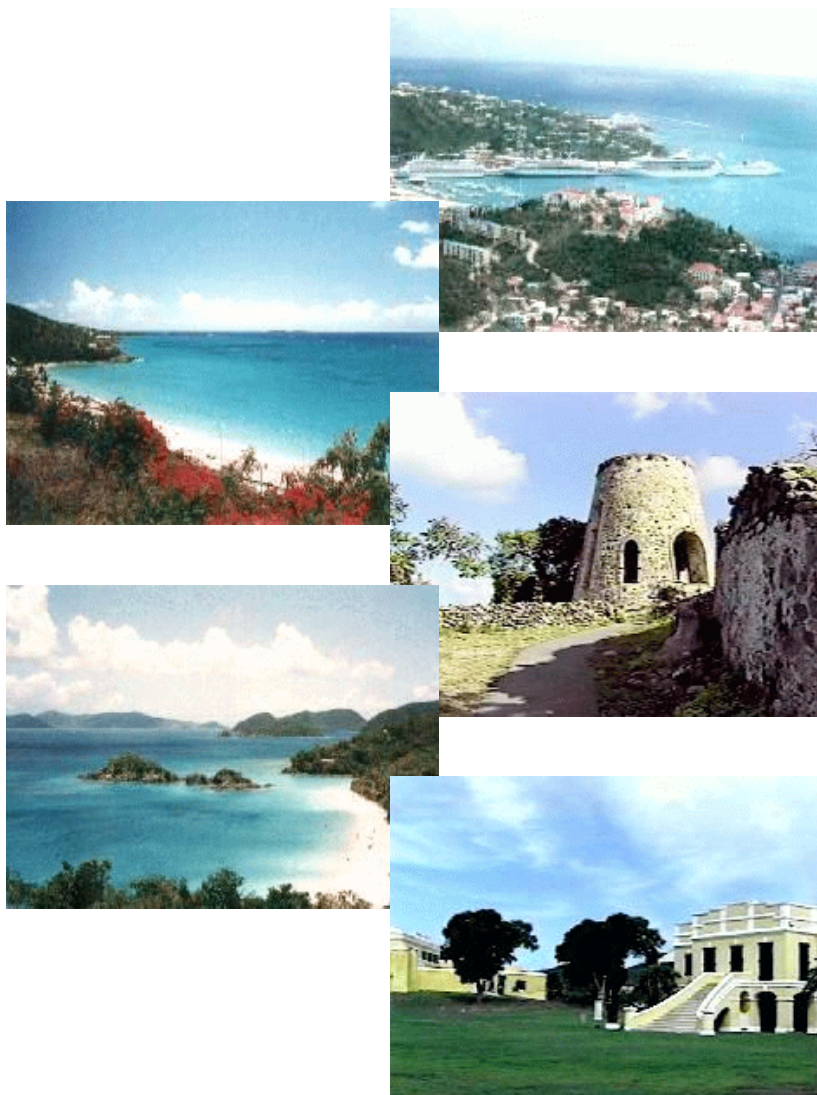


**U.S. Department of the Interior
Office of Inspector General**

Audit Report

Billing and Collection Functions Virgin Islands Port Authority Government of the Virgin Islands



**Report No. 01-I-303
March 2001**



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20240

March 30, 2001

Mr. Gordon Finch
Executive Director
Virgin Islands Port Authority
Cyril E. King Airport
Charlotte Amalie, Virgin Islands 00802

Subject: Audit Report on Billing and Collection Functions, Virgin Islands Port Authority,
Government of the Virgin Islands (Report No. 01-I-303)

Dear Mr. Finch:

This report presents the results of our audit of the billing and collection functions of the Virgin Islands Port Authority.

Section 5(a) of the Inspector General Act (5 U.S.C. app. 3) requires the Office of Inspector General to list this report in its semiannual report to the U.S. Congress. In addition, the Office of Inspector General provides audit reports to the Congress.

Please provide a response to this report by May 18, 2001. The response should provide the information requested in Appendix 4 and should be addressed to our Caribbean Regional Office, Federal Building - Room 207, Charlotte Amalie, Virgin Islands 00802.

Sincerely,

Roger La Rouche
Assistant Inspector General
for Audits

cc: Honorable Charles W. Turnbull, Governor of the Virgin Islands

EXECUTIVE SUMMARY

BACKGROUND

The Virgin Islands Port Authority is an autonomous agency of the Government of the Virgin Islands that manages the territory's municipal aviation and marine facilities and certain other real properties which were transferred to it by the Federal Government. The Port Authority's operations are subject to laws contained in the Virgin Islands Code and, with respect to airport properties, regulations of the Federal Aviation Administration contained in the Code of Federal Regulations. The audited financial statements of the Port Authority reported that it generated gross revenues of \$36.1 million in fiscal year 1998 and \$36.8 million in fiscal year 1999, primarily from the assessment of user fees and rental charges at its aviation and marine facilities. However, the Port Authority suffered a net loss of \$246,000 for fiscal year 1998 and had net income of \$663,000 for fiscal year 1999.

OBJECTIVE

The objective of the audit was to determine whether the Port Authority (1) managed property and facilities to maximize rental and concession revenues; (2) accurately assessed and promptly collected amounts owed by tenants, concessionaires, and other users of Port Authority facilities; and (3) controlled cash collections effectively.

RESULTS IN BRIEF

The Port Authority needs to improve controls over lease management, the collection of delinquent accounts receivable, and the collection and deposit of parking lot fees. Specifically:

- The Port Authority did not always obtain copies of sublease agreements entered into by its tenants or collect the sublease fees that the tenants were required to pay in accordance with their lease agreements. As a result, sublease revenues totaling about \$10,600 were not realized for fiscal years 1998, 1999, and 2000. In addition, lease agreements were not always properly executed, tenants did not always maintain required liability insurance coverage, rental increases were not always timely implemented, and quarterly site inspections were not conducted by the Port Authority's Property Management Officers.

