do not receive payment for unused sick leave, therefore, a provision for accumulated sick leave is not required.

Compensated absences accumulation policies for the blended component units and discretely presented component units vary from entity to entity, depending upon negotiated bargaining agreements and other factors agreed upon between the management of these entities and its employees.

1. Summary of Significant Accounting Policies (continued)

Interfund and Intra-entity Transactions

The Government has the following types of transactions among funds:

- ***Interfund Transfers*** – Legally required transfers are reported as interfund transfers in (out) when incurred.

- ***Intra-entity Transactions*** – These are transactions between the PG and its component units, and among the component units. Transfers between the PG and its blended component units are reported as interfund transfers, except for transfers within the same fund type. Similarly, receivables and payables between the PG and its blended component units are reported as amounts due to, and due from other funds. Transfers between the PG and discretely presented component units (and among those component units) are reported separately as revenue and expenses or expenditures. Amounts owed to and from discretely presented component units by the PG are reported separately from interfund payables and receivables as due from (to) component units, net of allowance for estimated uncollectible amounts.

Risk Management

With some exceptions, the Government does not carry general casualty or liability insurance coverage on its properties or the acts of its employees, relying instead on self-insurance and/or statutory liability limitations. However, as a result of an agreement with the Federal Emergency Management Agency (FEMA), with respect to properties and structures damaged by Hurricane Hugo and repaired with federal disaster assistance funds, the Government has obtained insurance for certain hospitals, schools, and other insurable public buildings that were repaired with such federal assistance. The Government purchases commercial insurance covering physical losses or damages against its property. The limit of liability for all risks, excluding earthquake, windstorm, and flood, is $1 million for each and every occurrence except for windstorm and flood losses, which has a $45 million limit. For physical losses arising from earthquake, the insurance policy has a limit of $100 million for each and every occurrence and in the annual aggregate.

The Government does not maintain accounting records in support of individual claim liabilities or for claims incurred but not reported (IBNR). Accordingly, medical malpractice claims are accounted for on a cash basis. Therefore, the basic financial statements do not include a liability for medical malpractice claims outstanding, including related IBNR, as of September 30, 2008, as required by GAAP.

Certain component units are exposed to various risks of loss related to their specialized operations, which are mitigated by purchasing commercial insurance.

1. Summary of Significant Accounting Policies (continued)

Future Adoption of Accounting Requirements

GASB has issued the following statements that the Government or its component units have not yet adopted:

GASB Statement Number		Adoption Required in Fiscal Year
49	Accounting and Financial Reporting for Pollution Remediation Obligations	2009
51	Accounting and Financial Reporting for Intangible Assets	2010
52	Land and Other Real Estate Held as Investments by Endowments	2009
53	Accounting and Financial Reporting for Derivative Instruments	2010
54	Fund Balance Reporting and Governmental Fund Type Definitions	2011
57	OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans	2012
58	Accounting and Financial Reporting for Chapter 9 Bankruptcies	2010
59	Financial Instruments Omnibus	2011

The impact of these statements has not yet been determined.

Use of Estimates

Management of the Government has made a number of estimates and assumptions relating to the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the basic financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

2. Component Units

The basic financial statements include the financial statements of the following discretely presented component units:

- Virgin Islands Housing Authority
- Virgin Islands Port Authority
- Virgin Islands Water and Power Authority
- Virgin Islands Government Hospital and Health Facilities Corporation
- University of the Virgin Islands
- Virgin Islands Economic Development Authority
- Magens Bay Authority
- Virgin Islands Housing Finance Authority
- Virgin Islands Public Television System
- Virgin Islands Waste Management Authority
- University of the Virgin Islands Research and Technology Park Corporation

2. Component Units (continued)

Condensed financial information as of September 30, 2008 of all discretely presented component units follows (expressed in thousands):

Information on net assets	Virgin Islands Housing Authority	Virgin Islands Port Authority	Virgin Islands Water and Power Authority: Electric System	Virgin Islands Water and Power Authority: Water System	Virgin Islands Government Hospital and Health Facilities Corporation: Roy L. Schneider Hospital	Virgin Islands Government Hospital and Health Facilities Corporation: Juan F. Luis Hospital	University of the Virgin Islands	Other Entities	Total Component Units
Assets:									
Current assets	$ 9,471	$ 26,967	$ 57,925	$ 8,463	$ 23,214	$ 15,945	$ 49,995	$ 42,406	$ 234,386
Due from primary government	–	3,031	15,092	7,056	–	–	1,043	13,032	39,254
Due from federal government	–	2,914	–	–	–	234	6,305	–	9,453
Restricted assets	13,012	9,692	67,040	9,265	–	393	20,308	18,062	137,772
Capital assets, net	55,189	257,133	249,167	59,845	71,528	48,913	52,429	74,282	868,485
Deferred expenses	14	1,371	36,040	4,262	–	–	3,797	46	45,530
Total assets	77,686	301,108	425,264	88,891	94,742	65,485	133,877	147,828	1,334,881
Liabilities:									
Current liabilities	7,766	8,125	93,971	6,306	18,633	21,389	12,667	8,445	177,302
Due to primary government	–	–	–	–	19,730	33,425	–	4,243	57,398
Due to federal government	–	–	5,047	–	–	–	–	–	5,047
Bonds payable	–	38,417	200,238	27,945	–	–	42,052	3,990	312,642
Loans payable	–	1,482	21,000	–	–	–	1,947	2,642	27,071
Other noncurrent liabilities	6,870	–	5,398	1,266	131	654	75	35,173	49,567
Total liabilities	14,636	48,024	325,654	35,517	38,494	55,468	56,741	54,493	629,027
Net assets (deficit):									
Invested in capital assets, net of related debt	48,112	218,715	85,723	32,188	70,959	47,787	22,832	64,728	591,044
Restricted	8,014	9,692	24,268	8,585	1,841	392	33,140	10,167	96,099
Unrestricted (deficit)	6,924	24,677	(10,381)	12,601	(16,552)	(38,162)	21,164	18,440	18,711
Total net assets	$ 63,050	$ 253,084	$ 99,610	$ 53,374	$ 56,248	$ 10,017	$ 77,136	$ 93,335	$ 705,854

2. Component Units (continued)

Information on statements of activities	Expenses	Program revenue: Charges for Services	Program revenue: Operating Grants and Contributions	Program revenue: Capital Grants and Contributions	Total Component Units
Virgin Islands Housing Authority	$ 44,521	$ 5,414	$ 33,881	$ 2,923	$ (2,303)
Virgin Islands Port Authority	58,331	46,259	–	6,677	(5,395)
Virgin Islands Water and Power Authority:					
Electric System	280,049	263,723	–	678	(15,648)
Water System	35,768	41,077	–	5,921	11,230
Virgin Islands Government Hospital and Health Facilities Corporation:					
Roy L. Schneider Hospital	92,045	51,270	34,168	124	(6,483)
Juan F. Luis Hospital	71,253	35,756	31,988	8,241	4,732
University of the Virgin Islands	69,109	15,576	48,390	3,192	(1,951)
Other component units	58,550	5,912	54,434	5,276	7,072
Total activities	$ 709,626	$ 464,987	$ 202,861	$ 33,032	(8,746)
General revenue:					
Interest and other					9,633
Changes in net assets					887
Net assets at beginning of year *(as restated)*					704,967
Net assets at end of year					$ 705,854

3. Stewardship, Compliance, and Accountability

Budgetary Process and Control

The V.I. Code requires the Governor to submit an annual balanced executive budget to be adopted by the Legislature for the ensuing fiscal year. The Governor is required by law to submit to the Legislature the annual executive budget no later than May 30. The annual executive budget is prepared on a GAAP basis, except for encumbrances, which are reported as expenditures for budget reporting purposes, by the Virgin Islands Office of Management and Budget (OMB) working in conjunction with other Government offices and agencies. If the annual executive budget has not been approved before the commencement of any fiscal year, then the appropriations for the preceding fiscal year, insofar as they may be applicable, are automatically deemed reappropriated item by item. The annual executive budget, which includes those funds of the Government subject to appropriation pursuant to law, is composed of all proposed expenditures and estimated revenue for the Government. The Legislature enacts the

3. Stewardship, Compliance, and Accountability (continued)

Budgetary Process and Control (continued)

annual executive budget through passage of lump-sum appropriations for each department. The Legislature may add, change, or delete any items in the annual executive budget proposed by the Governor. Upon passage by the Legislature, the annual executive budget is submitted to the Governor, who may veto the budget partially or in its entirety and return it to the Legislature with his objections. A veto by the Governor can be overridden only by a two-thirds majority of all members of the Legislature. The Legislature is obligated by law to pass a final annual executive budget no later than September 30, the last day of the fiscal year. Supplemental budgetary appropriations bills that are signed into law may be created during the year without the identification of a specific revenue source to finance them. In August 1999, the Legislature enacted the Financial Accountability Act (Act No. 6289). The purpose of the Financial Accountability Act is to require by law that the budget of the Government be balanced each year, and the appropriations in each fiscal year not exceed a verifiable revenue source.

Once the budget has been enacted, fiscal control over expenditures made pursuant thereto is exercised by the Governor through the Director of OMB. During any fiscal year in which the resources available to the Government are not sufficient to cover the appropriations approved for such year, the Governor, through the Director of OMB, may take administrative measures to reduce expenditures. The Governor may also make recommendations to the Legislature for new taxes or any other necessary action to meet the estimated deficiency.

Budgetary control is exercised at the department level through an allotment process. Encumbrances and expenditures cannot exceed total allotment amounts. The Government's department heads may make transfers of appropriations within the department. Appropriation transfers between departments and supplemental appropriations require executive and legislative branch approval. Unencumbered and unexpended appropriations, not designated, lapse at fiscal year-end. Also, encumbrances are established at fiscal year-end to pay certain expenditures for travel and utility costs payable against current year appropriation authority, but to be expended in the subsequent year.

3. Stewardship, Compliance, and Accountability (continued)

Budget/GAAP Reconciliation

The following schedule presents a comparison of the general fund legally adopted budget with actual data on a budgetary basis. Because accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of timing and entity difference in the excess of revenue and other financing sources over expenditures and other financing uses for the year ended September 30, 2008 is presented below (expressed in thousands):

Excess of expenditures and other financing uses over revenues – budget basis	$ (40,347)
Entity difference – excess of expenditures and other financing uses over revenue and other financing sources – activities with budgets not legally adopted	(23,552)
Excess of expenditures and other financing sources over revenues – GAAP basis (net change in fund balance)	$ (63,899)

Controls over spending in special revenue funds and non-appropriated funds are maintained at the Department of Finance by use of budgets and available resources (revenues). The Government makes appropriations to authorize expenditures for various capital projects. Budgets for capital projects normally remain available until completion of the project unless modified or rescinded.

4. Cash and Cash Equivalents

Primary Government

At September 30, 2008, the PG held $284.8 million in unrestricted cash and cash equivalents, and $17.1 million in restricted cash and cash equivalents. All of the PG's bank balances were fully collateralized.

Pension Trust Fund

GERS considers all highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents. At September 30, 2008, GERS held $96 million in money market accounts, $26.4 million in interest-bearing bank accounts, and $17 million in operational accounts.

4. Cash and Cash Equivalents (continued)

Component Units

At September 30, 2008, component units held $70.6 million in unrestricted cash and cash equivalents and $59.0 million in restricted cash and cash equivalents, of which $3.5 million was not insured, bonded or collateralized as required for public funds of the Government.

5. Investments

Primary Government Investments

Following is a summary of the investments of the PG, categorized by investment type and maturity as of September 30, 2008:

Primary Government Investments
(in thousands)

	Fair Value	Maturity (in years) Less Than 1 Year	1 to 5 Years	Over 5 Years
Investments with contractual maturities				
Certificates of Deposit	$ 168,440	$ 168,440	$ –	$ –
Portfolio investments				
Commercial Paper	67,178	66,678	–	500
U.S. Government Agencies & Notes	18,302	18,302	–	–
Total investments with contractual maturities	253,920	$ 253,420	$ –	$ 500
Investments without contractual maturities				
Money Market & Mutual Funds	221,691			
Total Primary Government Investments	$ 475,611			

Interest-Rate Risk – Interest-rate risk represents the exposure to fair value losses arising from increasing interest rates. The PG does not have a formal investment policy that limits investment maturities as a means of managing such exposure. As a means of keeping the interest-rate risk low, virtually all investments held by the PG are short term in nature.

5. Investments (continued)

Primary Government Investments (continued)

Credit Risk – The authorizing legislation of the PG does not limit investments by credit rating categories. Authorizing legislation does limit the investment choices of the PG to direct obligations or obligations guaranteed by the United States, obligations of states, territories, possessions and commonwealths of the United States, obligations of international banking institutions, repurchase agreements, investment contracts, certificates of deposit, guaranteed investment contracts, shares in mutual funds, investment companies, corporate commercial paper, money market portfolio investments and investment pools.

At September 30, 2008, the PG's investments in money market funds were rated AAAm by Standard & Poor's, and Aaa by Moody's Investor Service; PG's investment in commercial paper were rated AAA and A-1 by Standard & Poor's, and P-1 by Moody's Investor Services; and the PG's investment in U.S. government agencies were rated AAA by Standard & Poor's and Aaa by Moody's Investor Services.

Concentration of Credit Risk – The PG places no limit on the amount that may be invested in one issuer. At September 30, 2008, more than 5% of the PG's investments were invested in: Banco Popular de Puerto Rico Certificates of Deposit (19.62%), First Bank Certificates of Deposit (15.79%), Morgan Stanley Dean Witter Commercial Paper (13.55%), Fidelity Treasury Money Market #696, Class 3 (14.73%), Goldman Financial Securities Money Market #474 (19.91%), and Goldman Financial Securities Money Market #465 (5.57%).

Custodial Credit Risk – The PG does not have a custodial risk policy. This is the risk that the PG will not be able to recover the value of its investments that are in the possession of an outside party. At September 30, 2008, $307.2 million of investments were held in the name of The Bank of New York Trust Company, N.A, as trustee for the Government.

5. Investments (continued)

Pension Trust Fund Investments

Following is a summary of pension trust fund investments as of September 30, 2008:

Pension Trust Fund Investments
(In thousands)

	Fair Value	Maturity (in years): Less Than 1 Year	1 to 5 Years	6 to 10 Years	More Than 10 Years
Investments with contractual maturities					
US government and agency obligations	$ 28,284	$ –	$ 1,874	$ 21,343	$ 5,067
US Treasury notes	13,142	–	5,990	7,152	–
US Treasury bonds	14,761	–	–	–	14,761
Municipals	2,068				2,068
Corporate obligations	102,984	22,230	38,181	18,403	24,170
Foreign bonds	15,239	1,937	1,010	12,292	–
Government obligations - foreign	31,529	–	14,394	8,710	8,425
Mortgage and asset backed securities	153,172		592	5,147	147,433
Investment loan	8,000	8,000	–	–	–
Total investments with contractual maturities	369,179	$ 32,167	$ 62,041	$ 73,047	$ 201,924
Investments without contractual maturities					
Equity Securities					
Common stocks - U.S.	467,489				
Common stocks - foreign	73,360				
Preferred stocks - foreign	972				
Real Estate Investments					
Real estate investment trusts	3,617				
Havensight Mall - US Virgin Islands	80,000				
GERS Complex - US Virgin Islands	20,865				
Limited partnership	42,836				
Foreign currency exchange contract	285				
Securities lending short-term collateral investment pool	197,593				
Mutual funds	31,526				
Total pension fund investments	$ 1,287,722				

5. Investments (continued)

Pension Trust Fund Investments (continued)

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. GERS does not have a specific policy to manage interest rate risk, but requires investment managers to diversify by issue, maturity, sector, coupon, and geography. Investment managers retained by GERS follow specific investment guidelines and are evaluated against specific market benchmarks that represent their investment style. Any exception from general guidelines requires approval from GERS' board of trustees.

Credit Risk – GERS investment policy is designed to minimize credit risk by restricting authorized investments to only those investments permitted by statute, subject to certain additional limitations. These additional limitations consist of prohibitions against investments in derivative securities, options, futures or short positions. GERS investment policy allows investments in mortgage pass-through securities. The credit ratings of GERS debt and equity securities include:

5. Investments (continued)

Pension Trust Fund Investments (continued)

Pension Trust Fund Investment Credit Ratings
(in thousands)

		Credit Ratings	
	Fair Value	**Standard & Poor**	**Moody's**
US government and agency obligations	$ 25,735	AAA	AAA
US government and agency obligations	2,291	AA	AA1
US government and agency obligations	258	BBB-	BA1
US Treasury notes and bonds	27,903	AAA	AAA
Corporate obligations	102,984	BBB- to AAA	CAA2 to AAA
Foreign bonds	14,140	AAA	AA1 to AAA
Foreign bonds	1,099	Not Rated	Not Rated
Government obligations - foreign	31,529	AAA	AAA
Municipals	983	BBB	BAA3
Municipals	1,085	A+	A1
Mortgage and asset backed securities	558	A+ to AA+	A3-AA2
Mortgage and asset backed securities	247	Not Rated	BA3
Mortgage and asset backed securities	138,233	AAA	AAA
Mortgage and asset backed securities	14,134	Not Rated	Not Rated
Common stocks- US	467,489	Not Rated	Not Rated
Common stocks - foreign	73,360	Not Rated	Not Rated
Preferred stocks - foreign	972	Not Rated	Not Rated
Real estate investment trust	2,894	Not Rated	Not Rated
Real estate investment trust	723	B-	Not Rated
Real estate holdings - US Virgin Islands	100,865	Not Rated	Not Rated
Investment loan	8,000	Not Rated	Not Rated
Limited partnership	42,836	Not Rated	Not Rated
Foreign currency exchange contract	285	Not Rated	Not Rated
Securities lending short-term collateral investment pool	197,593	Not Rated	Not Rated
Mutual funds	31,526	Not Rated	Not Rated
Total investments	$ 1,287,722		

5. Investments (continued)

Pension Trust Fund Investments (continued)

Concentration of Credit Risk **–** Concentration of credit risk is the risk of loss attributed to the magnitude of the GERS investment in a single issuer of securities. GERS investment policies place limitations on portfolio composition by investment type to limit its exposure to concentration of credit risk. The investment policy provides that a minimum of 60% of GERS investment portfolio be invested in equity stocks and a minimum of 40% be invested in fixed income investments. At September 30, 2008, there were no investments in any one issuer that represented 5% or more of total investments.

Custodial Credit Risk **–** The custodial credit risk for investments is the risk that, in the event of the failure of a counterparty to a transaction, GERS will not be able to recover the value of an investment or collateral securities that are in the possession of an outside party. With the exception of underlying securities on-loan secured by non-cash collateral, the entire investment portfolio of GERS was held with a single third-party custodian on behalf of GERS as of September 30, 2008.

The fair value of underlying securities on-loan secured by non-cash collateral amounted to $229 thousand at September 30, 2008.

Foreign Currency Risk **–** Foreign currency risk is the risk of holding investments in foreign currencies and the risk that those foreign currencies may devalue. GERS has no general investment policy with respect to foreign currency risk.

As of September 30, 2008, $121 million of GERS' portfolio was held in foreign currencies, with $42 million held in Euro, $21 million held in pound sterling, $14 million held in Australian dollars, $12 million held in Japanese yen, $8 million held in Swiss francs, $7 million held in Canadian dollars, $4 million held in Swedish krona, $4 million held in Singapore dollars, and $9 million in other currencies. GERS entered into various forward currency exchange contracts to manage exposure to changes in foreign currency exchange rates, and to facilitate the settlement of foreign security transactions. Risks associated with foreign exchange contracts include the movement in the value of foreign currency relative to the U.S. dollar and the ability of the counterparty to perform in accordance with the terms of the contract. Changes in the market value of open and closed forward contracts are reported with interest, dividends, and other income or losses reported at fair value. During the fiscal year ended September 30, 2008, GERS reported $21.0 million in forward currency purchases, $20.7 million in forward currency sales, and a foreign exchange gain of $511 thousand.

5. Investments (continued)

Pension Trust Fund Investments (continued)

Securities Lending Transactions **–**The Government's statutes permit GERS to participate in securities lending transactions, and GERS has, via a securities lending authorization agreement (the Agreement), authorized State Street Bank and Trust Company (the Custodian) to lend its securities to broker-dealers and banks pursuant to a form of loan agreement. Lent securities are collateralized with cash, securities issued or guaranteed by the U.S. government, or irrevocable bank letters of credit. GERS does not have the ability to pledge or sell collateral securities delivered absent a borrower default. No restrictions were imposed during 2008 as to the amount of loans the Custodian can make on behalf of GERS. Under the terms of the Agreement the Custodian must indemnify the Government for losses attributable to violations by the Custodian under the "standard of care" clause described in the Agreement. There were neither such violations during fiscal year 2008 nor losses resulting from the default of the borrowers or the Custodian.

Loans are generally terminable on demand. The collateral received shall, in the case of loaned securities denominated in U.S. dollars or whose primary trading market is located in the U.S. or sovereign debt issued by foreign governments, have a market value of 102% of the market value of the security for domestic borrowers and 105% for foreign borrowers at the inception of the securities lending transaction. Such collateral should be kept at a minimum of 100% of the market value of the security for all borrowers throughout the outstanding period of the transaction. At September 30, 2008, approximately $200.5 million of U.S. government and agency securities, fixed income, and equity corporate securities were on loan. The cash collateral received with a corresponding liability of an equal amount is recorded in the statement of fiduciary net assets. The cash collateral received on each loan was invested, together with the cash collateral of other lenders, in a collective investment pool. As of September 30, 2008, such investment pool had a weighted average maturity of 34 days and an average expected maturity of 405 days. Because the loans were terminable on demand, their duration did not generally match the duration of the investments made with cash collateral.

5. Investments (continued)

Component Unit Investments

Following is a summary of component unit investments and maturities as of September 30, 2008:

Component Unit Investments
(in thousands)

		Maturity (in years)			
	Fair Value	**Less Than 1 Year**	**1 to 5 Years**	**6 to 10 Years**	**Over 10 Years**
Investments with contractual maturities					
Certificates of deposit	$ 3,881	$ 3,881	$ –	$ –	$ –
Mortgage backed securites	3,812	–	–	–	3,812
Corporate bonds	5,295	19	26	70	5,180
U.S. Government agencies and notes	69,672	11,337	50,800	772	6,763
Total investments with contractual maturities	82,660	$ 15,237	$ 50,826	$ 842	$ 15,755
Investments without contractual maturities					
Common stock	9,129				
Mutual funds	22,125				
Other investments	1,746				
Total component unit investments	$ 115,660				

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The component units of the Government have not established formal policies which limit investment maturities as a means of managing such exposure and have some exposure to interest rate risk.

5. Investments (continued)

Component Unit Investments (continued)

Credit Risk – The authorizing legislation of the component units does not limit investments by credit rating categories. Authorizing legislation limits the investment choices of the component units, as described in Note 1. The University of the Virgin Islands investments include corporate bonds amounting to $5.2 million with a rating of A-AAA by Standard & Poor's.

Concentration of Credit Risk – The component units have no limits on the amount that may be invested in one issuer of securities. As of the fiscal year-end, the component units reported $69.7 million in U.S. Government and agency securities issued or explicitly guaranteed by the U.S. government, and $22.1 million in mutual funds which are excluded from concentration of credit risk.

Custodial Credit Risk – The component units of the Government do not have custodial credit risk policies. This is the risk that the component unit will not be able to recover the value of its investments that are held in the possession of an outside party. At September 30, 2008, $4 million of investments held by VIPA were held in the name of HSBC Bank USA as a trustee on behalf of VIPA.

6. Receivables

Primary Government Receivables

Receivables for governmental funds at September 30, 2008 consist of the following (expressed in thousands):

	General	PFA Debt Service	Total
Income taxes	$ 161,224	$ –	$ 161,224
Real property taxes	142,290	–	142,290
Gross receipts taxes	–	90,258	90,258
Tax receivables	303,514	90,258	393,772
Less allowance for doubtful accounts	(104,454)	(46,646)	(151,100)
Net tax receivables	$ 199,060	$ 43,612	242,672
Other long-term receivables – tobacco settlement rights			1,917
Total receivables reported in the statement of net assets (deficit)			$ 244,589

The Naval Appropriations Act created a separate tax structure for the U.S. Virgin Islands that mirrors the Internal Revenue Code of 1986, as amended. Income taxes are due from every corporation, partnership, individual, association, estate, or trust that meets the filing requirements of the U.S. Internal Revenue Code. A U.S. taxpayer who is a permanent resident of the U.S. Virgin Islands satisfies his Virgin Islands income tax obligations by filing his return with and paying income taxes to the Government. Virgin Islands residents are taxed by the Virgin Islands on their world-wide income. A nonresident of the U.S. Virgin Islands pays income taxes on his U.S. Virgin Islands source income to the Government. The revenue is recognized in the general fund in the fiscal period for which the income tax return was filed. The revenue from income tax withholding and estimated payments are recognized in the general fund as collected, net of estimated tax refunds.

Corporate income taxes are due by the 15th day of the third month following the close of the fiscal year and become delinquent if not paid on or before the due date.

6. Receivables (continued)

Primary Government Receivables (continued)

Partnership and trust income taxes are due by April 15 of the following year for which the income tax was levied. Trust income taxes must be paid by the tax filing date.

Property taxes are assessed each calendar year on all taxable real property located in the U.S. Virgin Islands. The receivable is recognized, net of estimated uncollectable amounts, in the general fund in the fiscal period for which the tax was assessed. The revenue is recognized in the general fund in the fiscal period for which the property tax is levied, provided the tax is collected within 60 days subsequent to fiscal year-end, unless the facts justify a period greater than 60 days. Receivables recognized before that period are recorded as deferred revenues.

The Office of the Tax Assessor is responsible for the assessment of all taxable real property. Noncommercial real property subject to taxation is reassessed once every five years and commercial real property subject to taxation is reassessed biannually. The Tax Assessor prepares an annual assessment roll and schedule of collections for each parcel of real property that is used by The Office of the Tax Collector, as the basis for issuing tax bills to all taxpayers in the U.S. Virgin Islands.

Property taxes are to be levied by May 15 of each year in the name of the record owner on January 15 of the same year. The taxes are due on June 30 and become delinquent if not paid by August 31.

For businesses with gross receipts of $120,000 per annum or less, gross receipts taxes are levied on an annual basis, based on 4% of monthly gross receipts in excess of $5,000. Businesses with annual gross receipts greater than $120,000 and up to $150,000, pay gross receipts tax based on 4% of gross receipts in excess of $5,000 per month. Businesses with annual gross receipts of more than $150,000, lose the monthly exemption and are levied on a monthly basis of 4% of gross receipts. The gross receipts tax is due within 30 calendar days following the last day of the calendar month collected.

6. Receivables (continued)

Component Unit and Pension Trust Fund Receivables

Component unit receivables at September 30, 2008, consist of the following (expressed in thousands):

Utility service charges	$	21,875
Port fees		5,254
Students		1,105
Patients		24,221
Other		6,205
Total	$	58,660

Loans and advances receivable, net at September 30, 2008, consist of the following (expressed in thousands):

	Fiduciary Funds Pension Trust		Component Units	
Mortgage loans	$	12,396	$	–
Personal loans		113,566		–
Other loans and advances		215		50
Subtotal		126,177		50
Less allowance for uncollectible accounts		(300)		(50)
Loans and advances receivable, net	$	125,877	$	–

7. Interfund Transactions

Interfund Transfers

Interfund transfers constitute the transfer of resources from the fund that receives the resources to the fund that utilizes them. The most significant transfers to the general fund from other governmental funds include a $101 million transfer from the PFA debt service fund representing gross receipt tax revenue in excess of bond service requirements, and a $14 million transfer from a non-major debt service fund representing property tax revenue no longer reserved for debt service requirements.

7. Interfund Transactions (continued)

Interfund Transfers (continued)

Significant transfers made from the general fund include a transfer of $7.3 million to the emergency molasses fund (a non-major governmental fund) and a transfer of $2.0 million to the St. Croix capital improvement fund (a non-major governmental fund). Significant transfers, not previously mentioned, from the PFA debt service fund (a major fund) include transfers of $6.0 million to the PFA special revenue fund (a non-major governmental fund), representing interest earned from unexpended bond proceeds.

Interfund transfers for the year ended September 30, 2008 consisted of the following (expressed in thousands):

Transfer to	General	PFA Debt Service	PFA Capital Projects	Other Governmental	West Indian Company	Other Enterprise	Total
General	$ –	$ 100,911	$ –	$ 14,000	$ 100	$ –	$ 115,011
PFA capital projects	–	3,068	–	11,790	–	–	14,858
Other governmental	9,974	6,046	–	–	–	–	16,020
Other enterprise	–	–	1	200	–	–	201
Total	$ 9,974	$ 110,025	$ 1	$ 25,990	$ 100	$ –	$ 146,090
Transfer from							
General	$ –	$ –	$ –	$ 9,974	$ –	$ –	$ 9,974
PFA debt service	100,911	–	3,068	6,046	–	–	110,025
PFA capital projects	–	–	–	–	–	1	1
Nonmajor governmental	14,000	–	11,790	–	–	200	25,990
West Indian Company	100	–	–	–	–	–	100
Total	$ 115,011	$ –	$ 14,858	$ 16,020	$ –	$ 201	$ 146,090

7. Interfund Transactions (continued)

Due From/To Other Funds

The following table summarizes interfund receivables and payables at September 30, 2008 (expressed in thousands):

Due from other funds	General	PFA Capital Projects	Other Governmental	West Indian Company	Other Enterprise	Total
General	$ –	$ –	$ 3,178	$ 1,400	$ 4,229	$ 8,807
PFA capital projects	–	–	–	–	324	324
Other governmental	10,747	–	–	–	2,653	13,400
Total Governmental Funds	10,747	–	3,178	1,400	7,206	22,531
Other enterprise	300	–	–	–	–	300
Total Enterprise Funds	300	–	–	–	–	300
Total	$ 11,047	$ –	$ 3,178	$ 1,400	$ 7,206	$ 22,831
Due to other funds						
General	$ –	$ –	$ 10,747	$ –	$ 300	$ 11,047
Other governmental	3,178	–	–	–	–	3,178
Total Governmental Funds	3,178	–	10,747	–	300	14,225
West Indian Company	1,400	–	–	–	–	1,400
Other enterprise	4,229	324	2,653	–	–	7,206
Total Enterprise Funds	5,629	324	2,653	–	–	8,606
Total	$ 8,807	$ 324	$ 13,400	$ –	$ 300	$ 22,831

The due from/to other funds includes the following amounts due from the general fund: $4.9 million due to the emergency molasses fund (a non-major governmental fund) for unpaid appropriations, $1.5 million due to the elected governor retirement fund, and $3.5 million due to the PFA special revenue fund for unpaid matching funds.

Other balances composing the due from/to other funds include $2.7 million owed from the bond proceeds fund (a non-major governmental fund) to the general fund.

7. Interfund Transactions (continued)

Due From/To Other Funds (continued)

The due to the general fund is mainly composed of $4.0 million due from the Virgin Islands Lottery, consisting primarily of 8% of the total lottery revenue that is required to be transferred to the general fund.

The due to other governmental funds includes $875 thousand due from the Virgin Islands Lottery to the pharmaceutical assistance to the aged fund, and $1.5 million due from the Virgin Islands Lottery to the VI educational initiative fund, consisting primarily of 15% and 25%, respectively, of total lottery revenue that is required to be transferred to these funds.

Contributions from the Virgin Islands Lottery (a non-major business-type fund) amounted to $4.7 million, with contributions to the Educational Initiative Fund (a non-major governmental fund) of $2.8 million, a contribution to the pharmaceutical program fund (a non-major governmental fund) of $1.7 million, and a contribution to the general fund of $266 thousand.

8. Restricted Assets

Primary Government

Restricted assets of proprietary funds and business-type activities as of September 30, 2008 include cash and cash equivalents as follows (expressed in thousands):

Restricted Assets – Proprietary Funds and Business-type Activities

Unemployment insurance funds	$ 15,185
WICO debt service funds	1,875
Total restricted assets of proprietary funds and business-type activities	$ 17,060

8. Restricted Assets (continued)

Component Units

Restricted assets of component units include cash and cash equivalents, investments, and receivables as follows (expressed in thousands):

Restricted Assets – Component Units

Cash and cash equivalents:	
Debt service and sinking fund requirements	$ 17,655
Endowment funds	15,443
HUD project funds	13,012
Revolving loan funds	11,719
Other	1,155
Total cash and cash equivalents	58,984
Investments:	
Debt service and sinking fund requirements	27,960
Construction funds	31,061
Endowment funds	4,865
Renewal and replacement funds	9,321
Revolving loan funds	5,189
Total investments	78,396
Other:	
Construction funds	392
Total restricted assets of component units	$ 137,772

9. Capital Assets

Primary Government

The capital assets activity for the governmental activities for the year ended September 30, 2008, is summarized as follows (expressed in thousands):

	Beginning Balance *As Restated*	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	$ 181,892	$ 4,888	$ –	$ 186,780
Construction in progress	88,491	61,779	98,771	51,499
Total capital assets not being depreciated	270,383	66,667	98,771	238,279
Capital assets being depreciated:				
Land improvements	4,228	689	–	4,917
Infrastructure	161,146	33,925	–	195,071
Buildings and improvements	353,703	24,272	–	377,975
Machinery and equipment	88,618	16,415	–	105,033
Total capital assets being depreciated	607,695	75,301	–	682,996
Less accumulated depreciation for:				
Land improvements	2,581	207	–	2,788
Infrastructure	34,195	6,490	–	40,685
Buildings and improvements	129,056	10,126	–	139,182
Machinery and equipment	42,425	17,423	–	59,848
Total accumulated depreciation	208,257	34,246	–	242,503
Total capital assets being depreciated, net	399,438	41,055	–	440,493
Governmental activities capital assets, net	$ 669,821	$ 107,722	$ 98,771	$ 678,772

9. Capital Assets (continued)

Primary Government (continued)

Capital assets activity for the business-type activities for the year ended September 30, 2008, is summarized as follows (expressed in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	$ 4,980	$ –	$ –	$ 4,980
Construction in progress	7,050	3,652	7,388	3,314
Total capital assets not being depreciated	12,030	3,652	7,388	8,294
Capital assets being depreciated:				
Land improvements	348	–	–	348
Buildings and improvements	52,868	7,546	–	60,414
Machinery and equipment	5,810	1,135	20	6,925
Total capital assets being depreciated	59,026	8,681	20	67,687
Less accumulated depreciation for:				
Land improvements	338	1	–	339
Buildings and improvements	17,420	414	–	17,834
Machinery and equipment	3,185	2,064	20	5,229
Total accumulated depreciation	20,943	2,479	20	23,402
Total capital assets being depreciated, net	38,083	6,202	–	44,285
Business-type activities capital assets, net	$ 50,113	$ 9,854	$ 7,388	$ 52,579

9. Capital Assets (continued)

Primary Government (continued)

Depreciation expense was charged to functions/programs of the PG for the year ended September 30, 2008 as follows (expressed in thousands):

Governmental activities:		
General government	$	10,844
Public safety		3,504
Health		1,345
Education		8,801
Public Housing and Welfare		911
Culture and recreation		341
Transportation and communication		8,500
Total depreciation expense – governmental activities	$	34,246
Business-type activities:		
WICO – depreciation	$	1,660
Other enterprise funds – depreciation		819
Total depreciation – business-type activities	$	2,479

9. Capital Assets (continued)

Component Units

The capital assets activity for the discretely presented component units for the year ended September 30, 2008 is summarized as follows (expressed in thousands):

	Beginning Balance *(As restated)*	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	$ 121,164	$ 14,560	$ –	$ 135,724
Construction in progress	85,246	81,504	52,264	114,486
Total capital assets not being depreciated	206,410	96,064	52,264	250,210
Capital assets being depreciated:				
Buildings and improvements	1,249,858	54,021	1,012	1,302,867
Airport and marine terminal facilities	116,454	5,977	–	122,431
Personal property and equipment	102,566	5,987	431	108,122
Intangible assets	2,604	–	–	2,604
Total capital assets being depreciated	1,471,482	65,985	1,443	1,536,024
Less accumulated depreciation:				
Buildings and improvements	717,483	47,285	2,643	762,125
Airport and marine terminal facilities	78,614	5,126	–	83,740
Personal property and equipment	64,429	7,326	147	71,608
Intagible assets	101	174	–	275
Total accumulated depreciation	860,627	59,911	2,790	917,748
Total capital assets being depreciated, net	610,855	6,074	(1,347)	618,276
Component unit capital assets, net	$ 817,265	$ 102,138	$ 50,917	$ 868,486

9. Capital Assets (continued)

Component Units (continued)

Depreciation expense charged to each component unit for the year ended September 30, 2008 was as follows (expressed in thousands):

Virgin Islands Housing Authority	$	6,890
Virgin Islands Port Authority		18,806
Virgin Islands Water and Power Authority:		
Electric System		17,718
Water System		3,487
Virgin Islands Government Hospital and Health Facilities Corporation:		
Roy L. Schneider Hospital		5,432
Juan F. Luis Hospital		2,698
University of the Virgin Islands		2,140
Other component units		2,740
Total depreciation – component units	$	59,911

10. Long-Term Liabilities

Long-term liabilities activities for the year ended September 30, 2008 were as follows (expressed in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due Thereafter
Governmental activities:						
Bonds payable:						
1998 Series Revenue and Refunding Bonds	$ 429,405	$ –	$ (16,530)	$ 412,875	$ 17,370	$ 395,505
1999 General Obligation Bonds, Series A	2,815	–	(1,075)	1,740	1,140	600
1999 Series A Revenue Bonds	105,410	–	(5,585)	99,825	5,900	93,925
2001 Series A Tobacco Bonds	21,365	–	(1,425)	19,940	1,030	18,910
2002 Series Garvee Bonds	6,785	–	(3,310)	3,475	3,475	–
2003 Series A Revenue Bonds	262,155	–	(3,110)	259,045	3,230	255,815
2004 Series A Revenue Bonds	88,725	–	(3,130)	85,595	3,285	82,310
2006 Series A Tobacco Bonds	7,290	–	–	7,290	–	7,290
2006 Series A Revenue Bonds	219,490	–	(505)	218,985	1,490	217,495
Total bonds payable	1,143,440	–	(34,670)	1,108,770	36,920	1,071,850
Plus (less):						
Deferred costs on refundings	(17,234)	–	1,372	(15,862)	(755)	(15,107)
Bonds premium	18,007	–	(1,052)	16,955	1,052	15,903
Bonds discount	(6,548)	–	959	(5,589)	(960)	(4,629)
Bonds accretion	678	581	–	1,259	1,259	–
Total bonds payable, net	1,138,343	581	(33,391)	1,105,533	37,516	1,068,017
Loans payable:						
Series 2008 Note	–	7,650	(208)	7,442	2,436	5,006
Series 2006 Note	2,734	–	(1,331)	1,403	1,403	–
Series 2005 Note	1,441	–	(1,441)	–	–	–
Total loans payable	4,175	7,650	(2,980)	8,845	3,839	5,006
Other liabilities:						
Accrued compensated absences	46,742	14,112	–	60,854	36,512	24,342
Retroactive union arbitration	272,173	5,132	–	277,305	–	277,305
Litigation	8,098	6,528	(494)	14,132	4,355	9,777
Landfill closure and postclosure costs	36,733	2,898	–	39,631	–	39,631
Post employment benefit	–	61,985	–	61,985	–	61,985
Arbitrage	–	1,728	–	1,728	1,728	–
Total other liabilities	363,746	92,383	(494)	455,635	42,595	413,040
Total governmental activities	$ 1,506,264	$ 100,614	$ (36,865)	$ 1,570,013	$ 83,950	$ 1,486,063
Business-type activities:						
Workers compensation claims	$ –	$ 16,150	$ –	$ 16,150	$ 6,002	$ 10,148
Loan payable - WICO	22,015	1,542	–	23,557	416	23,141
Total business-type activities	$ 22,015	$ 17,692	$ –	$ 39,707	$ 6,418	$ 33,289
Fiduciary activities:						
Note payable:						
Pension trust fund	$ 9,313	$ –	$ (2,000)	$ 7,313	$ 7,313	$ –

10. Long-Term Liabilities (continued)

Accrued litigation, retroactive union arbitration liabilities, compensated absences, landfill closure and post-closure costs, and arbitrage payments are generally expected to be liquidated with resources derived from the general fund.

