# Virgin Islands Public Finance Authority

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

*Government Auditing Standards* Report on Internal Control Over Financial Reporting and on Compliance and Other Matters

Year Ended September 30, 2024

# Virgin Islands Public Finance Authority
## (A Blended Component Unit of the Government of the U.S. Virgin Islands)

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

To the Board of Directors
Virgin Islands Public Finance Authority

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Virgin Islands Public Finance Authority (the "Authority"), a blended component unit of the Government of the U.S. Virgin Islands, which comprise the statement of net position as of September 30, 2024, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 30, 2026. This report does not include the results of our testing of internal control over financial reporting or compliance and other matters for The West Indian Company Limited, Lonesome Dove Petroleum Co, King's Alley Management, Inc. and viNGN INC. d/b/a Virgin Islands Next Generation Network which is reported separately by us.

**Report on Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying Appendix A as item 2024-001 and 2024-002 that we consider to be material weaknesses.

**Report on Compliance and Other Matters**

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

**The Authority's Response to Findings**

*Government Auditing Standards* requires the auditor to perform limited procedures on the Authority's response to the findings identified in our audit and described in the accompanying Appendix A. The Authority's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

**Purpose of This Report**

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

BDO USA, P.C.

June 30, 2026

**Finding 2024-001: Grant Revenue and Expense Classification Errors**

***Criteria:***

Government Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, states that proprietary fund financial statements, including financial data for enterprise funds, should be prepared using the economic resources measurement focus and the accrual basis of accounting. Proper classification of revenues and expenses is essential to ensure financial statements are presented in accordance with the applicable financial reporting framework.

Internal controls should operate at a sufficient level of precision to ensure transactions are accurately recorded and classified. *Governmental Auditing Standards* states that management is responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Condition:***

During the audit, we identified misclassifications totaling approximately $19.8 million. Specifically, certain cash reimbursements received from the Government of the U.S. Virgin Islands (GVI) were incorrectly recorded as federal grant revenue, while certain transfers to GVI were improperly recorded as expenses. These errors resulted in misstated financial statement account balances and required audit adjustments to correct the classifications.

***Cause:***

The adjustments appear to be the result of internal controls not being performed at the appropriate level of precision to prevent, or detect and correct, financial statement misstatements.

***Effect or Potential Effect:***

Misclassification of revenues and expenses may result in misleading financial reporting and could impact users' understanding of the Authority's operating results and funding sources.

***Recommendation:***

We recommend that management enhance review controls over the classification of significant and nonroutine transactions, including reimbursements and intergovernmental transfers, to ensure proper financial statement presentation.

***Views of Responsible Officials:***

The Authority concurs with the auditor's findings and recommendations.

*Action Plan:* Develop and document formal review procedures for the accounting treatment and financial statements classification of significant non routine transactions. Require supervisory review and approval of all significant reimbursements, intergovernmental transfer and other unusual transactions before financial statements are finalized.

Perform periodic monitoring of these transactions to ensure compliance with established procedures for proper recording and treatment.

Provide training to accounting personnel on the accounting and reporting requirements for non-routine transactions.

*Implementation Date:* September 30, 2026

*Person(s) Responsible:* Comptroller

**Finding 2024-002: Improper Recognition of Contingent Note**

***Criteria:***

Transactions and balances should be recorded in accordance with applicable accounting standards, including proper evaluation of whether arrangements meet the criteria for recognition as liabilities or assets. Effective internal controls should ensure appropriate accounting treatment of complex or nonroutine transactions.

GASB Codification Section C50 defines a liability as a present obligation to sacrifice resources that the government has little or no discretion to avoid. A critical element of this definition is whether the government is unconditionally obligated to transfer resources.

Further, GASB Codification Section L20 (Liabilities) reinforces that liabilities should only be recognized when the obligation is both incurred and measurable, and not merely authorized or anticipated.

GASB Codification Section N50 establishes accounting and financial reporting standards for nonexchange transactions, categorized into derived tax revenues, imposed nonexchange revenues, government-mandated transactions, and voluntary transactions. Revenue recognition depends on meeting specific eligibility requirements.

***Condition:***

During the audit, we identified an adjustment of approximately $240 million related to the accounting for a contingent note payable arrangement associated with the hotel development. Management had recorded the arrangement as a fully recognized liability, along with a corresponding receivable from the Government of the U.S. Virgin Islands.

Based on our review of the underlying agreement and discussions with management, we determined that the obligation was contingent in nature and did not meet the criteria for recognition as a liability in accordance with applicable accounting standards. As such, the recognition of both the liability and the related receivable was not appropriate.

The recording of this transaction resulted in a material overstatement of both liabilities and assets in the financial statements. Accordingly, an audit adjustment was required to remove the improperly recognized balances and present the financial statements in conformity with generally accepted accounting principles.

***Cause:***

Management did not review this complex and nonroutine transaction with a sufficient level of detail or precision to ensure appropriate treatment as per the provisions of GASB Codification C50, L20, and N50.

***Effect or Potential Effect:***

Improper recognition of financing arrangements may result in material misstatements to the financial statements and could impact compliance with accounting standards and stakeholder reliance on reported balances.

***Recommendation:***

We recommend that management enhance the review of complex or nonroutine financing arrangements by incorporating a more robust technical accounting analysis, including consultation with internal or external accounting specialists, as appropriate, to ensure the proper application of accounting standards prior to recording such transactions.

***Views of Responsible Officials:***

The Authority concurs with the auditor's findings and recommendations.

*Action Plan:* Develop and document a formal review process for evaluating complex or non routine financing arrangements, including consideration of applicable accounting standards and disclosure requirements. Require consultation with qualified internal or external accounting specialists for transactions where specialized expertise is needed.

Provide periodic training to finance personnel on the accounting treatment of complex financing arrangements and evolving accounting standards.

*Implementation Date:* September 30, 2026

*Person(s) Responsible:* Comptroller