- The Port Authority did not effectively carry out collection enforcement activities on delinquent accounts and, as of April 2000, had 87 accounts totaling about \$1.17 million that

were delinquent more than 90 days. In addition, in December 1998 and February 2000, the Port Authority's Board of Directors approved the write-off of 31 delinquent accounts totaling \$909,562 because the accounts were classified as uncollectible.

- The Port Authority lacked assurance that all parking fees were collected and deposited. The machines that stamped the date and time onto tickets did not work at exit points at the St. Thomas and St. Croix airports; attendants at the airport on St. Thomas collected parking tickets and fees, prepared deposit slips, and deposited the funds; and attendants at the airport on St. Croix did not prepare any record of funds collected. We estimated that, on a daily basis, at the St. Thomas airport about 1,250 parking tickets were issued but on the average only 315 tickets yielded cash collections. Although it is reasonable for many tickets to be non-fee-generating, such as those for taxicabs and short-term parkers, we could not verify the accuracy of the collections because appropriate records were not maintained.

RECOMMENDATIONS

We made 11 recommendations to the Virgin Islands Port Authority to address the internal control weaknesses disclosed by the audit.

**AUDITEE COMMENTS
AND OFFICE OF
INSPECTOR GENERAL
EVALUATION**

The Executive Director of the Port Authority concurred with all 11 recommendations and indicated that corrective actions had been or would be taken. Based on the response, we consider one recommendation implemented and two recommendations resolved but not implemented. We requested additional information for the eight remaining recommendations.

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INTRODUCTION

BACKGROUND

The Virgin Islands Port Authority is an autonomous agency of the Government of the Virgin Islands that manages the territory's municipal aviation and marine facilities and certain other real properties which were transferred to it by the Federal Government. The Port Authority was established in 1968 by Act. No. 2375 and is governed by a 9-member Board of Directors. The day-to-day operations of the Port Authority are headed by an Executive Director, who is appointed by the Board. The Port Authority has the power to acquire property and to construct, develop, improve, operate, and manage properties under its control.

The Port Authority's operations are subject to laws contained in the Virgin Islands Code (29 V.I.C. Chapter 10) and, with respect to airport properties, regulations of the Federal Aviation Administration contained in the Code of Federal Regulations (14 CFR Part 16). Among other provisions, these laws and regulations require the Port Authority to charge service and concession fees and rental rates that fully compensate it for the use of its facilities. Accordingly, the Port Authority levies a variety of fees for access to its aviation and marine facilities and for the use of its properties. The Port Authority also has a statutory responsibility to encourage the widest possible diversity of use for its facilities consistent with sound fiscal management.

The Port Authority's audited financial statements reported that it generated gross revenues of \$36.1 million in fiscal year 1998 and \$36.8 million in fiscal year 1999, primarily from the assessment of user fees and rental charges at its aviation and marine facilities. However, the Port Authority incurred a net loss of \$246,000 for fiscal year 1998 and had net income of \$663,000 for fiscal year 1999. In addition, as of September 30, 1999, the Port Authority had 292 receivable accounts totaling \$5 million.

OBJECTIVE AND SCOPE

The objective of the audit was to determine whether the Port Authority (1) managed property and facilities to maximize rental and concession revenues; (2) accurately assessed and promptly collected amounts owed by tenants, concessionaires, and other users of Port Authority facilities; and (3) controlled cash collections effectively. The scope of the audit included a review of the Port Authority's revenue transactions that occurred during fiscal years 1998 and 1999 and other periods as appropriate.

To accomplish our audit objective, we reviewed the Port Authority's Property Management Manual; interviewed Port Authority officials and reviewed minutes of board meetings; and reviewed files containing lease documents, accounting records pertaining to delinquent and inactive accounts, and ticket stubs and deposit records for the airport parking lots on St. Thomas and St. Croix.

Our audit was conducted in accordance with the "Government Auditing Standards," issued by the Comptroller General of the United States. Accordingly, we included such tests of records and other auditing procedures that were considered necessary under the circumstances. The "Standards" requires that we obtain sufficient, competent, and relevant evidence to afford a reasonable basis for our findings and conclusions.

As part of our audit, we evaluated the system of internal controls at the Port Authority to the extent we considered necessary to accomplish the audit objective. Internal control weaknesses were identified in the areas of lease management practices, particularly with respect to subleases; prompt collection of amounts owed by users of Port Authority facilities; and controls over cash collected at the airport parking lots. These weaknesses are discussed in the Results of Audit section of this report. The recommendations, if implemented, should improve the internal controls in these areas.

PRIOR AUDIT COVERAGE

The Office of Inspector General has not issued any reports on the Port Authority during the past 5 years. However, in June 1991, the Office of Inspector General issued a report on the billing and collection functions at the Port Authority, and in December 1998, a public accounting firm issued the single audit report on the Port Authority for the fiscal year ended September 30, 1998 (see Appendix 2).

RESULTS OF AUDIT

OVERVIEW

The Port Authority needed to improve controls over the subleasing of its facilities by tenants, the collection of delinquent accounts receivable, and the collection and deposit of parking lot fees. Specifically, we found that the Port Authority did not (1) assess or collect sublease fees of about \$10,600; (2) take effective action to collect \$1.17 million on 87 delinquent accounts and an additional \$909,562 on 31 delinquent accounts that were written off as uncollectible; and (3) have adequate assurance that all fees collected at the airport parking lots were appropriately deposited into the Port Authority's bank accounts. These conditions occurred because the Port Authority did not always follow the procedures for lease management and collection enforcement contained in its Property Management Manual and did not have written procedures for the write-off of uncollectible accounts and for the collection, deposit, and recording of fees collected at the airport parking lots.

LEASE MANAGEMENT PRACTICES

Although the Port Authority's Property Management Manual (Section 7.2(B)(10)) expressly prohibited the subleasing of properties, the Port Authority's Board of Directors approved subleases on a case-by-case basis. However, the Port Authority did not always obtain copies of sublease agreements approved by the Board of Directors or collect the sublease fees that the tenants were required to pay in accordance with the approvals to enter into sublease agreements. As a result, sublease revenues totaling about \$10,600 were not realized for fiscal years 1998, 1999, and 2000. In addition, we found that lease agreements were not always executed, tenants did not always maintain required liability insurance coverage, rental increases were not always timely implemented, and quarterly site inspections were not conducted by the Property Management Officers.