Debt Margin

Pursuant to 48 U.S.C. Section 1574(b)(i) of the Revised Organic Act, the Government may issue revenue bonds for public improvements or undertakings authorized by an act of the Legislature, without limitation as to principal amount. Such revenue bonds are payable solely from the revenue directly derived from and attributable to such public improvements or undertakings. Pursuant to 48 U.S.C. Section 1574(b)(ii), the Government is authorized to issue general obligation bonds for any public purpose provided that no such indebtedness is in excess of 10% of the aggregate assessed valuation of the taxable real property in the U.S. Virgin Islands. In addition, pursuant to 48 U.S.C. Section 1574(a) (Public Law 94-932), the U.S. Virgin Islands is authorized to cause to be issued bonds or other obligations in anticipation of the matching funds to be received from the federal government pursuant to 26 U.S.C. Section 7652(b)(3). There is no legal limit on the value of bonds that the Government may issue pursuant to 48 U.S.C. Section 1574(a). The Legislature of the U.S. Virgin Islands must authorize all bond issuances. PFA is authorized to issue bonds for the purpose of financing any project or for the purpose authorized by the Legislature. Given that PFA's powers to issue bonds are derived from 48 U.S.C. Section 1574(b), the bonds issued by PFA are subject to the limitations of said 48 U.S.C. Section 1574(b). On August 23, 1999, the Legislature amended the V.I. Code to add a Mandatory Balanced Budget Provision. Such provisions, specifically Title 2 of the V.I. Code Section 256, provide that the amount of debt of the Government existing on October 1, 2000 shall be the debt limit of the Government, exclusive of bond principal and interest that may become due. The debt limit specified under Title 2 of the V.I. Code Section 256 does not include bonds authorized by law for which a specific source of revenue is identified and committed to retiring those bonds. As used in Title 2 of the V.I. Code Section 256, the term "debt" means the total accumulated unpaid obligations that are due and payable, including unpaid income tax refunds, amounts owed to vendors, and current year unpaid debt service obligations, if any. As used in the statute, the term "debt" does not include that portion of principal or interest on bonds that is not yet due and payable.

10. Long-Term Liabilities (continued)

Bonds Payable

Bonds payable outstanding at September 30, 2008 are comprised of the following (expressed in thousands):

Bonds Payable	Maturity	Rates (%)	Balance
1998 Series A, C, D, and E Revenue and Refunding Bonds	2025	5.50 - 7.11	$ 412,875
1999 Series A General Obligation Bonds	2010	6.50	1,740
1999 Series A Revenue Bonds	2020	4.20 - 6.50	99,825
2001 Series A Tobacco Bonds	2031	5.00	19,940
2002 Series Garvee Bonds	2009	2.50 - 5.00	3,475
2003 Series A Revenue Bonds	2033	4.00 - 5.25	259,045
2004 Series A Revenue Bonds	2025	4.00 - 5.25	85,595
2006 Series A, B, C & D Tobacco Turbo and Capital Appreciation Bonds	2035	6.25 - 7.625	7,290
2006 Series A Revenue Bonds	2029	3.50 - 5.00	218,985
Subtotal			1,108,770
Plus (less):			
Deferred costs on refundings			(15,862)
Bonds premium			16,955
Bonds discount			(5,589)
Bonds accretion			1,259
Total			$ 1,105,533

On May 1, 1998, PFA issued the revenue and refunding bonds series 1998 A, B, C, D, and E amounting to $541.8 million, secured by general obligation notes issued by the Government. These bonds were issued for the purpose of, among other things, advance refunding of previously issued bonds in order to obtain lower interest rates.

10. Long-Term Liabilities (continued)

Bonds Payable (continued)

The proceeds of the 1998 Series A and B Bonds were placed in an irrevocable trust account to provide for all future debt service payments on the Highway Revenue Bonds Series 1989, Series 1991, Series 1992, Series 1993, and Series 1994 Bonds. At September 30, 2008, $150.5 million of the above-mentioned defeased bonds were outstanding.

The proceeds of the Series 1992 Revenue Bonds were placed in an irrevocable trust to provide for all future debt service payments on the Series 1989 Revenue Bonds. At September 30, 2008, $138.9 million of defeased bonds were outstanding. Assets held by irrevocable trusts for refunding of prior outstanding debt and the corresponding liabilities are not included in the Government's basic financial statements.

The 1998 Series C Bonds and the 1998 Series D Bonds were issued to pay, on behalf of the Government, the full principal balance and interest due and payable on the Revenue Anticipation Note, issued in February 1998. The remaining balance of the 1998 Series D Bonds amounting to approximately $11.6 million was primarily provided to the Government for additional working capital. The net proceeds of the 1998 Series E Bonds amounting to $104 million were primarily designated to fund the construction of certain capital projects amounting to $94 million. The remaining $10 million was deposited in a debt service reserve account.

The U.S. Department of the Treasury makes certain transfers to the Government of substantially all excise taxes imposed and collected under the Internal Revenue laws of the United States in any fiscal year on certain products produced in the U.S. Virgin Islands (primarily rum) and exported to the United States from the Virgin Islands. The amount required to be remitted to the Government by the U.S. Department of the Treasury is an amount no greater than the total amount of local revenue (primarily taxes) collected by the Government in each fiscal year. As a result, the term "matching fund revenue" is used to denote these payments. The Government has pledged the matching fund revenue, as described above, to the timely payment of principal and interest on the 1998 Series A, B, C, D, and E Bonds and the 2004 Series A Bonds. Thus, amounts to be received by the Government from federal excise taxes, mostly in rum, are deposited directly into trust accounts until the 1998 and 2004 Bonds are paid in accordance with the Indenture of Trust.

10. Long-Term Liabilities (continued)

Bonds Payable (continued)

Estimated prepayments of matching fund revenue are made to the Government prior to the beginning of each fiscal year, subject to adjustment for the amount of local revenue actually collected by the U.S. Department of the Treasury during such year. Prepayments of matching fund revenue are recorded as deferred revenue in the accompanying statement of net assets and the balance sheet of the governmental funds and recognized in the following year when earned. The adjustments for actual collections made to the estimated prepayments are recorded in the year determined.

In November 1999, the U.S. Congress approved an increase in the rate of federal excise taxes on rum transferred to the Government from $10.50 to $13.25 per proof gallon. The increase was retroactive to July 1999. The increase in rate has subsequently been extended five times and in December 2009, Congress again extended the $13.25 per proof gallon rate to December 31, 2010.

Interest on the Revenue and Refunding Bonds Series 1998 A, C, D, and E and 1999 Bonds is payable semiannually on April 1 and October 1, and principal is payable annually on October 1. The Government is responsible for all principal and interest payments on the 1998 Series bonds. The principal due on October 1 and interest payments due on October 1 and April 1, are funded by the matching fund revenue and deposited into the debt service reserve accounts.

On April 13, 1999, a loan agreement was made between and among the Government, the PFA, International Business Machine Corporation (IBM), Banco Popular de Puerto Rico, and U.S. Trust Company of New York (Y2K Loan). The purpose of the loan was to finance certain costs of compliance by the Government with Year 2000 computer system issues. The Y2K Loan was evidenced by the Government's issuance of General Obligation Bonds Series 1999 A amounting to $18 million. Principal and interest are payable semiannually on January 1 and July 1. On July 9, 2001, the Government paid the outstanding IBM portion of the bonds amounting to $7.4 million.

The General Obligation Bonds Series 1999A are secured by the full faith and credit and taxing power of the Government, including a pledge on annual real property tax revenue from its taxation of the Hovensa Oil Refinery (the Refinery), which revenue is deposited in the Hovensa Property Tax Fund, and a contingent pledge of all franchise taxes on foreign sales corporations collected by the Government (Franchise Tax Revenue).

10. Long-Term Liabilities (continued)

Bonds Payable (continued)

Pursuant to the Hovensa Oil Contract, the Refinery agreed to pay $14 million annually of real property taxes on the Refinery properties. Foreign sales corporations qualified to do business in the Virgin Islands must pay a franchise tax of $1.50 for each thousand dollars of capital stock issued (Franchise Tax).

The Government did not comply with the requirement of the General Obligation Bonds 1999 Series to issue its audited financial statements within 180 days after year-end. The Government has not classified these bonds as current since the bonds were not called or paid within one year after September 30, 2008.

On November 16, 1999, PFA issued the 1999 Series A Revenue Bonds amounting to $299.9 million. These bonds were issued to (i) pay certain working capital obligations of the Government, (ii) repay the Government outstanding tax and revenue anticipation notes, (iii) fund the Series debt service accounts, and (iv) pay certain costs of issuing the bonds.

On September 28, 2006, PFA advance refunded a portion of the 1999 Bonds with maturity dates of October 1, 2020 to October 1, 2029 totaling $162.9 million. The proceeds of the refunding were placed in a trust account to provide for all future debt service payments on the 2020 through 2029 maturities of the bonds. Approximately $180 million was deposited with the refunding bond escrow agent to fund the Escrow Fund accounts. At September 30, 2008, $162.9 million of the defeased 1999 Series A Revenue Bonds remain outstanding.

The Government has pledged gross receipts taxes for the timely payment of the principal and interest on the 1999 Series A Bonds. Interest is payable semiannually on April 1 and October 1, and principal is payable annually on October 1. Gross receipts revenue amounted to $143.2 million for the year ended September 30, 2008.

On November 20, 2001, TSFC issued the 2001 Tobacco Settlement Asset-Backed Series A Bonds amounting to $23.7 million of the aggregate principal. The proceeds were used for the purpose of (i) purchasing all rights, title, and interest in certain litigation awards under the master settlement agreement (MSA) entered into by participating cigarette manufacturers, (ii) issuance of Tobacco Settlement Asset-Backed Bonds to pay the purchase price for the rights, and (iii) to provide funds for hospital and healthcare projects in the U.S. Virgin Islands.

10. Long-Term Liabilities (continued)

Bonds Payable (continued)

Interest on the 2001 bonds is payable semiannually each May and November 15 for the term bonds amounting to $15.5 million and convertible capital appreciation bonds amounting to $8.2 million, with a nominal value of $6.2 million.

The convertible capital appreciation bonds accrete interest prior to November 15, 2007 and accrue interest subsequent to that date. Interest on the capital appreciation bonds will compound on May 15th and November 15th.

2001 Series A Tobacco Bonds payable at September 30, 2008 amounted to $19.9 million. Under early redemption provisions, any MSA payments exceeding annual debt service requirements of the 2001 Series A Tobacco Bonds must be applied to early redemption of principal. MSA payments and interest earnings on the trust funds during the year ended September 30, 2008, resulted in early redemption of $515 thousand during fiscal year 2008.

On October 1, 2002, PFA issued the Series 2002 Revenue Bonds (Garvee Bonds), the proceeds of which amounted to $20.8 million. The Garvee Bonds are special, limited obligations, secured solely by the pledge and assignment of the Government's security interest in Federal Highway Reimbursement Revenues. The bonds were issued to (i) fund construction costs related to renovation and construction of two sea docks, (ii) fund the Debt Service Reserve Accounts, and (iii) pay certain costs of issuing the bonds. The Series 2002 Bonds are not subject to redemption prior to maturity.

Interest and principal on the Series 2002 Revenue Bonds are payable semiannually on March 1 and September 1. As of September 30, 2008, the outstanding 2002 Revenue Bonds amounted to $3.5 million.

On December 17, 2003, PFA issued the Series 2003A Revenue Bonds, the proceeds of which amounted to approximately $268 million. The bonds were issued to: (i) repay the Government outstanding Revenue Bond Anticipation Notes, Series 2003, (ii) fund certain necessary public safety and other public sector capital development projects, (iii) fund debt service accounts for the bond issuance, and (iv) to pay certain costs of issuing the bonds.

10. Long-Term Liabilities (continued)

Bonds Payable (continued)

The Government has pledged gross receipts taxes for the timely payment of the principal and interest on the Series 2003A Revenue Bonds. Interest is payable semiannually on April 1 and October 1, and principal is payable annually on October 1, beginning October 1, 2005. The Series 2003A Revenue Bonds are not subject to optional redemption prior to October 1, 2014.

On December 1, 2004, PFA issued the 2004 Series A Bonds, the proceeds of which amounted to $94 million. The Government has pledged the Matching Fund Revenues to the timely payment of principal and interest on the 2004 Series A Bonds. The bonds bear interest at 4.00% to 5.25% and mature from 2005 to 2025. The proceeds of the bonds were issued to: (i) finance the planning, development, constructing, renovating and equipping of wastewater treatment facilities and collection systems on St. Thomas and St. Croix, (ii) finance the repairs, renovations and construction of solid waste facilities in the Territory, (iii) finance the repair and construction of public roads in the Territory, (iv) provide start-up capital for the Virgin Islands Waste Management Authority, (v) fund the Series 2004A Senior Lien Debt Service Reserve Subaccount, and (vi) pay certain costs of issuing the Series 2004A Bonds. The Series 2004A Bonds are not subject to optional redemption prior to October 1, 2014.

On March 15, 2006, TSFC issued the 2006 Tobacco Settlement Asset-Backed Bonds, Subordinated Series 2006 A, B, C & D Turbo and Capital Appreciation Bonds amounting to $48.1 million, with an issue value of $7.3 million (net of accretion of $40.8 million). The bonds are secured and payable from collections including all Tobacco Settlement Revenues to be received by TSFC, reserves, amounts held in other accounts established by the indenture and TSFC's rights under the purchase agreement. The proceeds have been used for the purpose of (i) financing several capital, hospital and health development projects for the benefit of the Virgin Islands and its residents, (ii) pay certain costs of issuance relating to the Series 2006 Bonds, and (iii) fund operating costs.

Interest on the Series 2006 Tobacco Settlement Asset-Backed Bonds is not paid currently, but accretes from the date of delivery, compounded every May 15 and November 15, commencing May 15, 2006 through the final maturity date of May 15, 2035. Interest yields on the Bonds range from 6.25% to 7.63%. The series are subject to early redemption at accreted value beginning May 15, 2023, provided that the 2001 Tobacco Settlement Asset-Backed Series A Bonds have been paid in full.

10. Long-Term Liabilities (continued)

Bonds Payable (continued)

On September 28, 2006, PFA issued the 2006 Series Gross Receipts Revenue Bonds ("2006 Series Bonds"), the proceeds of which amounted to $219.5 million. The Government has pledged gross receipts tax revenues for the timely payment of the principal and interest on the 2006 Series Bonds. Interest is payable semiannually on April 1 and October 1, and principal is payable annually on October 1, beginning October 1, 2007.

The 2006 Series Bonds bear interest at 3.50% to 5.00% and mature from 2007 to 2029. The proceeds of the bonds were issued to: (i) advance refund a portion of the Series 1999A Revenue Bonds, (ii) pay the cost of a termination fee in connection with an outstanding swap option agreement, (iii) fund certain capital projects, (iv) fund debt service reserve accounts, (v) pay certain costs of issuing the Series 2006 Bonds and (vi) fund a net payment reserve account for a new swap agreement in connection with the refunding. The 2006 Series Bonds maturing on or before October 1, 2016 are not subject to optional redemption.

The advance refunding of the 2020 through 2029 maturities of the 1999 Series A Bonds was made in order to obtain lower interest rates. The economic gain obtained by this advance refunding is the difference between the present value of old debt service requirements and the new debt service. This refunding resulted in a debt service saving of approximately $40.8 million and an economic gain of approximately $25.6 million.

The proceeds of the 2006 Series Bonds related to the refunding were placed in a trust account to provide for all future debt service payments on the 2020 through 2029 maturities of the 1999 Series A Bonds. Approximately $180 million in funds were deposited into the Escrow Fund accounts. At September 30, 2008, $162.9 million of defeased 1999 Bonds remained outstanding.

On September 28, 2006, in connection with the 2006 Series Bonds, the PFA entered into a basis swap agreement in order to offset interest expense in connection with the 2006 Series Bonds. Under the terms of the agreement, the bonds and the related basis swap mature on October 1, 2029, and the swap's notional amount of $219.5 million match the 2006 Series Bonds. Beginning in fiscal year 2007, the notional value of the basis swap and the principal amount of the associated debt began to decline. Under the basis swap agreement, the PFA pays the counterparty a variable payment based on the Bond Market Association Municipal Swap Index (BMA) and receives a variable payment computed as 67.03% of the 10-year London Interbank Offered Rate (LIBOR). In February 2008, PFA terminated the basis swap agreement and received a termination payment of $4.91 million from the counterparty.

10. Long-Term Liabilities (continued)

Debt service requirements at September 30, 2008 were as follows (expressed in thousands):

Governmental Activities – Bonds

	Revenue Bonds Series 1998 A		Revenue Bonds Series 1998 C		Revenue Bonds Series 1998 D		Revenue Bonds Series 1998 E		Revenue Bonds Series 1998 Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Maturity Year:										
2009	$ –	$ 15,821	$ 12,455	$ 343	$ 4,915	$ 147	$ –	$ 6,261	$ 17,370	$ 22,572
2010	13,135	15,480	–	–	–	–	–	6,107	13,135	21,587
2011	13,835	14,779	–	–	–	–	–	5,791	13,835	20,570
2012	14,580	14,032	–	–	–	–	–	5,455	14,580	19,487
2013	15,380	13,231	–	–	–	–	–	5,100	15,380	18,331
2014 – 2018	51,545	54,260	–	–	–	–	30,095	19,362	81,640	73,622
2019 – 2023	142,495	32,610	–	–	–	–	76,335	6,827	218,830	39,437
2024 – 2028	38,105	5,359	–	–	–	–	–	–	38,105	5,359
Total	$ 289,075	$165,572	$ 12,455	$ 343	$ 4,915	$ 147	$ 106,430	$ 54,903	$ 412,875	$ 220,965

	General Obligation Bonds Series 1999 A		Revenue Bonds Series 1999 A		Tobacco Bonds Series 2001 A		Garvee Bonds Series 2002		Revenue Bonds Series 2003 A	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Maturity Year:										
2009	$ 1,140	$ 95	$ 5,900	$ 6,058	$ 1,030	$ 816	$ 3,475	$ 174	$ 3,230	$ 12,877
2010	600	20	6,230	5,716	1,100	929	–	–	3,360	12,746
2011	–	–	6,580	5,356	1,165	880	–	–	3,495	12,609
2012	–	–	6,950	4,948	1,265	826	–	–	3,635	12,448
2013	–	–	7,395	4,485	1,335	766	–	–	3,815	12,262
2014 – 2018	–	–	44,665	14,310	1,405	3,228	–	–	22,190	58,117
2019 – 2023	–	–	22,105	1,638	4,595	2,470	–	–	28,625	51,513
2024 – 2028	–	–	–	–	–	2,414	–	–	36,690	43,266
2029 – 2033	–	–	–	–	8,045	805	–	–	117,310	27,704
2034 – 2038	–	–	–	–	–	–	–	–	36,695	917
Total	$ 1,740	$ 115	$ 99,825	$ 42,511	$ 19,940	$ 13,134	$ 3,475	$ 174	$ 259,045	$ 244,459

	Revenue Bonds Series 2004 A		Revenue Bonds Series 2006		Tobacco Bonds Series 2006 A, B, C & D		Total governmental activities	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Maturity Year:								
2009	$ 3,285	$ 4,345	$ 1,490	$ 10,548	$ –	$ –	$ 36,920	$ 57,485
2010	3,450	4,176	1,530	10,491	–	–	29,405	55,665
2011	3,625	3,999	1,580	10,429	–	–	30,280	53,843
2012	3,805	3,814	2,705	10,330	–	–	32,940	51,853
2013	3,995	3,619	2,805	10,192	–	–	34,725	49,655
2014 – 2018	23,210	14,755	15,645	48,710	–	–	188,755	212,742
2019 – 2023	29,935	7,841	56,155	42,050	–	–	360,245	144,949
2024 – 2028	14,290	760	94,300	22,006	–	–	183,385	73,805
2029 – 2033	–	–	42,775	1,913	–	–	168,130	30,422
2034 – 2038	–	–	–	–	48,145	–	84,840	917
Less unamortized discount	–	–	–	–	(40,855)	–	(40,855)	–
	$ 85,595	$ 43,309	$ 218,985	$ 166,669	$ 7,290	$ –	$ 1,108,770	$ 731,336

10. Long-Term Liabilities (continued)

Conduit Debt

In November 2002, the PFA and the PG issued private activity bonds, the Refinery Facilities Revenue Bonds (HOVENSA Coker Project), the "Series 2002 Tax-Exempt Bonds", amounting to $63.8 million and $63 million respectively ($126.8 million in total) to finance costs of construction of a coker plant for a refinery on the island of St. Croix. The bonds have an interest rate of 6.50% and are limited obligations of PFA and the PG, payable solely from and are secured by, a pledge and assignment of the amounts payable under a loan agreement between PFA, PG and the refinery. The refinery is responsible for all debt service payments of the private activity bonds. The Government is not obligated for the repayment of the bonds. The bonds are not reported as liabilities in the Government's basic financial statements. As of September 30, 2008, $126.8 million of the bonds remain outstanding.

In December 2003, the PFA issued private activity bonds, the Refinery Facilities Senior Secured Tax-Exempt Revenue Bonds (HOVENSA Refinery), the "Series 2003 Tax-Exempt Bonds", amounting to $74.2 million, to finance the costs of a Clean Fuels Program for a refinery on the island of St. Croix. The Clean Fuels Program consists of three major projects to comply with regulatory standards for low sulfur gasoline. The Clean Fuels Program is a federally mandated program effective January 2004. The bonds have an interest rate of 6.125% and are limited obligations of PFA, payable solely from, and secured by, a pledge and assignment of the amounts payable under a loan agreement between PFA and the refinery. The refinery is responsible for all debt service payments of the private activity bonds. The Government is not obligated for the repayment of the bonds. The bonds are not reported as liabilities in the Government's basic financial statements. As of September 30, 2008, $74.2 million of the bonds remain outstanding.

In April 2004, the PFA issued private activity bonds, the Refinery Facilities Senior Secured Tax-Exempt Revenue Bonds (HOVENSA Refinery), the "Series 2004 Tax-Exempt Bonds", amounting to $50.6 million, to finance construction of a delayed coking unit for a refinery on the island of St. Croix. The bonds have an interest rate of 5.875% and are limited obligations of PFA, payable solely from, and secured by, a pledge and assignment of the amounts payable under a loan agreement between PFA and the refinery. The refinery is responsible for all debt service payments of the private activity bonds. The Government is not obligated for the repayment of the bonds. The bonds are not reported as liabilities in the Government's basic financial statements. As of September 30, 2008, $50.6 million of the bonds remain outstanding.

10. Long-Term Liabilities (continued)

Conduit Debt (continued)

In March 2007, the PFA issued private activity bonds, the Refinery Facilities Senior Secured Tax-Exempt Revenue Bonds (HOVENSA Refinery), the "Series 2007 Tax-Exempt Bonds", amounting to $104.1 million, to finance modifications to diesel and gasoline desulfurization units for a refinery on the island of St. Croix. The bonds have an interest rate of 4.70% and are limited obligations of PFA, payable solely from, and secured by, a pledge and assignment of the amounts payable under a loan agreement between PFA and the refinery. The refinery is responsible for all debt service payments of the private activity bonds. The Government is not obligated for the repayment of the bonds. The bonds are not reported as liabilities in the Government's basic financial statements. As of September 30, 2008, $104.1 million of the bonds remain outstanding.

Notes Payable

On August 12, 2008, PFA issued the Subordinate Lien Revenue Notes, Series 2008 (Virgin Islands Gross Receipts Taxes Loan Note) in the aggregate amount of $7.65 million (the "Series 2008 Notes"). The Series 2008 Notes accrue interest monthly at a rate of 4.75% for 36 months. The proceeds of the Series 2008 Notes were loaned to the PG under the same terms, for the purposes of (i) financing the acquisition of a fleet of vehicles for the Virgin Islands Police Department, and (ii) paying certain costs of issuing the Series 2008 Notes. The PG has pledged gross receipts taxes for the payment of the Notes.

Debt service requirements for the Series 2008 Notes at September 30, 2008 were as follows (expressed in thousands):

Year	Principal	Interest
2009	$ 2,436	$ 305
2010	2,556	185
2011	2,450	59
Total	$ 7,442	$ 549

10. Long-Term Liabilities (continued)

Notes Payable (continued)

On September 7, 2006, the PFA issued the Subordinate Lien Revenue Notes, Series 2006 (Virgin Islands Gross Receipts Taxes Loan Note) in the aggregate amount of $4 million (the "Series 2006 Notes"). The Series 2006 Notes accrue interest monthly at a rate of 4% for 36 months. The proceeds of the Series 2006 Notes were loaned to the PG under the same terms, for the purposes of (i) financing the acquisition of fire fighting, fire suppression and fire safety equipment, (ii) training of firefighters, (iii) renovations and repairs to fire stations, and (iv) pay certain costs of issuing the Series 2006 Notes. The PG has pledged gross receipts taxes for the payment of the Series 2006 Notes.

Debt service requirements for the Series 2006 Notes at September 30, 2008 were as follows (expressed in thousands):

Year	Principal	Interest
2009	$ 1,403	$ 37

On September 7, 2005, the PFA issued the Subordinate Lien Revenue Notes, Series 2005 (Virgin Islands Gross Receipts Taxes Loan Note) in the aggregate amount of $6.35 million (the "Series 2005 Notes"). The Series 2005 Notes accrue interest monthly at a rate of 4% for 36 months. The proceeds of the Series 2005 Notes were loaned to the PG under the same terms, for the purposes of (i) financing the acquisition of a fleet of vehicles for the Virgin Islands Police Department, and (ii) paying certain costs of issuing the Series 2005 Notes. On September 22, 2005, the PFA made a prepayment on the loan balance in the amount of $500 thousand, from unexpended loan proceeds. On October 12, 2005, the PFA made a prepayment of $200 thousand from unexpended loan proceeds. The Government pledged gross receipts taxes for the payment of the Notes. The Series 2005 Note was fully defeased during fiscal year 2008.

On November 20, 2002, WICO consolidated and refinanced its notes payable and obtained an additional $2 million in financing for infrastructure improvements. The consolidated loan amounted to $22.5 million at a fixed rate of 4.5% for the first four years of the twenty-year term of the loan, until November 20, 2007. On June 6, 2006, WICO refinanced the outstanding loan back to the maximum of $22.5 million, at an effective interest rate of 6.2% per annum, effective November 20, 2007. This refinancing created additional working capital of approximately $2.7 million dollars to fund cruise ship pier upgrades to accommodate mega cruise ships. Subsequent

10. Long-Term Liabilities (continued)

Notes Payable (continued)

to November 20, 2006, WICO will have the option (not to be exercised more than once every two years) to fix the interest rate at one of the following three options: a) prime rate plus 75 basis points, b) 1 year LIBOR plus 200 basis points, or c) 3 year Treasury notes plus 125 basis points. The loan will be repaid in 240 consecutive monthly payments of $164 thousand (representing principal and interest) and a final payment of the outstanding principal balance plus any unpaid interest accrued to the date of the final payment. The loan may be prepaid, in whole or in part, at any time without penalty. The revenue and lease agreements of WICO are pledged for the payment of principal and interest on the loan. WICO incurred approximately $1.4 million in interest expense during fiscal year 2008.

Debt service requirements for the WICO loan at September 30, 2008 were as follows (expressed in thousands):

Year:		
2009	$	416
2010		438
2011		466
2012		496
2013		528
2014 - 2018		21,213
Total	$	23,557

Fiduciary Funds – Notes Payable

On October 2, 2006, the pension trust fund entered into a loan agreement with Banco Popular de Puerto Rico to provide working capital and to pay issuance and closing costs associated with the agreement. The pension trust fund obtained a revolving line-of-credit with a maximum principal amount of $25 million, which accrues interest at a fixed interest rate of 6.25% calculated on a 360-day basis and is due and payable quarterly, commencing on the first day of the fourth calendar month following the closing of the loan. At any time that an event of default occurs, the loan will bear interest at a rate equal to 3.00% above a variable interest rate based on the bank's transfer rate. The bank retains a certificate of deposit in the amount of $20 million as security on the note payable. As of September 30, 2008, the outstanding balance on the loan agreement agreement was $7.3 million.

10. Long-Term Liabilities (continued)

Component Units – Bonds Payable

Bonds payable of discretely presented component units are those liabilities that are paid out of resources pledged by such entities. These revenue bonds do not constitute a liability or debt of the PG. Bonds payable, outstanding at September 30, 2008, are as follows (expressed in thousands):

Bonds Payable	Maturity	Interest Rates (%)	Balance
University of the Virgin Islands:			
General obligation bonds of 2004	2035	2.02 – 5.38	$ 20,625
General obligation bonds of 1999	2029	4.75 – 5.95	21,930
Virgin Islands Water and Power Authority (Electric System)			
Revenue bonds of 2007	2031	5.0	57,585
Revenue bonds of 2003	2023	4.00 – 5.00	66,405
Revenue bonds of 1998	2021	4.25 – 5.30	73,525
Virgin Islands Water and Power Authority (Water System)			
Revenue bonds of 1998	2017	4.90 – 5.50	29,270
Virgin Islands Port Authority			
Series A Revenue bonds of 2003	2023	5.00 – 5.25	18,005
Series B Revenue bonds of 2003	2015	3.73 – 5.43	10,680
Series C Revenue bonds of 2003	2023	4.40	9,568
Virgin Islands Housing Finance Authority:			
Revenue bonds of 1995	2025	5.50 – 6.50	2,020
Revenue bonds of 1998	2028	4.10 – 5.25	1,970
Subtotal			311,583
Plus unamortized premium			4,576
Less unamortized discount			(700)
Less deferred costs on debt refunding and reacquisition			(2,817)
Bonds payable, net			312,642
Less amount due within one year			(12,018)
Bonds payable, due in more than one year			$ 300,624

10. Long-Term Liabilities (continued)

Component Units – Bonds Payable (continued)

Following is a schedule of changes in long-term debt for discretely presented component units for fiscal year 2008 (expressed in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due Thereafter
Bonds payable:						
University of the Virgin Islands	$ 42,660	$ 22	$ (630)	$ 42,052	$ 660	$ 41,392
Virgin Islands Water and Power Authority:						
Electric System	206,850	–	(6,612)	200,238	7,245	192,993
Water System	29,836	–	(1,891)	27,945	2,305	25,640
Virgin Islands Port Authority	40,129	–	(1,712)	38,417	1,758	36,659
Virgin Islands Housing Finance Authority	4,145	–	(155)	3,990	50	3,940
Total bonds payable, net	323,620	22	(11,000)	312,642	12,018	300,624
Loans payable:						
Virgin Islands Economic Development Authority	2,013	399	(429)	1,983	458	1,525
Virgin Islands Water and Power Authority:						
Electric System	15,000	6,000	–	21,000	–	21,000
Virgin Islands Port Authority	1,514	2,470	(2,502)	1,482	1,482	–
Virgin Islands Housing Finance Authority	855	–	(196)	659	201	458
University of the Virgin Islands	2,046	–	(99)	1,947	104	1,843
Total loans payable	21,428	8,869	(3,226)	27,071	2,245	24,826
Other long-term liabilities:						
University of the Virgin Islands	58	17	–	75	–	75
Virgin Islands Housing Authority	3,262	4,071	–	7,333	463	6,870
Virgin Islands Economic Development Authority	10,540	15	–	10,555	–	10,555
Virgin Islands Water and Power Authority:						
Electric System	–	5,398	–	5,398	–	5,398
Water System	–	1,266	–	1,266	–	1,266
Juan F. Luis Hospital	1,026	–	(371)	655	–	655
Roy L. Schneider Hospital	1,037	–	(469)	568	437	131
Waste Management Authority	2,399	–	–	2,399	673	1,726
Virgin Islands Housing Finance Authority	14,700	8,192	–	22,892	–	22,892
Total other long-term liabilities	$ 33,022	$ 18,959	$ (840)	$ 51,141	$ 1,574	$ 49,567

10. Long-Term Liabilities (continued)

Component Units – Bonds Payable (continued)

On December 1, 1999, the University issued the 1999 Series A Bonds. The University issued these bonds to finance a portion of the construction, furnishing, and equipping of various facilities of the University, to refund the 1994 Series A bonds issued by the University, to fund a debt service reserve fund for the 1999 Series A Bonds, and to pay certain costs issued under and secured by an indenture of trust dated. The 1999 Series A Bonds maturing on or after December 1, 2010 are subject to redemption prior to maturity at the option of the University, as a whole or in part of any date, on and after December 1, 2009, at redemption prices ranging between 100% and 102% of their principal amount plus accrued interest to the date fixed for redemption. As of September 30, 2005, the 1994 Series A Bonds were retired.

In fiscal year 2004, the University of the Virgin Islands General Obligation Improvement Bonds, 2004 Series A (the 2004 Series A Bonds) were issued in the amount of $21.2 million under and secured by the Indenture of Trust dated as of December 1, 1999 and a First Supplemental Indenture of Trust dated as of June 1, 2004, between the University and the trustees. The Bonds were used to finance the costs of construction, furnishings, and equipping of various facilities of the University, to fund the debt service reserve fund and to pay the cost of issuance.

In June 2007, the Electric System of WAPA issued the $57.6 million 2007A Electric System Subordinated Revenue Bonds, to pay certain costs of issuance of the bonds, to finance the costs of certain capital improvements, refinance capital improvements funded through draws on a Line of Credit and reinstall a $10 million Line of Credit.

In June 2003, the Electric System issued the Electric System Revenue Bonds, Series 2003, amounting to $69.9 million. The proceeds from the bonds were used to finance capital improvements, repay $18 million of then outstanding lines-of-credit, cover underwriters' costs, and establish a debt service fund.

In June 1998, the Electric System of WAPA issued $110.9 million of 1998 Series A Electric System Revenue and Refunding Bonds. The proceeds from the bonds, and approximately $14 million in funds from the existing debt service and debt service funds, were used to repay outstanding line-of-credit balances, to provide for approximately $30 million in funds for the construction of certain capital projects, and to pay underwriters discount and issuance costs of approximately $1.7 million. The remaining proceeds were used to purchase direct obligations of the U.S. government which were placed in an irrevocable trust with an escrow agent to provide all future debt service on the remaining $69 million principal amount of the 1991 Series A Electric System Revenue Bonds.

10. Long-Term Liabilities (continued)

Component Units – Bonds Payable (continued)

Under the terms of the Bond Resolution relating to the Electric System Revenue and Refunding Bonds, payment of the principal and interest is secured by an irrevocable lien on the Electric System's net revenue, (exclusive of any funds that may be established pursuant to the Bond Resolution for certain specified purposes), including the investments and income, if any, thereof.

The Bond Resolution contains certain restrictions and commitments, including the Electric System's covenant to establish and maintain reasonable rates, fees, rentals, and other charges to produce net electric revenue, as defined, that will be at least 125% of aggregate annual principal and interest. The Electric System's net electric revenue for the fiscal year ended June 30, 2007 was 201% of the aggregate debt service as defined in the Bond Resolution.

The Series 2003 Bonds maturing on or after July 1, 2013 are subject to redemption prior to their stated maturity date, at the option of the Electric System, on or after July 1, 2013, as a whole or in part at any time, at a redemption price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption.

The 1998 Series Electric System Revenue and Refunding Bonds are subject to redemption on or after July 1, 2008, as a whole or in part at any time, at a redemption price of 101% in 2008, 100.5% in 2009, and 100% thereafter. The Electric System Revenue Bonds are subject to mandatory redemption if (i) any significant part of the Electric System was damaged, destroyed, taken, or condemned, or (ii) any for-profit nongovernmental investor shall acquire an ownership interest in some or all of the assets of the Electric System.

In December 1998, the Water System of WAPA issued the 1998 Water System Revenue and Refunding Bonds amounting to $44.1 million. The proceeds from the bonds were used to repay the 1990 Series A Water System Revenue Bonds at a redemption price of 100% and to refund the 1992 Series B Water System Revenue Bonds, repay outstanding lines of credit balances, pay underwriters' costs, provide funding for a Renewal and Replacement Reserve Fund, and to purchase obligations of the United States Government, which were placed in an irrevocable trust with an escrow agent to provide all future debt service on the remaining principal amount of the 1992 Series B Bonds. At June 30, 2008, $31.5 million of the original principal amount of the defeased 1992 Series B Bonds remained outstanding.

10. Long-Term Liabilities (continued)

Component Units – Bonds Payable (continued)

Payment of principal and interest of the 1998 Series Bonds is secured by an irrevocable lien on the Water System's net revenues (exclusive of any funds that may be established pursuant to the Bond Resolution for certain other specified purposes) and funds established under the Bond Resolution, including investment securities. To provide additional security, the Water System has conveyed to the bond trustee, a subordinate lien and security interest in the Water System's General Fund. The Water System is also required to make deposits in a debt service reserve fund in accordance with the Bond Resolution.

The Bond Resolution contains certain restrictions and commitments, including the Water System's covenant to establish and maintain reasonable rates, fees, rentals, and other charges to produce net water revenue, as defined, that will be at least 125% of aggregate annual principal and interest payments. The Water System's net water revenue for the fiscal year ended June 30, 2008 was 125% of the aggregate debt service.

The 1998 Series Bonds maturing on or after July 1, 2010 are subject to redemption prior to their stated maturity date, at the option of the Water System, as a whole or in part at any time, at a redemption price of 101% during July 1, 2009 through June 30, 2010 and 100% thereafter. The Water System Revenue Bonds are subject to mandatory redemption if (i) any significant part of the water system shall be damaged, destroyed, taken, or condemned or (ii) any for-profit non-governmental investor shall acquire an ownership interest in some or all assets of the Water System.

On January 16, 2003, VIPA issued the Marine Revenue Bonds Series 2003A (AMT) and 2003B (federally taxable) with principal amounts of approximately $18 million and $17.4 million, respectively. VIPA is using the proceeds of the bonds to finance the dredging, rehabilitation, and construction of berthing piers for seagoing vessels and cruise ships and mixed use commercial facilities on the island of St. Thomas.

On October 20, 2003, VIPA issued the Marine Revenue Bonds Series 2003C (non-AMT), in the amount of $3 million with an authorized principal amount not to exceed approximately $10.8 million. VIPA is using the proceeds of the bonds to finance the completion of several projects of rehabilitation and construction of berthing piers and dredging for cruise and seagoing vessels on the island of St. Thomas.

10. Long-Term Liabilities (continued)

Component Units – Bonds Payable (continued)

The bonds' indentures contain certain account restrictions and funding covenants to cover interest, debt service, maintenance, and other costs as specified in the corresponding bond indentures.

The bonds' indentures also specify certain debt service coverage requirements determined from net available revenue of the Rohlsen Terminal, Airport System and the Marine Division. The provisions of each of the bonds' indentures require that rates and fees charged for the use of each facility should be sufficient to generate enough revenue to pay all operation and maintenance expenses, exclusive of depreciation and certain noncash charges, of the respective facilities, plus: (i) at least 125% of the principal and interest and redemption account sinking fund deposit requirement of each of the bonds becoming due during such year; (ii) the amount of the debt service reserve fund deposit requirement for such period; (iii) the deposit required to the Renewal and Replacement Fund; and (iv) the amount of the capital improvements appropriations for such period. The Management of VIPA asserts that VIPA has complied with all bond indenture requirements.

VIHFA issued the 1995 A Revenue Bonds in the amount of $6.2 million, and the 1998 A Revenue Bonds, in the amount of $3 million, for the purpose of building single-family housing. The indenture agreements for the bonds require the VIHFA to deposit with the trustee the full amount of the bond proceeds, to purchase Government National Mortgage Association (GNMA) certificates. The servicer is obligated to pay the principal and interest due on the GNMA certificates to the trustee in an amount equal to the scheduled principal and interest payments of the underlying mortgages. All mortgage loans issued by the VIHFA must be originated by the participants and secured by a first priority mortgage lien on the applicable single-family residences.