Sublease Fees Totaling \$10,600 Not Assessed and Collected

The Port Authority's Director of Property Management provided us with the names of four tenants who received approval from the Board of Directors to sublease a portion of their properties. Regarding these four tenants, we found that one tenant was not required to submit sublease information to the Port Authority, one tenant did not have any subleases during the period of our review, and two tenants each had two sublease agreements, for a total of four sublease agreements. As part of the approval process to sublease property, the Board of Directors required the tenants to pay a sublease fee of at least 10 percent of the sublease amount to

the Port Authority concurrent with the payment of the tenants' monthly rent. However, the Port Authority was not aware of the value of the four sublease agreements because it did not have copies of the sublease agreements. Therefore, the Port Authority was unable to ensure that it was paid the appropriate sublease fee amounts.

To determine the value of the sublease agreements, we requested that the Port Authority obtain copies of the sublease agreements from its tenants. Based on our review of the four sublease agreements for fiscal years 1998, 1999, and 2000, we determined that the Port Authority should have received sublease fees of about \$12,000. However, the Port Authority received only about \$1,400, or a shortage of \$10,600.

Sublease Provisions of Lease Agreements Not Standardized

We found that the Port Authority did not have a standardized policy for handling the issue of subleases by its tenants. For example, the lease agreements for the two tenants who had obtained approval to sublease their rented properties contained different wording with respect to subleasing. One of the lease agreements, which was initially executed in June 1976, stated that the lease "shall not" be transferred "without the prior written consent of the Lessor" but that "such consent shall not be unreasonably withheld." The other lease agreement, which was executed in July 1994, stated that the lease "shall not" be transferred "nor sublet" and that any such transfer or sublet "shall be null and void." We further found that in February 1996, the Port Authority's legal counsel proposed wording, which was approved by the Board of Directors, to be inserted into Port Authority leases as follows:

In the event tenant is granted permission to sublet a portion of the premises, Tenant shall pay to the Landlord, concurrent with payment of Tenant's rent to Landlord, not less than ten percent (10%) of the total amount Tenant charges subtenant under the sublease. No such sublease shall become effective unless reduced to writing signed by the Tenant and subtenant, and until it shall have first been approved by the Landlord in writing on the face of the sublease, a copy of which shall be given to the Landlord. Tenant and subtenant may not alter, amend or otherwise modify the terms of any such sublease without the express prior written approval of the Landlord. Landlord shall, upon reasonable notice to subtenant, have the right

to make demand on subtenant to produce evidence of all sums paid to Tenant under the terms of the sublease.

Although approved for use by the Board of Directors, this proposed wording has not been used in any subsequent Port Authority leases. In order to strengthen controls in this area, we believe that the Port Authority should develop a standard lease agreement that incorporates the wording proposed by the legal counsel and approved by the Board of Directors in February 1996 and should use the lease agreement for all new and renewed leases. In addition, we believe that the Port Authority should update its Property Management Manual by deleting the clause which expressly prohibits subleasing and by inserting a clause which grants the approval to sublease at the discretion of the Board of Directors.

Regarding the four subleases discussed in this report, we believe that the Port Authority should attempt to collect the sublease fees of \$10,600 that were not remitted to the Port Authority for fiscal years 1998, 1999, and 2000. In addition, the Port Authority should require the tenants to immediately begin remitting at least 10 percent of the sublease amount concurrent with payment of the tenants' monthly rent.

Lease Agreements Not Properly Executed or Renewed

To determine whether lease agreements were properly executed and were current, we reviewed a judgmental sample of 20 lease agreements. Of the 20 lease agreements, 9 lease agreements had been properly executed and were current, but 8 lease agreements had expired and had not been renewed, 2 lease agreements had not been fully executed because required signatures were not obtained, and 1 lease agreement could not be located by the Port Authority. Regarding the eight lease agreements that had expired, we found no documentation in the tenant files to indicate that lease terms had been extended or that the Port Authority required the tenants to execute new leases.

Liability Insurance Not Obtained by Tenants

The Port Authority's Property Management Manual (Section 7.2(b)(8)) requires that Port Authority tenants obtain comprehensive, noncancellable general liability insurance policies. In addition, the Manual requires that the Port Authority be named as an additional insured and requires tenants to indemnify the Port Authority against any loss or liability arising from events that occur on the premises. Also, with respect to insurance, the lease agreements generally contained a clause that

stated, "The Lessee shall deposit with the Lessor a copy of such property insurance policy or policies or a certificate of such insurance coverage." Despite these requirements, we found, for the 20 tenant files reviewed, that 3 tenants had provided the Port Authority with evidence of a valid liability insurance policy and 3 lease agreements did not require the tenants to maintain insurance. However, for the 14 other tenants, we found no evidence that they had obtained the required comprehensive, noncancellable general liability insurance policy.

**Required Rental Rate
Increases Not Assessed**

Of the 20 tenant files reviewed, we found that 11 lease agreements contained contract language which did not require periodic rental rate increases, 4 lease agreements had appropriate rental rate increases, 4 other lease agreements did not have timely rental rate increases, and the Port Authority could not locate 1 lease agreement.

Regarding the four tenants who did not have timely rental rate increases, they should have been assessed rental increases in accordance with increases in the Consumer Price Index, but such an analysis was not performed by the Property Management Officers. For example, a transportation company should have been assessed a rental rate increase in November 1999, but the Property Management Officer assigned to this tenant had not conducted the rental increase analysis as of August 2000.

**Site Inspections Not
Performed or Documented**

The Property Management Manual (Section 15.1) states that Property Management Officers should visit Port Authority properties on at least a quarterly basis. In addition, the Manual states that a Property Inspection Report Form should be completed for each field visit conducted by Property Management Officers and that a copy of the form should be submitted to the Directors of Administration and Engineering and the Executive Director. However, we found that only 1 of the 20 tenant files reviewed contained a Property Inspection Report Form, which was dated October 28, 1997. Accordingly, we had little assurance that the Property Management Officers were conducting the required site inspections.

In August and September 2000, we conducted site visits at Port Authority properties and facilities on St. Thomas and St. Croix. We found that two tenants on St. Thomas appeared to have subleased a portion of their properties without informing or obtaining the approval of the Port Authority. Had the Property Management Officers been conducting routine site visits, as

required by the Property Management Manual, they most likely would have determined that the two tenants were subletting the properties without the approval or knowledge of the Port Authority.

COLLECTION ENFORCEMENT ACTIVITIES

The Port Authority did not effectively carry out collection enforcement activities on delinquent accounts. As a result, as of April 2000, the Port Authority had 87 accounts totaling about \$1.17 million that were delinquent more than 90 days. In addition, in December 1998 and February 2000, the Port Authority's Board of Directors approved the write-off of 31 delinquent accounts totaling \$909,562 because the accounts were classified as uncollectible.

Collection Efforts Not Pursued on Delinquent Accounts Totaling About \$1.17 Million

The Port Authority's Property Management Manual (Section 12.0) states that the Collection Officer should use the following steps for the collection of outstanding accounts:

- a. Telephone call – to accounts payable section of entity doing business where invoice remains unpaid 10 days after issuance of invoice
- b. Telephone call – to chief financial officer where invoice remains unpaid 15 days after date of issuance
- c. Letter of Request – after 20 days invoice remains unpaid
- d. Registered demand letter - after 30 days invoice remains unpaid
- e. Refer to Legal Office - after 40 days invoice remains unpaid
- f. Attorney sends registered demand letter - 45 days after invoice remains unpaid
- g. Commence legal action and deny use of facilities as applicable - 60 days after invoice remains unpaid

In addition, the Manual (Section 15.3) states that a Collection Effort Report Form should be used on a daily basis by the Collection Officer to serve as a record of initial collection efforts

and as a justification for subsequent legal action to be taken. The Manual also states that a copy of the form should be submitted monthly to the Executive Director.

The Port Authority's Collection Officer retired in June 1992, but the Port Authority did not replace this individual. Instead, the collection activities previously performed by the Collection Officer were transferred to the Director of Property Management and the three Property Management Officers. However, we found that the Director and the Property Management Officers either did not conduct or did not document collection efforts in accordance with the Manual.

To determine the collection efforts made and the types of documentation maintained for the 87 delinquent accounts totaling \$1.17 million as of April 2000, we reviewed 27 accounts totaling \$1.01 million that had delinquent amounts of at least \$10,000 for more than 90 days. Of the 27 accounts, we found that only 7 accounts had some type of collection activity. Specifically, three accounts were referred to the Port Authority's legal counsel, three accounts had some type of correspondence prepared by the Property Management Officers requesting payment from the tenant, and one account holder had begun making payments to offset the outstanding amount. For the remaining 20 accounts, we found no documentation of collection activities in accordance with the collection procedures outlined in the Port Authority's Property Management Manual.

**Delinquent Accounts
Totaling \$909,562
Written Off Without
Adequate Collection
Efforts**

The Port Authority did not have written procedures regarding the write-off of uncollectible accounts. Therefore, the Director of Property Management periodically made recommendations for the write-off of uncollectible accounts to the Executive Director. We found that in December 1998 and February 2000, the Director of Property Management recommended that 32 accounts totaling \$911,497 be approved for write-off. The Port Authority's Board of Directors approved for write-off 31 of the accounts totaling \$909,562.

We reviewed the 31 accounts that were approved for write-off to determine the collection activities performed by the Port Authority prior to classifying these accounts as uncollectible. We found that 13 of the 31 accounts contained some type of collection activity, that 13 accounts had no documentation to support that any collection activity was ever undertaken, and that the tenant files could not be located by Port Authority personnel for the remaining 5 accounts.

During the Port Authority's Board of Directors meeting in December 1998, the Executive Director stated that although the Board could anticipate additional recommendations for the write-off of uncollectible accounts from the Director of Property Management, the Executive Director did not approve of additional write-offs. The Executive Director stated that he did not believe that "sufficient due diligence to collect" on these delinquent accounts had been performed by the Property Management Officers.

We concur with the statements made by the Executive Director regarding the lack of collection efforts both performed and documented by the Property Management Officers. In order to strengthen internal controls over the collection of delinquent and inactive accounts, we believe that the Port Authority should either take action to ensure that the Property Management Officers carry out the assigned collection enforcement tasks or consider reimplementing the position of the Collection Officer and removing the collection function from the Property Management Officers.

AIRPORT PARKING LOT COLLECTIONS

The Port Authority did not have standardized procedures for collecting, depositing, recording, and verifying parking fees at its airport parking lots on St. Thomas and St. Croix. The airport access system, which machine-stamped onto a ticket the date and time that a vehicle entered and exited the airport parking lot, did not work at the exit locations. As a result, the date and time that a vehicle exited the airport parking lot could not be determined from the used tickets. In addition, because the Port Authority did not issue magnetic card keys to taxicab association members (who were authorized to use the airport facilities) or to other daily users of the parking lots, the access system had to be bypassed to indicate a nonrevenue ticket. Further, the Port Authority's Internal Auditor did not review the used tickets on a periodic basis to ensure that the value of the tickets used was equal to the amount of funds collected and deposited. Accordingly, there was no assurance that funds collected by the airport parking lot cashiers were appropriately deposited into the Port Authority's bank account.

Because there were no established collection procedures at the airport parking lots, the airport parking lot cashiers used different procedures on St. Thomas and St. Croix. However, in our opinion, neither the collection procedure used at the Cyril E. King airport parking lot on St. Thomas nor the collection procedure used at the Henry E. Rohlsen Airport parking lot on St. Croix

provided adequate controls to ensure that amounts collected were appropriately deposited into the Port Authority's bank accounts.