10. Long-Term Liabilities (continued)

Component Units – Bonds Payable (continued)

Fixed maturities required to pay principal and interest on discretely presented component units' bonds payable with fixed maturities at September 30, 2008 are as follows (expressed in thousands):

Year	Principal	Interest	Total
2009	$ 12,018	$ 15,974	$ 27,992
2010	12,633	15,332	27,965
2011	13,224	14,681	27,905
2012	13,911	13,984	27,895
2013	14,629	13,264	27,893
2014 – 2018	69,436	55,777	125,213
2019 – 2023	64,957	37,196	102,153
2024 – 2028	49,595	22,531	72,126
2029 – 2033	55,130	8,885	64,015
2034 – 2036	6,050	246	6,296
Total	311,583	$ 197,870	$ 509,453
Plus unamortized premium	4,576		
Less unamortized discount	(700)		
Less deferred costs on debt refunding and reacquisition	(2,817)		
Bonds payable, net	$ 312,642		

11. General Tax Revenue

For the year ended September 30, 2008, general tax revenue of the PG consisted of the following (expressed in thousands):

	General	PFA Debt Service	PFA Capital Projects	Other Governmental	Total
Income taxes	$ 500,436	$ –	$ –	$ –	$ 500,436
Real property taxes	13,232	–	–	17,101	30,333
Gross receipts taxes	–	140,312	3,356	250	143,918
Other taxes	107,754	47,226	–	5,146	160,126
Tax revenue	$ 621,422	$ 187,538	$ 3,356	$ 22,497	834,813
Tax revenue not recognized on the full accrual basis					(42,398)
Total tax revenue - governmental activities					$ 792,415

12. Commitments and Contingencies

Primary Government

The current labor relations environment of the Government is defined by 13 distinct labor organizations subject to approximately 26 collective bargaining agreements. Fourteen bargaining units are without collective bargaining agreements. As specific disciplines are not grouped under a single pay plan, it is common to have clerical and nonprofessional workers in different departments throughout the Government, represented by different unions. Of the approximately 9,600 government workers, including employees of the executive branch of the Government, approximately 7,200 belong to unions. The present collective bargaining statute requires binding arbitration for certain classified employees in the event of an impasse during salary negotiations between the Government and any union. Under this process, each side chooses an arbitrator and a third impartial arbitrator is selected by the chosen arbitrators. The arbitration panel investigates and reviews the issues in dispute and renders a final and binding decision. For other classified employees, the Government must decide to go to impasse or to enjoin any strike. The Government has contractual liabilities for retroactive union arbitration salary increases estimated at $277.3 million accruing from fiscal years 1993 through 2008. These salary increases determined through arbitration have been recorded as a liability because the Government

12. Commitments and Contingencies (continued)

Primary Government (continued)

determined the liability is probable (based on arbitration) and reasonably estimable. However, pursuant to Title 24 of the V.I. Code, Section 374(h), no such contractual amount is due until appropriation of funds is made by the Legislature. Upon action of the Legislature, the General Fund will have the responsibility to satisfy immediately the obligations arising from the retroactive wages. Until such time, the liability is recorded as a long-term liability in the governmental activities column in the government-wide financial statements as it was not appropriated nor paid in fiscal 2008.

The Government receives financial assistance from the federal government in the form of loans, grants, and entitlements. Loans received are described in Note 10. Monetary and nonmonetary federal financial assistance amounted to approximately $143.6 million and $22.9 million, respectively, for the year ended September 30, 2008.

Receipt of grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of resources for eligible purposes. Substantially all grants are subject to audit under OMB Circular A-133. Disallowances as a result of these audits may become liabilities of the Government.

In February 2008, the federal government passed an Economic Stimulus Act providing taxpayer rebates ranging from $300 to $1,200 depending on taxpayer income and filing status. The Act was passed as a measure to stimulate the U.S. economy. Under Section 101(c) of the Act, United States possessions with mirror code tax systems (Guam, U.S. Virgin Islands and the Commonwealth of the Northern Marianas) were entitled to receive a loss reimbursement from the federal government for the economic hardship of providing rebates to taxpayers, and to ensure timely payment of the rebates. On April 28, 2008, the PG received a loss reimbursement amounting to $41.5 million.

Management of the Government believes that the future outcome of any changes in federal financial assistance programs will not have a material effect on the basic financial statements.

12. Commitments and Contingencies (continued)

Primary Government (continued)

On September 23, 2002, the Government entered into a three-year compliance agreement with the U.S. Department of Education requiring that the Government develop integrated and systemic solutions to problems in managing its federally funded education programs. The compliance agreement focuses on the areas of program design and evaluation, financial management, human capital, and property management and procurement. The compliance agreement expired on September 23, 2005. The Government had not fully complied with all terms and conditions of the compliance agreement. The U.S. Department of Education subsequently implemented a special condition for the Government to designate a third-party fiduciary to administer U.S. Department of Education grants. On August 22, 2006, the PG entered into a contract with a third-party fiduciary to administer U.S. Department of Education grants, effective October 1, 2006. The terms and conditions of the original compliance agreement have been extended until the Government is in full compliance with the agreement.

The Government is a defendant in numerous legal proceedings pertaining to matters incidental to the performance of routine governmental operations. Under Title 33, Section 3411(c) of the V.I. Code, no judgment shall be awarded against the Government in excess of $25,000 for tort claims filed under Government statutes. In cases involving several survivors, each award must be construed separately for purposes of applying the limitation upon recovery imposed by the Tort Claims Act. Under Title 27, Section 166(e) of the V.I. Code, the Government's waiver of immunity is expanded to $250,000 for medical malpractice actions, including actions for wrongful death based on malpractice. Under certain circumstances, as provided in Title 33, Section 3414 of the V.I. Code, the Government may assume the payment of a judgment entered against an officer or employee who acted reasonably and within the scope of his employment. The Government may pay up to a maximum amount of $100,000 of the settlement. With respect to pending and threatened litigation, the Government has accrued a provision for legal claims and judgments of approximately $14.1 million for awarded and anticipated unfavorable judgments as of September 30, 2008. Management believes that the ultimate liability in excess of amounts provided would not be significant.

12. Commitments and Contingencies (continued)

Primary Government (continued)

Changes in the reported estimated litigation payable since October 1, 2007, resulted from the following activity (expressed in thousands):

	Beginning Balance at October 1, 2007	Claims and Changes in Estimates	Claim Payments	Ending Balance at September 30, 2008
Estimated litigation payable	$ 8,098	$ 6,528	$ (494)	$ 14,132

The breakdown of the estimated litigation payable at September 30, 2008 is as follows (expressed in thousands):

Governmental activities	
Current portion of estimated litigation payable	$ 4,355
Long-term portion of estimated litigation payable	9,777
	$ 14,132

As of September 2002, the Government was a defendant in a lawsuit regarding the assessment of property taxes. Under the lawsuit, taxpayers asserted that properties should be assessed at actual value in accordance with the Organic Act of 1933. The U.S. District Court agreed with the plaintiffs and, in May 2003, imposed an injunction on the collection of real property taxes at values higher than the 1998 assessed value.

The Government complied with the Court order to develop a plan to implement the new valuation method. In February 2007, the 2005 property tax assessments, based on 1998 assessment levels, were issued. In August 2008, the 2006 property tax assessments, based at actual value in accordance with the Organic Act of 1933, were issued. In September 2008, the 2006 property tax bills were rescinded by court order. In May 2009, the Government received court approval to reissue the 2006 property tax assessments; however, that approval was rescinded in June 2009. As of September 30, 2008, property tax assessments for fiscal years 2005, 2006 and 2007 had not been issued due to the court imposed injunction.

12. Commitments and Contingencies (continued)

Primary Government (continued)

State and federal laws and regulations require the Government to place a final cover on its landfill sites when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and post-closure care costs will be paid only near or after the date that the landfill stops accepting waste, the Government reports a portion of these closure and post-closure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The $39.6 million reported as landfill closure and post-closure care liability at September 30, 2008, represents the cumulative amount reported to date based on the use of the estimated capacity of each landfill. The Government will recognize the remaining estimated cost of closure and post-closure care as the remaining estimated capacities are filled. These amounts are based on what it would cost to perform all closure and post-closure care in 2008.

The estimated used capacity and expected closure of each of the Government landfills is as follows:

Landfill	Estimated used capacity	Estimated closure date
Bovoni	66%	2010
Angilla	96%	2010
Susannaberg	100%	2010

Actual cost to perform closure and post closure may be higher due to inflation, changes in technology, or changes in regulations. The Government is required by state and federal laws and regulations to make annual contributions to a trust to finance closure and post-closure care. The Government began making annual contributions to a trust in fiscal year 2007 to finance closure and post-closure costs. The Government expects that future inflation costs will be paid from interest earnings on these annual contributions and other financing measures. However, if interest earnings and financing measures are inadequate, or additional post-closure care requirements are determined (due to changes in technology or applicable laws or regulations, for example), these costs may need to be covered by charges to future landfill users.

12. Commitments and Contingencies (continued)

Primary Government (continued)

Since 1985, the Government has been subject to a consent decree issued by the Virgin Islands District Court, governing the operation of its wastewater treatment plants. The consent decree was amended in 1996 and further modified with the 2002 Stipulation to the Amended Consent Decree (the Stipulation) to establish deadlines for the construction of new secondary treatment facilities, including the replacement of the existing St. Croix and Airport Lagoon (Charlotte Amalie) wastewater treatment plants. The Stipulation requires that the new St. Croix wastewater treatment plants be completed by the end of 2006 and the new Charlotte Amalie wastewater treatment plants be completed by the end of 2007. However, the plants were completed by the end of 2007 and 2008, respectively. The cost of both facilities is estimated at approximately $50 million. The Stipulation also establishes certain interim deadlines and performance standards that must be met by the Government pending completion of the new facilities. In addition, the Stipulation establishes specified penalties for violation of any of the deadlines or performance standards set forth therein. As of the date of the basic financial statements, the Government is current on all of its outstanding obligations pursuant to the stipulation. In January 2004, the Government's Legislature authorized the creation of the Virgin Islands Waste Management Authority (WMA) for the purpose of meeting environmental requirements of waste treatment in the U.S. Virgin Islands. On December 2004, the PFA issued revenue bonds amounting to $94 million for the purpose of constructing and rehabilitating wastewater treatment plants noted above.

On August 21, 2002, the Government and the United States Environmental Protection Agency (EPA) entered into a memorandum of understanding documenting the EPA's agreement to support the renewal of the Territorial Pollutant Discharge Elimination System permit for its St. Croix distillery operations provided that the Government make certain funding available to (i) conduct treatability studies regarding the Virgin Islands Rum Industries, Ltd. effluent and the means to mitigate its potential environmental effects in the vicinity of the discharge, (ii) identify practicable, available, reliable, and cost-effective potential mitigation measures, and (iii) implement (or assist in the implementation of) such mitigation measures in the event such measures are determined by the V.I. Department of Planning and Natural Resources after consultation with EPA to be necessary and appropriate. Pursuant to the memorandum of understanding, the Government's obligation to fund such activities is limited to $6 million in the aggregate, commencing on October 13, 2003. In June 2004, the Government entered into a three year contract with a locally licensed environmental consulting firm to facilitate the Government's commitments with the memorandum of understanding with the EPA.

12. Commitments and Contingencies (continued)

Primary Government (continued)

As of September 2004, the PG became a defendant in a lawsuit regarding the assessment of franchise taxes. Under the lawsuit, taxpayers asserted that franchise taxes should be assessed in accordance with Title 13 Virgin Islands Code Section 531(a). The plaintiff taxpayers interpret the definition of "capital stocks used in conducting business in the Virgin Islands" in the V.I. Code as tax collected only on the par value of the stock, while the PG's position is that the amount allocated should be over the par value and additional paid-in capital upon a subsequent reorganization. The PG also imposed a six-year statute of limitations on tax refund claims against the Government. Management believes that the ultimate liability of this case would not have a material adverse impact on the PG's overall financial position as reported in the government-wide financial statements.

On June 17, 2008, the PG passed legislation entering into a public-private partnership between the PG and spirits manufacturer, Diageo, USVI, Inc. Under the terms of the partnership, the PFA agreed to issue revenue bonds amounting to $250 million for the construction of a rum distillery on the island of St. Croix, with production capacity of 20 million gallons of rum per year. In July 2009, the PG issued the project bonds, the Subordinated Revenue Bonds, Virgin Islands Matching Fund Loan Note-Diageo Project Bond Series 2009A. The bonds are funded by the return of excise taxes (matching funds) from the Federal government of $13.25 for each proof gallon of rum produced in the U.S. Virgin Islands and sold in the United States.

Workers' Compensation Liability

The Government is exposed to risk of loss related to workers' compensation claims. The Government is self-insured for this risk. Self-insured risk liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend upon such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. Changes in the claims liability amount in fiscal year 2008 as recorded in the Government Insurance Fund was as follows:

12. Commitments and Contingencies (continued)

Workers' Compensation Liability (continued)

	2009
Claims payable - October 1	$ –
Incurred claims and changes in estimates	24,091
Payments for claims and adjustments expenses	(7,940)
Claims payable - September 30	$ 16,151

The Government continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Component Units

In September 1989, WAPA electric facilities were damaged by Hurricane Hugo. WAPA reconstructed the facilities with proceeds from insurance and FEMA. Subsequent to the receipt of funds, FEMA de-obligated approximately $7.9 million in questioned costs. Approximately $2.6 million of these questioned costs related to an oil spill that was subsequently settled with FEMA. During 1998, WAPA submitted a second appeal for $4.4 million of the remaining questioned costs, and agreed to refund approximately $900 thousand. During 1999, FEMA denied the second appeal and formally closed the disaster claim. WAPA has recorded a liability for $5.3 million related to the questioned costs. FEMA has not made a formal request for repayment of the funds.

In September 2005, WAPA electric facilities sustained damages amounting to $1.3 million due to Tropical Storm Jeanne. WAPA reported $438 thousand as a FEMA claim receivable as of June 30, 2008.

WAPA estimates that capital expenditures in connection with continuing capital improvements will be approximately $50.7 million for the Electric System and $14.6 million for the Water System during the year ended June 30, 2009.

12. Commitments and Contingencies (continued)

Component Units (continued)

The VIHA terminated a development contract in September 2001 pursuant to a clause in the contract that provided for termination for convenience. The other party has sued and claims damages in excess of $7 million. The Authority has filed a counterclaim. It is not possible to predict the eventual outcome of this case nor estimate any amount or range of potential loss in the event of an unfavorable outcome.

Several former employees have individually filed suits against the VIHA for wrongful discharge over the period 1997 through 2006. None of the cases are resolved and it is not possible to predict the eventual outcome, nor estimate the amount or range of potential loss in the event of an unfavorable outcome.

A subcontractor has sued the VIHA for nonpayment for work done in 2000. It is not possible to predict the eventual outcome nor estimate the amount or range of potential loss in the event of an unfavorable outcome.

In 2002, the Federal Aviation Administration (FAA) conducted an on-site wildlife evaluation of the St. Croix landfill, which is located next to the St. Croix airport. The FAA determined that the landfill posed an environmental and navigational threat to the airport due to flocks of birds that reside in the landfill area. The FAA may require VIPA to repay $9.3 million in federal grants and has refused further discretionary grants for the airport until VIPA shows progress toward closing the landfill. The landfill is under the jurisdiction of the PG. The PG has negotiated a remediation plan with FAA to close the landfill by December 2009. FAA accepted the plan, if such measures are implemented.

In connection with the purchase of lands adjacent to the airport, VIPA was awarded federal financial assistance in 2002 amounting to $8 million under a Real Property Acquisition Relocation Assistance Program. VIPA is in noncompliance with certain federal requirements of the assistance program. Noncompliance with requirements of federal financial assistance programs may result in a refund of the funds granted. VIPA management believes that noncompliance instances should not materially affect VIPA's financial position.

12. Commitments and Contingencies (continued)

Component Units (continued)

In 2006, the JFL Medical Center entered into an agreement for the construction of a Cancer Institute on the island of St. Croix. As of September 30, 2008, the Medical Center had outstanding contracts and commitments of $1.2 million.

WAPA, VIPA, and other discretely presented component units are presently a defendant or codefendant in various lawsuits. The financial managers of the component units have advised the PG that any adverse outcome involving a material claim is expected to be substantially covered by insurance. Government property is exempt from lien, levy, or sale as a result of any judgment under the Virgin Islands Code.

13. Retirement Systems

Plan Description

GERS is the administrator of a cost-sharing multiple-employer defined-benefit pension plan established as of October 1, 1959 by the Government to provide retirement, death, and disability benefits to its employees. The following description of the plan is provided for general information purposes only. Refer to the actual text of the retirement law in the V.I. Code, Title 3, Chapter 27 for more complete information. Regular employees are eligible for a full-service retirement annuity when they have completed 30 years of credited service or have attained the age of 60 with at least 10 years of credited service. Members who are considered "safety employees," as defined in the V.I. Code, are eligible for full retirement benefits when they have earned at least 20 years of government service or have reached the age of 55 with at least 10 years of credited service. Regular employees who have attained the age of 50 with at least 10 years of credited service can elect to retire early with a reduced benefit. Senators and members of the Legislature may receive a retirement annuity when they have attained the age of 50 and completed six years of credited service or earned at least six years of credited service as a member of the Legislature.

13. Retirement Systems (continued)

Funding Policy

The monthly annuity benefit payment is determined by applying a stipulated benefit ratio to the member's average compensation. Average compensation is determined by averaging the three highest years of salary the member earned within the last 10 years of service. The maximum annual salary that can be used in this computation is $65,000 except for senators and judges, whose annual salary is used. The board of trustees of GERS may set cost-of-living increases for annuitants and pensioners and determine when the annuity should be paid on the basis of the most recent actuarial valuation and the Consumer Price Index.

GERS is a blended component unit included in the financial reporting entity and is presented as a pension trust fund of the PG. GERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Employees' Retirement System of the Government of the Virgin Islands, 3438 Kronprindsens Gade, Veterans Drive, St. Thomas, VI 00802.

Contributions to GERS are made by the Government and the members. Government and members contributions are not actuarially determined but are set by statute. The Government and members' contributions together with the income of GERS should be sufficient to provide an adequate actuarially determined reserve for the benefits prescribed by the VI Code.

The contributions required to fund GERS on an "actuarial reserve basis" are calculated periodically by the GERS actuarial consultant. The actuarial valuation as of September 30, 2006, indicates that the current combined statutory employer and employee contribution rates are not sufficient to meet the cost of the pension trust fund on an actuarial basis, as required by law.

13. Retirement Systems (continued)

Funding Policy (continued)

The Government's required contribution for the year ended September 30, 2008 was 17.5% of the member's annual salary. Since April 1, 1991, required member contributions are 8% of annual salary for regular employees, 9% for senators, 11% for judges, and 10% for Act 5226 eligible employees. Prior to June 29, 2000, member contributions were refundable without interest upon withdrawal from employment before retirement. Effective November 2, 2005, legislation was passed that provided for annual interest on refunded contributions to be determined by the board of trustees of not less than 2.0% nor more than 4.0% annually. The Government's contractually required contributions, actual contributions made, and percentage contributed to the plan for the years ended September 30, 2008, 2007, and 2006 were as follows (expressed in thousands):

	Contractually Required Contributions	Contributions Made	Percentage Contributed
2006	$ 65,061	$ 65,061	100%
2007	$ 60,778	$ 60,778	100%
2008	$ 75,871	$ 75,871	100%

In August 1994, legislation providing an early retirement incentive was passed. The legislation was subsequently amended on October 13, 1994, December 30, 1994, and December 5, 1995. Among other matters, the legislation allows a member of GERS who has a combined aggregate number of years of credited service plus number of years of age, equal to at least 75 years as of the date of the legislation, to retire without reduction of annuity. Members, who have attained the age of 50 with at least 10 but less than 30 years of credited service, may add an additional three years to their age for this computation. Members with 30 years of service or who can retire without penalty under the V.I. Code shall have their average compensation increased by four percentage points.

For each employee electing to retire pursuant to Section 8(a) of the Early Retirement Act of 1994 (the Act), the Government contributes to GERS, on a quarterly basis, an amount equal to the employer and employee contributions that would have been made until the employee reached the age of 62 had the employee not elected to retire under this provision.

13. Retirement Systems (continued)

Funding Policy (continued)

For employees electing to retire under Section 8(b) of the Act, the Government contributes to GERS a sum equal to the additional contribution the employer and employee would have made had the employee received a salary 4% higher during the three years used to compute the employee's average compensation figure plus a sum of $5,000. Based on this calculation, the amount was $26.9 million as of September 30, 2008. As of September 30, 2008, GERS has received $26.7 million of such amount.

The actuaries of GERS have determined that the specific funding provided under the Act is inadequate to cover the costs of the program. GERS is seeking to recover any unfunded costs of the program under a newly enacted provision of the retirement law, which provides that the Primary Government will compensate GERS for the costs of any special early retirement program.

The University has two retirement plans in which all eligible employees are required to participate, the Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF) and GERS. The TIAA-CREF is a defined-contribution pension plan covering participating, full-time faculty members and other exempt employees, under which the contributions, including employees' contributions, are used to purchase annuities. There are no unfunded past service costs, and vested benefits are equal to the annuities purchased under TIAA-CREF. As of September 30, 2008, 282 faculty members and other employees were TIAA-CREF participants. The number of active participants from the University participating in GERS as of September 30, 2008 was 267. Total contributions made by the University to TIAA-CREF and GERS participant accounts amounted to $2.1 million and $1.2 million, respectively.

Postemployment Benefits

In addition to the pension benefits described in Note 13, the Government provides other postemployment benefits (OPEB) of healthcare, prescription, dental and life insurance coverage. These benefits are provided in accordance with Title 3, Chapter 25, Subchapter VIII of the VI Code. All employees who retire from government service after attaining age 55 with at least 30 years of service; except for policemen and firemen who can retire with at least 20 years of service, are eligible for these benefits. As of September 30, 2008, approximately 7,050 retirees meet the eligibility requirements of OPEB.

13. Retirement Systems (continued)

Postemployment Benefits (continued)

Healthcare, prescription and dental insurance is provided through negotiated contracts with private insurance companies. Participants in the plan may elect coverage for their spouses and dependent children. Participants are required to contribute 35% of medical, prescription and dental premiums. Retirees of UVI that participate in the 403(b) retirement plan may obtain coverage on a fully contributory basis. Life insurance is offered to retirees on a fully contributory basis.

The contribution requirements of plan members and the PG are established, and may be amended, by the Virgin Islands Legislature. For the year ended September 30, 2008, the Legislature budgeted, and paid, $16.2 million for retiree health insurance payments.

The PGs postemployment benefit cost is calculated on the annual required contribution of the PG, an amount actuarially determined in accordance with the provisions of GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which was implemented effective October 1, 2007.

The annual required contribution represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year, and amortize any unfunded actuarial liabilities over a period not to exceed thirty (30) years.

13. Retirement Systems (continued)

Postemployment Benefits (continued)

The following table shows the components of the PGs annual postemployment benefits cost for the fiscal year ended September 30, 2008 and the changes in the net estimated obligation for future payments of benefits:

Annual OPEB Cost and Net Postemployment Benefit Obligation
(In thousands)

Annual required cost of healthcare benefits to retirees	$	37,865
Interest on underfunded OPEB obligation		3,007
Adjustment to underfunded OPEB obligation		37,313
Annual OPEB cost (expense)		78,185
Contributions made		(16,200)
	$	61,985

Actuarial computation of OPEB obligation - beginning of year	$	976,455
Increase in net OPEB Liability		61,985
Underfunded OPEB obligation - end of year	$	1,038,440

The PG's obligation to provide health insurance to retirees is an unfunded plan. The actuarial valuation of the amount required to fund the plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Estimated annual required contributions are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

13. Retirement Systems (continued)

Postemployment Benefits (continued)

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members), and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the PG and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities, and the actuarial value of assets, consistent with the long-term perspective of the calculations. In the actuarial valuation dated October 1, 2007, liabilities at October 1, 2009 were rolled back to October 1, 2007.

The normal cost was rolled back using the ultimate trend rate. A discount rate of 4.0% per annum was used, compounded annually. The valuation assumed that the annual unit cost per covered individual (i.e., retiree or spouse) for fiscal year 2010 was $184 for both under and over age 65. The normal cost reflects the average age of the covered population and is based on claims experience for fiscal years 2008 and 2009, with a two-thirds weighting applied to the more recent year. Combined experience and a combined cost were used for the pre-65 and post-65 populations. A composite cost was determined for retirees and spouses by combining their claim experience. Dependent children claims were included in developing the composite retiree and spouse cost. Costs were trended forward to fiscal year 2010 and adjusted to reflect the fiscal 2010 plan design and the anticipated lag in claim payment.

14. Liquidity

At September 30, 2008, the Government had an unrestricted deficit in the governmental activities amounting to $567.7 million. The Government has initiated specific actions to improve its liquidity and future cash flows through the issuance of long-term debt, engaging a consulting firm to assist it in efforts to develop a series of detailed revenue enhancement and expenditure reduction initiatives and the enactment of certain laws directed toward improving the Government's financial situation.

15. Fund and Net Assets Deficit

The following non-major funds have a fund or net assets deficit as of September 30, 2008:

Governmental Funds	
RURAL LIBRARY EXTENSION	$ (578,143)
COMMUNITY RENEWAL PLANNING	(180,972)
FEDERALLY AIDED EDUCATION PROGRAM	(4,967,316)
SPECIAL FEDERAL GRANT TO EDUCATION	(409,162)
AIR & WATER POLLUTION CONTROL	(5,679,258)
VI PLANNING BOARD PROJECTS	(2,756,545)
HIGHWAY SAFETY	(4,306,015)
VIRGIN ISLANDS NATIONAL GUARD FEDERAL AND STATE AGREEMENT	(3,564,672)
FORESTRY PROGRAM FUND	(48,092)
FEDERAL PROGRAMS/DEPARTMENT CONSTRUCTION	(2,521,697)
FEDERAL AIDED COMMUNITY ACTION AGENCY	(636,189)
COMMISSION ON AGING	(34,507)
CORPORATION DIVISION REVOLVING	(103,678)
JOB TRAINING PARTNERSHIP ACT OF 1983-1984	(8,541,302)
TECHNICAL ASSISTANCE GRANTS-CAPITAL	(20,197)
HEALTH INFORMATION COUNCIL ASSISTANCE	(18,245)
DRUG EDUCATION TRAINING PROGRAM	(123,108)
FEDERAL HEALTH PROGRAM NOT ON FEDERAL LETTER OF CREDIT SYSTEM	(91,258)
FOOD STAMP WELFARE	(3,650,902)
ELEMENTARY/SECONDARY EDUCATION	(18,824)

Proprietary Funds	
BUREAU OF MOTOR VEHCILES	$ (1,320,880)
AGRICULTURE REVOLVING	(192,421)
RECIPROCAL INSURANCE FUND	(16,130,024)
HOUSING CONSTRUCTION REVOLVING	(3,003,891)
FREDERIKSTED SMALL BUSINESS REVOLVING	(47,333)
Total Net Asset Deficit	**$(20,694,549)**

15. Fund and Net Assets Deficit (continued)

Governmental Funds		Proprietary Funds
CIVIL DEFENSE PROTECTION	(1,063,391)	
RURAL COMMUNITY FIRE PROTECTION PROGRAM	(348,320)	
BOATING SAFETY	(615,383)	
VI LAW ENFORCEMENT NON-LAPSING	(5,285,487)	
FORENSIC SCIENCE	(67,841)	
VOCATIONAL REHABILITATION	(1,459,935)	
HURRICAN HUGO INSURANCE CLAIMS	(3,910,393)	
VI ARMY NATIONAL GUARD	(2,266,077)	
EMERGENCY DROUGHT RELIEF	(179,025)	
OUTDOOR RECREATION PROGRAM	(40,178)	
NARCOTICS STRIKE FORCE FORFEITURE	(6,429)	
SMALL BUSINESS DEVELOPMENT ADMINISTRATION MANAGERIAL AND TECHNICAL ASSISTANCE	(8,065)	
VOCATIONAL TECHNICAL EDUCATIONAL TRAINING	(22,758)	
JUVENILE DETENTION CENTER FUND NON-LAPSING	(14,149)	
ROAD FUND NON-LAPSING	(6,329,517)	
SECTION 12 BOND PROCEEDS	(25,836,689)	
MAJOR REPAIR AND IMPROVEMENT	(57,751)	
WATER & ELECTRIC SYSTEM PROJECTS	(1,697,883)	
TEXTBOOK REIMBURSEMENT REVOLVING	(317,141)	
Total Fund Defict	**$(87,776,496)**	

16. Restatements of Fund Balances and Net Assets

Primary Government – Restatement of Fund Balances

The beginning fund balance of the General Fund was restated to correct previously reported amounts by $8.1 million due to an unrecorded liability payable to the VIHFA as follows (expressed in thousands):

General Fund	As Previously Reported	Adjustment	As Restated
Fund balance, as of October 1, 2007	$ 226,675	$ (8,053)	$ 218,622

Primary Government – Restatement of Net Assets

The beginning net asset balance of governmental funds was restated to correct previously reported amounts by $57 million due to 1) $26.6 million of repair and maintenance expenditures incorrectly capitalized, 2) $12.5 million of capital contributions to component units incorrectly capitalized, 3) $9.8 million understatement in accumulated depreciation, and 4) $8.1 million due to an unrecorded liability payable to VIHFA as follows (expressed in thousands):

Governmental Activities	As Previously Reported	Adjustment	As Restated
Fund balance, as of October 1, 2007	$ (32,421)	$ (56,926)	$ (89,347)

16. Restatements of Net Assets and Fund Balances (continued)

Component Units

Beginning net assets of five discretely presented component units were restated to correct material errors identified in prior years as follows (expressed in thousands):

Component Unit	As Previously Reported	Adjustments	As Restated
Virgin Islands Housing Authority	$ 62,946	$ 1,619	$ 64,565
University of the Virgin Islands	84,153	(2,602)	81,551
Virgin Islands Water & Power Authority (Water System)	44,152	912	45,064
Virgin Islands Housing Finance Authority	53,196	314	53,510
Magens Bay Authority	3,990	8,870	12,860
Virgin Islands Public Television System	8,617	56	8,673
University of the Virgin Islands Research and Technology Park Corporation	–	3,657	3,657
Waste Management Authority	6,192	(5,525)	667
Other component units	434,420	–	434,420
Net Assets	$ 697,666	$ 7,301	$ 704,967

17. Subsequent Events

Primary Government

On February 12, 2009, the PFA issued the Subordinate Lien Revenue Bond Anticipation Notes, Series 2009A, amounting to $8 million, for the purchase of Emergency 911 equipment. The Bond Anticipation Notes are a general obligation of the PG secured with the payment of gross receipts taxes.

On June 29, 2009, the PFA issued the Subordinated Revenue Bond Anticipation Notes with J.P. Morgan Securities, Inc., amounting to $29.6 million, for start-up costs associated with the construction of a rum distillery on the island of St. Croix. The Bond Anticipation Notes are general obligations of the PG secured with the payment of matching fund revenues.

17. Subsequent Events (continued)

Primary Government (continued)

On June 16, 2009, the Third Circuit Court of Appeals required the PG to rescind property tax assessments issued in May 2009 for fiscal year 2006. The rescission will remain in place until the PG Tax Review Board is fully functional and can provide due process to taxpayers who dispute property valuations. In February 2010, although the court denied the Government's motion to lift the rescission, the court decision stated that the Government was able to bill and collect property taxes at the 1998 rate. In March 2010, the USVI Legislature voted to allow the 2006 and 2007 property tax bills to be sent out at the 1998 rate. The 2006 property tax bills were sent out in July 2010. The PG has not issued final property tax assessments for tax years 2007 and 2008.

On July 9, 2009, the PFA issued the Series 2009A Subordinated Revenue Fund Bonds amounting to $250 million, to fund the construction of a rum distillery and warehouse on the island of St. Croix and to defease the Subordinated Revenue Bond Anticipation Notes amounting to $29.6 million that was issued in June 2009. The bonds are special limited obligations of the PG secured by a pledge of Diageo Matching Fund Revenues (matching funds generated from the sale of rum).

On September 18, 2009, the PFA issued the Series 2009B Subordinate Lien Revenue Bond Anticipation Notes with two local banks, amounting to $250 million, to provide working capital for the PG. The Series 2009B Notes are general obligations of the PG secured by gross receipts tax revenues.

On September 25, 2009, the PFA issued the Series 2009A Bond Anticipation Notes amounting to $15.7 million, to a local bank, to finance the start-up costs associated with the construction of a shopping center complex on the island of St. Croix. The Notes were issued under Tax Increment Financing legislation enacted in October 2008 by the PG. The Series 2009A Notes are special limited obligations of the PG secured by a pledge of certain tax revenues generated by the shopping complex.

17. Subsequent Events (continued)

Primary Government (continued)

On October 1, 2009, the PFA issued the Series 2009A-1, Series 2009A-2, Series 2009B and Series 2009C Revenue and Refunding Bonds amounting to $458.8 million, to finance capital projects of the PG amounting to $86.3 million, to current refund the Series 1998A Senior Lien/Refunding Bonds amounting to $266.3 million, to current refund the Series 1998E Surbordinate Lien/Capital Program Bonds amounting to $97.5 million, and to establish debt service reserves amounting to $8.5 million. The Series 2009A-1, A-2, B and C Bonds are special limited obligations of the PG secured by matching fund revenues.

On December 17, 2009, the PFA issued the Series 2009A Bond Subordinated Revenue Bonds, amounting to $39.2 million, to finance capital costs associated with the construction of a wastewater treatment facility and a renovation of a rum distillery located on the island of St. Croix. The Series 2009A Notes are special limited obligations of the PG secured by a pledge of matching fund revenues.

On January 22, 2010, the Virgin Islands Office of Economic Opportunity, the agency designated to coordinate and manage American Recovery and Reinvestment (“ARRA”) grants, reported that the U.S. Virgin Islands has received $128 million in formula funds (the majority of which funded projects of the Energy Office, the VIHFA, the Department of Public Works, Law Enforcement, and the VIHA), and has submitted $173 million in competitive ARRA grant applications.

On July 8, 2010, the PFA issued the Series 2010A and Series 2010B Revenue Bonds, the proceeds of which amounted to $399,050,000. These bonds are secured by a pledge of Matching Fund Revenues, which includes certain funds established under the original indenture, the Sixth Supplemental Indenture and the Series 2010 Loan Notes issued by the Government. The proceeds were loaned to eh Government of the United States Virgin Islands under the same terms as the bonds. The bonds are limited special obligations of the PFA. The Series 2010A Bonds were issued to: (i) finance various operating expenses of the Government, (ii) refinance a portion of the outstanding Series 2009B Notes, (iii) fund the Series 2010A Subordinate Lien Debt Service Reserve Account, and (iv) finance certain costs of issuance of the Series 2010A Bonds. The Series 2010B Bonds were issued to: (i) refinance a portion of the outstanding Series 2009B Notes, (ii) fund the Series 2010B Subordinate Lien Debt Service Reserve Account, and

17. Subsequent Events (continued)

Primary Government (continued)

(iii) finance certain costs of issuance of the Series 2010B Bonds. The Series 2010A Bonds amount to $305,000,000 and mature from 2012 to 2029 at an interest rate of 4.00% to 5.00%. The Series 2010B Bonds amount to $94,050,000 and mature from 2020 to 2029 at an interest rate of 4.25% to 5.25%.

Component Units

In April 2009, FEMA approved a Public Assistance program grant of $1.05 million to reimburse WAPA for the costs of repairs subsequent to Hurricane Omar in October 2007. WAPA expended $2.73 million in repairs following the hurricane. The U.S. Virgin Islands received a federal disaster declaration due to the damage.

In August 2009, VIPA received grants of $13.3 million and $960 thousand, respectively, from the United States Department of Transportation and Federal Aviation Administration for certain airport runway repairs.

In March 2010, WAPA issued the Electric System Revenue Bonds Series 2010A, 2010B and 2010C amounting to $85.3 million. The proceeds of the bonds will be used to refund a portion of the Series 1998 Refunding Bonds, to make deposits into the debt service fund, and to pay the costs of issuance of the bonds. The Series 2010 bonds are limited obligations of WAPA, secured by the Electric Revenue Bond Resolutions. The Series 2010 bonds are not an obligation of the PG.

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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

The Honorable Governor
of the Government of the United States Virgin Islands:

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Government of the United States Virgin Islands (the Government) as of and for the year ended September 30, 2008, which collectively comprise the Government's basic financial statements, and have issued our report thereon dated August 31, 2010. Our report was modified to include a reference to other auditors. In addition, the scope of our audit work was not sufficient to enable us to express, and we did not express, an opinion on the financial position, the changes in the financial position and cash flows, where applicable, of the business-type activities and aggregate remaining fund information as of and for the year ended September 30, 2008, because the basic financial statements do not include a liability for medical malpractice claims in the guaranty insurance fund (a non-major enterprise fund) and also the Government recorded in the government insurance fund (a major enterprise fund) a workers' compensation liability of $16.2 million in the current year of which an unknown portion pertains to prior periods. The Government's records do not permit, nor is it practical to extend our auditing procedures sufficiently to determine the extent by which the business-type activities, the government insurance fund, and the aggregate remaining fund information may have been affected by this condition.

In addition, our auditors' report for the aggregate discretely presented component units and the governmental activities, based on our audit and the reports of other auditors, was qualified for the following:

- The effect of the adjustments, if any, as might be determined to be necessary, had the other auditors been able to obtain sufficient audit evidence to determine whether, (1) loans receivable of $ 5.4 million in the financial statements of VIEDA, and (2) capital assets of $10.1 million in the financial statements of VIPTS, were fairly stated, as described in paragraphs four and five of the Report of Independent Auditors.

- The effects of the adjustments as might have been determined to be necessary, had we been able to obtain sufficient audit evidence to determine whether the accrued compensated absences and the landfill closure and post-closure liabilities of $60.9 million and $39.6 million, respectively, in the governmental activities, were fairly stated, as described in paragraph eight of the Report of Independent Auditors.

Except as described above, we conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Virgin Islands Public Finance Authority (PFA), the West Indian Company (WICO), the Tobacco Settlement Financing Corporation (TSFC), Virgin Islands Housing Authority (VIHA), Virgin Islands Public Television System (WIPTS), Virgin Islands Lottery (VI Lottery), Virgin Islands Economic Development Authority (VIEDA), Magens Bay Authority (MBA), Virgin Islands Government Hospital and Health Facilities Corporation (Roy L. Schneider Hospital and Juan F. Luis Hospital and Medical Center), Employees' Retirement System of the Government of the Virgin Islands (GERS), Waste Management Authority (WMA), and the Virgin Islands Housing Finance Authority (VIHFA), as described in our report on the Government's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the PFA, Juan Luis Hospital and Medical Center, MBS, TSFC, WMA, and GERS were not audited in accordance with *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Government's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Government's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Government's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 08-01 through 08-11 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We consider items 08-01 through 08-11 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Government's financial statements are free of 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 08-02.

The Government's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Government's responses and accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Honorable Governor of the U.S. Virgin Islands, management, others within the entity, Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ernst & Young LLP

August 31, 2010

Required Supplementary Information (other than MD&A)

Employees' Retirement System of the Government of U.S. Virgin Islands

Schedule of Funding Progress

September 30, 2008

Actuarial valuation date	(a) Actuarial value of assets	(b) Unfunded actuarial accrued liability (UAAL)	(c) Actuarial accrued liability (a) + (b)	(d) Funded Ratio (a)/(c)	(e) Annual covered payroll	UAAL as a percentage of covered payroll (b)/(e)
Pension Plan						
2006(*)	$1,421,096,035	$1,236,571,529	$2,657,664,564	53.47%	$394,595,844	313.38%
2007(**)	1,509,244,380	1,241,138,878	2,750,383,258	54.87%	419,161,255	296.10%
2008(***)	1,530,604,789	1,310,218,726	2,840,825,515	53.88%	433,549,406	302.21%
OPEB						
2008	–	1,038,440,000	1,038,440,000	–	433,549,406	239.52%

(*) Estimated based on the financial information provided as of September 30, 2006, for the actuarial value of assets. For the unfunded actuarial accrued liability (UAAL) amount was projected from the last completed actuarial valuation as of October 1, 2003, assuming that actual experience during the October 1, 2003 to September 30, 2006, matched that assumed by the actuarial assumptions.

(**) Estimated based on the financial information provided as of September 30, 2007, for the actuarial value of assets. For the unfunded actuarial accrued liability (UAAL) amount was projected from the last completed actuarial valuation as of October 1, 2006, assuming that actual experience during the October 1, 2006 to September 30, 2007, matched that assumed by the actuarial assumptions.

(***) Estimated based on the financial information provided as of September 30, 2008, for the actuarial value of assets. For the unfunded actuarial accrued liability (UAAL) amount was projected from the last completed actuarial valuation as of October 1, 2006, assuming that actual experience during the October 1, 2006 to September 30, 2008, matched that assumed by the actuarial assumptions.

Actuarial valuation -September 30, 2006 and thereafter:
Actuarial accrued liability determined under the entry age normal method.

Required Supplementary Information (other than MD&A)

Employees' Retirement System of the Government of U.S. Virgin Islands

Schedule of Employer Contributions

September 30, 2008

	Annual required contributions	**Contributions made**	**Percentage contributed**
Year ended September 30,			
2006*	$131,059,471	$65,061,430	49.64%
2007**	137,797,268	60,778,382	44.11%
2008**	138,488,871	75,871,146	54.79%

* Estimated based on Fiscal Year 2003 actuarial valuation.
** Estimated based on Fiscal Year 2006 actuarial valuation.

Single Audit Report Section

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Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

The Honorable Governor
of the Government of the United States Virgin Islands:

Compliance

We have audited the compliance of the Government of the United States Virgin Islands (the Government) with the types of compliance requirements described in the US Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major Federal programs for the year ended September 30, 2008. The Government's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs is the responsibility of the Government's management. Our responsibility is to express an opinion on the Government's compliance based on our audit.

The Government's basic financial statements include the operations of the discretely presented component units (as defined in the notes to the Government's basic financial statements) some of which received Federal awards, which are not included in the Schedule of Expenditures of Federal Awards for the year ended September 30, 2008. Our audit described below did not include the operations of the aforementioned component units because the component units engaged other auditors to perform an audit in accordance with OMB Circular A-133.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the Government's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Government's compliance with those requirements.

The Government did not comply with the types of compliance requirements that are applicable to each major Federal program as described in the accompanying schedule of findings and questioned costs and referenced by finding number below:

CFDA Number	Major Program	Compliance Requirement	Finding Reference
10.555/10.559	Child Nutrition Cluster	Activities Allowed or Unallowed	08-19
		Allowable Costs/Cost Principles	08-19
		Cash Management	08-15
		Matching, Level of Effort, Earmarking	08-16
		Period of Availability of Federal Funds	08-16, 08-17
		Reporting	08-18
12.401	National Guard Military Operation and Maintenance (O&M) Projects	Activities Allowed or Unallowed	08-22
		Allowable Costs/Cost Principles	08-22
		Cash Management	08-26, 08-28
		Davis-Bacon Act	08-27
		Equipment and Real Property Management	08-23
		Matching, Level of Effort, Earmarking	08-24
		Reporting	08-25, 08-26
66.468	Capitalization Grants for Drinking Water State Revolving Fund	Cash Management	08-36
		Reporting	08-35
66.605	Performance Partnership Grants	Activities Allowed or Unallowed	08-38, 08-39
		Allowable Costs/Cost Principles	08-38, 08-39
		Cash Management	08-42
		Matching, Level of Effort, Earmarking	08-40, 08-41
		Period of Availability of Federal Funds	08-38, 08-40
		Reporting	08-37
93.778	Medical Assistance Program	Cash Management	08-56
		Eligibility	08-53
		Reporting	08-55
		Special Tests and Provisions - Utilization Control and Program Integrity	08-54
		Special Tests and Provisions - ADP Risk Analysis and System Security Review	08-57

Compliance with such requirements is necessary, in our opinion, for the Government to comply with the requirements applicable to those programs.

In our opinion, because of the effects of the noncompliance described in the table above, the Government did not comply, in all material respects, with the requirements referred to above that are applicable to the following major Federal programs: Child Nutrition Cluster (CFDA No. 10.555/10.559); National Guard Military Operations and Maintenance (O&M) Projects (CFDA No. 12.401); Capitalization Grants for Drinking Water State Revolving Fund (CFDA No. 66.468); Performance Partnership Grants (CFDA No. 66.605) and Medical Assistance Program (CFDA No. 93.778) for the year ended September 30, 2008.

The Government did not comply with the types of compliance requirements that are applicable to each major Federal program as described in the accompanying schedule of findings and questioned costs and referenced by the finding numbers below:

CFDA Number	Major Program	Compliance Requirement	Finding Reference
17.225	Unemployment Insurance	Cash Management	08-29
		Reporting	08-30
		Special Tests and Provisions - UI Benefit Payments	08-31
		Special Test and Provisions - Match with IRS 940 FUTA Tax Form	08-32
97.067/97.073	Homeland Security Cluster	Cash Management	08-61
		Equipment and Real Property Management	08-59
		Period of Availability of Federal Funds	08-58
		Reporting	08-60

Compliance with such requirements is necessary, in our opinion, for the Government to comply with the requirements applicable to those programs.

Also, in our opinion, except for the noncompliance described in the table above, the Government complied, in all material respects, with the requirements referred to that are applicable the following major Federal programs: Unemployment Insurance (CFDA No. 17.225) and Homeland Security Cluster (CFDA No. 97.067/97.073) for the year ended September 30, 2008.

Moreover, in our opinion, the Government complied, in all material respects, with the requirements referred to in the first paragraph, that are applicable to each of its major Federal programs other than those major programs referred to in the two preceding tables for the year ended September 30, 2008.

The results of our auditing procedures also disclosed other instances of non-compliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 08-12 through 08-14, 08-20, 08-21, 08-33, 08-34, 08-44, and 08-46 through 08-52.

Internal Control over Compliance

The management of the Government is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered the Government's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of the internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Government's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 08-12 through 08-61 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a Federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider items 08-12 through 08-61 to be material weaknesses.

The Government's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Government's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Honorable Governor of the Government of the United States Virgin Islands, management, and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ernst & Young LLP

August 31, 2010

Government of the United States Virgin Islands

Schedule of Expenditures of Federal Awards

Year Ended September 30, 2008

Federal CFDA Number	Federal grantors/Program or cluster title	Federal Expenditures
	U.S. Department of Agriculture	
10.025	Plant and Animal Disease, Pest Control, and Animal Care	$ 303,584
10.551	Food Stamps	22,854,733
10.561	State Administrative Matching Grants for Food Stamp Program	1,823,477
	Food Stamp Cluster (10.551/561)	*24,678,210*
10.555	National School Lunch Program (NSLP)	5,480,681
10.559	Summer Food Service Program for Children (SFSPC)	247,945
	Child Nutrition Cluster (10.555/559)	*5,728,626*
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	6,482,183
10.558	Child and Adult Care Food Program	7,290
10.560	State Administrative Expenses for Child Nutrition	286,598
10.568	Emergency Food Assistance Program (Administrative Costs)	22,605
10.664	Cooperative Foresty Assistance	378,516
10.676	Forest Legacy Program	40,272
10.678	Forest Stewardship Program	21,261
		37,949,145
	U.S Department of Commerce	
11.302	Economic Development Support for Planning Organizations	46,942
11.405	Anadromous Fish Conservation Act Program	2,175
11.407	Interjudisdictional Fisheries Act of 1986	20,215
11.419	Coastal Zone Management Administration Awards	1,457,867
11.426	Financial Assistance for National Centeres for Coastal Ocean Science	55,443
11.427	Fisheries Development and Utilization Research and Development Grants and Cooperative Agreements Program	1,889
11.434	Cooperative Fisheries Statistics	131,069
11.435	Southeast Area Monitoring and Assessment Program	58,951
11.441	Regional Fishery Management Councils	9,668
		1,784,219
	U.S Departmnet of Defense	
12.401	National Guard Military Operations and Maintenance (O&M) Projects	3,293,417
	U.S Department of Housing and Urban Development	
14.218	Community Development Block Grants/ Entitlement Grants	578,329
14.400	Equal Opportunity Housing	3,929
		582,258

Government of the United States Virgin Islands

Schedule of Expenditures of Federal Awards (continued)

Federal CFDA Number	Federal grantors/Program or cluster title	Federal Expenditures
	U.S Department of the Interior	
15.605	Sport Fish Restoration	878,485
15.608	Fish and Wildlife Management Assistance	6,660
15.611	Wildlife Restoration	375,930
	Fish and Wildlife Cluster (15.605/608/611)	*1,261,075*
15.612	Endangered Species Conservation	72,504
15.626	Hunter Education and Safety Program	40,963
15.633	Landower Incentive	24
15.634	State Wildlife Grants	96,538
15.875	Economic , Social, and Political Development of the Territories and the Freely Associated States	239,445
15.904	Historic Preservation Fund Grants - In-Aid	1,285,812
15.916	Clean Vessel Act	35,713
		3,032,074
	U.S Department of Justice	
16.202	Offender Re-Entry Program	89,666
16.523	Juvenile Accountability Incentive Block Grants	107,730
16.540	Juvenile Justice and Deliquency Prevenion - Allocation to States	206,330
16.554	National Criminal History Improvement Program (NCHIP)	102,378
16.575	Crime Victim Assistance	576,745
16.579	Edward Byrne Memorial Formula Grant Program	146,666
16.588	Violent Against Women Formula Grants	801,703
16.592	Local Law Enforcement Block Grants Program	822
16.593	Residential Substance Abuse Treatment for State Prisoners	1,005
16.595	Executive Officer fir Weed and Seed	3,234
16.606	State Criminal Alien Assistance Program	156,371
16.710	Public Safety Partnership and Community Policing Grants	10,129
16.738	Edward Byrne Memorial Justice Assistance Grant Program	210,199
16.742	Paul Coverdell Forensic Sciences Improvement Grant Program	145,841
16.Unknown	High Intensity Drug Trafficking Program	72,267
		2,631,086
	U.S Department of Labor	
17.002	Labor Force Statistics	357,218
17.005	Compensation and Working Conditions	104,745
17.207	Employment Service/Wagner-Peyser Funded Activities	1,284,649
17.225	Unemployment Insurance	15,109,790
17.235	Senior Community Service Employment Program	1,041,845
17.258	WIA Adult Program	2,039,041
17.259	WIA Youth Activities	598,584
	WIA Cluster (17.258/259)	*2,637,625*
17.503	Occupational Safety and Health State Program	63,178
17.504	Consultation Agreements	14,063
		20,613,113

Government of the United States Virgin Islands

Schedule of Expenditures of Federal Awards (continued)

Federal CFDA Number	Federal grantors/Program or cluster title	Federal Expenditures
	U.S Department of Transportation	
20.205	Highway Planning and Construction	6,413,062
20.218	National Motor Carrier Safety	176,760
20.500	Federal Transit - Capital Investment Grants	52,409
20.509	Formula Grants for Other than Urbanized Areas	196,208
20.513	Capital Assistance Program for Elderly Persons and Persons with Disabilities	156,822
20.514	Public Transportation Research	32,670
20.600	State and Community Highway Safety	1,367,148
		8,395,079
	National Foundation on the Arts and Humanities	
45.310	State Library Program	113,955
		113,955
	U.S Enviromental Protection Agency	
66.034	Surveys, Studies, Investigations, Demostrations and Special Purpose Activities Relating to the Clean Air Act	36,659
66.418	Construction Grants for Wastewater Treatment Works	17,300
66.454	Water Quality Managmeent Planning	572
66.468	Capitalization Grants for Drinking Water State Revolving Fund	1,538,223
66.472	Beach Monitoring and Notification Program Implementation Grants	307,555
66.474	Water Protection Grants to States	926
66.605	Performance Partnership Grants	1,879,442
66.608	Environmental Information Exchange Network Grant Program and Related Assistance	3,283
66.805	Leaking Underground Storage Tank Trust Fund	94,119
66.818	Brownfield Assessment and Cleanup Cooperative Agreements	276,277
		4,154,356
	U.S Department of Energy	
81.041	State Energy Program	237,113
		237,113
	U.S Department of Education	
84.002	Adult Education - State Grant Program	388,918
84.027	Special Education - State Grant Program (IDEA, Part B)	11,894,598
84.041	Impact Aid	195,464
84.048	Vocational Education - Basic Grants to States	583,682
84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States	2,444,969
84.169	Independent Living - State Grants	8,063
84.177	Rehabilitation Services - Independent Living Services for Older Individuals Who Are Blind	20,812
84.185	Byrd Honors Scholarships	60,000
84.186	Safe and Drug-Free Schools and Communities State Grants	879,318
84.187	Supported Employment Services for Individuals with Severe Disabilities	37,125

Federal CFDA Number	Federal grantors/Program or cluster title	Federal Expenditures
	U.S Department of Education (continued)	
84.215	Fund for the Improvement of Education	261,447
84.298	State Grants for Innovative Programs	13,624,917
84.330	Advanced Placement Program	211,739
84.357	Reading First State Grants	2,864,367
84.364	Literacy/School Libraries	55,555
84.365	English Language Acquisition Grant	239,111
		33,770,085
	U.S. Department of Health and Human Services	
93.010	Community-Based Abstinence Education (CBAE)	6,199
93.003	Public Health and Social Services Emergency Fund	4,594
93.006	State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program	118,332
93.045	Special Programs for the Aging-Title III, Part C-Nutrition Services	16,561
93.048	Special Programs for the Aging-Title IV-and Title II-Discretionary Projects	98,851
93.069	Public Health Emergency Preparedness	389,223
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	63,062
93.127	Emergency Medical Services for Children	67,948
93.130	Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	56,882
93.136	Injury Prevention and Control Research and State and Community Based Programs	26,871
93.150	Projects for Assistance in Transition from Homelessness (PATH)	50,000
93.153	Coordinated Services and Access to Research for Women, Infants, Children, and Youth	252,076
93.217	Family Planning-Services	937,602
93.224	Consolidated Health Centers	28,321
93.243	Substance Abuse and Mental Health Services-Projects of Regional and National Significance	1,465,604
93.268	Immunization Grants	960,095
93.283	Centers for Disease Control and Prevention-Investigations and Technical Assistance	192,371
93.296	State Partnership Grant Program to Improve Minority Health	74,807
93.558	Temporary Assistance for Needy Families (TANF)	4,625,245
93.563	Child Support Enforcement	4,921,373
93.575	Child Care and Development Block Grant	1,913,021
93.597	Grants to States for Access and Visitation Programs	93,859
93.600	Head Start	8,126,440
93.667	Social Services Block Grant	5,222,633
93.767	State Children's Insurance Program	1,672,292
93.778	Medical Assistance Program (Medicaid; Title XIX)	7,037,463
93.889	National Bioterrorism Hospital Preparedness Program	104,401
93.917	HIV Care Formula Grants	334,535

Federal CFDA Number	Federal grantors/Program or cluster title	Federal Expenditures
	U.S. Department of Health and Human Services (continued)	
93.938	Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	59,686
93.940	HIV Prevention Activities-Health Department Based	1,814
93.941	HIV Demonstration, Research, Public and Professional Education Projects	7,017
93.943	Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome (AIDS) and Human Immunodeficiency Virus (HIV) Infection in Selected Population Groups	414,288
93.944	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	94,253
93.958	Block Grants for Community Mental Health Services	126,971
93.959	Block Grants for Prevention and Treatment of Substance Abuse	475,222
93.977	Preventive Health Services-Sexually Transmitted Diseases Control Grants	169,906
93.988	Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	158,685
93.991	Preventive Health and Health Services Block Grant	141,222
93.994	Maternal and Child Health Services Block Grant to the States	1,626,729
		42,136,454
	Corporation for National and Community Service	
94.002	Retired and Senior Volunteer Program	36,097
94.011	Foster Grandparent Program	220,057
		256,154
	Department of Homeland Security	
97.003	Agricultural Inspection	6,412
97.042	Emergency Management Performance Grants	330,914
97.012	Boating Safety Financial Assistance	501,034
97.017	Pre-Disaster Mitigation (PDM) Competitive Grants	291,458
97.036	Disaster Grants - Public Assistance (Presidentally Declared Disasters)	1,044,346
97.039	Hazard Mitigation Grant	113,870
97.070	Map Modernization Management Support	20,797
97.067	Homeland Security Grant Program	4,524,342
97.073	State Homeland Security Program	711,692
	Homeland Security Cluster (97.067/073)	5,236,034
		7,544,865
	Total expenditures of federal awards	$ 166,493,373

See accompanying notes.

1. Basis of Presentation

For purposes of complying with the Single Audit Act Amendments of 1996, the Government of the United States Virgin Islands (the Government or GVI) is defined in a manner consistent with the entity defined in the basic financial statements as of and for the year ended September 30, 2008, except that the component units (as defined in the notes to the aforementioned basic financial statements) are excluded. Accordingly, the accompanying Schedule of Expenditures of Federal Awards (the Schedule) presents the Federal financial assistance programs administered by the Government for the year ended September 30, 2008, excluding the component units.

2. Basis of Accounting

The accompanying Schedule was prepared using the modified accrual basis of accounting, except for nonmonetary programs, which are presented based on the fair value of the food stamps (CFDA No. 10.551 in the amount of $22,854,733) and the food commodities (CFDA No. 10.555 in the amount of $505,573) distributed during the year. The Government's accounting system provides the primary information from which the Schedule is prepared.

3. Matching Costs

Matching costs, such as the nonfederal share of certain program costs, are not included in the accompanying Schedule, except Unemployment Insurance (CFDA No. 17.225), as indicated in Note 6.

4. 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 explained in Notes 1 and 2.

Office of Management and Budget (OMB) Circular A-133 requires that Federal financial reports and claims for advances and reimbursements contain information that is supported by the books and records from which the basic financial statements have been prepared. The Government's departments prepare the Federal financial reports and claims for advances and reimbursements primarily based on information from the internal accounting records of the respective Federal

4. Relationship to Federal Financial Reports (continued)

program departments. However, these records do not agree with the accounting records of the Government's accounting system in all instances. The Government's departments, in various instances, do not prepare a reconciliation of the internal accounting records of the Federal programs with the Government's accounting system. See Finding No. 08-11.

5. Consolidated Block Grants

The Government was granted a consolidated grant award under Title V of Public Law 95-134. The consolidated grant to insular areas permits the consolidation of two or more authorized programs under one application to provide for simplified reporting procedures and flexibility in allocating funds to meet educational needs. The most significant programs under which the Virgin Islands' Department of Education used and administered the funds and the cash disbursements for each program for the fiscal year ended September 30, 2008 are the following:

Federal CFDA Number	Program Title	Expenditures
84.002	Adult Education – State Grant Programs	$ 388,918
84.027	Special Education State Grant Programs (IDEA, Part B)	11,894,598
84.048	Vocational Education – Basic grants to States	583,682
84.298	State Grants for Innovative Programs (Part A, Title V)	13,624,917
		$26,492,115

6. Unemployment Insurance Expenditures

OMB Circular A-133 Compliance Supplement requires the Unemployment Insurance Program (CFDA No. 17.225) to include the state funds as well as the Federal funds in the total expenditures of the program. Consequently, the total amount of expenditures presented in the accompanying Schedule is composed of the following:

Federal fund expenditures	$ 1,419,808
State fund expenditures	13,689,982
Total expenditures	$15,109,790

Government of the United States Virgin Islands

Schedule of Findings and Questioned Costs

September 30, 2008

Part I - Summary of Auditors' Results

Financial Statement Section

Type of auditor's report issued on the basic financial statements:

Opinion Unit	Type of Report
Governmental activities	Qualified
Business - type activities	Disclaimer
Discretely presented component units	Qualified
General fund	Unqualified
PFA debt service fund	Unqualified
PFA capital projects fund	Unqualified
West Indian Company fund - enterprise fund	Unqualified
Government insurance fund	Qualified
Aggregate remaining fund information	Disclaimer

Internal Control over Financial Reporting

Material weaknesses identified?.. Yes

Significant deficiencies identified that are not considered to be material weaknesses?...... No

Noncompliance material to financial statements noted?.. Yes

Federal Award Section

Internal control over major programs:

Material weaknesses identified?.. Yes

Significant deficiencies identified that are not considered to be material weaknesses?........ No

Part I - Summary of Auditors' Results (continued)

Federal Award Section (continued)

Type of auditor's report issued on compliance for major programs:

CFDA Number	Major Program	Type of Report Issued on Compliance
10.551,10.561	Food Stamp Cluster	Unqualified
10.555,10.559	Child Nutrition Cluster	Adverse
10.557	Special Supplemental Nutrition Program for Women, Infants and Children (WIC)	Unqualified
12.401	National Guard Military Operations and Maintenance (O&M) Projects	Adverse
17.225	Unemployment Insurance	Qualified
20.205	Highway Planning and Construction	Unqualified
66.468	Capitalization Grants for Drinking Water State Revolving Fund	Adverse
66.605	Performance Partnership Grants	Adverse
84.027	Special Education - State Grant Program (IDEA, Part B)	Unqualified
84.298	State Grants for Innovative Programs	Unqualified
93.558	Temporary Assistance for Needy Families	Unqualified
93.563	Child Support Enforcement	Unqualified
93.778	Medical Assistance Program	Adverse
97.067, 97.073	Homeland Security Cluster	Qualified

Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133.................................... Yes

Part I - Summary of Auditors' Results (continued)

Identification of Major Programs

CFDA Number	Major Program
10.551,10.561	Food Stamp Cluster
10.555,10.559	Child Nutrition Cluster
10.557	Special Supplemental Nutrition Program for Women, Infants and Children (WIC)
12.401	National Guard Military Operation and Maintenance (O&M) Projects
17.225	Unemployment Insurance
20.205	Highway Construction and Planning
66.468	Capitalization Grants for Drinking Water State Revolving Fund
66.605	Performance Partnership Grants
84.027	Special Education - State Grant Program (IDEA, Part B)
84.298	State Grants for Innovative Programs
93.558	Temporary Assistance for Needy Families
93.563	Child Support Enforcement
93.778	Medical Assistance Program
97.067, 97.073	Homeland Security Cluster

Dollar threshold used to distinguish between Type A and Type B programs:… $3 million

Auditee qualified as low-risk auditee:…………………………………………………. No

Part II - Financial Statements Findings Section

This section identifies the significant deficiencies, material weaknesses, fraud, illegal acts, violations of provisions of contracts and grant agreements, and abuse related to the financial statements for which *Government Auditing Standards* require reporting in a Circular A-133 audit.

Part II - Financial Statements Findings Section (continued)

Finding Number: 08-01

Topic
The Government has control deficiencies in its internal controls, accounting and financial management systems, budgetary controls and financial reporting practices. Due to their nature and magnitude, these deficiencies are considered to be a material weakness.

Category
Internal Control

Criteria
Auditees must prepare their financial statements in accordance with accounting principles generally accepted in the United States (GAAP). OMB Circular A-133 section 310, states that the auditee shall prepare financial statements that reflect its financial position, results of operations or changes in net assets, and, where appropriate, cash flows for the fiscal year audited.

GASB Codification Section 1100, *Summary Statement of Principles*, states that a governmental accounting system must make it possible both: (a) to present fairly and with full disclosure the funds and activities of the governmental unit in conformity with GAAP, and (b) to determine and demonstrate compliance with finance-related legal and contractual provisions.

GASB Codification Section 1300, *Fund Accounting*, states that governmental accounting systems should be organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts to record cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

GASB Codification Section 1900, states that governmental entities should prepare interim and year-end financial statements and reports of financial position, operating results, and other pertinent information to facilitate management control of financial operations, legislative oversight, and for external reporting purposes.

Part II - Financial Statements Findings Section (continued)

Finding Number: 08-01 (continued)

Criteria (continued)
OMB Circular A-102 Subpart C, Section 20, states that a state must expend and account for grant funds in accordance with state laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the state, as well as its subgrantees and cost-type contractors, must be sufficient to permit preparation of reports required by this part and the statutes authorizing the grant, and permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restriction and prohibitions of applicable statutes. The financial management systems must meet the following standards:

- *Financial reporting:* accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.

- *Accounting records:* grantees and subgrantees must maintain records that adequately identify the source and application of funds provided for financially assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

- *Internal control:* effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.

- *Budget control:* actual expenditures or outlays must be compared with budgeted amounts for each grant or subgrant. Financial information must be related to performance or productivity data, including the development of unit cost information whenever appropriate or specifically required in the grant or subgrant agreement. If unit cost data are required, estimates based on available documentation will be accepted whenever possible.

Part II - Financial Statements Findings Section (continued)

Finding Number: 08-01 (continued)

Criteria (continued)

- *Allowable cost:* applicable OMB cost principles, agency program regulations, and the terms of grant and subgrant agreements will be followed in determining the reasonableness, allowability, and allocability of costs.

- *Source documentation:* accounting records must be supported by such source documentation as canceled checks, paid invoices, payrolls, time and attendance records, contract and subgrant award documents, etc.

- *Cash management:* procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on subgrantees' cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transactions reports to the awarding agency. When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements.

In addition to the above requirements, the Government's internal controls must provide for reconciliation of amounts reflected in control accounts with subsidiary records and the reconciliation of transactions and balances between different departments and agencies.

Condition Found

The Government has inadequate internal controls and has not established accounting policies, procedures, and financial reporting practices necessary to conform to generally accepted accounting principles (GAAP), as applicable to governmental entities. Significant deficiencies noted are as follows:

- There is a lack of effective internal controls to reasonably assure compliance with the requirements of Federal laws, regulations and Program compliance requirements. The Government has deficiencies in internal control such as the absence of sufficient level of

Part II - Financial Statements Findings Section (continued)

Finding Number: 08-01 (continued)

Condition Found (continued)

control consciousness throughout all of the Government's separate administrative operations, the absence of an appropriate segregation of duties, the absence of appropriate management review and approval of transactions, accounting entries and financial and other reporting.

- There are inadequate procedures for appropriately assessing and applying accounting principles, inadequate provisions for the safeguarding of assets, the absence of an accounting procedures manual and the absence of many controls considered appropriate for an entity of this size and type.

Due to their nature and magnitude, these significant deficiencies are considered to be a material weakness.

Questioned Costs
Not applicable.

Underlying Cause
The Government's management has not adopted and enforced internal control policies and procedures over its accounting and financial management, budgetary practices and financial reporting.

Effect
The Government's ineffective internal controls are conducive to many deficiencies as described in the numerous findings contained in this report. The continued existence of these deficiencies could result in significant cost disallowances by the Federal awarding agencies due to unsupported or inappropriate costs, or ultimately, in the reduction or elimination of Federal awards received by the Government.

Part II - Financial Statements Findings Section (continued)

Finding Number: 08-01 (continued)

Recommendation
The Government should implement internal controls to provide reasonable assurance that:

- Transactions are properly recorded and accounted for to permit the preparation of reliable financial statements and Federal reports; maintain accountability over assets; and demonstrate compliance with laws, regulations, and other compliance requirements
- Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition.

Management's Response
With the exception of the comments noted with respect to the lack of policy and procedure documents, which were in place and updated via various correspondences to government agencies and departments, we concur with the auditors' findings and recommendations.

To begin the process of addressing the findings noted in 08-01 above, the Government implemented the Tyler-Munis Enterprise Resource Planning (ERP) financial management system, effective October 1, 2006. While an assessment with respect to the effectiveness and efficiency of the ERP financial management system throughout the Government can be reasonably measured over a three to five year time horizon, the incremental impact of these attributes has been immediate, albeit with a variety of latent and patent challenges identified along the way. Nonetheless, the Government recognizes that the ERP financial management system by itself does not equate to credibility unless updated policies and procedures surrounding the internal control structure are well documented, communicated, consistently followed and fully embraced by the separate administrative operations throughout the Government.

Part II - Financial Statements Findings Section (continued)

Finding Number: 08-01 (continued)

Management's Response (continued)
The initial implementation of the ERP financial management system commenced with several "core" modules (i.e., Purchasing/Requisitions, Accounts Payable, Cash Receipts, Treasury Management, General Ledger, Budgeting and Fixed Assets) which have served to gradually minimize the ineffectiveness of the internal controls of the Government. These core modules, which conform to generally accepted accounting principles (GAAP), along with the training of Government personnel to utilize the capabilities of the ERP financial management system and documented policies and procedures, have improved the effectiveness of the Government's internal controls dramatically.

For example, to address a previous deficiency in locating supporting documentation underlying each transaction posted to the general ledger, all transactions are electronically attached with the necessary supporting documentation and stored within the ERP financial management system for proper review and/or retrieval. Moreover, through the embedded levels of workflow approval within the ERP financial management system, which is decentralized at the departmental/agency by specific staff (i.e., segregation of duties) that have limited access to accounts for their respective department/agency through permissions and security; there is a low probability that a transaction will be approved by a Department/Agency Head (i.e., management review and approval) prior to being forwarded to the Department of Property and Procurement (P&P) for procurement review and funding availability approval and finally to the Department of Finance (DOF) for final review and subsequent payment. Note that both P&P and DOF also have mutually exclusive workflow approval processes that serve to minimize (or eliminate) the likelihood of missing supporting documentation, which further enhances management review and approval of transactions, as well as accounting entries and financial and other reporting.

Although the ERP financial management system has enabled the Government to make significant improvements in properly recording and accounting for transactions to permit the preparation of reliable financial statements and Federal reports; the reconciliation of these transactions to ensure compliance with laws, regulations and other compliance requirements will require additional effort and oversight by department/agencies, the Office of Management and Budget (OMB) and DOF.

Part II - Financial Statements Findings Section (continued)

Finding Number: 08-01 (continued)

Management's Response (continued)
The first step in accomplishing this task is to provide department/agencies with a set of standard reports that should be reviewed on a monthly basis for completeness prior to the DOF's established cut-off dates for closing monthly periods. These standard reports emanating from the ERP financial management system, along with the policies and procedures supporting them, was communicated to department/agencies during Fiscal Year 2010 as the "official" set of records/reports to be leveraged in the preparation of external Federal reports. These Federal reports will then be reviewed at departmental/agency level by the appropriate Program Manager responsible for external reporting using the "official" set of records/reports from the T-M ERP system as the supporting documentation. Once this review is complete, it will be forwarded to the Department/Agency Certifying Officer and Agency Head for final review and dissemination to the respective external Federal reporting entities.

Finally, to ensure that funds, property and other assets are safeguarded against loss from unauthorized use or disposition, the ERP system serves to partially mitigate this circumstance. For example, aside from the well-established inter/intra-workflow approval process that exists to manage, review and approve transactions, from a funding standpoint, the "allotment lever" utilized by the OMB within the Budgeting module, serves as a strong mechanism to safeguard and control the authorized flow of funds by departments/agencies at the outset of initiating a transaction. These funding controls are further strengthened via a multi-level review at P&P, as well as the DOF (i.e., Accounting and Treasury Divisions). Conversely, the control environment surrounding property has been improved through the implementation and oversight of the Fixed Asset Module by P&P, as well as the ancillary policies and procedures that permit the Government to cross-reference the detailed items resident within the ERP financial management system.

Part II - Financial Statements Findings Section (continued)

Finding Number: 08-02

Topic
The Government did not comply with the established due date for the submission of the required Single Audit Report.

Category
Internal Controls/Compliance

Criteria
OMB Circular A-133, Subpart C, Section 320a establishes that all audits shall be completed and submitted to the cognizant agency within the earlier of 30 days after receipt of the auditor's report or nine (9) months after the end of the audit period.

Condition Found
The Government did not comply with the required submission date of the Single Audit for the fiscal year ended September 30, 2008. The due date for this report was no later than June 30, 2009.

Questioned Costs
Not applicable.

Underlying Cause
Due to the failure to ensure that adequate accounting records exist and that the timely and accurate closing of books occurs, management did not comply with the requirements established in OMB Circular A-133.

Effect
The Government could be exposed to a reduction or elimination of funding by the Federal awarding agencies.

Part II - Financial Statements Findings Section (continued)

Finding Number: 08-02 (continued)

Recommendation
The Government should establish monthly and year-end closing schedules and improve its year-end closing procedures to allow for the timely completion of its financial statements and performance of the Single Audit and enable the Government to comply with the reporting requirements established by applicable regulations.

Management's Response
The Government concurs with the auditors' findings and recommendations.

To begin the process of addressing the findings noted in 08-02 above, the Government implemented the Tyler-Munis Enterprise Resource Planning (ERP) financial management system, effective October 1, 2006. Although the DOF has fully communicated to departments/agencies the establishment of monthly closing schedules to effectuate the timely issuance of the Single Audit, the enforcement of this policy cannot be fully achieved until the outstanding audit for Fiscal Year 2009 is completed.

More specifically, the ERP financial management system is meant to accommodate having two (2) fiscal periods open at a time to ensure that monthly closings are performed. The implication of having more than two fiscal periods open obviates the institution of monthly closings for the Government because the system will remain in a "soft close" mode (rather than "hard close") until all final adjustments are included. Given the unenviable position of having more than two fiscal periods open and its direct correlation to other anomalies in the ERP financial management system, the Government's resolve has strengthened to become more timely in meeting the criteria under OMB Circular A-133, Subpart C, §320 of the Uniform Administrative Requirements for Grants Agreements.

As such, the Government has embarked on an approach to addressing the timeliness of financial statement issuance within the 270 day criteria outlined in OMB Circular A-133, by endeavoring toward the completion of the Fiscal Year 2009 outstanding audit within a timeframe that allows for full performance of the monthly closing schedules in Fiscal Year 2011.

Part II - Financial Statements Findings Section (continued)

Finding Number: 08-03

Topic
The Government's lack of control over the tax revenue process led to significant audit adjustments in the financial statements. Due to the nature and magnitude of this control deficiency, such significant deficiency in internal controls is considered to be a material weakness.

Category
Internal Control

Criteria
A sound system of internal controls is essential in enabling the Government to prepare timely and accurate financial statements by helping ensure that all financial transactions are properly recorded, appropriately supported, and subjected to supervisory review.

Condition Found
Management's judgmental estimates over its tax revenue process were not entirely supported, resulting in significant audit adjustments. The following items resulted in audit adjustments which could have been prevented had Management implemented sound internal controls over its estimation processes: (a) Management did not include an estimate of tax revenues of the current fiscal year to be collected in the subsequent fiscal year, (b) the allowance for doubtful accounts for tax receivables was not properly supported and was significantly understated, and (c) the financial statements did not include an estimate of revenues to be collected from the Internal Revenue Service related to the additional child tax credit, which resulted in a prior period error in the financial statements.

Questioned Costs
Not applicable.

Part II - Financial Statements Findings Section (continued)

Finding Number: 08-03 (continued)

Underlying Cause
The Government's financial statements have grown in complexity. Additionally, supervisory review of the tax revenue process was not effective in all instances. Coordination between the DOF and the Internal Revenue Bureau in the review process is essential in arriving to sound tax revenue estimates and financial statement close process adjustments.

Effect
The lack of supervisory review led to significant adjustments in the Government's financial statements. This resulted in a material misstatement of the financial statements going undetected.

Recommendation
The Government's DOF and the Internal Revenue Bureau should be more closely involved in the monitoring and review of the tax revenue process. Management should consider performing this process on a quarterly basis in order to detect and correct errors on at timely basis, while enhancing the Government's knowledge over its financial condition.

Management's Response
The Government concurs with the auditors' findings and recommendations.

The Bureau of Internal Revenue (BIR) maintains a dedicated AS400 system to account for the tax revenues of the Virgin Islands Government which it administrates and collects. This system is completely separate and is not integrated with the Enterprise Resource Planning (ERP). Currently, BIR is in the process of enhancing the AS400 to enable more information sharing on a summarized level so as not to violate any disclosure guidelines. In the interim and throughout the fiscal year, the Governor's Financial Team monitors tax revenues closely and will make adjustments, as necessary. The DOF and IRB will work closely in the review of the allowance for doubtful accounts, the estimate of revenues to be collected from the Internal Revenue Service related to the child tax credit, and the estimate of tax revenues of the current fiscal year to be collected in the subsequent fiscal year, to ensure the appropriate data is used in these estimation processes.

Part II - Financial Statements Findings Section (continued)

Finding Number: 08-04

Topic
The Government's lack of control over the grant revenues and expenditures process led to significant adjustments in the financial statements. Due to the nature and magnitude of this control deficiency, such significant deficiency in internal controls is considered to be a material weakness.

Category
Internal Control

Criteria
A sound system of internal controls is essential in enabling the Government to prepare timely and accurate financial statements by helping ensure that all financial transactions are properly recorded, appropriately supported, and subjected to supervisory review.

Condition Found
Management's procedures over its federal grant revenues and expenditures did not prevent or detect timely the following errors: (a) Department of Education federal revenues and expenditures made by the Government's third party fiduciary on behalf of the Government were not recorded in the financial statements and, (b) errors in the reconciliation of grants receivable lead to an understatement in grant revenues.

Questioned Costs
Not applicable.

Underlying Cause
The Government's financial statements have grown in complexity. Additionally, supervisory review of the grant revenues and expenditures, including grants receivable was not effective in all instances. Coordination between the Office of Management and Budget, the Government's third party fiduciary, and the DOF is essential in ensuring federal grants and expenditures are properly recorded financial statements of the Government.

Part II - Financial Statements Findings Section (continued)

Finding Number: 08-04 (continued)

Effect
The lack of supervisory review led to significant adjustments in the Government's financial statements. This could result in a material misstatement of the financial statements.

Recommendation
The Government's DOF and OMB should coordinate the performance quarterly reconciliations of grant revenues and expenditures in order to detect and correct errors on at timely basis, while enhancing the Government's knowledge over its financial condition as is relates to federal grants.

Management's Response
The Government concurs with the auditors' finding and recommendation related to the Government's procedures over its federal grant revenues and expenditures.

Upon recognition, during Fiscal Year 2008, that federal grant revenues were being recorded as a reduction of expenditures in the Government's books and records, the Director of Treasury was alerted to this incorrect procedure and an immediate change to record all revenues in the appropriate revenue object code agreed upon and implemented.

The Department of Finance (DOF) and Department of Education (DOE) is developing an automated interface that will capture federal revenues and expenditures made by the Government's third party fiduciary and mitigate the deficiency of not recording these transactions on the books and records of the Government. It is expected that this automated interface between DOF and DOE's third party fiduciary will be fully operational during Fiscal Year 2011.

Part II - Financial Statements Findings Section (continued)

Finding Number: 08-05

Topic
The Government's lack of control over transactions with its component units led to significant adjustments in the financial statements. Due to the nature and magnitude of this control deficiency, such significant deficiency in internal controls is considered to be a material weakness.

Category
Internal Control

Criteria
A sound system of internal controls is essential in enabling the Government to prepare timely and accurate financial statements by helping ensure that all financial transactions are properly recorded, appropriately supported, and subjected to supervisory review.

Condition Found
Lack of review of classification and reporting of transactions with component units led to significant errors, some which related to prior periods, in amounts due to and from component units in the financial statements of the Government. In addition, during our review of capital assets, we noted that the Government had capitalized capital contributions made to other component units in its financial statements, which led to a duplication of capital assets.

Questioned Costs
Not applicable.

Underlying Cause
The Government does not have an effective process to review the classification and reporting of transactions between component units and the Government.

Effect
This control deficiency led to significant adjustments in the Government's financial statements. This resulted in a material misstatement of the financial statements, some which related to prior periods.

Part II - Financial Statements Findings Section (continued)

Finding Number: 08-05 (continued)

Recommendation
The Government's management should be more closely involved in the monitoring and review of the transactions with its component units, in order to detect and correct errors on a timely basis, while enhancing the Government's knowledge over its financial condition. A formal process should be established for a quarterly review by the Department of Finance of transactions and amounts due to component units. In addition, the Government should establish a procedure of obtaining a reporting package from all of its component units to confirm the classification and reporting of transactions with its component units. This reporting package will standardize and simplify the process of reviewing transactions with component units.

Management's Response
The Government concurs with the auditors' findings and recommendations.

Part II - Financial Statements Findings Section (continued)

Finding Number: 08-06

Topic
The Government's lack of control over its capital assets process led to significant adjustments, including a prior period adjustment, in the financial statements. Due to the nature and magnitude of this control deficiency, such significant deficiency in internal controls is considered to be a material weakness.

Category
Internal Control

Criteria
A sound system of internal controls is essential in enabling the Government to prepare timely and accurate financial statements by helping ensure that all financial transactions are properly recorded, appropriately supported, and subjected to supervisory review.

Condition Found
During our review of construction in progress accounts, we noted a significant number of projects that had items capitalized that should have been expensed as repair and maintenance. Some of these items related to prior periods and were recorded as prior period adjustments.

Questioned Costs
Not applicable.

Underlying Cause
There is a lack of timely coordination between the Department of Finance, the Department of Property and Procurement, and the Department of Public Works. In addition, the delay of the implementation of the capital assets ERP module required that the capital assets process be a manual process, which makes the process prone to error.

Part II - Financial Statements Findings Section (continued)

Finding Number: 08-06 (continued)

Effect
The lack of supervisory review and coordination between the mentioned agencies led to significant adjustments in the Government's financial statements. This resulted in a material misstatement of the financial statements.

Recommendation
The Government should continue its implementation of its ERP capital asset module. A formal procedure should be established to perform a quarterly review the status of construction in progress accounts and capital assets that may require impairment.

Management's Response
The Government concurs with the auditors' findings and recommendations related to construction in progress and the use of the ERP Fixed Asset Module (FAM) to account for the capital assets of the Government.

During Fiscal Year 2008, the Department of Finance (DOF) assumed responsibility for the proper stewardship of the Government's capital assets, which required, but was not achieved, periodic coordination between DOF, the Department of Property and Procurement (P&P), the Department of Public Works (DPW) and the Public Finance Authority (PFA) to ensure that the construction in progress (CIP) accounts were routinely updated. However, to mitigate this circumstance in the future, the Government, through P&P, began to use, in earnest, the ERP FAM in April 2008.

Since P&P is responsible for the ERP FAM, the Government anticipates this condition to be improved upon in Fiscal Year 2008 and resolved in Fiscal Year 2009.

Part II - Financial Statements Findings Section (continued)

Finding Number: 08-07

Topic
The Government's lack of control over the accounts payable reconciliations process led to significant adjustments in the financial statements. Due to the nature and magnitude of this control deficiency, such significant deficiency in internal controls is considered to be a material weakness.

Category
Internal Control

Criteria
A fundamental element of a sound system of internal controls is an effective accounts payable reconciliations process. Such process is essential in enabling companies to prevent and detect errors on a timely basis. This effective process helps ensure that all accounts payable reconciliations are properly recorded, appropriately supported, and subjected to supervisory review.

Condition Found
Lack of controls over the accounts payable ERP module and accounts payable reconciliations has made it difficult for the Government to establish its accounts payable subledger. Management establishes its accounts payable subledger through a manually intensive process. This resulted in significant adjustments to the financial statements.

Questioned Costs
Not applicable.