**St. Thomas Parking Fees
Not Verifiable Based on
Parking Lot Tickets**

At the Cyril E. King Airport on St. Thomas, the cashiers (three shifts per workday) completed a Parking Lot Daily Summary of Collections and Deposits worksheet, prepared a Certificate of Deposit (deposit slip) for the funds collected during their work shift, and deposited the funds into the bank depository located at the airport. The worksheets were forwarded to a Property Management Officer, who completed a Daily Summary of Collections and Deposits worksheet, which combined the collection activities of the three cashiers and provided a month-to-date collection total. However, these procedures did not ensure that the funds collected could be verified based on the parking lot tickets processed by the cashiers. We selected for review the collection documents related to 7 working days (May 28 to May 31, 1999 and July 3 to July 5, 1999). The total funds deposited during these 7 days was \$4,512, but the amounts to be collected based on the parking lot tickets totaled only \$4,156. Although the deposits were \$356 more than could be determined from the used tickets, the potential existed for the difference to be a cash shortage because controls were not adequate to ensure that all collections were deposited to the Port Authority's account.

We also found that because the access control system did not work at the exit locations, the cashiers wrote the amount collected on each ticket or indicated in writing that the ticket was a nonrevenue ticket. The cashiers told us that a nonrevenue ticket would result from a taxicab association driver, a daily user of the airport parking lot who paid on a monthly basis, or a person who spent less than 15 minutes between the time of entry and exit at the airport. Based on our review for the 7 workdays in our sample, we found that the cashiers handled an average of 1,250 tickets per day but that only about 315 tickets yielded actual cash collections. Therefore, on a daily basis, about 935 tickets were classified as nonrevenue. However, there was no way to verify these classifications.

**St. Croix Parking Fees
Also Not Verifiable Based on
Parking Lot Tickets**

At the Henry E. Rohlsen Airport on St. Croix, prior to February 2000, the cashiers did not prepare any documentation to show how much funds they collected. Rather, at the end of each work shift (three work shifts per day), the cashier would place the funds collected and the parking lot tickets in an envelope and would write the amount collected on the outside of the envelope.

The envelope was then put into a locked box at the Port Authority's Administration Building. The following workday, the Airport Operations Supervisor retrieved the envelopes from the locked box; prepared the Daily Summary of Collections and Deposit worksheet, the Parking Lot Daily Summary of Collections and Deposits worksheet, and a Certificate of Deposit (deposit slip); and deposited the funds at the bank. Beginning in February 2000, the cashiers began preparing the Parking Lot Daily Summary of Collections and Deposits worksheet and the Certificate of Deposit and began depositing the funds into the bank depository located at the airport.

We selected for review the collection records for 6 working days (December 23 and 30, 1998; January 6, 1999; and November 10, 15, and 16, 1999) and found that the cashiers did not write the amount of funds collected on each ticket, as was done at the airport on St. Thomas. Therefore, the tickets could not be used to verify or even to estimate the amounts that should have been collected.

To strengthen controls in this area, the Port Authority should (1) repair the access control systems at the Cyril E. King Airport on St. Thomas and the Henry E. Rohlsen Airport on St. Croix to provide a method for automatically stamping the date and time of exit on the parking lot tickets; (2) consider issuing magnetic card keys to taxicab association members and other daily users of the airports' parking lots to reduce the number of nonrevenue parking lot tickets processed each day; and (3) require the Port Authority's Internal Auditor to review, on a periodic basis, the airports' parking lot tickets and the certificates of deposit to ensure that the funds collected are appropriately deposited into the Port Authority's bank accounts. Finally, because a primary method of preventing theft is segregation of duties, we believe that the collection of the cash and the preparation of the bank deposits should be performed by separate individuals.

RECOMMENDATIONS

TO THE VIRGIN ISLANDS PORT AUTHORITY

We recommend that the Executive Director of the Port Authority:

1. Develop and implement a standard lease agreement format to be issued to tenants of the Port Authority. The lease agreement should include standard language with respect to the subleasing of properties and facilities similar to the wording compiled by the Port Authority's legal counsel and approved by the Board of Directors in February 1996.

2. Update the Property Management Manual to delete the existing clause that prohibits subleasing and replace it with a clause that grants the approval to sublease at the discretion of the Board of Directors.

3. Ensure that Port Authority tenant files contain a copy of every sublease approved by the Port Authority's Board of Directors. Also, consideration should be given to creating and maintaining a database of sublease agreements to include but not be limited to tenant name, tenant address, tenant rental amount, tenant lease terms, sublessee name, sublessee rental amount, sublease term, and sublease fee. The database should be updated periodically to include any new tenants that are approved for subleasing.

4. Obtain copies of all sublease agreements from current Port Authority tenants to determine the amount of sublease fees owed the Port Authority and take appropriate collection action. Procedures should also be established to require tenants with subleases to pay the appropriate sublease fees concurrently with regular monthly rental payments.

5. Ensure that all lease agreements are current and properly executed, that all tenants submit a copy of an appropriate liability insurance policy, and that rental rates are timely updated in accordance with the changes in the Consumer Price Index.

6. Require the Property Management Officers to conduct site visits on at least a quarterly basis and to document the site visits on Property Inspection Report Forms.

7. Either take action to ensure that the Property Management Officers carry out the assigned collection enforcement tasks or consider reimplementing the position of

Collection Officer and removing the collection function from the Property Management Officers.

8. Establish and implement written policies and procedures for the write-off of uncollectible accounts and ensure that "due diligence" has been performed prior to the approval of accounts for write-off.

9. Establish and implement written policies and procedures for the collection, deposit, and recording of cash collections at the airport parking lots.

10. Repair and/or replace the airport access systems at the Cyril E. King Airport on St. Thomas and the Henry E. Rohlsen Airport on St. Croix to ensure that tickets are machine stamped at the exit locations to indicate the date and time that vehicles exit the airport parking lot. Also, consideration should be given to issuing magnetic card keys to taxicab association members and other daily users of the Port Authority parking lots to reduce the number of nonrevenue tickets processed each day.