Underlying Cause
The Government's financial statements have grown in complexity. Additionally, supervisory review of the accounts payable reconciliation process was not effective in all instances.

Part II - Financial Statements Findings Section (continued)

Finding Number: 08-07 (continued)

Effect
The lack of supervisory review led to significant adjustments in the Government's financial statements. This resulted in a material misstatement of the financial statements.

Recommendation
The Government's management should be more closely involved in the monitoring and review of the financial statement close process. Management should consider performing this process on a quarterly basis in order to detect and correct errors on at timely basis, while enhancing the Government's knowledge over its financial condition. In addition, Management should consider establishing procedures to reduce manual efforts by utilizing its ERP Accounts Payable module more effectively.

Management's Response
The Government concurs with this finding. In Fiscal Year 2008, Government implemented a new decentralized financial management system requiring the training of over 3,000 government employees in the entry of core financial data. The Government continues its training efforts to ensure that underlying accounts payable data, such as invoice dates, are properly reported and reviewed. In addition, the financial management system team is developing controls to ensure the reconciliation of general and subsidiary ledgers on a timely basis

Part II - Financial Statements Findings Section (continued)

Finding Number: 08-08

Topic
The Government's lack of control over its liability estimation process for its landfill closure and post-closure liability, and accrued compensated absences led to an error in the financial statements, which could not be quantified by management. Due to the nature and magnitude of this control deficiency, such significant deficiency in internal controls is considered to be a material weakness.

Category
Internal Control

Criteria
A fundamental element of a sound system of internal controls is an effective liability estimation process. Such process is essential in enabling organization to prevent and detect errors on a timely basis. This effective process helps ensure that all liability estimation transactions are properly recorded, appropriately supported, and subjected to supervisory review.

Condition Found
The Government was not able to validate its estimate for its liability for landfill closure and post-closure, which resulted in a qualification of opinion of the governmental activities in the Government's basic financial statements.

In addition, the accrued compensated absences sub ledger contained significant errors, which were not quantifiable by Management, and hence led to a qualification in the audit opinion of the governmental activities.

Questioned Costs
Not applicable.

Underlying Cause
Supervisory review of the liability estimation process was not in place. As a result, supporting documentation for estimates was not available from Management.

Part II - Financial Statements Findings Section (continued)

Finding Number: 08-08 (continued)

Effect
The Government was not able to support its estimate for these liabilities, which resulted in a qualification in the audit opinion of the governmental activities in the Government's basic financial statements.

Recommendation
The Government's management should establish controls over the review of this estimation process and establish necessary procedures to document support for assumptions used in estimating this liability.

Management's Response
The Government concurs with the auditors' findings and recommendations.

Part II - Financial Statements Findings Section (continued)

Finding Number: 08-09

Topic
Performance and review of the bank reconciliation process has not been timely.

Category
Internal Control

Criteria
Performance and review of bank reconciliations should be performed within a period of 30 to 45 days after month-end.

Condition Found
During our audit, we noted that bank reconciliations were not being performed and reviewed within a reasonable period. Most bank reconciliations were completed, reviewed and approved after 365 days.

Questioned Costs
Not applicable.

Underlying Cause
The Government has numerous bank accounts and its process for performing bank reconciliations is, for the most part, performed manually.

Effect
The lack of timely performance and review of bank reconciliations had led to adjustments not being identified on a timely basis. This could also result in a misstatement due to error or fraud going undetected. In addition, this has prevented the Government from performing monthly closing procedures, which is necessary for timely financial reporting.

Recommendation
The Government should automate its bank reconciliation process and consolidate unnecessary bank accounts. This will allow for the Government's personnel to be more efficient and effective in detecting errors and provide the Government more timely and accurate financial information.

Part II - Financial Statements Findings Section (continued)

Finding Number: 08-09 (continued)

Management's Response
The Government concurs with the auditors' findings and recommendations.

As part of the ERP, an integral component in automating the bank reconciliation functions within the DOF's Treasury Division lay in the bank reconciliation application, which resides in the Treasury Management Module (TMM). The TMM was used to reconcile all Government bank accounts as of September 30, 2007 and began in earnest as a monthly reconciliation tool throughout Fiscal Year 2008 and henceforth. While the TMM has been instrumental in improving the overall reconciliation process and the controls surrounding cash, it has revealed the necessity to reduce the amount of excess bank accounts utilized throughout the Government. It is our expectation that many of these excess bank accounts will be closed during Fiscal Years 2010 and 2011. Moreover, in maximizing the benefits of the TMM, the Government will move towards increased efficiency and effectiveness through consolidation of existing bank accounts, while leveraging the full suite of available on-line financial tools (e.g., inter- and intra-bank ACH transactions) during Fiscal Year 2010.

Part II - Financial Statements Findings Section (continued)

Finding Number: 08-10

Topic
The Government's lack of control over its liability estimation process for medical malpractice claims led to an error in the financial statements, which could not be qualified by management. Due to the nature and magnitude of this control deficiency, such significant deficiency in internal controls is considered to be a material weakness.

Category
Internal Control

Criteria
A fundamental element of a sound system of internal controls is an effective liability estimation process. Such process is essential in enabling companies to prevent and detect errors on a timely basis. This effective process helps ensure that all liability estimation transactions are properly recorded, appropriately supported, and subjected to supervisory review.

Condition Found
The Government did not establish a liability for medical malpractice claims, which resulted in a disclaimer of opinion of the business-type activities and the aggregate remaining fund information.

Questioned Costs
Not applicable.

Underlying Cause
The Government's financial statements have grown in complexity. Additionally, a supervisory review of the liability estimation process for worker's compensation claims was in place for fiscal year 2008.

Part II - Financial Statements Findings Section (continued)

Finding Number: 08-10 (continued)

Effect
The Government was not able to quantify this liability, which resulted in a disclaimer in the audit opinion of the business-type activities and aggregate remaining fund information.

Recommendation
The Government's management should establish controls over the review its claims data process which will allow them to provide the data necessary in the estimation of this liability.

Management's Response
The Government concurs with the auditors' findings and recommendations related to establish a liability for medical malpractice claims.

The Government engaged the services of an actuarial firm to establish a liability for medical malpractice claims. We anticipate a properly recorded liability that can be reviewed independently by the auditors, in the financial statements of the Government as of September 30, 2009.

Part II - Financial Statements Findings Section (continued)

Finding Number: 08-11

Topic
Errors were identified in the Schedule of Expenditures of Federal Awards (SEFA).

Category
Internal Control

Criteria
Recipients of Federal awards are to maintain adequate controls over their books and records in order to prepare appropriate financial statements, including the Schedule of Expenditures of Federal Awards (OMB Circular A-133, Section .300(d)).

Condition Found
The Schedule of Expenditures of Federal Awards (SEFA) is to provide total Federal awards expended for each individual Federal program. Errors were identified in the preparation of the September 30, 2008 Schedule of Expenditures of Federal Awards.

As part of our compliance testing, items were identified that were not properly recorded in the September 30, 2008 Schedule of Expenditures of Federal Awards according to the definition of expenditures per OMB Circular A-133. The September 30, 2008 SEFA was not corrected. The September 30, 2008 SEFA reflected additional expenditures of $1,632,697 over amounts reported and requested for reimbursement. Differences identified between expenditures reported in the SEFA and actual expenditures per the accounting records were as follows:

CFDA Number	Program Title	Expenditures per SEFA	Expenditures Reported	Difference
10.551, 10.561	Food Stamps Cluster	$ 24,678,210	$ 27,410,352	$ (2,732,142)
10.555, 10559	Child Nutrition Cluster	5,728,625	6,181,802	(453,177)
10.557	Special Supplement Nutrition Program for Women, Infants, and Children (WIC)	6,482,183	6,893,445	(411,262)
17.225	Unemployment Insurance	1,419,808	2,114,804	(694,996)
20.205	Highway Planning and Construction	6,413,062	4,326,345	2,086,717
66.468	Capitalization Grants for Drinking Water State Revolving Fund	1,538,223	672,049	866,174
66.605	Performance Partnership Grant	1,879,442	1,887,079	(7,637)
93.558	Temporary Assistance for Needy Families (TANF)	4,625,245	4,203,086	422,159
93.563	Child Support Enforcement	4,921,373	3,236,324	1,685,049
93.778	Medical Assistance Program (Medicaid; Title XIX)	7,037,463	6,165,651	871,812
		$ 64,723,634	**$ 63,090,937**	**$ 1,632,697**

Part II - Financial Statements Findings Section (continued)

Finding No. 08-11 (continued)

Questioned Costs
Not applicable.

Underlying Cause
Inadequate internal controls over financial reporting resulted in errors in the preparation of the Schedule of Expenditures of Federal Awards. Lack of reconciliation between Federal grant expenditures recorded in the Government's Federal program records with the amounts accounted for in its accounting system.

Effect
The September 30, 2008 SEFA was overstated by the above amounts in the above programs.

Recommendation
The Government should implement additional procedures and internal controls to ensure its Schedule of Expenditures of Federal Awards is prepared properly to include all Federal expenditures applicable to the reporting period. The Government should ensure proper reconciliation between its accounting system and Federal expenditures at the program level is timely performed and discrepancies are investigated.

Management's Response
The Government concurs with the auditors' findings and recommendations.

Part III - Federal Awards Findings and Questioned Costs Section

This section identifies the audit findings required to be reported by OMB Circular A-133, Section .510(a) (for example, material weaknesses, significant deficiencies and material instances of noncompliance, including questioned costs), as well as any abuse findings involving Federal awards that are material to a major program.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

U.S. Department of Agriculture

Food Stamps Cluster
CFDA Nos. 10.551 and 10.561

The objective of the Food Stamp Program is to help low-income households buy the food they need for good health. Total Food Stamps Cluster Federal expenditures for the fiscal year ended September 30, 2008 amounted to $24,678,210.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-12

Program
U.S. Department of Agriculture - Food Stamps Cluster – CFDA Nos. 10.551 and 10.561

Category
Internal Control/Compliance

Compliance Requirement
Reporting

Criteria
Pursuant to 7 CFR 3016.20(b)(1), accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with financial reporting requirements of the grant.

Condition Found
During our testing to determine whether the Financial Status Report (SF-269) includes all activity of the reporting period, are supported by applicable accounting records, and are fairly presented in accordance with the program requirements, we noted that the expenditure transaction details did not reconcile by $30,739, to the amounts reported in the Financial Status Report for the period ended September 30, 2008, as follows:

Financial Status Report	$ 4,555,619[a]
Less: Expenditure transaction details	4,524,880[b]
Differences not reconciled	$ 30,739

Explanatory notes:
(a) Per line 10k "Total Federal share of outlays and unliquidated obligations" of the Financial Status Report (SF-269).
(b) Transaction details provided by the Government of all General Ledger accounts.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-12 ***(continued)***

Questioned Costs
Questioned costs of $30,739 have been determined as amounts reported in the Financial Status Reports and requested for reimbursement in excess of amounts expended by the Government.

Underlying Cause
Internal controls to ensure complete and accurate reporting and reconciliation between the Government's accounting records and Federal financial reports are not operating effectively.

Effect
Inadequate internal controls related to reporting may lead to inaccurate financial information presented in reports submitted to the Federal government and amounts requested for reimbursement in excess of actual expenditures.

Recommendation
The Government should enforce that effective internal controls are put in place to ensure reports are complete, accurate, reconciled, and supported, as required.

Management's Response
The Government concurs with the auditors' findings and recommendations. Refer to the Corrective Action Plan for further details.

Finding Number 08-13

Program
U.S. Department of Agriculture - Food Stamps Cluster – CFDA Nos. 10.551 and 10.561

Category
Internal Control/Compliance

Compliance Requirement
Special Tests and Provisions - ADP systems for Food Stamps (Eligibility)

Criteria
Pursuant to 7 CFR 272.10, to meet the requirements and ensure the efficient and effective administration of the program, a food stamp system, at a minimum, shall be automated in Certification to determine eligibility and calculate benefits or validate the eligibility worker's calculations by processing and storing all casefile information necessary for the eligibility determination and benefit computation (including but not limited to all household members' names, addresses, dates of birth, social security numbers, individual household members' earned and unearned income by source, deductions, resources and household size).

Condition Found
During our testing to determine whether the State administering agency's ADP system for Foods Stamps is meeting the requirement to accurately and completely process and store all case file information for eligibility determination and benefit calculation, we noted that internal controls on eligibility determinations were not operating effectively for 1 of 25 cases selected. Furthermore, we were unable to conclude on eligibility for 2 of 25 additional cases selected for compliance testing, as shown in the table below. The entire population of food stamps benefits issued for fiscal year 2008 totaled $22,806,377 paid to approximately 5,200 participants.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-13 ***(continued)***

Condition Found (continued)

No.	Participant ID	Test Type	Benefits Paid	Comment
1	3006160	Internal Control	$ 1,754	**A**
2	2004509	Compliance	1,977	**B**
3	3002818	Compliance	2,761	**B**
		Total:	**$ 6,492**	

Comments:

A: Participant file not provided.

B: Utilities documentation is not under participant's name. We were unable to verify who is responsible for the bills since the amount is needed for calculation of benefit payment.

Questioned Costs

We have determined known questioned costs of $6,492 for benefits issued to participants which we could not verify eligibility for the program.

Underlying Cause

Although current internal controls provide that eligibility documentation should be maintained in the participant's records, the department responsible for the program was unable to locate the supporting documents of the selected participant's files.

Effect

The Government may have awarded Federal funds to an individual or family which is not eligible to participate in the program.

Recommendation

The Government should implement procedures to ensure that all participant files are properly maintained and available.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-13 ***(continued)***

Management's Response
The Government concurs with the auditors' findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-14

Program
U.S. Department of Agriculture - Food Stamps Cluster – CFDA Nos. 10.551 and 10.561

Category
Internal Control/Compliance

Compliance Requirement
Cash Management

Criteria
In accordance with 31 CFR part 205 and the Cash Management Improvement Act (CMIA) Treasury-State Agreement in effect for fiscal year 2008, between the Territory of the Virgin Islands (the Territory) and the U.S. Secretary of the Treasury, the Territory is required to use an "average clearance" funding technique for vendor and payroll related costs. Under the "average clearance" funding technique, the Government may submit claims for reimbursement such that the funds are deposited, by ACH on the dollar-weighted average day of clearance, in the Government's bank account on the fourth day following the release of funds for vendor disbursements and on the day in which payroll checks are released for payroll related costs. Furthermore, reimbursement requests shall be for the exact amounts disbursed.

Condition Found
During our testing on cash management procedures to verify the timing of cash drawdowns were made as close as is administratively feasible, we noted that 1 drawdown exceeded a reasonable time between the time funds were released and the transfers were made. Our sample consisted of one drawdown from a total population of 3 cash draws during the Government’s fiscal year. The following table shows the exception noted during our testing:

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-14 *(continued)*

Condition Found (continued)

No.	Federal Grant ID	Drawdown Amount	Drawdown Type	Funds Released	Drawdown Settlement Date	Days Between Release and Deposit	Approx. Excess Days
1	2008IS251441	$ 336,227	Payroll	4/10/08-5/22/08	8/22/08	92 to 134	92 to 134

Questioned Costs
Not applicable, since time delays between outlays and cash draws do not result in questioned costs.

Underlying Cause
Internal controls related to transfers of Federal funds for programs included in the CMIA Treasury-State Agreement to minimize the timing between the time funds are released and the transfers are made are not operating effectively.

Effect
Delays in transferring Federal funds to cover program outlays into the Governments' cash accounts could affect cash flow demands and may cause Food Stamps program activities to be funded by other programs' funds.

Recommendation
The Government should ensure that policies and procedures are enforced in order to comply with the appropriate funding patterns set forth in the CMIA Treasury-State Agreement.

Management's Response
The Government concurs with the auditors' findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

U.S. Department of Agriculture
Child Nutrition Cluster
(CFDA Nos. 10.555 and 10.559)

The objectives of the Child Nutrition Cluster programs are to: (1) assist States in administering food services that provide healthful, nutritious meals to eligible children in public and non-profit private schools, residential child care institutions, and summer recreation programs; and (2) encourage the domestic consumption of nutritious agricultural commodities. Total Child Nutrition Cluster Federal expenditures for the fiscal year ended September 30, 2008 amounted to $5,728,625.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-15

Program
U.S. Department of Agriculture **-** Child Nutrition Cluster – CFDA Nos. 10.555 and 10.559

Category
Internal Controls/Compliance

Compliance Requirement
Cash Management

Criteria
In accordance with 31 CFR part 205 and the Cash Management Improvement Act (CMIA) Treasury-State Agreement in effect for fiscal year 2008, between the Territory of the Virgin Islands (the Territory) and the U.S. Secretary of the Treasury, the Territory is required to use an "average clearance" funding technique for vendor and payroll related costs. Under the "average clearance" funding technique, the Government may submit claims for reimbursement such that the funds are deposited, by ACH on the dollar-weighted average day of clearance, in the Government's bank account on the fourth day following the release of funds for vendor disbursements and on the day in which payroll checks are released for payroll related costs. Furthermore, reimbursement requests shall be for the exact amounts disbursed.

Condition Found
During our testing of cash management procedures to verify the timing of cash drawdowns were made as close as is administratively feasible in accordance with the CMIA Treasury-State Agreement, we noted that all 9 drawdowns tested were in noncompliance with the requirements by either exceeding a reasonable time between the time payments were released and the transfers were made or by being made prior to expending the requested Federal funds. Our sample consisted of 9 drawdowns from a total population of 39 cash draws from the ASAP account code 2008IN109941, totaling $6,134,578. The following table shows the exceptions noted during our testing:

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-15 *(continued)*

Condition Found (continued)

No.	Federal Grant ID	Ref.# (SoR)	Drawdown Amount	Drawdown Type	Payment Released (Range)	Deposit Date	Days Between Release and Deposit	Approx. Excess Days
1	2008IN109941	1016	$1,859,736	Payroll	11/8/07-8/16/08	9/12/2008	27-309	27-309
2	2008IN109941	1008	1,080,540	Payroll	10/13/07-1/3/08	6/30/2008	175-261	175-261
3	2008IN109941	1050	338,777	Non-payroll	3/11/09	3/18/2009	7	3
4	2008IN109941	1057	313,990	Non-payroll	4/22/09	4/29/2009	7	3
5	2008IN109941	1045	310,308	Non-payroll	1/21/09-1/28/09	2/23/2009	26-33	22-29
6	2008IN109941	1056	89,502	Non-payroll	10/10/08-1/13/08	9/29/2009	334-356	330-352
7	2008IN109941	1056	95,650	Non-payroll	10/17/08	6/29/2009	255	255
8	2008IN109941	1056	127,199	Payroll	8/28/08	6/29/2009	305	305
9	2008IN109941	1051	190,091	Non-payroll	3/18/09	3/18/2009	0	-4

Questioned Costs
Not applicable.

Underlying Cause
Internal controls related to transfers of Federal funds for programs included in the CMIA Treasury-State Agreement to minimize the timing between the time funds are released and the transfers are made are not operating effectively.

Effect
Delays in transferring Federal funds to cover direct cost expenditures into the Governments' cash accounts could affect cash flow demands and may cause other program's funds to fund Child Nutrition Cluster activities.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-15 ***(continued)***

Recommendation
The Government should ensure that policies and procedures are enforced in order to comply with the appropriate funding patterns set forth in the CMIA Treasury-State Agreement.

Management's Response
The Government concurs with the auditors' findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-16

Program
U.S. Department of Agriculture - Child Nutrition Cluster – CFDA Nos. 10.555 and 10.559

Category
Internal Controls/Compliance

Compliance Requirement
Matching, Level of Effort, Earmarking, Period of Availability of Federal Funds

Criteria
In accordance with 7 CFR 3016 all matching contributions must be incurred during the grant award period to which the cost sharing or matching requirements applies.

Condition Found
During our testing to determine whether the minimum amount of contributions or matching funds were provided, we noted that 10 invoices (totaling $12,345) included in two of the outlays identified by the Government as matching contributions in our sample were outside the period specified by the Grantor. As a result, the Government did not match the minimum amount of funds by $6,257 for the grant period, as presented on the table below. Our sample consisted of 14 outlays totaling $82,436 from a listing of expenditures paid from the General Fund, which contained a total of 72 outlays amounting $128,614.

Matched funds paid with local funds (General Fund)	$ 128,614
Less: Adjustment for invoices outside of grant period (see table below)	(12,345)
Adjusted matched funds	116,270
As reported in FNS 13 (line 5)	122,527
Unmatched funds	$ 6,257

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-16 *(continued)*

Condition Found (continued)

Check #	Check Date	Check Amount	Vendor ID	P.O.	Invoice Number(s)	Invoice Date(s)	Amount Within Grant Period	Amount Outside Grant Period
4716209	2/21/2008	$ 5,895	15516	28009421	12736 (July 2006 Stmt)	7/6/2006		$ 2,622
					(Aug 2006 Stmt)	9/8/2006		3,273
4730065	4/29/2008	$ 7,965	12371	28010676	21111	Dec-07	$ 790	–
					18278	Jan-07	–	920
					18804	Feb-07	–	920
					19072	Mar-07	–	660
					20119	Apr-07	–	790
					20069	May-07	–	855
					20264	Jun-07	–	725
					20706	Aug-07	–	855
					20677	Sep-07	–	725
					20858	Oct-07	725	–
							$ 1,515	$ 12,345

Questioned Costs

We have determined known questioned costs of $6,257 based on expenditures incurred outside the matching period specified by the Grantor.

Underlying Cause

Internal controls to ensure matched funds are made for expenditures are incurred during the specific grant award period are not operating effectively.

Effect

Lack of enforcement of internal controls to verify expenditures paid with local funds are incurred within the period specified by the Grantor may lead to non compliance with Federal regulations due to unmatched costs.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-16 ***(continued)***

Recommendation
The Government should ensure that internal controls are operating effectively to ensure compliance with the matching requirement.

Management's Response
The Government concurs with the auditors' findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-17

Program
U.S. Department of Agriculture **-** Child Nutrition Cluster – CFDA Nos. 10.555 and 10.559

Category
Internal Controls/Compliance

Compliance Requirement
Period of Availability of Federal Funds

Criteria
Pursuant to 7 CFR 3016.23(a), where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period unless carryover of unobligated balances is permitted, in which case the carryover balances may be charged for costs resulting from obligations of the subsequent funding period.

Condition Found
During our audit procedures to determine whether Federal funds were obligated within the period of availability and obligations were liquidated within the required time period, we noted that outlays charged to the grant ID 2008IN109941 of $882,226, were incurred outside the grant period of October 1, 2007 to September 30, 2008. Our sample consisted of selecting 10 disbursements that totaled $1,308,695, from a universe of 50 disbursements which totaled $1,945,268. The following table details the exceptions noted:

Government of the United States Virgin Islands

Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2008

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-17 *(continued)*

Condition Found (continued)

#	Vendor ID	Requisition No.	Purchase Order	PO Amount	PO Date	Invoice Number	Invoice Date	Invoice Amounts
1	10998	9285	6488	75,266.25	01/05/2009	215292	11/5/2008	$ 50,145
						212816	10/27/2008	25,122
								$ 75,267
2	10998	9288	6489	80,837.45	01/05/2009	244750	2/20/2009	$ 28,736
						244747	2/19/2009	14,628
						244748	2/19/2009	5,750
						244751	2/20/2009	4,857
						244752	2/20/2009	10,978
						236893	1/22/2009	6,700
						247295	2/27/2009	9,188
								$ 80,837
3	16540	9286	6494	69,606.72	01/05/2009	EDU 112608	12/4/2008	$ 69,607

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-17 *(continued)*

Condition Found (continued)

#	Vendor ID	Requisition No.	Purchase Order	PO Amount	PO Date	Invoice Number	Invoice Date	Invoice Amounts
4	5389	9291	6811	247,226.38	01/08/2009	Z0APF	12/05/2005	$ 2,023
						D0BHF	02/25/2006	33,718
						F0CQC	03/25/2006	53,632
						H0FVO	04/25/2006	47,363
						Y0OHA	12/25/2006	12,935
								$ 149,671
5	2092	00020617	16710	77,121.50	03/30/2009	19961	03/10/2009	$ 77,122
		00009357	8302	44,725.00	01/22/2009	19892	02/17/2009	44,725
								$ 121,847
6	10999	00009375	8893	454,539.00	01/26/2009	C33662-4	02/09/2009	$ 23,649
						C33699	02/18/2009	5,085
						C33700	02/19/2009	3,451
						C33701	02/17/2009	28,049
						C33702	02/11/2009	2,601
						C33703	02/11/2009	11,282
						C33704	02/18/2009	31,721
						C33705	02/18/2009	7,425
						C33706	02/18/2009	4,756
						C33707	02/10/2009	22,530
						57200	02/10/2009	1,479
						57639	02/12/2009	2,524
						58789	02/18/2009	31,721
						60112	02/25/2009	2,520
						60331	03/02/2009	1,290

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-17 *(continued)*

Condition Found (continued)

#	Vendor ID	Requisition No.	Purchase Order	PO Amount	PO Date	Invoice Number	Invoice Date	Invoice Amounts
						61651	03/06/2009	19,304
						61652	03/06/2009	2,543
						61653	03/06/2009	1,210
						63472	03/17/2009	19,617
						63475	03/17/2009	1,150
						63498	03/17/2009	2,543
						63499	03/17/2009	14,892
						C33668	03/10/2009	21,510
						C33670	03/11/2009	833
						C33710	03/03/2009	2,715
						C33718	03/10/2009	46,352
						C33719	03/10/2009	1,837
						C33729	03/16/2009	140,015
								454,604
TOTAL								**$ 951,883**

Questioned Costs
We have determined known questioned costs of $951,883 for expenditures incurred outside the period of availability of federal funds.

Underlying Cause
Internal controls to ensure reported program expenditures were incurred during the grant award period are not operating effectively.

Effect
Lack of a process to determine that Federal funds were obligated within the period of availability and obligations were liquidated within the required time period may lead to disallowance of costs.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-17 ***(continued)***

Recommendation
The Government should ensure that a process is put in place to verify that reported expenditures claimed for reimbursement were incurred within the specified grant period.

Management's Response
The Government concurs with the auditors' findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-18

Program
U.S. Department of Agriculture **-** Child Nutrition Cluster – CFDA Nos. 10.555 and 10.559

Category
Internal Controls/Compliance

Compliance Requirement
Reporting

Criteria
In accordance with 7 CFR 210.5, each state agency recipient of funds shall limit requests for funds to such times and amounts as will permit prompt payment of claims or authorized advances. Also, each state agency shall maintain records as necessary to support the reimbursement payment made to school food authorities and the report submitted to the Food and Nutrition Service of the U.S. Department of Agriculture (FNS).

In addition, pursuant 7 CFR 3016.20, *Standards for Financial Management Systems*, Section (a)- A State must expand and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to- (1) Permit preparation of reports required by this part and the statutes authorizing the grant, and (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-18 ***(continued)***

Condition Found

During our testing to determine whether the Financial Status Report (SF-269) include all activity of the reporting period, are supported by applicable accounting records, and are fairly presented in accordance with the program requirements, we noted that the expenditure transaction details did not reconcile by $207,356, to the amounts reported in the Financial Status Report (which is the basis for reimbursement) for the period ended September 30, 2008.

Financial Status Report	$ 6,181,802[(a)]
Less: Expenditure transaction details	5,974,445[(b)]
Differences not reconciled	$ 207,356

Explanatory notes:

(a) Per the sum of columns 6, 7, and 13 to 15, of line k "Total Federal share of outlays and unliquidated obligations" of the Financial Status Report (Standard Form-269).

(b) Transaction details provided by the Government of all school districts.

Questioned Costs

As a result of expenditure transaction details not presenting all activity included in financial reports, we have determined an unreconciled difference of $207,356 between the Government's expenditures details and amounts included in the Financial Status Report.

Underlying Cause

Internal controls to ensure complete and accurate reporting and reconciliation between the Governments accounting records and Federal financial reports are not operating effectively.

Effect

The Government may receive funding for unallowable costs if the cash draws were higher than actual expenditures/meals served. The Program may be reporting unallowable (i.e., unsupported) costs as Federal expenditures. This may also lead to incorrect financial information presented in reports submitted to the Federal government.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-18 ***(continued)***

Recommendation
The Government should establish procedures to ensure reports are complete, accurate, reconciled to program records and the financial reporting system, and supported, as required.

Management's Response
The Government concurs with the auditors' findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-19

Program
U.S. Department of Agriculture - Child Nutrition Cluster – CFDA Nos. 10.555 and 10.559

Category
Internal Controls/Compliance

Compliance Requirement
Activities Allowed or Unallowed, Allowable Costs/Cost Principles

Criteria
Pursuant OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, indirect cost rates must be applied in accordance with approved indirect cost rate agreements (ICRA), or special award provisions or limitations, if different from those stated in negotiated rate agreements.

Condition Found
During our audit procedures to test that indirect cost rates were applied in accordance with approved indirect cost rate agreements (ICRA), we noted that the Government calculated indirect costs for reimbursement purposes based on a rate of 9.7%, instead of the applicable 16.26% in accordance with the ICRA dated November 27, 2007.

Questioned Costs
No questioned costs have been determined, since the condition found results in understated indirect cost. The Government requested reimbursement for the less indirect costs than it was entitled.

Underlying Cause
Internal controls to ensure appropriate indirect cost rates have been applied are not operating effectively.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-19 ***(continued)***

Effect
Failure to verify appropriate indirect cost rates have been applied may result in non compliance with OMB Circular A-87, disallowance of funds, or understatement of amounts requested for reimbursement.

Recommendation
The Government should ensure effective controls are in place to verify it is using the most recent approved cost rate for indirect costs requested for reimbursement.

Management's Response
The Government concurs with the auditors' findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

U.S. Department of Agriculture

Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) CFDA No. 10.557

The objective of the Special Supplemental Nutrition Program for Women, Infants and Children (WIC) is to provide supplemental nutritious foods, nutrition education, and referrals to health care for low-income persons during critical periods of growth and development. Such persons include pregnant women, breast-feeding women up to one year postpartum, non-breast-feeding women up to six months postpartum, infants (persons under one year of age), and children under age five determined to be at nutritional risk. Intervention during the prenatal period improves fetal development and reduces the incidence of low birth weight, short gestation, and anemia.

Total WIC Federal expenditures for the fiscal year ended September 30, 2008 amounted to $6,482,183.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-20

Program
U.S. Department of Agriculture - Special Supplemental Nutrition Program for Women, Infants and Children (WIC) – CFDA No. 10.557

Category
Internal Controls/Compliance

Compliance Requirement
Period of Availability of Federal Funds

Criteria
Pursuant to 7 CFR 3016.23(a), where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period unless carryover of unobligated balances is permitted, in which case the carryover balances may be charged for costs resulting from obligations of the subsequent funding period.

Condition Found
During our testing to determine whether Federal funds were obligated within the period of availability, we noted 5 items that were obligated (or incurred) outside the Grant's period of October 1, 2007 through September 30, 2008, as shown on the table below. Our sample consisted of selecting 65 outlays totaling $143,753 from a total universe of $487,587 of purchases of goods and services.

No.	Check #	Payee ID	Invoice No.	Date Incurred	Amount	Expenditure Type
1	9195107	4449	1075	January 2007	$ 1,807	Professional Services Costs
2	9195125	8818	0000248	September 2007	43	Communication Costs
3	9192066	16405	0431579	Oct-Dec 2008	115	Communication Costs
4	9192131	17338	Various	Aug-Sep 2007	1,376	Maintenance, Operations and Repairs
5	9192090	17338	Various	Aug-Sep 2007	675	Maintenance, Operations and Repairs
					$ 4,016	

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-20 ***(continued)***

Questioned Costs
We have determined known questioned costs of $4,016 based on expenditures incurred outside the period specified by the Grantor.

Underlying Cause
Current internal controls in the Government are not operating effectively with regard to reviewing and approving invoices and amounts reported as expenditures and claimed for reimbursement to ensure they are charged within the period of availability.

Effect
As a result, funds may be expended for unallowable costs, requiring the program to reimburse the Federal government.

Recommendation
The Government should implement a process to ensure all expenditures are incurred during the period of availability and that internal controls are in place to prevent or detect expenditures being charged outside of such period.

Management's Response
The Government concurs with the auditors' findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-21

Program
U.S. Department of Agriculture - Special Supplemental Nutrition Program for Women, Infants and Children (WIC) – CFDA No. 10.557

Category
Internal Controls/Compliance

Compliance Requirement
Cash Management

Criteria
In accordance with 31 CFR part 205 and the Cash Management Improvement Act (CMIA) Treasury-State Agreement in effect for fiscal year 2008, between the Territory of the Virgin Islands (the Territory) and the U.S. Secretary of the Treasury, the Territory is required to use an "average clearance" funding technique for vendor and payroll related costs. Under the "average clearance" funding technique, the Government may submit claims for reimbursement such that the funds are deposited, by ACH on the dollar-weighted average day of clearance, in the Government's bank account on the fourth day following the release of funds for vendor disbursements and on the day in which payroll checks are released for payroll related costs. Furthermore, reimbursement requests shall be for the exact amounts disbursed.

Condition Found
During our testing on cash management procedures to verify the timing of cash drawdowns were made in compliance with Treasury State Agreement, we noted that 1 drawdown exceeded a reasonable time between the time funds were released and the transfers were made. Our sample consisted of 18 drawdowns from a total population of 180 cash draws of administrative expenses during the Government's fiscal year. The following table shows the exception noted during our testing:

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-21 ***(continued)***

Condition Found (continued)

No.	Federal Grant ID	Drawdown Amount	Drawdown Type	Funds Released	Drawdown Settlement Date	Days Between Release and Deposit	Approximate Excess Days
1	2008IW100341	$ 188,120	Payroll and Non-Payroll	5/19/08 - 8/14/08	9/22/08	39 to 126	39 to 126

Questioned Costs
Not applicable, since time delays between outlays and cash draws were in excess of period specified in the CMIA.

Underlying Cause
Internal controls related to transfers of Federal funds for programs included in the CMIA Treasury-State Agreement to minimize the timing between the time funds are released and the amounts reimbursed are not operating effectively.

Effect
Delays in transferring Federal funds to cover program outlays into the Governments' cash accounts could affect cash flow demands and may cause WIC program activities to be funded by other programs' funds.

Recommendation
The Government should ensure that policies and procedures are enforced in order to comply with the appropriate funding patterns set forth in the CMIA Treasury-State Agreement.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-21 ***(continued)***

Management's Response
The Government concurs with the auditors' findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

U.S. Department of Defense
The Office of the Adjutant General

National Guard Military Operations and Maintenance (O&M) Projects
CFDA No. 12.401

The National Guard Bureau (NGB) enters into cooperative agreements (CA) for Army National Guard (ARNG) Facilities Programs (EP) and Air National Guard (ANG) Facility Operations & Maintenance Activities (FOMA) with States to provide Federal support for services provided by the State Military Departments for authorized facilities for leases, facilities operations, and sustainment, restoration, an modernization, including operations and maintenance (O&M) and minor construction costs (NGR 5-1/ANGI 63-101).

Total National Guard Military Operations and Maintenance (O&M) Projects Federal expenditures for the fiscal year ended September 30, 2008, amounted to $3,293,417.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-22

Program
U.S. Department of Defense - The Office of the Adjutant General - National Guard Military Operations and Maintenance (O&M) Projects – CFDA No. 12.401

Category
Internal Controls/Compliance

Compliance requirement
Activities Allowed or Unallowed, Allowable Costs/Cost Principles

Criteria
According to OMB Circular A-87, Attachment B, item #8(h)(3) - support for salaries and wages - "Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee."

Condition Found
The Office of the Adjutant General (OTAG) was unable to provide semi-annual certifications for employees paid with Federal Award for the following payroll transactions.

	Employee No.	Pay Period	Amount
1	56575	10/27/2007	$ 1,783
2	23437	8/16/2008	1,205
3	56575	Various	12,055
4	50810	Various	6,668
5	23437	3/1/2008	949
		Total	$22,660

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-22 ***(continued)***

Condition Found (continued)
In addition, the OTAG was unable to provide timesheets for the following employees paid with Federal Award for the following payroll transactions.

	Employee No.	Pay Period	Amount
1	56575	Payroll #2 & 5	$2,103
2	50810	Payroll #6	3,334
		Total	$5,437

The total of all payroll transaction expenditures for fiscal year 2008 is $1,589,339. Exceptions noted represent 100% of our sample selection for payroll.

Questioned Costs
$1,589,339

Underlying Cause
The OTAG does not have a process in place to ensure that semi-annual certifications and timesheets are prepared to support payroll charges to grant awards.

Effect
The lack of evidence supporting review and approval of employee time may result in the inappropriate allocation of personnel charges to Federal grants, leading to reimbursement being made for unallowable costs.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-22 ***(continued)***

Recommendation
The OTAG needs to establish a process requiring either detailed time records and certifications to ensure that they are in compliance with OMB Circular A-87, Attachment B, Item #8(h)(3) to adequately support payroll costs charged to grants and therefore requested for reimbursement.

Management's Response
The Government concurs with the auditors' findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-23

Program
U.S. Department of Defense - The Office of the Adjutant General - Guard Military Operations and Maintenance (O&M) Projects – CFDA No. 12.401

Category
Internal Controls/Compliance

Compliance Requirement
Equipment and Real Property Management

Criteria
Pursuant to 32 CFR section 33.32(d) (1) and (2); Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.

Condition Found
(1) 126 out of 126 inventory items did not contain an acquisition date, cost and the percentage of Federal participation in the cost. (2) 34 out of 126 inventory items did not have a serial number or other identification number, (3) 57 out of 126 instances inventory items did not appear to meet the criteria for the State's policy of capitalizing equipment, where the assessed cost is > $1,000. (This assessment was based on the item description, i.e. surge protector, two hole punch, calculator, etc.) (4) 7 out of 126 instances where the item was listed as missing and no formal plan to record a disposition had been taken.

In addition, as specified in the Master Cooperative Agreement at Article X - Property Section 1001 Subsection b. "The State will submit an annual inventory report." The Grant Director was unable to provide evidence that an inventory report was appropriately submitted.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-23 *(continued)*

Condition Found (continued)
Upon review of the physical inventory documentation that had been provided as of August 2008, we were unable to locate the two items selected for testing on the listing, as follows:

Transaction Date	Document Number	Location	Amount
7/8/2008	238601	ERM	$ 50,997
5/8/2008	218845	ERM	80,490
		Total	$131,487

Questioned Costs
$131,487

Underlying Cause
The OTAG did not follow procedures in place to maintain appropriate records for acquisition and control of property acquired with Federal funds.

Effect
Inappropriate recordkeeping of equipment could lead to misappropriation of assets, requesting reimbursement for unsupported equipment, and noncompliance with Federal Regulations.

Recommendation
The OTAG should perform a physical inventory of equipment purchased with Federal funds and include unrecorded assets with V.I. Property and Procurement Office.

Management's Response
The Government concurs with the auditors' findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-24

Program
U.S. Department of Defense - The Office of the Adjutant General - National Guard Military Operations and Maintenance (O&M) Projects – CFDA No. 12.401

Category
Internal Controls/Compliance

Compliance Requirement
Matching, Level of Effort, Earmarking

Criteria
National Guard Regulation 5-1, National Guard Grants and Cooperative Agreements, provides regulatory guidance on the execution of Master Cooperative Agreements for Operation and Maintenance Projects. Specifically, Chapter 13 provides guidance for the operation and maintenance of Army National Guard facilities. The Facilities Inventory and Support Plan (FISP) outlines percentages of federal and state support by type of facility and/or function, to include multi use functions. Expenditures charged to a given facility are to be allocated across federal and state projects/support levels on a transaction by transaction basis.

Condition
The OTAG was unable to provide the Facilities Inventory and Support Plan (FISP) for the allocation of costs amongst the facilities.

Questioned Costs
$183,640

Underlying Cause
Current internal controls for the National Guard Program are not operating effectively with regard to providing for the proper maintenance of accounting records supporting allocation of costs to facilities.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-24 ***(continued)***

Effect
The Program could have received reimbursement for unallowable or unsupported costs, or might be in noncompliance with matching requirements which could result in unallowed expenditures.

Recommendation
The National Guard Program should implement procedures to maintain supporting documentation to evidence its compliance with matching requirements. In addition, the Program should implement sessions in training appropriate individuals for the preparation and review of the matching requirements.

Management's Response
The Government concurs with the auditors' findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-25

Program
U.S. Department of Defense - The Office of the Adjutant General - National Guard Military Operations and Maintenance (O&M) Projects – CFDA No. 12.401

Category
Internal Controls/Compliance

Compliance requirement
Reporting

Criteria
In accordance with 31 CFR 205, each recipient shall request Federal funds based on actual expenditures incurred during the period.

Condition Found
During the performance of our testing of the Reimbursement Request Report (SF-270) for eight selections filed by the OTAG, we noticed that the Federal financial reports did not agree with supporting records.

Program Grant Title	Request No.	SF 270 Line (i)	Per Expenditure Detail	Difference
Real Property Operation and Maintenance (POM)	SF-032-2008	$ 43,600	$ 53,014	$ 9,414
	SF-033-2008	106,800	106,989	189
	SF-094-2008	80,067	53,973	(26,094)
	SF-087-2008	26,077	22,831	(3,246)
	SF-095-2008	34,249	30,503	(3,746)
	SF-084-2008	78,175	81,210	3,035
	SF-025-2008	126,312	125,607	(705)
	SF-086-2008	27,539	24,646	(2,893)
	Total	$522,819	$498,773	$(24,046)

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-25 ***(continued)***

Questioned Costs
$24,046

Underlying Cause
Current internal controls in the OTAG are not operating effectively with regard to the preparation and reconciliation of accounting records and the review of Federal reimbursement request reports.

Effect
OTAG may have reported Federal expenditures to the U.S. Department of Defense without proper supporting documentation. This may lead to the reporting of, and reimbursement for, unallowable Federal expenditures.

Recommendation
OTAG should reconcile reimbursement requests to the expenditures detail prior to requesting reimbursement. In addition, the documentation should be reviewed by the Cooperative Agreement Program Manager prior to the release of the SF 270 for reimbursement.

Management's Response
The Government concurs with the auditors' findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-26

Program
U.S. Department of Defense - The Office of the Adjutant General - National Guard Military Operations and Maintenance (O&M) Projects – CFDA No. 12.401

Category
Internal Controls/Compliance

Compliance Requirement
Cash Management, Reporting

Criteria
29 CFR 97.20(B)(6) requires that internal controls be maintained to ensure that Federal transactions are properly recorded and accounted for in the recipient's books and records so as to enable to prepare reliable Federal reports. Section 106- ARNG Payments Processing subsection b. Reimbursement Method states, "The SF 270 and documentation will be reviewed, reconciled, approved by the Cooperative Agreement Project Manager (CA PM). The CA PM will sign on block 13 of the SF 270 and forward to the USPFO for payment processing."

Condition Found
We noted that in 17 of 26 transactions, the SF 270 form was not properly prepared in respect to the Total Program Outlays to Date and the Federal Payments Previously Requested. In this instance, the Total Program Outlays to Date should agree to the client's expenditures detail as of the date of the SF 270 report, and the Federal Payments Previously Requested should agree to the SF 270 Form submitted immediately prior.

In addition we noted that the SF 270 was prepared by the Director of OTAG, based on information provided by the Staff Accountant. We noted that the Director of OTAG signed on 21 out of 26 SF 270's reviewed.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-26 ***(continued)***

Questioned Costs
Not applicable.

Underlying Cause
Policies are not in place to ensure the accuracy of information included in the required reports and that an authorized signer is reviewing and approving the SF 270 prior to submission for reimbursement.

Effect
The lack of timely reconciliation of supporting records with amounts reported in SF 270 Reimbursement Request Form, may lead to incorrectly recorded transactions not being promptly detected and corrected, and may also lead to incorrect financial information presented in reports submitted to the Federal government and claimed for reimbursement.

Recommendation
OTAG should provide key personnel involved in the National Guard reporting with updated information on reporting requirements to ensure future compliance. Also, the OTAG should establish and maintain efficient records retention and tracking systems for reference as to whether it is meeting its reporting compliance requirements.

Management's Response
The Government concurs with the auditors' findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-27

Program
U.S. Department of Defense - The Office of the Adjutant General - National Guard Military Operations and Maintenance (O&M) Projects – CFDA No. 12.401

Category
Internal Controls

Compliance Requirement
Davis-Bacon Act

Criteria
Non-federal entities shall include in their construction contracts subject to the Davis-Bacon Act a requirement that the contractor or subcontractor comply with the requirements of the Davis-Bacon Act and the DOL regulations (29 CFR parts 5, Labor Standards Provisions Applicable to Contacts Governing Federally Financed and Assisted Construction). This includes a requirement for the contractor or subcontractor to submit to the non-Federal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls) (29 CFR sections 5.5 and 5.6). This reporting is often done using Optional Form WH-347, which includes the required statement of compliance (*OMB No. 1215-0149*).

Condition Found
Management did not ensure departmental policies and procedures were followed regarding the Davis-Bacon Act. As noted, department personnel do not always adhere to the policies and procedures established by the department to monitor classifications and wage rates as required by the Davis-Bacon Act. Interviews with laborers and mechanics to help ensure contractors' wage compliance were not always conducted.

Questioned Costs
Unknown

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-27 ***(continued)***

Underlying Cause
OTAG does not have adequate internal controls and knowledge to fulfill the requirements set forth for the Davis-Bacon Act.

Effect
OTAG may not be in compliance with the rules and regulations of the Davis-Bacon Act and as result lose potential future funding or be required to provide additional unreimbursable salaries and wages to contractors.

Recommendation
Management should ensure departmental policies and procedures are established to monitor compliance with the Davis-Bacon Act are followed for all projects, including labor interviews providing evidence of on-site visits to monitor classifications and wage rates.

Management's Response
The Government concurs with the auditors' findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-28

Program
U.S. Department of Defense - The Office of the Adjutant General - National Guard Military Operations and Maintenance (O&M) Projects – CFDA No. 12.401

Category
Internal Controls/Compliance

Compliance Requirement
Cash Management

Criteria
In accordance with 31 CFR 205, each recipient shall request Federal funds based on actual expenditures incurred during the period.

Condition Found
During the performance of our testing of the Financial Status Report (SF 270) for all reports filed with the Federal government, we were unable to obtain supporting documentation to show the program had received reimbursement for the requested items.

Report	Reimbursement Request	Requested Amount
SF 270	SF-73-2008	$ 8,076
SF 270	SF-66-2008	8,046
		$16,122

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-28 ***(continued)***

Condition Found (continued)

During the performance of our testing of the Financial Status Report (SF 270) for all reports filed with the Federal government, we noted two out of twenty-six instances where the amount reimbursed was less than the amount requested.

Report	Reimbursement Request	Requested Amount
SF 270	SF-77-2008	$22,311
SF 270	SF-50-2008	59,955
	Total	$82,266

Questioned Costs

Not applicable.

Underlying Cause

Current internal controls in the OTAG are not operating effectively with regard to the preparation and reconciliation of accounting records and review of the Federal reports.

Effect

OTAG may have reported Federal expenditures to the US Dept. of Defense without proper supporting documentation. This may lead to the reporting of unallowable Federal expenditures. OTAG may be reporting unallowable costs as Federal expenditures. This may also lead to incorrect financial information presented in reports submitted to the Federal Government. Alternatively, OTAG may not receive reimbursement for all costs to which it is entitled as noted in the exceptions reported above.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-28 ***(continued)***

Recommendation
The VI National Guard should establish procedures to ensure Federal financial reports are properly reviewed and reconciled to the accounting records by trained supervisory personnel.

Management's Response
The Government concurs with the auditors' findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

U.S. Department of Labor

Unemployment Insurance
CFDA No. 17.225

The regular Unemployment Insurance (UI) Program, also referred to as Unemployment Compensation (UC), Unemployment Compensation for Federal Employees (UCFE), and Unemployment Compensation for Ex-Service Members (UCX) programs, provide benefits to unemployed workers for periods of involuntary unemployment and help stabilize the economy by maintaining the spending power of workers while they are between jobs. UC programs cover almost all wage and salaried workers. During periods of high unemployment, the Extended Benefits (EB) program pays EB for an additional (or extended) period of time to eligible unemployed workers who have exhausted their entitlement to UC, UCFE, or UCX.

Total Unemployment Insurance expenditures for the fiscal year ended September 30, 2008 amounted to $15,109,790.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-29

Program
U.S Department of Labor - Unemployment Insurance – CFDA No. 17.225

Category
Internal Controls/Compliance

Compliance Requirement
Cash Management

Criteria
In accordance with 31 CFR part 205 and the Cash Management Improvement Act (CMIA) Treasury-State Agreement in effect for fiscal year 2008, between the Territory of the Virgin Islands (the Territory) and the U.S. Secretary of the Treasury, the Territory is required to use an “average clearance” funding technique for vendor and payroll related costs. Under the “average clearance” funding technique, the Government may submit claims for reimbursement such that the funds are deposited, by ACH on the dollar-weighted average day of clearance, in the Government's bank account on the fourth day following the release of funds for vendor disbursements and on the day in which payroll checks are released for payroll related costs. Furthermore, reimbursement requests shall be for the exact amounts disbursed.

Condition Found
During our testing on cash management procedures to verify the timing of cash drawdowns were in compliance with the clearance pattern established in the CMIA Treasury-State Agreement in effect for 2008, we tested 11 drawdowns totaling $854,024 out of a total population of $2,159,316. Two of the drawdowns tested were not in compliance with the clearing funding patterns stipulated in the CMIA Agreement. The noncompliance relates to drawdowns being requested after the specified date as per CMIA Agreement. While this did not lead to drawing funds in advance of CMIA established timing, it is evidence of lack of sufficient or effective internal controls over drawdown requirements.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-29 *(continued)*

Condition Found (continued)

Drawdown Date	Federal Grant ID	Account	Total Cashdraw Requested	Cashdraw Breakdown (by Type)	Cashdraw Breakdown (in dollars)	Payment Release Date	Deposit Date	Required Deposit Date	Days Between Release and Deposit	Excess Day
				Payroll	$ 47,763	10/11/2007		10/11/2007	11	11
10/19/2007	UI167781G	9J55B	$ 47,862	Goods and Services	$ 99	10/15/2009	10/22/2007	10/17/2007	2	0
12/27/2007	UI167781G	9J55B	$236,897	Payroll	$236,897	10/13/2007	12/31/2007	10/13/2007	80	80

Questioned Costs
Not applicable, because time delays between outlays and cash draws do not result in questioned costs.

Underlying Cause
Internal controls related to transfers of Federal funds for programs included in the CMIA Treasury-State Agreement to minimize the timing between the time funds are released and the transfers are made are not operating effectively.

Effect
Delays in transferring Federal funds to cover direct cost expenditures into the Governments' cash accounts could affect cash flow demands and may cause other program's funds to fund UI activities.

Recommendation
The Government should ensure that policies and procedures are enforced in order to comply with the appropriate funding patterns set forth in the CMIA Treasury - State Agreement.

Management's Response
The Government concurs with the auditors' findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-30

Program
U.S Department of Labor - Unemployment Insurance – CFDA No. 17.225

Category
Internal Controls/Compliance

Compliance Requirement
Reporting

Criteria
29 CFR 97.20(B)(6) requires that internal controls be maintained to ensure that Federal transactions are properly recorded and accounted for in the recipient's books and records so as to enable them to prepare reliable Federal reports.

Condition Found
While tracing the amounts reported to accounting records that support the audited financial statements and the schedule of expenditures of Federal awards to verify the accuracy and completeness of the reports, and that they agree with the accounting records, we noted that the following report did not agree with supporting records as follows:

	Federal Receipts		Benefits Disbursements	
UI Financial Transaction Summary	$ 1,152,130	(a)	$ (11,364,752)	(b)
Program records[c]	1,537,647		(11,990,647)	
Differences not reconciled	$ (385,517)		$ 625,895	

<u>**Explanatory notes:**</u>
(a) Per line 11, column C of ETA 2112.
(b) Per Line 31, Col F of ETA 2112
(c) Program records from VIDOLAS System

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-30 ***(continued)***

Condition Found (continued)
Furthermore, the Program did not perform a reconciliation of its accounting records with amounts reported. Timely reconciliations are necessary to ensure accurate reporting to the U.S. DOL.

Questioned Costs
No questioned costs associated with this finding as the net amount of the differences of the receipts and the disbursements of $240,378, result in the Government reporting net expenditures in an amount lower than what it was entitled to, due to the fact that the accounting records are more than the amounts reported.

Underlying Cause
It appears that effective internal controls are not in place to ensure that the program activity from the Governments accounting system records agrees to the amounts reported to the Federal Government.

Effect
The lack of effective internal controls in reporting ETA 2112, may lead to inaccurate reporting and disallowance of funds.

Recommendation
The Government should implement procedures to ensure reports submitted to the Federal Government are accurate and complete. Such procedures should include reconciliations between Program accounting records and federal reports.

Management's Response
The Government concurs with the auditors' findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-31

Program
U.S Department of Labor - Unemployment Insurance – CFDA No. 17.225

Category
Internal Controls/Compliance

Compliance Requirement
Special Tests and Provisions - Unemployment Insurance (UI) Benefits Payments

Criteria
As required by 20 CFR section 602.11(d), to satisfy the requirements of sections 303(a) (1) and (6), a State law must contain a provision requiring, or which is construed to require, the establishment and maintenance of a Quality Control (QC), specifically a Benefits Accuracy Measurement (BAM) program in accordance with OMB Circular A-133 of Part IV. The establishment and maintenance of such a QC program in accordance with OMB Circular A-133 of Part IV shall not require any change in State law concerning authority to undertake redeterminations of claims or liabilities or the finality of any determination, redetermination or decision.

Condition Found
Per inquiry to the Program management, we learned that the local UI Program does not have a Benefits Accuracy Measurement program implemented as required by 20 CFR Section 602.11(d).

Questioned Costs
Not applicable.

Underlying Cause
The Government does not maintain a policy or process to ensure that a Quality Control (QC) program, specifically a Benefits Accuracy Measurement (BAM) program is designed and implemented as required by 20 CFR Section 602.11(d).

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-31 ***(continued)***

Effect
The lack of a process to ensure these procedures are performed may lead to noncompliance with Program requirements.

Recommendation
A process should be developed to ensure that a Benefits Accuracy Measurement program is implemented in order to assess the accuracy of UI benefit payments and denied claims.

Management's Response
The Government concurs with the auditors' findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-32

Program
U.S Department of Labor - Unemployment Insurance – CFDA No. 17.225

Category
Internal Controls/Compliance

Compliance Requirement
Special Tests and Provisions - Match with IRS 940 FUTA Tax Form

Criteria
States are required to annually certify for each taxpayer the total amount of contributions required to be paid under the State law for the calendar year and the amounts and dates of such payments in order for the taxpayer to be allowed the credit against the FUTA tax (26 CFR section 31.3302(a)-3(a)). In order to accomplish this certification, States annually perform a match of employer tax payments with credit claimed for these payments on the employer's IRS 940 FUTA tax form.

Condition Found
During our initial procedures to determine whether the State properly performed the match to support its certification of State FUTA tax credits, the Government was not able to evidence that the required match of employer tax payments with credit claimed for these payments on the employer's IRS 940 FUTA tax form is being performed.

Questioned Costs
Not applicable.

Underlying Cause
The Government does not maintain a process to ensure that the required match of employer tax payments with credit claimed for these payments on the employer's IRS 940 FUTA tax form is performed.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-32 ***(continued)***

Effect
The lack of a process to ensure these procedures are performed may lead to noncompliance with Program requirements.

Recommendation
A process should be implemented to ensure that the required match with IRS 940 FUTA tax forms is performed and reviewed as appropriate.

Management's Response
On Friday, February 26, 2010, VIDOL forwarded to the auditors via email an electronic copy (239 pages) of our "FUTA Crossmatch Report – T5920_2" report with a run date of November 13, 2009, date of crossmatch. This report is produced by our automated system, VIDOLA$, when the crossmatch is performed. The remainder of the process requires transmitting this information via a Secured Data Transfer system provided by IRS specifically for this purpose. The Secured Data Transfer system acknowledges the electronic transmission of the data and automatically triggers a confirmation e-mail receipt to VI 767@Vidol. VIDOL is in the process of applying for participation in this Secured Data Transfer system a special email account with the name established for the Virgin Island in the SDT database as established.

Auditor's Conclusion
As stated in our finding, the Government could not provide us with documentation during the performance of our audit that would evidence that the required match of employer tax payments with credit claimed for these payments on the employer's IRS 940 FUTA tax form was being performed. Therefore, the finding remains as stated.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

U.S. Department of Transportation

Highway Planning and Construction
CFDA No. 20.205

The objectives of the Highway Planning and Construction (HPC) Program are to: (1) assist States in the planning and development of an integrated, interconnected transportation system important to interstate commerce and travel by constructing and rehabilitating the National Highway System (NHS), including Interstate highways and most other public roads; (2) provide aid for the repair of Federal-aid highways following disasters; (3) foster safe highway design, and replace or rehabilitate structurally deficient or functionally obsolete bridges; and (4) to provide for other special purposes.

Total HPC Federal expenditures for the fiscal year ended September 30, 2008, amounted to $6,413,062.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-33

Program
U.S. Department of Transportation - Highway Planning and Construction – CFDA No. 20.205

Category
Internal Controls/Compliance

Compliance Requirement
Cash Management

Criteria
In accordance with 31 CFR part 205 and the Cash Management Improvement Act (CMIA) Treasury-State Agreement in effect for fiscal year 2008, between the Territory of the Virgin Islands (the Territory) and the U.S. Secretary of the Treasury, the Territory is required to use an "average clearance" funding technique for vendor and payroll related costs. Under the "average clearance" funding technique, the Government may submit claims for reimbursement such that the funds are deposited, by ACH on the dollar-weighted average day of clearance, in the Government's bank account on the fourth day following the release of funds for vendor disbursements and on the day in which payroll checks are released for payroll related costs. Furthermore, reimbursement requests shall be for the exact amounts disbursed.

Condition Found
During our testing on cash management procedures, all selections tested (goods and services and cost allocation) were not in compliance with the CMIA. In most instances, Federal funds were received more than four days after release of the related check to the vendor/employee. In two instances, Federal funds were received before the release of the related check to the vendor/employee.

We tested a sample of 17 goods and services and 13 cost allocation reimbursements for control testing and 40 goods and services and 5 cost allocation reimbursements for compliance testing. Of the goods and services reimbursements tested, 73 were received more than four days after the release of the related check and 2 were received before the release of the check. All cost allocation reimbursements were received more than four days after release of the related check.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-33 *(continued)*

Condition Found (continued)

Project	Journal	Check Date	PO/REF2	Reference	Amount	Check No.	Warrant	Date Federal Funds Received	Exception
F9086	'002601__	2/8/2008	28008907	3575	50.00	9192063	7860208B	3/21/2008	**A**
F9X7L	'001904__	9/11/2008	'28037636 __	'4451 __	204.57	'9196721 __	'7860911B__	9/30/2008	**A**
F9032	'002501__	11/30/2007	'28001035 __	'7002 __	410.00	'4708186 __	'8011130B__	5/7/2008	**A**
F9087	'001493__	11/20/2007	'28000087 __	'7019 __	555.00	'9190757 __	'7861120B__	4/7/2008	**A**
F9012	'005095__	9/5/2008	'27003243 __	'3009 __	77.07	'9196603 __	'7860908B__	5/4/2007	**B**
F9012	'005095__	9/5/2008	'27003243 __	'3009 __	77.07	'9196603 __	'7860908B__	5/4/2007	**B**
F9012	'005095__	9/5/2008	'27003243 __	'3009 __	77.07	'9196603 __	'7860908B__	5/4/2007	**B**
F9012	'005095__	9/5/2008	27003243 __	'3009 __	77.07	'9196603 __	'7860908B__	5/4/2007	**B**
F9012	'002753__	8/20/2008	'28033733 __	'2211 __	69.80	'9196268 __	'7860821B__	9/24/2008	**A**
F9012	'002753__	8/20/2008	'28033733 __	'2211 __	72.15	'9196268 __	'7860821B__	9/24/2008	**A**
F9012	'002753__	8/20/2008	'28033733 __	'2211 __	0.04	'9196268 __	'7860821B__	9/24/2008	**A**
F9012	'002748__	8/20/2008	'28030205 __	'2198 __	72.15	'9196268 __	'7860821B__	8/25/2008	**A**
F9012	'003825__	7/28/2008	'28030205 __	'9803 __	69.80	'9195710 __	'7860728B__	8/25/2008	**A**
F9012	'006753__	5/2/2008	'28018509 __	'944 __	72.14	'9193803 __	'7860508B__	8/6/2008	**A**
F9012	'006739__	5/2/2008	'28018508 __	'938 __	31.77	'9193755 __	'7860502B__	5/30/2008	**A**
F9012	'006738__	5/2/2008	'28018507 __	'893 __	77.04	9193755 __	'7860502B__	5/30/2008	**A**
F9012	'002893__	2/26/2008	'28006873 __	'4822 __	74.77	'9192250 __	'7860226B__	3/21/2008	**A**
F9012	'001845__	1/23/2008	'28004869 __	'890 __	74.76	'9191643 __	'7860123B__	3/24/2008	**A**
F9012	'001300__	1/16/2008	'28004870 __	'1035 __	72.11	'9191609 __	'7860116B__	3/24/2008	**A**
F9012	'001300__	1/16/2008	'28004870 __	'1035 __	77.11	'9191609 __	'7860116B__	3/24/2008	**A**
F9087	'000519__	1/10/2008	'28002476 __	'654 __	715.19	'9191534 __	'7861008B__	2/12/2008	**A**
F9012	'001016__	11/15/2007	'28000581 __	'6706 __	77.11	'9190684 __	'7861115B__	2/12/2008	**A**
F9012	'006754__	5/2/2008	'28018507 __	'959 __	423.69	'9193803 __	'7860508B__	5/30/2008	**A**
F9032	002501__	11/30/2007	28001034 __	7002 __	820.00	4708186 __	8011130B__	12/7/2007	**A**
F9032	001562__	9/10/2008	28033055 __	4057 __	277.50	9196640 __	7860910B__	9/18/2008	**A**
F9086	002601__	4/29/2008	28018015	380	600.00	9193609	7860429B	5/7/2008	**A**
F9032	002496__	11/30/2007	28001520 __	7470 __	3,051.76	9190940 __	7861130B__	1/25/2008	**A**
F9032	000270__	1/8/2008	28004844 __	572 __	2,735.00	9191490 __	7860108B__	1/24/2008	**A**
F9032	004730__	7/31/2008	28030717 __	303 __	3,660.00	9195826 __	7860731B__	8/15/2008	**A**
F9032	002416__	3/19/2008	28011927 __	7327 __	929.00	9192793 __	7860319B__	3/27/2008	**A**
F9032	001564__	9/10/2008	28033070 __	4059 __	274.50	9196648 __	7860910B__	9/24/2008	**A**
F9086	002601__	39680	28000179	PWD ADJS __	4,181.60	9190236 __		10/24/2007	**A**

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-33 *(continued)*

Condition Found (continued)

Project	Journal	Check Date	PO/REF2	Reference	Amount	Check No.	Warrant	Date Federal Funds Received	Exception
F9032	002497__	11/30/2007	28001528 __	7471 __	3,359.68	9190946 __	7861130B__	12/4/2007	A
F9032	002851__	7/22/2008	28029707 __	9336 __	71,407.92	9195653 __	7860722B__	7/25/2008	A
F9032	001565__	9/10/2008	28033068 __	4060 __	274.50	9196646 __	7860910B__	10/7/2008	A
F9X7L	003026__	1/3/2008	28004382 __	263 __	135,702.98	9191467 __	7860103B__	1/10/2008	A
F9032	001557__	9/10/2008	28033064 __	4058 __	274.50	9196670 __	7860910B__	9/30/2008	A
F9X7L	003385__	2/28/2008	28011043 __	5162 __	153,866.94	9192302 __	7860228B__	3/10/2008	A
F9086	002601__	5/23/2008	28022327	3596	300.00	9194191	7860522B	6/12/2008	A
F9X7L	'000631__	3/7/2008	'28012113 __	'5955 __	173,080.00	'9192471 __	'7860307B__	3/17/2008	A
F928P	'000665__	3/7/2008	'28012329 __	'6141 __	240,425.53	'9192486 __	'7860307b__	3/10/2008	A
F9X7L	'002562__	8/20/2008	'28033760 __	'2102 __	243,301.08	'9196220 __	'7860820B__	8/28/2008	A
F9079	'001542__	11/20/2007	'28001106 __	'7273 __	245,371.85	'9190802 __	'7861120B__	12/4/2007	A
F9032	'001299__	1/16/2008	'28005603 __	'1297 __	262,797.52	'9191616 __	'7860116B__	1/25/2008	A
F9086	'002601__	12/14/2007	28003732	9261	553,500.00	9191139	7861214B	1/2/2008	A
F9032	'000706__	6/9/2008	'28024026 __	'5003 __	644,982.44	'9194724 __	'7860609B__	6/16/2008	A
F9032	'002499__	11/30/2007	'28001875 __	'7904 __	672,735.83	'9190962 __	'7861130B__	12/11/2007	A
F9086	002601__	4/4/2008	60-003-08 __	PWD ADJS __	4,125.00	9193094	7860404B	4/14/2008	A
F9083	000139__	4/2/2008	28015223 __	8353 __	32,938.78	9193009 __	7860402B__	4/15/2008	A
F9032	002007__	6/17/2008	28024866 __	5755 __	2,317.50	9198331 __	B7861201__	12/22/2008	A
F9032	002415__	3/19/2008	28011928 __	7315 __	928.00	9192793 __	7860319B__	3/27/2008	A
F9032	002495__	11/30/2007	28001517 __	7467 __	4,500.19	9190929 __	7861130B__	12/6/2007	A
F9032	001361__	4/11/2008	28016493 __	9343 __	156,318.99	9193326 __	7860411B__	4/25/2008	A
F9040	002601__	10/17/2007	60-003-08 __	PWD ADJS __	4,931.48	9190222	7861017A	10/22/2007	A
F9086	002601__	7/18/2008	60-003-08 __	PWD ADJS __	4,125.00	9195524	7860718B	7/29/2008	A
F9086	002601__	6/26/2008	60-003-08 __	PWD ADJS __	75.00	9195151	7860626B	7/21/2008	A
F9086	002601__	12/5/2007	60-003-08 __	PWD ADJS __	500.00	9191022	7861205B	1/15/2008	A
F9086	002601__	7/31/2008	60-003-08 __	PWD ADJS __	900.00	9195854	7860731B	8/13/2008	A
F9086	002601__	7/18/2008	60-003-08 __	PWD ADJS __	50.00	9195554	7860718B	8/13/2008	A
F9032	005058__	9/5/2008	28033219 __	2294 __	124.20	9196549 __	7860905B__	9/15/2008	B
F9086	002601__	3/10/2008	60-003-08 __	PWD ADJS __	550.00	9192517	7860310B	Not cleared	A
F9086	002601__	11/7/2007	60-003-08 __	PWD ADJS __	3,781.60	9190594	7861107B	11/20/2007	A

A = Reimbursement request exceeds established period in CMIA

B = Reimbursement was received prior to the release of funds

Finding Number 08-33 ***(continued)***

Questioned Costs
Not applicable.

Underlying Cause
Internal controls over compliance with the CMIA are not operating effectively.

Effect
The current process in place for requesting federal funds results in noncompliance with the CMIA. As this program has large expenditures, the delayed receipt of federal funds could substantially impact the GVI's cash flow at various times. The receipt of federal funds in advance could result in amounts owed back to the grantor agency.

Recommendation
The GVI should establish a process and design controls to ensure federal funds are requested in accordance with requirements established in the CMIA.

Management's Response
The Government concurs with the auditors' findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-34

Program
U.S. Department of Transportation - Highway Planning and Construction – CFDA No. 20.205

Category
Internal Controls/Compliance

Compliance Requirement
Activities Allowed or Unallowed, Allowable Costs/Cost Principles

Criteria
According to OMB Circular A-87, Attachment B, item #8(h)(3), support for salaries and wages, where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.

Condition Found
Employees whose payroll is covered through cost allocations associated with Federal Highway projects prepare a weekly time sheet allocating hours worked to specific highway projects. The employees also prepare a cost allocation spreadsheet to summarize hours spent on various projects at the end of each pay period. We noted multiple inconsistencies between the time sheets and the cost allocation spreadsheets.

We tested a sample of 43 individual cost allocations across pay periods 4 - 15 out of a total of 24 pay periods. Of the allocations tested, 11 included inconsistencies between the employee's time sheet and cost allocation spreadsheet.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-34 ***(continued))***

Condition Found (continued)

Project	Pay Period	Employee	Over/Under Hours	$ Impact
F9032	5-6, 10-12	Employee A	14	$ 788
F9032	7-9	Employee B	4	167
F9032	7-9	Employee C	(4)	(225)
F9074	7-9	Employee D	(1)	(61)
F9056	4-6	Employee E	4	225
F9089	13-15	Employee F	2	123
F9075	4-6	Employee G	36	2,211
F9Y3L	4-6	Employee H	(1)	(44)
F9Y3L	7-8	Employee I	1	61
F9057	10-12	Employee J	4	225
F9040	4-6, 13-15	Employee K	(7)	(309)
				3,161
			Total undercharged	(639)
			Total overcharged	3,800
				$3,161

Questioned Costs
Questioned costs noted in our sample resulted in projects being overcharged $3,800.

Underlying Cause
A process is not in place to ensure time sheets and cost allocation spreadsheets are consistent.

Effect
Individual projects are over/under charged for cost allocation expenditures. As each project has a specified cost allocation budget included in the project agreement, it is important to properly record time spent on individual projects. This could result in the Government requesting reimbursement for unallowable costs.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-34 ***(continued))***

Recommendation
The GVI should establish a process for comparing the time sheets to the cost allocation spreadsheets prior to requesting cost allocation reimbursements. If inconsistencies are noted, the employee should be contacted and appropriate changes made to ensure both documents are consistent. Any changes made subsequent to the original review by the Highway Program Manager or Commissioner should be clearly documented. The GVI may consider requiring review of revised time sheets and cost allocation spreadsheets if the change in the hours for a specific project exceeds a certain threshold.

Management's Response
The Government concurs with the auditors' findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

U.S Environmental Protection Agency

Capitalization Grants for Drinking Water State Revolving Fund
CFDA No. 66.468

Capitalization grants are awarded to States to create and maintain Drinking Water State Revolving Funds (DWSRF) programs. States can use capitalization grant funds to establish a revolving loan fund (DWSRF) to assist public water systems finance the costs of infrastructure needed to achieve or maintain compliance with Safe Drinking Water Act (SDWA) requirements and protect the public health objectives of the Act. The DWSRF can be used to provide loans and other types of financial assistance for qualified communities, local agencies, and private entities. States may also set aside certain percentages of their capitalization grant or allotment for various activities that promote source water protection and enhanced water systems management.

Total Capitalization Grants for Drinking Water State Revolving Fund's Federal expenditures for the fiscal year ended September 30, 2008, amounted to $1,538,223.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-35

Program
Environmental Protection Agency - Capitalization Grants for Drinking Water State Revolving Fund – CFDA No. 66.468

Category
Internal Controls/Compliance

Compliance Requirement
Reporting

Criteria
In accordance with 40 CFR 31.21(b), each state agency recipient of funds shall limit requests for funds to such times and amounts as will permit prompt payment of claims or authorized advances. Also, each state agency shall maintain records as necessary to support all program related disbursements and the report submitted to the Environmental Protection Agency (EPA).

In addition, pursuant 40 CFR 31.20, *Standards for Financial Management Systems*, Section (a)- A State must expand and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to (1) Permit preparation of reports required by this part and the statutes authorizing the grant, and (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-35 ***(continued)***

Condition Found

During our testing to determine whether the Financial Status Report (SF-269) includes all activity of the reporting period, are supported by applicable accounting records, and are fairly presented in accordance with the program requirements, we noted that the expenditure transaction details did not reconcile by $83,112 (Comparison A), to the amounts reported in the Financial Status Report for the period ended September 30, 2008. Moreover, we compared outlays from the Program's Financial Status Report for the year ended September 30, 2008, to the cash draws made to the grant in ASAP, and noted a difference of approximately $80,729 (Comparison B) between outlays and cash draws, as follows:

	Comparison A	Comparison B
Financial Status Report	$ 672,049 [a]	$ 672,049 [b]
Less: Expenditure transaction details	588,937 [c]	–
Less: Cash draws per ASAP	–	591,320 [d]
Differences not reconciled	$ 83,112	$ 80,729

Explanatory notes:

(a) Per the sum of column 2, of line 1 "Total Federal share of outlays" of the Financial Status Report (Standard Form-269) for all of the opened grants # FS98235201, FS98235203, FS98235205.

(b) Same columns as above, but line g "Total Federal share of outlays".

(c) Transaction details attached to the Cash Drawdowns and contract payments detail extracted from the ERP.

(d) Cash drawdowns on ASAP account code FS98235201, FS98235203, FS98235205.

The Government could not reconcile these differences.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-35 ***(continued)***

Questioned Costs
We have determined known questioned costs of $83,112 due to differences between detail transaction ledgers and amounts reported in the financial status report. Differences between the financial status reports and cash drawdowns did not results in questioned costs, because the Government has drawn less funds than reported.

Underlying Cause
There is no process in place to ensure complete and accurate reporting in between the Governments accounting records and Federal financial reports.

Effect
The Government may have drawn more or less Federal funds than it was entitled to. The Program may be reporting unallowable costs as Federal expenditures. This may also lead to incorrect financial information presented in reports submitted to the Federal government.

Recommendation
The Government should establish a process to ensure reports are complete, accurate, and supported, as required.

Management's Response
The Government concurs with the auditors' findings and recommendations. Refer to the Corrective Action Plan for further details.

Finding Number 08-36

Program
Environmental Protection Agency - Capitalization Grants for Drinking Water State Revolving Fund – CFDA No. 66.468

Category
Internal Controls/Compliance

Compliance Requirement
Cash Management

Criteria
According to the 31 CFR 205 *Subpart B—Rules Applicable to Federal Assistance Programs Not Included in a Treasury-State Agreement*: A State must minimize the time between the drawdown of Federal funds from the Federal government and their disbursement for Federal program purposes. A Federal Program Agency must limit a funds transfer to a State to the minimum amounts needed by the State and must time the disbursement to be in accord with the actual, immediate cash requirements of the State in carrying out a Federal assistance program or project. The timing and amount of funds transfers must be as close as is administratively feasible to a State's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs.

Condition Found
During our testing of cash management procedures to verify the timing of cash drawdowns were made as close as possible to the time of making disbursements, we noted that all 4 drawdowns tested exceeded a reasonable time between the time payments were released and the cash drawdowns were made. Our sample consisted of 4 drawdowns from a total population of 19 cash draws from the ASAP system totaling $769,767. The following table shows the exceptions noted during our testing:

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-36 *(continued)*

Condition Found (continued)

	Account ID	Amount Requested	Cashdraw Breakdown (by Type)	Deposit Reference	Date Deposited	Payment Release Date	Days Between Release and Deposit
1	FS98235201-DE	$6,600	Non-Payroll	93009437325	7/11/2008	6/30/2008	11
2	FS98235205-DD	$5,208	Payroll	83006905611	7/1/2008	5/12/2008	38
3	FS98235205-DD	$7,768	Payroll	53001033726	9/10/2008	7/19/2008	39
4	FS98235205-DE	$6,060	Payroll	53001033726	9/10/2008	7/19/2008	39

Questioned Costs
Not applicable.

Underlying Cause
Internal controls related to transfers of Federal funds, to minimize the timing between the time funds are released and the transfers are made, are not operating effectively.

Effect
Delays in transferring Federal funds to cover direct cost expenditures into the Governments' cash accounts could affect cash flow demands and may cause other program's funds to fund Capitalization Grants for Drinking Water State Revolving Fund activities.

Recommendation
The Government should ensure that policies and procedures are enforced in order to comply with the cash management requirement of minimizing the time elapsing between the transfer of funds from the U.S. Treasury and the actual disbursement.

Management's Response
The Government concurs with the auditors' findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

U.S. Environmental Protection Agency

Performance Partnership Grants
CFDA No. 66.605

Performance Partnership Grants (PPGs) are the cornerstone of the National Environmental Performance Partnership System (NEPPS) - EPA's strategy to strengthen partnerships and build a results-based management system. PPGs are innovative grant delivery tools that allow states and tribes to combine up to 20 eligible Program grants into a single grant with a single budget. PPGs can reduce administrative transaction costs, provide the flexibility to direct resources toward the highest priority environmental problems, and support cross-media approaches and initiatives. EPA's overarching goal is to optimize the leveraging power of PPGs to strategically focus on the joint priorities of EPA, states and Tribes.

Total Performance Partnership Grants Federal expenditures for the fiscal year ended September 30, 2008 amounted to $1,879,442.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-37

Program
Environmental Protection Agency **-** Performance Partnership Grant – CFDA No. 66.605

Category
Internal Controls/Compliance

Compliance Requirement
Reporting

Criteria
In accordance with 40 CFR 31.21(b), each state agency recipient of funds shall limit requests for funds to such times and amounts as will permit prompt payment of claims or authorized advances. Also, each state agency shall maintain records as necessary to support all program related disbursements and the report submitted to the Environmental Protection Agency (EPA).

In addition, pursuant 40 CFR 31.20, *Standards for Financial Management Systems*, Section (a)- A State must expand and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to- (1) Permit preparation of reports required by this part and the statutes authorizing the grant, and (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-37 *(continued)*

Condition Found
During our testing to determine whether the Financial Status Report (SF-269) include all activity of the reporting period, are supported by applicable accounting records, and are fairly presented in accordance with the program requirements, we compared outlays from the Program's Financial Status Report for the period ended September 30, 2008, to the cash draws made to the grant in ASAP, and noted a difference of approximately $46,651 (Comparison B) between outlays and cash draws, as follows:

Financial Status Report	$ 2,124,001 [(a)]
Less: Cash draws per ASAP	2,077,350 [(b)]
Differences not reconciled	$ 46,651

Explanatory notes:
(a) Same columns as above, but line g "Total Federal share of outlays".
(b) Cash drawdowns on ASAP account code BG99256107.

The Government could not reconcile this difference.

Questioned Costs
Not applicable.

Underlying Cause
Internal controls to ensure complete and accurate reporting between the Government's accounting records and Federal financial reports are not operating effectively.

Effect
The Government may have drawn less Federal funds than it was entitled to. The Program may be reporting unallowable costs as Federal expenditures. This may also lead to incorrect financial information presented in reports submitted to the Federal government.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-37 ***(continued)***

Recommendation
The Government should enforce that effective internal controls are put in place to ensure reports are complete, accurate, and supported, as required.

Management's Response
The Government concurs with the auditors' findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-38

Program
Environmental Protection Agency **-** Performance Partnership Grant – CFDA No. 66.605

Category
Internal Controls/Compliance

Compliance Requirement
Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Period of Availability of Federal Funds

Criteria
In accordance with 40 CFR 31.20(6) (A-102 Common Rule) related to source documentation on standards of financial management, state that: “Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.”

Condition Found
During our audit procedures, we were not provided with the appropriate source documentation. Our sample consisted of selecting 25 disbursements that totaled $19,560, from a universe of 345 disbursements which totaled $2,124,001. The following table details the invoices in question:

	Req. #	PO #	Vendor #	Amount	Check #
1	28055573	28040483	6683	$ 500	N/P
				$ 500	

Questioned Costs
We determined known questioned costs of $500.

Underlying Cause
Internal controls with regards of providing the appropriate source documentation are not operating effectively.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-38 ***(continued)***

Effect
The lack of supporting evidence may result in improper local fund spending and leading to possible reimbursement being made for unallowable costs.

Recommendation
The Government should determine that effective controls are in place to ensure that records are properly maintained and available.

Management's Response
DPNR does not concur with the auditor's finding of the questioned costs of $500. The $500 in questioned costs was an obligation that was not liquidated at the close of the reporting period. Therefore, the expenditure would have had to be shown as such an expenditure that was not yet disbursed, but had incurred.

DPNR was able to supply supporting documentation in this regard, requisition # 28055573 and PO # 28040483 are attached. There could not be a check at that time since the document was still not paid. It was an obligation that was not liquidated at this reporting period.

The documents in question were in fact presented at the time of the audit review. However, this transaction was encumbered at the end of the fiscal year and has not yet been paid; therefore, there is no check. Further the funds were in fact drawn to satisfy the disbursement with federal funds; therefore payment of this transaction could not possible result in improper local fund spending.

The department agrees that the controls in place must now be monitored closely to ensure that they are followed. As outlined in the attached memos for your records, the Director of BAS is committed to this process.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-38 ***(continued)***

Auditor's Conclusion
As stated in our finding, supporting documentation for this transaction was not timely provided during our audit. In addition, the fact mentioned in management's response recognizing the amount was drown while the disbursement has not been made is an indication of noncompliance with cash management requirements as reimbursement was requested prior the cost being incurred. Therefore, finding remains as stated.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-39

Program
Environmental Protection Agency - Performance Partnership Grant – CFDA No. 66.605

Category
Internal Controls/Compliance

Compliance Requirement
Activities Allowed or Unallowed, Allowable Costs/Cost Principles

Criteria
In accordance with 40 CFR 31.20(6) (A-102 Common Rule) related to source documentation on standards of financial management, state that: "Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc."