11. Require the Port Authority's Internal Auditor to periodically review the tickets and deposits for a sample of workdays to ensure that the funds deposited can be validated by the tickets processed. Also, separate individuals should be assigned to make cash collections at the parking lots and to prepare daily deposits.

**VIRGIN ISLANDS
PORT AUTHORITY
RESPONSE**

The March 19, 2001 response (Appendix 3) to the draft report from the Executive Director of the Virgin Islands Port Authority concurred with the 11 recommendations and indicated that corrective actions had been or would be taken.

**OFFICE OF
INSPECTOR
GENERAL
REPLY**

Based on the response, we consider Recommendation 10 resolved and implemented and Recommendations 2 and 3 resolved but not implemented. We also requested additional information for Recommendations 1, 4, 5, 6, 7, 8, 9 and 11 (see Appendix 4).

With regard to Recommendation 1, the response stated, "All of the lease agreements sampled [as part of the audit] are agreements entered into before February, 1996. Thus, the Authority feels that it is already complying with this recommendation." This statement is misleading because, although many of the leases we reviewed were dated prior to February 1996, they were for

current and active tenants of the Port Authority. The Port Authority did not always execute new or renewal leases for its tenants when the prior leases expired. Therefore, the most recent leases available in the files for the majority of current and active tenants were originally executed prior to February 1996. If the Port Authority had executed new or renewal leases for active tenants when the prior ones expired, it could have eventually updated all of its leases with the proposed standard lease agreement language.

APPENDIX 1 - MONETARY IMPACT

FINDING AREAS

Unrealized Revenues*

Sublease Fees	\$10,600
Accounts Receivable	1,166,000
Uncollectible Accounts	<u>909,562</u>
Total	<u><u>\$2,086,162</u></u>

* Amounts represent local funds

APPENDIX 2 - PRIOR AUDIT REPORTS

OFFICE OF INSPECTOR GENERAL REPORT

The June 1991 report "Property Management, Billing, and Collection Functions, Virgin Islands Port Authority" (No. 91-I-939) stated that the Port Authority needed to (1) ensure that all amounts owed by tenants, concessionaires, and others were assessed and collected; (2) enforce collection of delinquent rental accounts; and (3) improve its management of rental properties. During our current audit, we found that the Port Authority adequately assessed amounts owed by users of its aviation, marine, and other facilities but that improvements were needed over the collection of delinquent accounts and the management of rental properties.

SINGLE AUDIT REPORT

The December 1998 single audit report of the Virgin Islands Port Authority, which was conducted by a public accounting firm, concluded that the financial statements presented fairly, in all material respects, the financial position of the Port Authority as of September 30, 1998. In addition, with regard to the lease management and collection functions of the Port Authority, the report recommended that management (1) establish formal procedures to review and reclassify old outstanding checks, (2) consider whether inactive accounts receivable should be written off, (3) expand the current analysis of accounts receivable past due to include an assessment of the collectibility of these accounts receivable, and (4) consider establishing formal procedures to monitor contracts and commitments.

APPENDIX 3 - RESPONSE TO DRAFT REPORT



VIRGIN ISLANDS PORT AUTHORITY

Post Office Box 301707

ST. THOMAS, VIRGIN ISLANDS U.S.A. 00803-1707

TEL: (340) 774-1625 • FAX (340) 774-0025

March 19, 2001

Mr. Arnold E. Van Beverhoudt, Jr.
Audit Manager for Insular Areas
United States Department of the Interior
Office of Inspector General - Caribbean Region
Room 207 , Federal Building
St. Thomas, VI 00802

Re: *Response to Audit Report - V-IN-VIS-003-00-M*
Billing and Collection Function Audit / Virgin Islands Port Authority

Dear Mr. Van Beverhoudt:

This is in response to the findings and recommendations of your office's draft audit (Assignment No. V-IN-VIS-003-00-M) of the "Billing and Collection Function of the Virgin Islands Port Authority".

There are some findings and recommendations made in this audit with which we agree, and there are some with which we do not agree. In each instance, however, the Authority clearly explains its reasons for the position taken. Further, you will find that the Authority either has implemented, or is taking steps to implement all of the recommendations of this audit with which we concur.

The Authority's responses to each finding and recommendation are herein provided, and in the order presented in the audit report

Finding No. 1
Sublease Fees Totalling
\$10,600 Not Assessed and
Collected

The Port Authority's Director of Property Management provided us with the names of four tenants who received approval from the Board of Directors to sublease a portion of their properties. Regarding these four tenants, we found that one tenant was not required to submit sublease information to the Port Authority, one tenant did not have any subleases during the period of our review, and two tenants each had two sublease agreements, for a total of four sublease agreements. As part of the approval process to sublease property, the Board of Directors required the tenants to pay a sublease fee

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of at least 10 percent of the sublease amount to the Port Authority concurrent with the payment of the tenants' monthly rent. However, the Port Authority was not aware of the value of the four sublease agreements because it did not have copies of the sublease agreements. Therefore, the Port Authority was unable to ensure that it was paid the appropriate sublease fee amounts.

To determine the value of the sublease agreements, we requested that the Port Authority obtain copies of the sublease agreements from its tenants. Based on our review of the four sublease agreements for fiscal years 1998, 1999, and 2000, we determined that the Port Authority should have received sublease fees of \$12,000. However, the Port Authority received only about \$1,400 or a shortage of \$10,600.

Response to Finding No. 1

All policies for the Virgin Islands Port Authority are set by the Board of Directors, who retain the right to amend, modify and change said policies as they see fit. Of the over three hundred fifty (350) leases, there are only four (4) tenants that have subleasing rights. One tenant is not required to submit subleases, nor are they required to pay a subleasing fee to the Authority. (This particular lease, which was entered into in the early 1970's, allows for subleases without a requirement to pay a subleasing fee to VIPA because the lease predates the V. I. Legislature's requirement to VIPA that a minimum fee of 10% be exacted). Even though another tenant has been given the right to sublease, the company has not exercised that right since 1996.

Of the two tenants that are subleasing, one was given that right in July, 1994 and consistently paid for said right, however, due to a misunderstanding of the provision, the tenant paid ten percent (10%) of his rental, rather than ten percent (10%) of the rent received from the sublease. The Virgin Islands Port Authority has since obtained a listing of the subleases from the two tenants and has made the adjustment of the billing retroactively.

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Finding No. 2
Sublease Provisions
of Lease Agreements
Not Standardized

We found that the Port Authority did not have a standardized policy for handling the issue of subleases by its tenants. For example, the lease agreements for the two tenants who had obtained approval to sublease their rented properties contained different wording with respect to subleasing. One of the lease agreements, which was initially executed in June 1976, stated that the lease "shall not" be transferred "without the prior written consent of the Lessor" but that "such consent shall not be unreasonably withheld". The other lease agreement, which was executed in July 1994, stated that the lease "shall not" be transferred "nor sublet" and that any such transfer or sublet "shall be null and void." We further found that in February 1996, the Port Authority's legal counsel proposed wording, which was approved by the Board of Directors, to be inserted into Port Authority's leases as follows:

In the event tenant is granted permission to sublet a portion of the premises, Tenant shall pay to the Landlord, concurrent with payment of Tenant's rent to Landlord, not less than ten percent (10%) of the total amount Tenant charges subtenant under the sublease. No such sublease shall become effective unless reduced to writing signed by the Tenant and subtenant, and until it shall have first been approved by the Landlord in writing on the face of the sublease, a copy of which shall be given to the Landlord. Tenant and subtenant may not alter, amend or otherwise modify the terms of any such sublease without the express prior written approval of the Landlord. Landlord shall, upon reasonable notice to subtenant, have the right to make demand on subtenant to produce evidence of all sums paid to Tenant under the terms of the sublease.

Although approved for use by the Board of Directors, this proposed wording has not been used in any subsequent Port Authority leases. In order to strengthen controls in this area, we believe that the Port Authority should develop a standard lease agreement that incorporates the wording proposed by

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the legal counsel and approved by the Board of Directors in February 1996 and should use the lease agreement for all new and renewed leases. In addition, we believe that the Port Authority should update its Property Management Manual by deleting the clause which expressly prohibits subleasing and by inserting a clause which grants the approval to sublease at the discretion of the Board of Directors.

Response to Finding No. 2

The Port Authority adopted language pertaining to subleasing to be included in all leases in February, 1996. This was in response to a resolution passed by the Virgin Islands Legislature requiring all tenants of the Virgin Islands Government that sublease property must remit to the Government no less than ten percent (10%) of the fees received from the subletting. This recommended clause relating to subleasing has been incorporated in all pertinent leases since February 1996, with the exception being airline leases. (The clause covers only the event of permission to sublet, not whether or not a tenant may sublet; thus, this "Boiler Plate" language is not pertinent to all leases).

The Authority agrees with the finding that its Property Management Manual should be updated to grant the Board discretionary approval to grant subleases.

Regarding the four subleases discussed in this report, we believe that the Port Authority should attempt to collect the sublease fees of \$10,600 that were not remitted to the Port Authority for fiscal years 1998, 1999, and 2000. In addition, the Port Authority should require the tenants to immediately begin remitting at least 10 percent of the sublease amount concurrent with payment of the tenants' monthly rent.

Of the four subleases, we have already explained why the Authority is owed subleasing fees from only two of these tenants. One tenant did pay fees to the Port Authority, however its was ten percent (10%) of VIPA's rent, instead of ten percent (10%) of sublet rents. Both tenants were issued retroactive billings for ten percent (10%) of subleasing fees from the commencement of the subleases. The Authority will attempt to collect this retroactive billing.

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**Finding No. 3
Lease Agreements Not
Properly Executed or
Renewed**

To determine whether lease agreements were properly executed and were current, we reviewed a judgmental sample of 20 lease agreements. Of the 20 lease agreements, 9 lease agreements had been properly executed and were current, but 8 lease agreements had expired and had not been renewed, 2 lease agreements had not fully executed because required signatures were not obtained, and 1 lease agreement could not be located by the Port Authority. Regarding the eight lease agreements that had expired, we found no documentation in the tenant files to indicated that lease terms had been extended or that the Port Authority required the tenants to execute new leases.

Response to Finding No. 3

Of the sample of eight (8) leases that the audit claims had expired and had not been renewed, two are with federal agencies. The Port Authority has no control over whether a tenant will exercise an option or not, so long as all conditions of the option are met. One of these leases has been terminated and the other was renewed. Of the remaining six leases, one is in its option period, and thus still valid, one new lease has been executed, two are in litigation for delinquent rent and two are no longer tenants of the Port Authority.

**Finding No. 4
Liability Insurance Not
Obtained by Tenants**

The Port Authority's Property Management Manual (Section 7.2(b)(8)) requires that Port Authority tenants obtain comprehensive, noncancellable general liability insurance policies. In addition, the Manual requires that the Port Authority be named as an additional insured and requires tenants to indemnify the Port Authority against any loss or liability arising from events that occur on the premises. Also, with respect to insurance, the lease agreements generally contained a clause which stated, "The Lessee shall deposit with the Lessor a copy of such property insurance policy or policies or a certificate of such insurance coverage." Despite these requirements, we found, for the 20 tenant files reviewed that 3 tenants had provided the Port Authority with evidence of a valid liability insurance policy and 3 lease agreements did not require the tenants to maintain insurance. However, for the 14 other tenants, we found no evidence that they had obtained the required comprehensive, noncancellable general

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liability insurance policy.

Response to Finding No. 4

Liability insurance is a general requirement of all tenants of the Virgin Islands Port Authority, the exception being leases with federal agencies which are self-insuring, as were the three leases cited in Finding No. 4. Most tenants comply with all the rules and regulations with regards to insurance, including submitting evidence of such insurance. In some cases when tenants complain of the inability to get insurance coverage for the amounts required (\$500,000 to \$1,000,000), the Board has reduced the requirement. This is done on a case by case basis, depending on the merits. Few tenants, however, remain non-compliant.