Condition Found
During our audit procedures, to test direct payroll cost, we noticed various discrepancies with the appropriate source documentation. Our sample consisted of selecting 25 payroll transactions that totaled $40,404, from a universe that totaled $1,140,923. The following table details the payroll transactions in question:

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-39 ***(continued)***

Condition Found (continued)

	Payroll Period	Employee #	Payroll Period as per Time Distribution Sheet	Hours Paid per Timesheet	Hours Paid per Payroll Period Detail	Difference in $	Type of Activity	Comments
1	10/01/07 - 09/30/08	13985	11/25/07 - 12/08/07	80	40	$ 1,102	Env. Spec. III-APC	**C**
2	10/01/07 - 09/30/08	78984	01/06/08 - 01/19/08	N/P	72	(2,769)	Program Administrator	**A,B**
3	10/01/07 - 09/30/08	13985	01/06/08 - 01/19/08	80	40	1,102	Env. Spec. III-APC	**C**
4	10/01/07 - 09/30/08	46397	01/20/08 - 02/02/08	80	63	616	Attorney	**C**
5	10/01/07 - 09/30/08	78984	05/11/08 - 05/24/08	N/P	73	(2,788)	Program Administrator	**A,B**
6	10/01/07 - 09/30/08	95907	08/31/08 - 09/31/08	80	74	256	Env. Specialist -EC	**C**
						$(2,483)		

Comments:

A. Hours charged did not pertain to the program.
B. Time distribution sheet for employee was not available for testing.
C. Worked hours reported on the time distribution sheet do not match with the payroll register.
(N/P – Not Provided)

Questioned Costs

We have determined known questioned costs of $5,557 ($2,769 + $2,788).

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-39 ***(continued)***

Underlying Cause
Internal controls to ensure that records are properly maintained and available are not operating effectively.

Effect
The lack of supporting evidence may result disallowable Federal funds.

Recommendation
The Government should enforce that proper procedures are in place to ensure that records are properly maintained and available and that amounts requested for reimbursement properly reflect allowable costs.

Management's Response
DPNR does not agree with this known questioned costs for the following reasons:

1. The work hours reported on the time distribution sheet were charged to two programs as reflected only 40 hours were charged and paid from the PPG, employee is paid for an 80 hour bi-weekly on the DOF payroll register.
2. Employee #78984 time was charged and paid from general funds. However employee was an employee under the PPG previously, and notice of personnel action reflected that project code; therefore, the DOF registers would also reflect payment from that project. Adjustment vouchers which reversed those charges were prepared.
3. The work hours reported on the time distribution sheet were charged to two programs as reflected only 40 hours were charged and paid from the PPG, employee is paid for an 80 hour bi-weekly on the DOF payroll register.
4. The work hours reported on the time distribution sheet were charged to two programs as reflected only 63 hours were charged and paid from the PPG, employee is paid for an 80 hour bi-weekly on the DOF payroll register.
5. Employee #78984 time was charged and paid from general funds. However, employee was an employee under the PPG previously, and notice of personnel action reflected that project code; therefore, the DOF registers would also reflect payment from that project. Adjustment vouchers which reversed those charges were prepared.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-39 ***(continued)***

Management's Response (continued)

6. Employee #95907 submitted time distribution charging 80 hours charged 60.5 hours to regular and the balance to leave. However, at the time of processing the payroll time was not sufficient for an 80 hour payroll. Therefore, the time distribution sheet presented for 80 hours did not agree with the DOF payroll register paid at 74 hours.

Auditor's Conclusion

As stated in our finding, supporting documentation reconciling these differences was not provided during our audit. Therefore, the finding remains as stated.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-40

Program
Environmental Protection Agency **-** Performance Partnership Grant – CFDA No. 66.605

Category
Internal Controls/Compliance

Compliance Requirement
Matching, Level of Effort, Earmarking, Period of Availability of Federal Funds

Criteria
In accordance with 40 CFR 31.23-31.24 all matching contributions must be incurred during the grant award period to which the cost sharing or matching requirements applies.

Condition Found
During our testing to determine whether the minimum the amount of contributions or matching funds were provided, we noted that two invoices (totaling $6,165) included in two of the outlays reported by the Government in our sample were outside the period of availability and, therefore, do not qualify as matching items. Our sample consisted of 15 outlays totaling $24,281 from a listing of expenditures paid for Goods and Services with the General Fund, which contained a total of 142 outlays amounting $135,374.

	Req. #	PO #	Vendor #	Service Date	Invoice #	Invoice Amount	Check #
1	28002816	28002332	17338	September 2007	161047-131330-112007	$ 1,814	4709017
2	28005116	28003068	17338	September 2007	170007-169052	4,351	4710584
						$ 6,165	

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-40 ***(continued)***

Questioned Costs
We have determined known questioned costs of $6,165 based on expenditures incurred outside the matching period specified by the Grantor.

Underlying Cause
Internal controls to ensure matched funds are made for expenditures incurred during the specific grant award period are not operating effectively.

Effect
Lack of a process to verify expenditures paid with local funds that qualify for matching may lead to non compliance with Federal regulations and questioned costs.

Recommendation
The Government should ensure that internal controls are operating effectively to ensure compliance and that the matching requirement is complete and accurate.

Management's Response
DPNR does not agree with these known questioned costs of $6,165. The cost in question was for two payments to the Virgin Islands Water & Power Authority the service date was for September and invoiced in October by WAPA and payment made thereof. Therefore, it should be recorded that this payment was for expense incurred within the period. Therefore we view the underlying cause and effect cited by the auditors as mute.

Auditor's Conclusion
As stated in our finding and as acknowledged in management's response, the expense was incurred during September 2007, which is outside the period of availability. Therefore, the finding remains as stated.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-41

Program
Environmental Protection Agency **-** Performance Partnership Grant – CFDA No. 66.605

Category
Internal Controls/Compliance

Compliance Requirement
Matching, Level of Effort, Earmarking

Criteria
In accordance with 40 CFR 31.24, costs counting towards satisfying a cost-sharing or matching requirement must be verifiable from the records of grantees.

Condition Found
During our testing to determine whether the minimum amount of contributions or matching funds were provided, we noted that 4 payroll transactions pertaining to two payroll periods, totaling $18,130 included in the matching detail reported in the SF-269, did not match with the actual payroll registers, for which the actual disbursements were made. Our sample consisted of 10 payroll transactions pertaining to five payroll periods from a matching detail of expenditures paid with the General Fund, which contained a total of outlays amounting to $355,215.

	Payroll Period	Matching Portion per Payroll Register	Matching Portion per SF 269 Detail	Difference
1	5/24/2008	$ 9,549	$ 9,161	$ 388
2	9/13/2008	$ 8,582	$ 8,154	$ 428

Questioned Costs
We have determined known questioned costs of $818.

Finding Number 08-41 ***(continued)***

Underlying Cause
Internal controls to ensure matched funds are properly reported for the specific disbursed amounts are not operating effectively.

Effect
Lack of a process to verify expenditures paid with local funds are properly reported may lead to matching requirements not being met.

Recommendation
The Government should establish a process, including secondary reviews, to ensure the matching requirement is complete and accurate.

Management's Response
DPNR does not agree with these known questioned costs of $818 it could not readily be determined the percentage used in figuring the percentage of local payroll matching funds charged in this regard. We feel that the entire transaction should be re-visited. Further the underlying cause and effect in this regard should apply.

Auditor's Conclusion
As stated in the finding, an unreconciled difference was noted. As acknowledged in management's response, DPNR has not yet been able to reconcile these transactions. Therefore, the finding remains as stated.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-42

Program
Environmental Protection Agency **-** Performance Partnership Grant – CFDA No. 66.605

Category
Internal Controls/Compliance

Compliance Requirement
Cash Management

Criteria
According to the 31 CFR 205 *Subpart B—Rules Applicable to Federal Assistance Programs Not Included in a Treasury-State Agreement*: A State must minimize the time between the drawdown of Federal funds from the Federal government and their disbursement for Federal program purposes. A Federal Program Agency must limit a funds transfer to a State to the minimum amounts needed by the State and must time the disbursement to be in accord with the actual, immediate cash requirements of the State in carrying out a Federal assistance program or project. The timing and amount of funds transfers must be as close as is administratively feasible to a State's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs.

Condition Found
During our testing of cash management procedures to verify the timing of cash drawdowns were made as close as possible to the time of making disbursements, we noted that all 3 drawdowns tested were in noncompliance with the requirements by either exceeding a reasonable time between the time payments were released and when the transfers were made or by being made prior to expending the requested Federal funds. Our sample consisted of 3 drawdowns (shown in the table below) from a total population of 17 cash draws from the ASAP totaling $2,077,350.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-42 ***(continued)***

Condition Found (continued)

	Account ID	Amount Requested	Cash Draw Breakdown (by Type)	Deposit Reference	Date Deposited	Payment Release Date	Days Between Release and Deposit
1	BG99256107	$163,061.00	Payroll	51007287712	12/18/2007	10/25/2007	54
2	BG99256107	272,607.00	Payroll, Non-Payroll	83006905579	7/1/2008	7/15/2008	-14
3	BG99256107	252,039.00	Payroll, Non-Payroll	53001033710	9/10/2008	5/9/2008	124

Questioned Costs
Not applicable.

Underlying Cause
Internal controls related to transfers of Federal funds, to minimize the timing between the time funds are released and the transfers are made, are not operating effectively.

Effect
Delays in transferring Federal funds to cover direct cost expenditures into the Governments' cash accounts could affect cash flow demands and may cause other program's funds to be used for PPG activities.

Recommendation
The Government should ensure that policies and procedures are enforced in order to comply with the cash management requirement of minimizing the time elapsing between the transfer of funds from the U.S. Treasury and the actual disbursement.

Management's Response
The Government concurs with the auditors' findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

U.S. Department of Education

Special Education – Grants to States (IDEA, Part B)
CFDA No. 84.027

The purposes of the Special Education - Grants to States (IDEA, Part B Program) are to: (1) ensure that all children with disabilities have available to them a free appropriate public education (FAPE) which emphasizes special education and related services designed to meet their unique needs; (2) ensure that the rights of children with disabilities and their parents or guardians are protected; (3) assist States, localities, educational service agencies and Federal agencies to provide for the education of all children with disabilities; and (4) assess and ensure the effectiveness of efforts to educate children with disabilities. The Assistance for Education of All Children with Disabilities Program (Special Education - Grants to States - IDEA, Part B) provides grants to States to assist them in meeting these purposes (20 USC 1400 et seq.).

Total Special Education - Grants to States expenditures for the fiscal year ended September 30, 2008 amounted to $11,894,598.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-43

Program
US Department of Education - Special Education - Grants to States (IDEA, Part B) – CFDA No. 84.027

Category
Internal Controls

Compliance Requirement
Cash Management

Criteria
In accordance with 31 CFR part 205 and pursuant the Special Conditions of the Compliance Agreement between the Virgin Island Department of Education (VIDE or the Government) and the U.S. Department of Education (USDE), VIDE must drawdown funds and provide all matching funds to the Agent within 24 hours of receipt of the written notice from the Agent. Nonetheless, in the event of failure to drawdown funds with this condition, the Agent must notify the USDE, and the USDE will determine whether drawdown authority must be transferred to the Agent.

Condition Found
During our testing over cash management, VIDE was unable to provide written evidence to ensure that drawdowns were made within 24 hours of receipt of written notice from the Agent during fiscal year 2008. This condition was noted on 5 out of 16 payment requests selected for testing, as shown in the table below. Our sample consisted of 10 drawdown requests from a total population of 82 cash draws from Award HO27A060001, HO27A080001, and HO27A070002, totaling $12,018,459. However, the Agent represented to us that drawdowns were made within the prescribed period, and as a result, they have not been in the position to have to notify the USDE on this matter.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-43 ***(continued)***

Condition Found (continued)

#	Drawdown Requested Amount	Drawdown Request Date	Deposit Date per Bank Statements	Days between Notice Receipt and Deposit	Approx. Days in Excess of 24 Hours
1	$ 3,294	12/28/2007	1/7/2008	8	7
2	332	11/19/2007	11/28/2007	9	8
3	6,452,771	10/31/2007	11/2/2007	2	1
4	41,458	10/3/2007	10/5/2007	2	1
5	20,800	1/18/2008	1/22/2008	2	1

Questioned Costs
Not applicable.

Underlying Cause
It appears that the Government and the Agent did not have a formal process in place to document when cash drawdowns are requested that will evidence the receipt of the notification from the Agent.

Effect
Lack of formal procedures between VIDE and the Agent to ensure cash drawdowns are requested within the required timeframe after notification is made by the Agent could affect cash flow demands and non-compliance with the Special Conditions Agreement.

Recommendation
The Government should ensure that policies and procedures are enforced in order to comply with the appropriate funding patterns set forth in the Special Conditions Agreement. This may include a dated receipt stamp of notification and/or a dated log signed by both parties acknowledging receipt.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-43 ***(continued)***

Management's Response
VIDE does not concur with this recommendation. The Agent has certified and affirmed that drawdowns were consistently accomplished within the 24 hour period and there was no need to notify the USDE per the special conditions requirements. Further, VIDE and the Agent developed and implemented a control system during Fiscal Year 2009 that addressed this finding so that it will not occur in the future.

Auditor's Conclusion
This is an internal control finding, noting there is no evidence of the related control being timely performed. The finding does not question compliance, which is what management's response addresses. The management's response even addresses the fact that documentation evidencing internal control is timely performed will be improved. Therefore, the finding remains as stated.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-44

Program
US Department of Education – Grants to States (IDEA, Part B) – CFDA No. 84.027

Category
Internal Controls/Compliance

Compliance Requirement
Allowable Costs/Cost Principles

Criteria
Pursuant 34 CFR 76.560 (b) A grantee must have a current indirect cost rate agreement to charge indirect costs to a grant. Furthermore, pursuant OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, indirect cost rates must be applied in accordance with approved indirect cost rate agreements (ICRA), or special award provisions or limitations, if different from those stated in negotiated rate agreements.

Condition Found
During our audit procedures to test that indirect cost rates were applied in accordance with approved indirect cost rate agreements (ICRA), we noted that the Government calculated indirect cost based on a rate of 8.6%, instead of the most recent rate of 9.7% in accordance with the ICRA dated November 27, 2007.

Questioned Costs
Not applicable.

Underlying Cause
A process to ensure the most recent indirect cost rate is used for reimbursement purposes is not in place.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-44 ***(continued)***

Effect
Failure to verify the most recent indirect cost rate is used for reimbursement purposes may result in the Government either not being reimbursed for costs to which it is entitled (as in this case) or reimbursement for costs in excess of those to which it is entitled.

Recommendation
The Government should ensure a process is in place to verify appropriate amounts of indirect costs are being claimed to the grants.

Management's Response
The Government concurs with the auditors' findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

U.S. Department of Education

State Grants for Innovative Programs
CFDA No. 84.298

This former Title VI Program was reauthorized by the No Child Left Behind Act (NCLB Act), Pub. L. No. 108-110, as Title V, Part A of the Elementary and Secondary Education Act (ESEA). The objectives of Title V, Part A are to: (1) support local educational reform efforts that are consistent with and support statewide education reform efforts; (2) provide funding to enable State Educational Agencies (SEAs) and Local Educational Agencies (LEAs) to implement promising educational reform programs and school improvement programs based on scientifically based research; (3) provide a continuing source of innovation, and educational improvement, including support programs to provide library services and instructional and media materials; (4) meet the educational needs of all students, including at-risk youth; and (5) develop and implement education programs to improve school, student, and teacher performance, including professional development activities and class size reduction programs (Title V, Part A, Section 5101(a) of the ESEA (20 USC 7201(a))).

Total State Grant for Innovative Programs Federal expenditures for the fiscal year ended September 30, 2008 amounted to $13,624,917.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-45

Program
US Department of Education - State Grants for Innovative Programs – CFDA No. 84.298

Category
Internal Controls

Compliance Requirement
Cash Management

Criteria
In accordance with 31 CFR part 205 and pursuant the Special Conditions of the Compliance Agreement between the Virgin Island Department of Education (VIDE or the Government) and the U.S. Department of Education (USDE), VIDE must drawdown funds and provide all matching funds to the Agent within 24 hours of receipt of the written notice from the Agent. Nonetheless, in the event of failure to drawdown funds with this condition, the Agent must notify the USDE, and the USDE will determine whether drawdown authority must be transferred to the Agent.

Condition Found
During our testing over cash management, VIDE was unable to provide written evidence supporting that drawdowns were made within 24 hours of receipt of written notice from the Agent during fiscal year 2008. This condition was noted on 2 out of 10 payment request selected for testing, as shown in the table below. Our sample consisted of 10 drawdown request from a total population of 49 cash draws from Award #S922A06004, totaling $11,517,410. However, the Agent represented to us that drawdowns were made within the prescribed period, and as a result, they have not been in the position to have to notify the USDE on this matter.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-45 ***(continued)***

Condition Found (continued)

#	Drawdown Requested Amount	Drawdown Request Date	Deposit Date per Bank Statements	Days between Notice Receipt and Deposit	Approx. Days in Excess of 24 Hours
1	$ 2,823	2/6/2008	2/11/2008	5	4
2	$ 16,002	12/28/2007	1/9/2008	9	8

Questioned Costs
Not applicable.

Underlying Cause
It appears that the Government and the Agent did not have a formal process in place to document when cash drawdowns are requested that will evidence the receipt of the notification from the Agent.

Effect
Lack of a formal process between VIDE and the Agent to ensure cash drawdowns are requested within the required timeframe after notification is made by the Agent could affect cash flow demands and non-compliance with the Special Conditions Agreement.

Recommendation
The Government should ensure that policies and procedures are enforced in order to comply with the appropriate funding patterns set forth in the Special Conditions Agreement. This may include a dated receipt stamp of notification and/or a dated log signed by both parties acknowledging receipt.

Management's Response
VIDE does not concur with this recommendation. The Agent has certified and affirmed that drawdowns were consistently accomplished within the 24 hour period and there was no need to notify the USDE per the special conditions requirements. Further, VIDE and the Agent developed and implemented a control system during FY 2009 that addressed this finding so that it will not occur in the future.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-45 ***(continued)***

Auditor's Conclusion
This is an internal control finding, noting there is no evidence of the related control being timely performed. The finding does not question compliance, which is what management's response addresses. The management's response even addresses the fact that documentation evidencing internal control is timely performed will be improved. Therefore, the finding remains as stated.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-46

Program
US Department of Education - State Grants for Innovative Programs – CFDA No. 84.298

Category
Internal Controls/Compliance

Compliance Requirement
Allowable Costs/Cost Principles

Criteria
Pursuant 34 CFR 76.560 (b) A grantee must have a current indirect cost rate agreement to charge indirect costs to a grant. Furthermore, pursuant OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, indirect cost rates must be applied in accordance with approved indirect cost rate agreements (ICRA), or special award provisions or limitations, if different from those stated in negotiated rate agreements.

Condition Found
During our audit procedures to test that indirect cost rates were applied in accordance with approved indirect cost rate agreements (ICRA), we noted that the Government calculated indirect cost based on a rate of 8.6%, instead of the most recent approved rate of 9.7% in accordance with the ICRA dated November 27, 2007.

Questioned Costs
Not applicable.

Underlying Cause
A process to ensure the most recent approved rate of indirect cost rate applied is not operating effectively.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-46 ***(continued)***

Effect
Failure to verify the most recent approved indirect cost rate is used for reimbursement purposes may result in the Government either not being reimbursed for costs to which it is entitled (as in this case) or reimbursement for costs in excess of those to which it is entitled.

Recommendation
The Government should ensure a process is in place to verify appropriate amounts of indirect cost are being claimed to the grants.

Management's Response
The Government concurs with the auditors' findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-47

Program
US Department of Education - State Grants for Innovative Programs – CFDA No. 84.298

Category
Internal Control/Compliance

Compliance Requirement
Equipment and Real property Management

Criteria
Pursuant 34 CFR 80.32 (d) (1) "Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property" and (2) "A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years."

Condition Found
During our audit procedures over the management of physical inventory of property transactions we noted the following exceptions in the table below. We noted that the Government performed a physical observation for 34 schools during fiscal year 2008. Thus, our sample consisted of selecting 5 inventory items for each of the 3 schools selected for a total of 15 inventory items to trace to the Asset Track (Inventory Management) System.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-47 *(continued)*

Condition Found (continued)

Property Tag No.	Item Description	Serial No.	Model	Comments
02223-F	Laptop	K9259REXC00374	Transport T2200	**A**
037041-O	Monitor	SDU15038A01771	EV500B	**B**

Comments:

A - Asset's serial number per the physical count sheet does not agree to the serial number per the Asset Trak system.

B – We were not provided with support that this asset is included in the Asset Track system.

Questioned Costs
Not Applicable.

Underlying Cause
It appears that the Department has not adequately maintained inventory records to comply with Federal regulations.

Effect
Incomplete records may not accurately reflect all items purchased with Federal funds and thus result in non-compliance with program requirements.

Recommendation
The Government should ensure to maintain property records in accordance with Federal regulations as noted in 34 CFR 80.32.

Management's Response
The Government concurs with the auditors' findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

U.S. Department of Health and Human Services

Temporary Assistance for Needy Families (TANF)
CFDA No. 93.558

The objective of the State and Tribal TANF programs are to provide time-limited assistance to needy families with children so that the children can be cared for in their own homes or in the homes of relatives; end dependence of needy parents on government benefits by promoting job preparation, work, and marriage; prevent and reduce out-of-wedlock pregnancies, including establishing prevention and reduction goals; and encourage the formation and maintenance of two-parent families. This Program replaced the Aid to Families with Dependent Children (AFDC), Job Opportunities and Basic Skills Training (JOBS), and Emergency Assistance (EA) programs.

Total TANF Federal expenditures for the fiscal year ended September 30, 2008, amounted to $4,625,245.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-48

Program
U.S. Department of Health and Human Services - Temporary Assistance for Needy Families (TANF) – CFDA No. 93.558

Category
Internal Controls/Compliance

Compliance Requirement
Reporting

Criteria
Pursuant to 45 CFR 92.20(a)(1), a State must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to permit preparation of reports required by this part and the statutes authorizing the grant.

Condition Found
During our testing to determine whether the Financial Status Report (ACF-196TR) includes all activity of the reporting period, are supported by applicable accounting records, and are fairly presented in accordance with the program requirements, we noted that the expenditure transaction details did not reconcile by $123,893 to the amounts reported in the Financial Status Report (which is the basis for reimbursement) for the period ended September 30, 2008, as follows:

Financial Status Report	$ 3,461,177[(a)]
Less: Expenditure transaction details	3,585,070[(b)]
Differences not reconciled	$ (123,893)

Explanatory notes:
(a) Per the sum of lines 13 and 16 ("Total Fed. Share of Expenditures", and "Territorial Share" of column F "Total" of the Financial Status Report (ACF-196-TR).
(b) Transaction details provided by the Government of all General Ledger accounts.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-48 ***(continued)***

Condition Found (continued)
The Government could not reconcile this difference.

In addition, the Government could not provide the PSC-272 series reports for any of the four quarters of fiscal year 2008. Due to this situation, we could not test compliance with reporting requirements related with such report.

Questioned Costs
Not applicable.

Underlying Cause
Internal controls to ensure complete and accurate reporting and reconciliation between the Government's accounting records and Federal financial reports are not operating effectively.

Effect
Inadequate internal controls related to reporting may lead to inaccurate financial information presented in reports submitted to the Federal government.

Recommendation
The Government should implement additional procedures and internal controls to ensure all required reports are filed, as well as documentation supporting the amounts reported is properly kept and any discrepancy is investigated and reconciled.

Management's Response
The Government concurs with the auditors' findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-49

Program
U.S. Department of Health and Human Services - Temporary Assistance for Needy Families (TANF) – CFDA No. 93.558

Category
Internal Controls/Compliance

Compliance Requirement
Cash Management

Criteria
According to the 31 CFR 205 *Subpart B—Rules Applicable to Federal Assistance Programs Not Included in a Treasury-State Agreement*: A State must minimize the time between the drawdown of Federal funds from the Federal government and their disbursement for Federal program purposes. A Federal Program Agency must limit a funds transfer to a State to the minimum amounts needed by the State and must time the disbursement to be in accord with the actual, immediate cash requirements of the State in carrying out a Federal assistance program or project. The timing and amount of funds transfers must be as close as is administratively feasible to a State's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs.

Condition Found
During our testing on cash management procedures to verify that the timing of cash drawdowns were made as close as is administratively feasible, we noted that 1 drawdown exceeded a reasonable time between the time funds were released and the transfers were made. Our sample consisted of 1 drawdown from a total population of 7 cash draws totaling $9,109,776 during the Government's fiscal year. We utilized 4 calendar days and 0 calendar days after the release of funds for non-payroll and payroll transactions, respectively, as a reasonable time for the drawdowns, based on other Department of Human Services programs which are under the CMIA agreement. The following table shows the exceptions noted during our testing:

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-49 ***(continued)***

Condition Found (continued)

No.	Federal Grant ID	Drawdown Amount	Drawdown Type	Funds Released	Drawdown Settlement Date	Days Between Release and Deposit	Approximate Excess Days
1	G-0801VITANF	$47,449	Payroll/ Non-Payroll	1/18/08 - 2/4/08	3/20/08	45-62	45-62

Questioned Costs
Not applicable.

Underlying Cause
Policies and procedures related to transfers of Federal funds for programs not included in the Treasury-State Agreement appear to not be operating effectively to minimize the time between when funds are released and the transfers are made.

Effect
Delays in transferring Federal funds to cover direct cost expenditures into the Governments' cash accounts could affect cash flow demands and may cause other programs to be indirectly funding activities of other programs.

Recommendation
The Government should ensure that policies and procedures are enforced in order to comply with 31 CFR 205 *Subpart B* to minimize the timing between the time funds are released and the transfers are made.

Management's Response
The Government concurs with the auditors' findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

U.S. Department of Health and Human Services

Child Support Enforcement
CFDA No. 93.563

The objectives of the Child Support Enforcement programs are to: (1) enforce support obligations owed by non-custodial parents, (2) locate absent parents, (3) establish paternity, and (4) obtain child and spousal support. Total Child Support Enforcement Federal expenditures for the year ended September 30, 2008 amounted to $4,921,373.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 08-50

Program
U. S. Department of Health and Human Services - Child Support Enforcement Program – CFDA No. 93.563

Category
Internal Controls/Compliance

Compliance Requirement
Cash Management

Criteria
According to the 31 CFR 205, *Subpart B—Rules Applicable to Federal Assistance Programs Not Included in a Treasury-State Agreement*: A State must minimize the time between the drawdown of Federal funds from the Federal government and their disbursement for Federal program purposes. A Federal Program Agency must limit a funds transfer to a State to the minimum amounts needed by the State and must time the disbursement to be in accord with the actual, immediate cash requirements of the State in carrying out a Federal assistance program or project. The timing and amount of funds transfers must be as close as is administratively feasible to a State's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs.

Condition Found
During our testing on cash management procedures to verify that the cash drawdowns were made as close as is administratively feasible, we noted that three (3) drawdowns exceeded a reasonable time between the time funds were released and the transfers were made. In addition, four (4) transfers were made prior to the release of funds. Our sample consisted of ten (10) draw-downs from a total population of forty-eight (48) cash draws made during the Government's fiscal year. We utilized 7 calendar days after the release of funds for non-payroll and payroll transactions, respectively, as a reasonable time for the draw-downs. The following table shows the exceptions noted during our testing:

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 08-50 ***(continued)***

Condition Found (continued)

No.	Federal Grant ID	Drawdown Amount	Drawdown Type	Funds Released	Drawdown Settlement Date	Days Between Release and Deposit
1	0804VI4004	$ 11,126	Non-payroll	1/9/2008	1/8/2008	-1
2	0804VI4004	$ 105,064	Non-payroll	5/16/2008	5/13/2008	-3
3	0804VI4004	$ 16,713	Non-payroll	7/31/2008	7/30/2008	-1
4	0804VI4004	$ 4,503	Non-payroll	8/28/2008	8/27/2008	-1
5	0804VI4004	$ 56,738	Non-payroll	10/9/2007	10/24/2007	15
6	0804VI4004	$ 83,899	Non-payroll	7/9/2008	7/14/2008	5
7	0804VI4004	$ 105,064	Non-payroll	5/19/2008	5/13/2008	2

Questioned Costs
Not applicable.

Underlying Cause
Policies and procedures related to transfers of Federal funds for programs not included in the Treasury-State Agreement appear to not be operating effectively to minimize the timing between the time funds are released and the transfers are made to be as close as is administratively feasible.

Effect
Delays in transferring Federal funds to cover direct cost expenditures into the Government's cash accounts could affect cash flow demands and may cause other programs to be funded other program activities.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 08-50 ***(continued)***

Recommendation
The Government should ensure appropriate communications related to the release of funds are established between the Treasury Department and the Agencies that would enable them to transfer Federal funds within a reasonable period of time.

Management's Response
The Government concurs with the auditors' findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 08-51

Program
U. S. Department of Health and Human Services - Child Support Enforcement Program – CFDA No. 93.563

Category
Internal Controls/Compliance

Compliance Requirement
Reporting

Criteria
45 CFR 92.20(C)(2) requires that grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

45 CFR 92.20(C)(3) requires that effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets.

45 CFR 92.20(C)(4) requires that, actual expenditures or outlays must be compared with budgeted amounts for each grant or subgrant.

Condition Found
The Child Support Enforcement program prepares Federal financial reports (which is the basis for reimbursement) based on information obtained from the Program records. However, these reports do not agree with supporting records as follows:

Expenditures-Federal Share Recalculated	$	3,448,990
Net Federal Share per 396A		3,253,328
Difference	$	195,662

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 08-51 ***(continued)***

Condition Found (continued)
The Program did not perform a reconciliation of its accounting records with amounts reported.

Questioned Costs
No questioned costs for the year ended September 30, 2008, as local program records support an amount of Federal expenditures higher than amounts reported in the Quarterly Financial Report (OCSE 396 A).

Underlying Cause
Lack of reconciliation between amounts reported in Quarterly Financial Report (OCSE 396 A) with the amounts accounted for in the Government's accounting system.

Effect
The lack of timely reconciliation of the Program's records with amounts reported in Quarterly Financial Report (OCSE 396 A) may lead to incorrectly recorded transactions not being promptly detected and corrected, and may also lead to incorrect financial information presented in reports submitted to the Federal government and claims for reimbursement.

Recommendation
The Child Support Enforcement Program should implement additional procedures and internal controls to ensure proper reconciliation between Program accounting records and reports filed is performed timely and discrepancies investigated. Timely reconciliations are necessary to ensure accurate reporting to the U.S. Department of Health and Human Services Agency.

Management's Response
The Government concurs with the auditors' findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 08-52

Program
U. S. Department of Health and Human Services - Child Support Enforcement Program – CFDA No. 93.563

Category
Internal Controls/Compliance

Compliance Requirement
Equipment and Real Property Management

Criteria
45 CFR 92.32(C)(4)(d)(2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.

Condition Found
The Child Support Enforcement Program was unable to provide us with evidence of the performance of a physical inventory of property within the past two years.

Questioned Costs
Not applicable.

Underlying Cause
The Child Support Enforcement Program does not appear to have a process in place for performing physical inventories, including a reconciliation of the inventory observed with inventory records.

Effect
Inappropriate recordkeeping of equipment could lead to misappropriation of assets and noncompliance with Federal regulations resulting in return of Federal awards received.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 08-52 ***(continued)***

Recommendation
The Child Support Enforcement program should perform a physical inventory of equipment purchased with Federal funds and include unrecorded assets with V.I. Property and Procurement Office.

Management's Response
The Government concurs with the auditors' findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

U.S. Department of Health and Human Services

Medical Assistance Program
(Medicaid-Title XIX)
CFDA No. 93.778

The objective of the Medical Assistance Program (Medicaid or Title XIX of the Social Security Act, as amended, (42 USC 1396 et seq.)) is to provide payments for medical assistance to low-income persons who are age 65 or over, blind, disabled, or members of families with dependent children or qualified pregnant women or children.

Medical Assistance Program Federal expenditures for the fiscal year ended September 30, 2008, amounted to $7,037,463.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-53

Program
U.S. Department of Health and Human Services - Medical Assistance Program (Medicaid - Title XIX) – CFDA No. 93.778

Category
Internal Control/Compliance

Compliance Requirement
Eligibility

Criteria
As described in 42 USC 1320b-7(d), 42 CFR sections 435.907 and 435.913, a written application signed under penalty of perjury and inclusion in each applicant's case records is required to support the Agency's decision on the application.

Condition Found
During our testing to determine whether required eligibility determinations for individual participants were made, the Government was unable to provide 29 out of 60 case files selected, as shown below, to verify if a signed written applications were made.

No.	MAP Number	No.	MAP Number
1	2C0120052143112	16	8C0380192542202
2	2C0120063103202	17	8C0380195882211
3	2C0120069756110	18	8C0380197833112
4	2D0120042222202	19	8C0380200573210
5	3A0130014302101	20	8C0380202562202
6	3C0130001872202	21	2C0120009803113
7	3C0130026522211	22	2C0120033912216

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-53 ***(continued)***

Condition Found (continued)

No.	MAP Number	No.	MAP Number
8	3C0130050263111	23	3C0130057616202
9	3G0130014993210	24	3C0130059592211
10	7C0370103683202	25	3D0130003702202
11	7C0370182302214	26	3D0130040432202
12	7C0370193922210	27	3D0130058726202
13	7C0370195453210	28	7C0380195002114
14	7C0370197423210	29	8C0380203383110
15	8C0380191422111		

Questioned Costs
Could not be determined.

Underlying Cause
Although current internal controls provide that evidence of eligibility documentation should be maintained in the participant's records, the Government was unable to locate the supporting documents of the participant's files selected to support eligibility.

Effect
The Government may have awarded Federal funds to an individual who is not eligible to participate in the program.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-53 ***(continued)***

Recommendation
The Government should implement procedures to ensure that all participant files are properly maintained and available. A checklist of documents required to support eligibility and maintained in each file could assist with this process.

Management's Response
The Government concurs with the auditors' findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-54

Program
U.S. Department of Health and Human Services - Medical Assistance Program (Medicaid - Title XIX) – CFDA No. 93.778

Category
Internal Controls/Compliance

Compliance Requirement
Special Tests and Provisions - Utilization Control and Government Integrity

Criteria
In accordance with 42 CFR parts 455, 456, and 1002, the State plan must provide methods and procedures to safeguard against unnecessary utilization of care and services, including long-term care institutions. In addition, the State must have: (1) methods or criteria for identifying suspected fraud cases; (2) methods for investigating these cases; and (3) procedures, developed in cooperation with legal authorities, for referring suspected fraud cases to law enforcement officials.

Condition Found
The Government was unable to provide supporting documentation to evidence the performance of the required procedures throughout the fiscal year of the criteria above.

Questioned Costs
Not applicable.

Underlying Cause
Although the State Plan provides methods and procedures against unnecessary utilization of care and services, the Government does not have processes in place to ensure these procedures are performed.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-54 ***(continued)***

Effect
The lack of processes to ensure these procedures are performed may lead to benefits being provided to beneficiaries who may no longer be eligible to receive such benefits.

Recommendation
The Government should establish processes to ensure that procedures to safeguard against unnecessary utilization of care and services are placed in operation.

Management's Response
The Government concurs with the auditors' findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-55

Program
U.S. Department of Health and Human Services - Medical Assistance Program (Medicaid - Title XIX) – CFDA No. 93.778

Category
Internal Controls/Compliance

Compliance Requirement
Reporting

Criteria
Pursuant to 45 CFR 92.20(b)(1-2), (1) accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant. (2) Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

Condition Found
During our testing to determine whether required reports for Federal awards include all activity of the reporting period, we noted that the transactions related to purchases of goods and services did not reconcile with the CMS-64s (which is the basis for reimbursement), as follows:

Expenditures per transaction detail	$ 6,158,403
Per CMS-64 (all quarters combined)	6,165,651
Difference	$ (7,248)

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-55 ***(continued)***

Questioned Costs
We have determined known questioned costs of $7,248.

Underlying Cause
Current procedures do not include proper reconciliation of reported amounts to the U.S. Department of Health and Human Services with related accounting records.

Effect
Lack of a supervisory review of reports may result in undetected errors in Federal financial reports. These may lead to incorrect financial information presented in reports submitted to the Federal government and reimbursement for potentially unallowable costs.

Recommendation
The Government should establish appropriate procedures to ensure that CMS-64 reports are reconciled to the accounting records.

Management's Response
The Government concurs with the auditors' findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-56

Program
U.S. Department of Health and Human Services - Medical Assistance Program (Medicaid - Title XIX) – CFDA No. 93.778

Category
Internal Controls/Compliance

Compliance Requirement
Cash Management

Criteria
In accordance with 31 CFR part 205 and the Cash Management Improvement Act (CMIA) Treasury-State Agreement in effect for fiscal year 2008, between the Territory of the Virgin Islands (the Territory) and the U.S. Secretary of the Treasury, the Territory is required to use an "average clearance" funding technique for vendor and payroll related costs. Under the "average clearance" funding technique, the Government may submit claims for reimbursement such that the funds are deposited, by ACH on the dollar-weighted average day of clearance, in the Government's bank account on the fourth day following the release of funds for vendor disbursements and on the day in which payroll checks are released for payroll related costs. Furthermore, reimbursement requests shall be for the exact amounts disbursed.

Condition Found
During our testing to determine whether the Government have complied with the terms and conditions of the CMIA Treasury-State Agreement, we tested (3) three out of the (15) fifteen cash drawdowns made during the fiscal year totaling $ 8,035,621.81. All three drawdowns tested, in the amount of $286,611, were not in compliance with the clearance funding patterns stipulated in the CMIA Agreement according to mail logs maintained by the Department of Finance as follows:

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-56 ***(continued)***

Condition Found (continued)

Sample No.	Month	Drawdown Amount	Payment Release Date	Deposit Date	Required Deposit Date	Excess Days
1	August	30,658	7/10/2008-8/11/2008	8/13/2008	7/14/2008-8/15/2008	30-0
2	July	85,590	7/1/2007-7/28/2008	7/29/2008	7/5/2007-8/1/2008	384-0
3	April	152,364	1/19/2008-3/29/2008	4/24/2008	1/23/2008-4/2/2008	92-22

In all cases, the noncompliance relates to drawdowns being requested after the specified date as per the CMIA Agreement. While this circumstance did not lead to drawing funds in advance of the CMIA established timing, it is evidence of lack of sufficient or effective internal controls over drawdowns requirements.

In addition, we noted that there were only (15) fifteen cash drawdowns related to payroll expenses, when there are 26 pay periods throughout the fiscal year. As per the CMIA agreement, cash draws related to payroll should be made upon every payday with an average clearance pattern of 0 (zero) days. Thus, we noted that the Government accumulated approximately 5 pay periods per cash draw request, instead of requesting the cash for every pay period, to comply with the CMIA agreement average clearance pattern. While this situation did not lead to drawing funds in advance of CMIA established timing, it is evidence of lack of sufficient or effective internal controls over drawdowns requirements.

Questioned Costs
Not applicable.

Underlying Cause
Internal controls related to transfers of Federal funds for programs included in the CMIA Treasury-State Agreement to minimize the timing between the time funds are released and the transfers are made, are not operating effectively.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-56 ***(continued)***

Effect
Delays in transferring Federal funds to cover program outlays into the Governments' cash accounts could affect cash flow demands and may cause MAP program activities to be funded by other program's funds and vice versa.

Recommendation
The Government should ensure that policies and procedures are enforced in order to comply with the appropriate funding patterns set forth in the CMIA Treasury-State Agreement.

Management's Response
The Government concurs with the auditors' findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-57

Program
U.S. Department of Health and Human Services - Medical Assistance Program (Medicaid - Title XIX) – CFDA No. 93.778

Category
Internal Controls/Compliance

Compliance Requirement
Special Tests and Provisions - ADP Risk Analysis and System Security Review.

Criteria
Pursuant to 45 CFR section 95.621, state agencies must establish and maintain a process for conducting periodic risk analyses to ensure that appropriate cost effective safeguards are incorporated into new and existing systems. State agencies must perform risk analyses whenever significant system changes occur. State agencies shall review the ADP system security installations involved in the administration of HHS Governments on a biennial basis. At a minimum, the reviews shall include an evaluation of physical and data security operating procedures, and personnel practices. The State agency shall maintain reports on its biennial ADP system security reviews, together with pertinent supporting documentation, for HHS on-site reviews.

Condition Found
The Government did not provide supporting documentation to evidence the performance of required ADP Risk Analysis and System Security Reviews.

Questioned Costs
Not applicable.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-57 ***(continued)***

Underlying Cause
Although current policies and procedures include the performance of periodic ADP reviews, the Government does not have appropriate controls in place to ensure these procedures are performed.

Effect
The absence of policies to ensure these analyses and reviews are performed may lead to physical and data security issues, and noncompliance with program requirements.

Recommendation
The Government should establish appropriate policies to ensure that required biennial analysis and reviews are being performed.

Management's Response
The Government concurs with the auditors' findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

U.S. Department of Homeland Security

Homeland Security Grant Cluster
CFDA Nos. 97.067 and 97.073

The Homeland Security Grant Cluster (HSGC) is intended to improve and significantly enhance the ability of the Nation to prevent, deter, respond to and recover from, threats and incidents of terrorism and to enhance regional preparedness. The HSGC provides financial assistance to the States (and through the States to local governments) to support activities such as planning, equipment, training, and exercises to address critical resource gaps identified in the assessments and priorities outlined within each States' Homeland Security Strategy. States are encouraged to develop regional approaches to planning and preparedness and to adopt, as appropriate, regional response structures.

Total HSGC Federal expenditures for the fiscal year ended September 30, 2008, amounted to $5,236,035.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-58

Program
U.S. Department of Homeland Security - Homeland Security Grant Cluster – CFDA Nos. 97.067 and 97.073

Category
Internal Controls/Compliance

Compliance Requirement
Period of Availability of Federal Funds

Criteria
Pursuant to 7 CFR 3016.23(a), where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period unless carryover of unobligated balances is permitted, in which case the carryover balances may be charged for costs resulting from obligations of the subsequent funding period.

Condition Found
During our audit procedures to determine whether Federal funds were obligated within the period of availability and obligations were liquidated within the required time period, we noted that two equipment purchases were obligated outside the grant period specified below. Furthermore, no letters of extension were provided to evidence that these grant periods were extended. Our sample consisted of selecting 25 expenditures that totaled $634,657, from a universe of 160 expenditures which totaled $4,478,589. The following table details the invoices questioned:

Document No.	Vendor ID	Invoice No.	Invoice Date	PO No.	Grant Project No.	Grant Period	Invoice Amount
3419	21701	10	10/1/2007	27029298	F8HSS	10/1/2004-3/31/2007	$ 89,185
0720	30915	5849	7/31/2008	28015024	F8HSU	10/1/2004-3/31/2008	156,221
							$ 245,406

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-58 ***(continued)***

Questioned Costs
We have determined known questioned costs of $245,406 for expenditures incurred outside the period of availability of federal funds.

Underlying Cause
Internal controls to ensure reported program expenditures were incurred during the grant award period are not operating effectively.

Effect
Lack of enforcement of internal controls to verify that Federal funds were obligated within the period of availability and obligations were liquidated within the required time period may lead to disallowance of funds.

Recommendation
The Government should ensure that procedures are being enforced to verify that reported expenditures were incurred and obligated within the specified grant period.

Management's Response
The Government concurs with the auditors' findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-59

Program
U.S. Department of Homeland Security - Homeland Security Grant Cluster – CFDA Nos. 97.067 and 97.073

Category
Internal Controls/Compliance

Compliance Requirement
Equipment and Real Property Management

Criteria
Pursuant to 32CFR section 33.32(d) (1) and (2), property records must be maintained that include a description of the property, a serial number or other identification number, the source of the property, who holds the title, the acquisition date and the cost of the property , percentage of federal participation in the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property, a serial number or other identification number, the source of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including date of disposal and sale price of the property.

Condition Found
The Government did not provide property records to evidence appropriate recordkeeping of equipment purchased with Federal funds or evidence of the performance of a physical inventory of the property within the past two years.

Questioned Costs
Not applicable.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-59 ***(continued)***

Underlying Cause
Internal controls to ensure property records are readily available for inspection were not operating effectively.

Effect
Inappropriate recordkeeping of property records could lead to misappropriation of assets and noncompliance with federal regulations.

Recommendation
The Government should maintain readily available property records for inspection that identify property acquired with Federal grant funds. In addition, the Government should establish procedures to ensure that physical inventory of equipment purchased with federal funds is performed at least every two years.

Management's Response
The Government concurs with the auditors' findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-60

Program
U.S. Department of Homeland Security - Homeland Security Grant Cluster – CFDA Nos. 97.067 and 97.073

Category
Internal Controls/Compliance

Compliance Requirement
Reporting

Criteria
In accordance with 44 CFR 13.42 "Retention and access requirements for records" paragraphs (b) and (c) depicts that records must be retained for three years from the starting date specified in paragraph (c) of this section. Paragraph (c) states that when grant support is continued or renewed at annual or other intervals, the retention period for the records of each funding period starts on the day the grantee or subgrantee submits to the awarding agency its single or last expenditure report for that period. However, if grant support is continued or renewed quarterly, the retention period for each year's records starts on the day the grantee submits its expenditure report for the last quarter of the Federal fiscal year. In all other cases, the retention period starts on the day the grantee submits its final expenditure report. If an expenditure report has been waived, the retention period starts on the day the report would have been due.

Condition Found
During our testing to determine whether the Financial Status Report (SF-269) included all activity of the reporting period, the Government was unable to provide us with copies of the second and fourth quarters SF-269 reports for the fiscal year under audit. Furthermore, for the reports that were provided, we noted that the reports were submitted after the due date for each report. Additionally, the Government did not provide support for the amounts reported on the SF-269 for the first and third quarters.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-60 ***(continued)***

Questioned Costs
Not applicable.

Underlying Cause
Internal controls to ensure financial reports are submitted to the Federal grantor and readily available are not operating effectively.

Effect
Inappropriate recordkeeping of financial reports submitted to the Federal grantor may lead to noncompliance with Federal administrative requirements.

Recommendation
The Government should develop effective procedures related to recordkeeping to ensure financial reports submitted to the Federal grantor are readily available for inspection.

Management's Response
The Government concurs with the auditors' findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-61

Program
U.S. Department of Homeland Security - Homeland Security Grant Cluster – CFDA Nos. 97.067 and 97.073

Category
Internal Controls/Compliance

Compliance Requirement
Cash Management

Criteria
According to the 31 CFR 205 *Subpart B—Rules Applicable to Federal Assistance Programs Not Included in a Treasury-State Agreement*: A State must minimize the time between the drawdown of Federal funds from the Federal government and their disbursement for Federal program purposes. A Federal Program Agency must limit a funds transfer to a State to the minimum amounts needed by the State and must time the disbursement to be in accord with the actual, immediate cash requirements of the State in carrying out a Federal assistance program or project. The timing and amount of funds transfers must be as close as is administratively feasible to a State's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs.

Condition Found
During our testing of cash management procedures to verify the timing of cash drawdowns were made as close as is administratively feasible in accordance with the CMIA Treasury-State Agreement, the Government did not provided the support documentation to complete our test. Our sample consisted of selecting 8 drawdowns from a total population of 47 cash draws, totaling $5,804,097.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 08-61 *(continued)*

Condition Found (continued)

Year	Period	Journal	ORG	Object	Project	Effective Date	Purchase Order	Amount	Vendor
2008	'03	'003429__	21668039	454000	F8HSU	12/20/2007	'365502 __	$ (7,354)	009-08
2008	'01	'001543__	21662039	454000	F8HSU	9/30/2007	'301535 __	(7,074)	002-07
2008	'03	'000092__	21668049	454000	F8HSU	12/4/2007	'335807 __	(100,000)	001-08
2008	'09	'004953__	21668029	454000	F8HST	6/20/2008	'533536 __	(627,000)	040-08
2008	'07	'007330__	21668029	454000	F8HST	4/22/2008	'478658 __	(74,288)	029-08
2008	'01	'001543__	21668019	454000	F8HST	9/30/2007	'301878 __	(4,168)	012-07
2008	'07	'007330__	21665329	457100	F8HST	4/22/2008	'478658 __	(291,891)	029-08
2008	'07	'006917__	21665329	457100	F8HST	4/3/2008	'450348 __	(2,550)	026-08

Questioned Costs
Not applicable.

Underlying Cause
Internal controls related to record retention to ensure supporting documentation for cash drawdowns are readily accessible are not operating effectively.

Effect
Ineffective internal controls related to record retention of cash drawdown support may lead to inaccurate reporting of Federal grants and noncompliance of administrative requirements.

Recommendation
The Government should ensure that effective procedures related to record retention are operating effectively.

Management's Response
The Government concurs with the auditors' findings and recommendations. Refer to the Corrective Action Plan for further details.

Government of the United States Virgin Islands

Summary Schedule of Prior Audit Findings

September 30, 2008

Finding 07-13

CFDA Number	10.551, 10.561
Federal Agency	U.S. Department of Agriculture
Name of Federal Program	Food Stamps Cluster
Type of Compliance Requirement	Reporting
Amount of Questioned Costs	None
Contact Person Responsible for Corrective Action Plan	Chief Financial Officer – Department of Human Services
Status	Recurring (08-12) Corrective action plan was implemented as of June 30, 2009.

Finding 07-14

CFDA Number	10.551, 10.561
Federal Agency	U.S. Department of Agriculture
Name of Federal Program	Food Stamps Cluster
Type of Compliance Requirement	Special Test and Provisions: ADP System for Food Stamps (Eligibility)
Amount of Questioned Costs	Could not be determined
Contact Person Responsible for Corrective Action Plan	Administrator of the Division of Family Assistance – Department of Human Services
Status	Recurring (08-13)

Finding 07-15

CFDA Number	10.551, 10.561
Federal Agency	U.S. Department of Agriculture
Name of Federal Program	Food Stamps Cluster
Type of Compliance Requirement	Matching, Level of Effort, Earmarking
Amount of Questioned Costs	$188,913
Contact Person Responsible for Corrective Action Plan	Administrator of the Division of Family Assistance – Department of Human Services
Status	Corrected

Finding 07-16

CFDA Number	10.555, 10.559
Federal Agency	U.S. Department of Agriculture
Name of Federal Program	Child Nutrition Cluster
Type of Compliance Requirement	Reporting
Amount of Questioned Costs	None
Contact Person Responsible for Corrective Action Plan	Director, Child Nutrition Program and Director of Federal Grant and Audit – Department of Education
Status	Recurring (08-18).

Finding 07-17

CFDA Number	10.557
Federal Agency	U.S. Department of Agriculture
Name of Federal Program	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)
Type of Compliance Requirement	Special Tests and Provision: Compliance Investigation of High Risk Vendors.
Amount of Questioned Costs	Not applicable
Contact Person Responsible for Corrective Action Plan	Director, WIC Program – Department of Health
Status	Corrected

Finding 07-18

CFDA Number	10.557
Federal Agency	U.S. Department of Agriculture
Name of Federal Program	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)
Type of Compliance Requirement	Equipment and Real Property Management
Amount of Questioned Costs	Could not be determined
Contact Person Responsible for Corrective Action Plan	Director, WIC Program – Department of Health
Status	Corrected

Finding 07-19

CFDA Number	10.557
Federal Agency	U.S. Department of Agriculture
Name of Federal Program	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)
Type of Compliance Requirement	Cash Management
Amount of Questioned Costs	None
Contact Person Responsible for Corrective Action Plan	Director, WIC Program – Department of Health
Status	Recurring (08-21)

Finding 07-20

CFDA Number	10.557
Federal Agency	U.S. Department of Agriculture
Name of Federal Program	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)
Type of Compliance Requirement	Eligibility
Amount of Questioned Costs	Could not be determined
Contact Person Responsible for Corrective Action Plan	Director, WIC Program – Department of Health
Status	Corrected

Finding 07-21

CFDA Number	10.557
Federal Agency	U.S. Department of Agriculture
Name of Federal Program	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)
Type of Compliance Requirement	Special Test and Provisions: Food Instruments Disposition
Amount of Questioned Costs	Not applicable
Contact Person Responsible for Corrective Action Plan	Director, WIC Program – Department of Health
Status	Corrected

Finding 07-22

CFDA Number	10.557
Federal Agency	U.S. Department of Agriculture
Name of Federal Program	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)
Type of Compliance Requirement	Period of Availability of Federal Funds
Amount of Questioned Costs	$256
Contact Person Responsible for Corrective Action Plan	Director, WIC Program – Department of Health
Status	Recurring (08-20)

Finding 07-23

CFDA Number	12.401
Federal Agency	U.S. Department of Defense
Name of Federal Program	National Guard Military Operations and Maintenance (O&M) Projects
Type of Compliance Requirement	Activities Allowed or Unallowed, Allowable Costs/Cost Principles
Amount of Questioned Costs	$70,257
Contact Person Responsible for Corrective Action Plan	Director of Administration and Business Management – Office of the Adjutant General
Status	Recurring (08-22)

Finding 07-24

CFDA Number	12.401
Federal Agency	U.S. Department of Defense
Name of Federal Program	National Guard Military Operations and Maintenance (O&M) Projects
Type of Compliance Requirement	Equipment and Real Property Management
Amount of Questioned Costs	Could not be determined
Contact Person Responsible for Corrective Action Plan	Director of Administration and Business Management – Office of the Adjutant General
Status	Recurring (08-23)

Finding 07-25

CFDA Number	14.218
Federal Agency	U.S. Department of Housing and Urban Development (HUD)
Name of Federal Program	Community Development Grant/Entitlement Program
Type of Compliance Requirement	Activities Allowed or Unallowed, Allowable Costs/Cost Principles
Amount of Questioned Costs	$43,640
Contact Person Responsible for Corrective Action Plan	Chief Financial Officer – Virgin Islands Housing and Finance Authority
Status	Corrected

Finding 07-26

CFDA Number	14.218
Federal Agency	U.S. Department of Housing and Urban Development (HUD)
Name of Federal Program	Community Development Grant/Entitlement Program
Type of Compliance Requirement	Cash Management
Amount of Questioned Costs	$18,990
Contact Person Responsible for Corrective Action Plan	Chief Financial Officer – Virgin Islands Housing and Finance Authority
Status	Corrected

Finding 07-27

CFDA Number	14.218
Federal Agency	U.S. Department of Housing and Urban Development (HUD)
Name of Federal Program	Community Development Grant/Entitlement Program
Type of Compliance Requirement	Special Tests and Provisions: Required Certifications and HUD Approvals, Environmental Reviews, and Rehabilitation
Amount of Questioned Costs	Not applicable
Contact Person Responsible for Corrective Action Plan	Chief Financial Officer – Virgin Islands Housing and Finance Authority
Status	Corrected

Finding 07-28

CFDA Number	14.218
Federal Agency	U.S. Department of Housing and Urban Development (HUD)
Name of Federal Program	Community Development Grant/Entitlement Program
Type of Compliance Requirement	Subrecipient Monitoring
Amount of Questioned Costs	$53,700
Contact Person Responsible for Corrective Action Plan	Chief Financial Officer – Virgin Islands Housing and Finance Authority
Status	Corrected

Finding 07-29

CFDA Number	14.218
Federal Agency	U.S. Department of Housing and Urban Development (HUD)
Name of Federal Program	Community Development Grant/Entitlement Program
Type of Compliance Requirement	Matching, Level of Effort, Earmarking, Period of Availability of Federal Funds
Amount of Questioned Costs	$2,004,046
Contact Person Responsible for Corrective Action Plan	Chief Financial Officer – Virgin Islands Housing and Finance Authority
Status	Corrected

Finding 07-30

CFDA Number	14.218
Federal Agency	U.S. Department of Housing and Urban Development (HUD)
Name of Federal Program	Community Development Grant/Entitlement Program
Type of Compliance Requirement	Reporting
Amount of Questioned Costs	Could not be determined
Contact Person Responsible for Corrective Action Plan	Chief Financial Officer – Virgin Islands Housing and Finance Authority
Status	Corrected

Finding 07-31

CFDA Number	14.218
Federal Agency	U.S. Department of Housing and Urban Development (HUD)
Name of Federal Program	Community Development Grant/Entitlement Program
Type of Compliance Requirement	Program Income
Amount of Questioned Costs	Could not be determined
Contact Person Responsible for Corrective Action Plan	Chief Financial Officer – Virgin Islands Housing and Finance Authority
Status	Corrected

Finding 07-32

CFDA Number	17.225
Federal Agency	U.S. Department of Labor
Name of Federal Program	Unemployment Insurance
Type of Compliance Requirement	Reporting
Amount of Questioned Costs	Not applicable
Contact Person Responsible for Corrective Action Plan	Director of Unemployment Insurance and Director of Business Office – Department of Labor
Status	Recurring (08-30)

Finding 07-33

CFDA Number	17.225
Federal Agency	U.S. Department of Labor
Name of Federal Program	Unemployment Insurance
Type of Compliance Requirement	Special Tests and Provisions: Unemployment Insurance (UI) Benefits Payment
Amount of Questioned Costs	Not applicable
Contact Person Responsible for Corrective Action Plan	Director of Unemployment Insurance and Director of Business Office – Department of Labor
Status	Recurring (08-31)

Finding 07-34

CFDA Number	17.225
Federal Agency	U.S. Department of Labor
Name of Federal Program	Unemployment Insurance
Type of Compliance Requirement	Cash Management
Amount of Questioned Costs	None
Contact Person Responsible for Corrective Action Plan	Director of Administration – Department of Labor
Status	Recurring (08-29)

Finding 07-35

CFDA Number	17.225
Federal Agency	U.S. Department of Labor
Name of Federal Program	Unemployment Insurance
Type of Compliance Requirement	Reporting
Amount of Questioned Costs	None
Contact Person Responsible for Corrective Action Plan	Director of Administration – Department of Labor
Status	Recurring (08-30)

Finding 07-36

CFDA Number	17.225
Federal Agency	U.S. Department of Labor
Name of Federal Program	Unemployment Insurance
Type of Compliance Requirement	Special Tests and Provisions: Employer Experience Rating
Amount of Questioned Costs	Not applicable
Contact Person Responsible for Corrective Action Plan	Director of Unemployment Insurance and Director of Business Office – Department of Labor
Status	Corrected

Finding 07-37

CFDA Number	17.225
Federal Agency	U.S. Department of Labor
Name of Federal Program	Unemployment Insurance
Type of Compliance Requirement	Eligibility
Amount of Questioned Costs	$9,069
Contact Person Responsible for Corrective Action Plan	Director of Unemployment Insurance and Director of Business Office – Department of Labor
Status	Corrected

Finding 07-38

CFDA Number	66.468
Federal Agency	U.S. Environmental Protection Agency
Name of Federal Program	Capitalization Grants for Drinking Water State Revolving Fund
Type of Compliance Requirement	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Reporting
Amount of Questioned Costs	$878,668
Contact Person Responsible for Corrective Action Plan	Chief Financial Officer – Department of Planning and Natural Resources
Status	DPNR did not agree with the finding as it is DPNR understanding the difference pertained to unliquidated balances.
Auditor's Conclusion	As detailed in the finding, the referred supporting documentation was not available for review at the time of our audit. This situation was not observed during our fiscal year 2008 audit.

Finding 07-39

CFDA Number	66.605
Federal Agency	U.S. Environmental Protection Agency
Name of Federal Program	Performance Partnership Grant
Type of Compliance Requirement	Matching, Level of Effort, Earmarking
Amount of Questioned Costs	$1,611
Contact Person Responsible for Corrective Action Plan	Chief Financial Officer – Department of Planning and Natural Resources
Status	DPNR did not concur with this finding stating support was later provided for 8 out of 16 transactions listed in the finding.
Auditor's Conclusion	As detailed in the finding, the supporting documentation was not available for review within the performance of our audit or within a reasonable period originally agreed with DPNR. We noted this situation during our fiscal year 2008 audit as Finding 08-28.

Finding 07-40

CFDA Number	66.605
Federal Agency	U.S. Environmental Protection Agency
Name of Federal Program	Performance Partnership Grant
Type of Compliance Requirement	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Period of Availability of Federal Funds
Amount of Questioned Costs	$1,924
Contact Person Responsible for Corrective Action Plan	Chief Financial Officer – Department of Planning and Natural Resources
Status	DPNR did not concur with this finding stating the information was later provided.
Auditor's Conclusion	As detailed in the finding, the supporting documentation was not available for review within the performance of our audit or within a reasonable period originally agreed with DPNR. We noted this situation during our fiscal year 2008 audit as Finding 08-29.

Finding 07-41

CFDA Number	66.605
Federal Agency	U.S. Environmental Protection Agency
Name of Federal Program	Performance Partnership Grant
Type of Compliance Requirement	Equipment and Real Property Management
Amount of Questioned Costs	$7,180
Contact Person Responsible for Corrective Action Plan	Chief Financial Officer – Department of Planning and Natural Resources
Status	Corrected

Finding 07-42

CFDA Number	66.605
Federal Agency	U.S. Environmental Protection Agency
Name of Federal Program	Performance Partnership Grant
Type of Compliance Requirement	Procurement and Suspension and Debarment
Amount of Questioned Costs	$30,295
Contact Person Responsible for Corrective Action Plan	Chief Financial Officer – Department of Planning and Natural Resources
Status	DPNR did not concur with the finding, stating procurement process was properly followed.
Auditor’s Conclusion	As stated in the finding, supporting evidence was not provided during the performance of our audit. This situation was not noted during our fiscal year 2008 audit.

Finding 07-43

CFDA Number	66.605
Federal Agency	U.S. Environmental Protection Agency
Name of Federal Program	Performance Partnership Grant
Type of Compliance Requirement	Cash Management, Reporting
Amount of Questioned Costs	$56,232
Contact Person Responsible for Corrective Action Plan	Chief Financial Officer – Department of Planning and Natural Resources
Status	DPNR did not concur with the finding, stating the SF-269 and draws per ASAP may cover different periods.
Auditor's Conclusion	As stated in the finding, DPNR could not provide us with a reconciliation between 2007 expenditures reported in SF-269 and 2007 cash draws as per ASAP. This situation was not noted during our fiscal year 2008 audit as Finding 08-27.

Finding 07-44

CFDA Number	84.298
Federal Agency	U.S. Department of Education
Name of Federal Program	State Grant for Innovative Program (Part A, Title V)
Type of Compliance Requirement	Cash Management
Amount of Questioned Costs	Not applicable
Contact Person Responsible for Corrective Action Plan	Assistance Commissioner – Department of Education
Status	VIDE did not concur with this finding stating third-party did not report any exception on this matter and while not stamped documentation exists, there was no violation.
Auditor's Conclusion	As stated in our finding, the finding relates to lack of documentation evidencing internal controls, which was noted in VIDE response. This situation was noted in our fiscal year 2008 audit as Finding 08-44.

Finding 07-45

CFDA Number	93.558
Federal Agency	U.S. Department of Health and Human Services
Name of Federal Program	Temporary Assistance for Needy Families (TANF)
Type of Compliance Requirement	Matching, Level of Effort, Earmarking
Amount of Questioned Costs	Could not be determined
Contact Person Responsible for Corrective Action Plan	Chief Financial Officer – Department of Human Resources
Status	Corrected

Finding 07-46

CFDA Number	93.558
Federal Agency	U.S. Department of Health and Human Services
Name of Federal Program	Temporary Assistance for Needy Families (TANF)
Type of Compliance Requirement	Eligibility
Amount of Questioned Costs	Could not be determined
Contact Person Responsible for Corrective Action Plan	Deputy Commissioner for Fiscal and Administrative Operations – Department of Human Services
Status	Corrected

Finding 07-47

CFDA Number	93.558
Federal Agency	U.S. Department of Health and Human Services
Name of Federal Program	Temporary Assistance for Needy Families (TANF)
Type of Compliance Requirement	Special Tests and Provisions: Income Eligibility and Verification System
Amount of Questioned Costs	Could not be determined
Contact Person Responsible for Corrective Action Plan	Director of Jobs/TANF – Department of Human Services
Status	Corrected

Finding 07-48

CFDA Number	93.563
Federal Agency	U.S. Department of Health and Human Services
Name of Federal Program	Child Support Enforcement
Type of Compliance Requirement	Cash Management
Amount of Questioned Costs	Not applicable
Contact Person Responsible for Corrective Action Plan	Assistant Budget Control Officer, PCSD – Department of Justice
Status	Recurring (08-50)

Finding 07-49

CFDA Number	93.778
Federal Agency	U.S. Department of Health and Human Services
Name of Federal Program	Medical Assistance Program (Medicaid – Title XIX)
Type of Compliance Requirement	Eligibility
Amount of Questioned Costs	Could not be determined
Contact Person Responsible for Corrective Action Plan	Executive Director and Administrator of Fiscal Services, BHIMA – Department of Health
Status	Recurring (08-53)

Finding 07-50

CFDA Number	93.778
Federal Agency	U.S. Department of Health and Human Services
Name of Federal Program	Medical Assistance Program (Medicaid – Title XIX)
Type of Compliance Requirement	Eligibility
Amount of Questioned Costs	None
Contact Person Responsible for Corrective Action Plan	Executive Director and Administrator of Fiscal Services, BHIMA – Department of Health
Status	Corrected

Finding 07-51

CFDA Number	93.778
Federal Agency	U.S. Department of Health and Human Services
Name of Federal Program	Medical Assistance Program (Medicaid – Title XIX)
Type of Compliance Requirement	Special Tests and Provisions: Utilization Control and Program Integrity
Amount of Questioned Costs	Not applicable
Contact Person Responsible for Corrective Action Plan	Executive Director and Administrator of Fiscal Services, BHIMA – Department of Health
Status	Recurring (08-54)

Finding 07-52

CFDA Number	93.778
Federal Agency	U.S. Department of Health and Human Services
Name of Federal Program	Medical Assistance Program (Medicaid – Title XIX)
Type of Compliance Requirement	Reporting
Amount of Questioned Costs	None
Contact Person Responsible for Corrective Action Plan	Executive Director and Administrator of Fiscal Services, BHIMA – Department of Health
Status	Recurring (08-55) Corrective action was implemented in October 1, 2009.

Finding 07-53

CFDA Number	93.778
Federal Agency	U.S. Department of Health and Human Services
Name of Federal Program	Medical Assistance Program (Medicaid – Title XIX)
Type of Compliance Requirement	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Matching, Level of Effort, Earmarking, Period of Availability of Federal Funds, Procurement and Suspension and Debarment
Amount of Questioned Costs	Not applicable
Contact Person Responsible for Corrective Action Plan	Executive Director and Administrator of Fiscal Services, BHIMA – Department of Health
Status	Corrected

Finding 07-54

CFDA Number	93.778
Federal Agency	U.S. Department of Health and Human Services
Name of Federal Program	Medical Assistance Program (Medicaid – Title XIX)
Type of Compliance Requirement	Cash Management
Amount of Questioned Costs	None
Contact Person Responsible for Corrective Action Plan	Executive Director and Administrator of Fiscal Services, BHIMA – Department of Health
Status	Recurring (08-56)

Finding 07-55

CFDA Number	93.778
Federal Agency	U.S. Department of Health and Human Services
Name of Federal Program	Medical Assistance Program (Medicaid – Title XIX)
Type of Compliance Requirement	Reporting
Amount of Questioned Costs	$1,840,935
Contact Person Responsible for Corrective Action Plan	Executive Director and Administrator of Fiscal Services, BHIMA – Department of Health
Status	Corrected

Finding 07-56

CFDA Number	93.778
Federal Agency	U.S. Department of Health and Human Services
Name of Federal Program	Medical Assistance Program (Medicaid – Title XIX)
Type of Compliance Requirement	Special Test and Provisions: ADP Risk Analysis and System Security Review
Amount of Questioned Costs	Not applicable
Contact Person Responsible for Corrective Action Plan	Executive Director and Administrator of Fiscal Services, BHIMA – Department of Health
Status	Recurring (08-57)

Finding 07-57

CFDA Number	97.067
Federal Agency	U.S. Department of Homeland Security
Name of Federal Program	Homeland Security Grant
Type of Compliance Requirement	Activities Allowed or Unallowed, Allowable Costs/Cost Principles
Amount of Questioned Costs	$63,042
Contact Person Responsible for Corrective Action Plan	Director – Office of Homeland Security; Director – VITEMA
Status	Corrected

Finding 07-58

CFDA Number	97.067
Federal Agency	U.S. Department of Homeland Security
Name of Federal Program	Homeland Security Grant
Type of Compliance Requirement	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Period of Availability of Federal Funds
Amount of Questioned Costs	$65,293
Contact Person Responsible for Corrective Action Plan	Director – Office of Homeland Security; Director – VITEMA
Status	The OAG did not concur with this finding, stating all transactions were properly supported.
Auditor's Conclusion	As stated in our finding, supporting documentation for listed transactions was not provided for review. This situation was not noted in our fiscal year 2008 audit.

Finding 07-59

CFDA Number	97.067
Federal Agency	U.S. Department of Homeland Security
Name of Federal Program	Homeland Security Grant
Type of Compliance Requirement	Cash Management
Amount of Questioned Costs	$1,699,377
Contact Person Responsible for Corrective Action Plan	Director – Office of Homeland Security; Director – VITEMA
Status	Corrected

Finding 07-60

CFDA Number	97.067
Federal Agency	U.S. Department of Homeland Security
Name of Federal Program	Homeland Security Grant
Type of Compliance Requirement	Equipment and Real Property Management
Amount of Questioned Costs	Could not be determined
Contact Person Responsible for Corrective Action Plan	Director – Office of Homeland Security; Director – VITEMA
Status	Recurring (08-59)

Finding 07-61

CFDA Number	97.067
Federal Agency	U.S. Department of Homeland Security
Name of Federal Program	Homeland Security Grant
Type of Compliance Requirement	Reporting
Amount of Questioned Costs	None
Contact Person Responsible for Corrective Action Plan	Director – Office of Homeland Security; Director – VITEMA
Status	Corrected

Finding 07-62

CFDA Number	10.551, 10.561, 10.555, 10.559, 10.557, 14.218, 17.225, 66.468, 66.605, 93.558, 93.563
Federal Agency	U.S. Department of Agriculture; U.S. Department of Housing and Urban Development (HUD); U.S. Department of Labor; U.S. Environmental Protection Agency; U.S. Department of Health and Human Services
Name of Federal Program	Child Nutrition Cluster; Special Supplemental Nutrition Program for Women, Infants, and Children (WIC); Community Development Block Grant/Entitlement Program; Unemployment Insurance; Capitalization Grants for Drinking Water State Revolving Fund; Performance Partnership Grant; Temporary Assistance for Needy Families (TANF); Child Support Enforcement
Type of Compliance Requirement	Allowable Costs/Cost Principles
Amount of Questioned Costs	$1,241,377
Contact Person Responsible for Corrective Action Plan	Associate Director and Deputy Director, FGMU – Office of Management and Budget
Status	OMB did not concur with this finding, stating time and clarification were needed in order for them to provide supporting documentation.
Auditor's Conclusion	As stated in our finding, supporting documentation was not available for review at the time of our audit. This situation was not noted during our fiscal year 2008 audit.

Finding 06-06

CFDA Number	10.555, 10.559
Federal Agency	U.S. Department of Agriculture
Name of Federal Program	Child Nutrition Cluster
Type of Compliance Requirement	Reporting
Amount of Questioned Costs	None
Contact Person Responsible for Corrective Action Plan	Insular Superintendent STT/STJ & STX, Director of Child Nutrition, SFA Director STT/STJ & STX - Department of Education
Status	Recurring (08-18)

Finding 06-07

CFDA Number	10.555, 10.559
Federal Agency	U.S. Department of Agriculture
Name of Federal Program	Child Nutrition Cluster
Type of Compliance Requirement	Reporting
Amount of Questioned Costs	For St. Thomas, amounts reported in SF-269 are overstated by $124,416 when compared to supporting internal records, wile for St. Croix, $326,112 when compared to supporting internal records. Unsupported amount requested for reimbursement totals $450,528.
Contact Person Responsible for Corrective Action Plan	Insular Superintendent STT/STJ & STX; Director of Property, Procurement and Auxiliary Services STT/STJ & STX; State Director, Child Nutrition Program; Director of Business Affairs STT/STJ & STX; SFA Director STT/STJ & STX - Department of Education
Status	Recurring (08-18)

Finding 06-08

CFDA Number	10.557
Federal Agency	U.S. Department of Agriculture
Name of Federal Program	Special Supplemental Nutrition Program for Women, Infants and Children (WIC)
Type of Compliance Requirement	Special Tests and Provisions: compliance investigation of high-risk vendor.
Amount of Questioned Costs	None
Contact Person Responsible for Corrective Action Plan	Director, WIC Program - Department of Health
Status	Corrected

Finding 06-09

CFDA Number	10.557
Federal Agency	U.S. Department of Agriculture
Name of Federal Program	Special Supplemental Nutrition Program for Women, Infants and Children (WIC)
Type of Compliance Requirement	Equipment and Real Property Management
Amount of Questioned Costs	Could not be determined
Contact Person Responsible for Corrective Action Plan	Director, WIC Program - Department of Health
Status	Corrected

Finding 06-10

CFDA Number	10.551, 10.561
Federal Agency	U.S. Department of Agriculture
Name of Federal Program	Food Stamps Cluster
Type of Compliance Requirement	Reporting
Amount of Questioned Costs	None. Amounts disbursed by the Department were in excess of amounts claims.
Contact Person Responsible for Corrective Action Plan	Deputy Commissioner for Fiscal and Administrative Operations - Department of Human Services
Status	Recurring (08-12). Corrective action was implemented as of June 30, 2009.

Finding 06-11

CFDA Number	17.225
Federal Agency	U.S. Department of Labor
Name of Federal Program	Unemployment Insurance
Type of Compliance Requirement	Reporting
Amount of Questioned Costs	None. Amounts paid by VIDOL were in excess of amounts requested for reimbursement.
Contact Person Responsible for Corrective Action Plan	Director of Unemployment Insurance and Director of Business Office - Department of Labor
Status	Recurring (08-30)

Finding 06-12

CFDA Number	17.225
Federal Agency	U.S. Department of Labor
Name of Federal Program	Unemployment Insurance
Type of Compliance Requirement	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Eligibility, Period of Availability, Special Test and Provisions: Employer Experience Rating
Amount of Questioned Costs	$458
Contact Person Responsible for Corrective Action Plan	Director, Unemployment Insurance - Department of Labor
Status	Corrected

Finding 06-13

CFDA Number	66.605
Federal Agency	U.S. Environmental Protection Agency
Name of Federal Program	Performance Partnership Grants
Type of Compliance Requirement	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, Period of Availability of Federal Funds
Amount of Questioned Costs	$37,937
Contact Person Responsible for Corrective Action Plan	Chief Financial Officer - Department of Planning and Natural Resources
Status	Recurring (08-38)

Finding 06-14

CFDA Number	66.605
Federal Agency	U.S. Environmental Protection Agency
Name of Federal Program	Performance Partnership Grants
Type of Compliance Requirement	Equipment and Real Property Management
Amount of Questioned Costs	$6,066
Contact Person Responsible for Corrective Action Plan	Chief Financial Officer - Department of Planning and Natural Resources
Status	Corrected

Finding 06-15

CFDA Number	66.605
Federal Agency	U.S. Environmental Protection Agency
Name of Federal Program	Performance Partnership Grants
Type of Compliance Requirement	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, Period of Availability of Federal Funds
Amount of Questioned Costs	Not determinable
Contact Person Responsible for Corrective Action Plan	Chief Financial Officer - Department of Planning and Natural Resources
Status	Corrected

Finding 06-16

CFDA Number	84.027
Federal Agency	U.S. Department of Education
Name of Federal Program	Special Education - Grants to States
Type of Compliance Requirement	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, and Period of Availability
Amount of Questioned Costs	$26,470. However, likely questioned costs could be significantly higher due to the condition described related to not being able to reconcile amounts charged to the program with Notice of Personnel Action (NOPA) forms.
Contact Person Responsible for Corrective Action Plan	Director of Special Education - Department of Education
Status	VIDE did not agree with this finding as the third-party fiduciary conducted a payroll audit which resulted in the determination of USDE reimbursement to VIDE.
Auditor's Conclusion	Requirement established by the cited criteria were not complied with. The fact that a third-party fiduciary conducted a payroll audit and that the USDE reimbursed VIDE for these costs are not by themselves evidence of these compliance violations being waived. This situation was not noted during our fiscal year 2008 audit.

Finding 06-17

CFDA Number	84.027
Federal Agency	U.S. Department of Education
Name of Federal Program	Special Education - Grants to States
Type of Compliance Requirement	Equipment and Real Property Management
Amount of Questioned Costs	Not applicable
Contact Person Responsible for Corrective Action Plan	Director of Property, Procurement and Auxiliary Services, and Director of Special Education - Department of Education
Status	Corrected

Finding 06-18

CFDA Number	84.298
Federal Agency	U.S. Department of Education
Name of Federal Program	Innovative Education
Type of Compliance Requirement	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, and Period of Availability
Amount of Questioned Costs	$217,028. However, likely questioned costs could be significantly higher due to the condition described related to not being able to reconcile amounts charged to the program with Notice of Personnel Action (NOPA).
Contact Person Responsible for Corrective Action Plan	Assistance Commissioner - Department of Education
Status	VIDE did not agree with this finding as the third-party fiduciary conducted a payroll audit which resulted in the determination of USDE reimbursement to VIDE.
Auditor's Conclusion	Requirement established by the cited criteria were not complied with. The fact that a third-party fiduciary conducted a payroll audit and that the USDE reimbursed VIDE for these costs are not by themselves evidence of these compliance violations being waived. This situation was not noted during our fiscal year 2007 audit nor during our fiscal year 2008 audit.

Finding 06-19

CFDA Number	84.298
Federal Agency	U.S. Department of Education
Name of Federal Program	Innovative Education
Type of Compliance Requirement	Equipment and Real Property Management
Amount of Questioned Costs	Could not be determined.
Contact Person Responsible for Corrective Action Plan	Director of Property, Procurement and Auxiliary Services - Department of Education
Status	Corrected

Finding 06-20

CFDA Number	93.563
Federal Agency	U.S. Department of Health and Human Services
Name of Federal Program	Child Support Enforcement
Type of Compliance Requirement	Activities Allowed or Unallowed, Allowable Costs/Cost Principles
Amount of Questioned Costs	$341,000
Contact Person Responsible for Corrective Action Plan	Director, Paternity and Child Support Division (PCSD) - Director of Justice
Status	Corrected

Finding 06-21

CFDA Number	93.563
Federal Agency	U.S. Department of Health and Human Services
Name of Federal Program	Child Support Enforcement
Type of Compliance Requirement	Cash Management
Amount of Questioned Costs	Not applicable
Contact Person Responsible for Corrective Action Plan	Director, Paternity and Child Support Division (PCSD) - Director of Justice
Status	Corrected

Finding 06-22

CFDA Number	93.778
Federal Agency	U.S. Department of Health and Human Services
Name of Federal Program	Medical Assistance Program (Medicaid - Title XIX)
Type of Compliance Requirement	Reporting
Amount of Questioned Costs	$2,747,555
Contact Person Responsible for Corrective Action Plan	Director of BHIMA and Administrator, Fiscal Services - MAP-DOH
Status	Recurring (08-55). Corrective action was implemented in October 1, 2008.

Finding 06-23

CFDA Number	93.778
Federal Agency	U.S. Department of Health and Human Services
Name of Federal Program	Medical Assistance Program (Medicaid - Title XIX)
Type of Compliance Requirement	Eligibility
Amount of Questioned Costs	Could not be determined
Contact Person Responsible for Corrective Action Plan	Executive Director and Administrator Fiscal Services, Medical Assistance Program (MAP) - Department of Health
Status	Recurring (08-53). Corrective action was implemented in October 1, 2008.

Finding 06-24

CFDA Number	93.778
Federal Agency	U.S. Department of Health and Human Services
Name of Federal Program	Medical Assistance Program (Medicaid - Title XIX)
Type of Compliance Requirement	Special Tests and Provisions: Utilization Control and Program Integrity
Amount of Questioned Costs	Not applicable
Contact Person Responsible for Corrective Action Plan	Executive Director and Administrator Fiscal Services, Medical Assistance Program (MAP) - Department of Health
Status	Recurring (08-54)

Finding 06-25

CFDA Number	93.778
Federal Agency	U.S. Department of Health and Human Services
Name of Federal Program	Medical Assistance Program (Medicaid - Title XIX)
Type of Compliance Requirement	Eligibility
Amount of Questioned Costs	None
Contact Person Responsible for Corrective Action Plan	Executive Director and Administrator Fiscal Services, Medical Assistance Program (MAP) - Department of Health
Status	Corrected

Finding 06-26

CFDA Number	10.551, 10.561, 10.555, 10.559, 10.557, 10.567, 17.225, 66.605, 84.027, 84.298, 93.563, 93.778
Federal Agency	U.S. Department of Agriculture, U.S. Department of Labor, U.S. Environmental Protection Agency, U.S. Department of Education, U.S. Department of Health and Human Services
Name of Federal Program	Food Stamp Cluster, Child Nutrition Cluster, Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), Unemployment Insurance, Performance Partnership Grants, Special Education - State Grants, Innovative Education, Child Support Enforcement/Medical Assistance Program (Medicaid - Title XIX)
Type of Compliance Requirement	
Amount of Questioned Costs	None
Contact Person Responsible for Corrective Action Plan	
Status	During the years 2008 and 2009, there has been an ongoing continued effort to update the policies and procedures for the fiscal management of the Government of the U.S. Virgin Islands.

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