Of the fourteen (14) tenants noted for non-compliance, seven (7) have become compliant, five (5) were issued written requests to do so and the remaining two (2) are no longer tenants of the Authority.

VIPA's Property Management Officers have reviewed the computer files and have identified the non-compliant tenants. Letters have been sent to all non-compliant tenants.

Finding No. 5
Required Rental Rate
Increases Not Assessed

Of the 20 tenant files reviewed, we found that 11 lease agreements contained contract language which did not require periodic rental rate increases, 4 lease agreements had appropriate rental rate increases, 4 other lease agreements did not have timely rental rate increases, and the Port Authority could not locate 1 lease agreement.

Response to Finding No. 5

Most leases have a Consumer Price Index clause for rental increase, usually triggered at three-year intervals. Obviously, any lease of three years or less would not have a rental (i.e. CPI) increase clause. The Computerized Tenant Information System is designed to alert the Property Management Officer of a pending increase. As stated in the audit, four (4) tenants were inadvertently overlooked, but timely rental increases were imposed. As to the 11 leases which did not require periodic rental rate increases, airline leases are based on a tariff which is reviewed on a regular

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basis, not on a CPI adjustment.

The one lease which could not be found is a new lease with Air Sunshine Airline. This lease was in Government House at the time of the audit awaiting approval of the Governor. On March 2, 2001, it was returned to the Authority.

Finding No. 6A
Site Inspections Not
Performed or Documented

The Property Management Manual (Section 15.1) states that Property Management Officers should visit Port Authority properties on at least a quarterly basis. In addition, the Manual states that a Property Inspection Report Form should be completed for each field visit conducted by Property Management Officers and that a copy of the form should be submitted to the Directors of Administration and Engineering and the Executive Director. However, we found that only 1 of 20 tenant files reviewed contained a Property Inspection Report Form, which was dated October 29, 1997. Accordingly, we had little assurance that the Property Management Officers were conducting the required site inspections.

Response to Finding No. 6A

Over the years since the Property Management manual was written the leases for property has grown over threefold. As a result, this section of the manual will be updated to state that Property Management Officers should visit the properties at reasonable periodic intervals, but in no case shall the interval exceed six months.

Finding 6B

In August and September 2000, we conducted site visits at Port Authority properties and facilities on St. Thomas and St. Croix. We found that two tenants on St. Thomas appeared to have subleased a portion of their properties without informing or obtaining the approval of the Port Authority. Had the Property Management Officers been conducting routine site visits, as required by the Property Management Manual, they most likely would have determined that the two tenants were subletting the properties without the approval or knowledge of the Port Authority.

Response to Finding No. 6B

The Port Authority found no such tenants and the auditors

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did not provide us with any documentation or identification of such tenant practices.

COLLECTION ENFORCEMENT ACTIVITIES

The Port Authority did not effectively carry out collection enforcement activities on delinquent accounts. As a result, as of April 2000, the Port Authority had 87 accounts totaling about \$1.17 million that were delinquent more than 90 days. In addition, in December, 1998 and February, 2000, the Port Authority's Board of Directors approved the write-off of 31 delinquent accounts totaling \$909,562 because the accounts were classified as uncollectible.

Finding No. 7A Collection Efforts Not Pursued on Delinquent Accounts Totalling About \$1.17 Million

The Port Authority's Property Management Manual (Section 12.0) states that the Collection Officer should use the following steps for the collection of outstanding accounts:

- a. Telephone call - to accounts payable section of entity doing business where invoice remains unpaid 10 days after issuance of invoice
- b. Telephone call - to chief financial officer where invoice remains unpaid 15 days after date of issuance
- c. Letter of Request - after 20 days invoice remains unpaid
- d. Registered demand letter - after 30 days invoice remains unpaid
- e. Refer to Legal Office - after 40 days invoice remains unpaid
- f. Attorney sends registered demand letter - 45 days after invoice remains unpaid
- g. Commence legal action and deny use of facilities as applicable - 60 days after invoice remains unpaid

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In addition, the Manual (Section 15.3) states that a Collection Effort Report Form should be used on a daily basis by the Collection Officer to serve as a record of initial collection efforts and as justification for subsequent legal action to be taken. The Manual also states that a copy of the form should be submitted monthly to the Executive Director.

The Port Authority's Collection Officer retired in June, 1992, but the Port Authority did not replace this individual. Instead, the collection activities previously performed by the Collection Officer were transferred to the Director of Property Management and the three Property Management Officers. However, we found that the Director and the Property Management Officers either did not conduct or did not document collection efforts in accordance with the Manual.

Response to Finding No. 7A

The latest edition of the Property Management Manual is dated 1986, when there was a Collection Officer designated for collections only. Additionally, at that time there were fewer than one hundred leases and tenants of the Virgin Islands Port Authority. The responsibility of collections is now incorporated in the duties of the Property Management Director and the Property Management Officers, and rightly so. Each Property Management Officer is responsible for in excess of one hundred (100) tenants and users of the Virgin Islands Port Authority's facilities. It is therefore impractical to strictly adhere to the manual's stipulations as written.

We will revise Section 12.0 to adequately reflect an achievable and more realistic schedule.

Finding No. 7B

To determine the collection efforts made and the types of documentation maintained for the 87 delinquent accounts totaling \$1.17 million as of April 2000, we reviewed 27 accounts totaling \$1.01 million that had delinquent amounts of at least \$10,000 for more than 90 days. Of the 27 accounts, we found that only 7 accounts had some type of collection activity. Specifically, three accounts were referred to the Port Authority's legal counsel, three accounts had some

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type of correspondence prepared by the Property Management Officers requesting payment from the tenant, and one account holder had begun making payments to offset the outstanding amount. For the remaining 20 accounts, we found no documentation of collection activities in accordance with the collection procedures outlined in the Port Authority's Property Management Manual.

Response to Finding 7B

With regard to the 20 accounts cited above, it is critical to note that the auditors carefully worded the finding in such a way as to imply that there was no documentation of collection efforts. In fact, for reasons stated both in the previous response and later in this response, the collection activities were not "in accordance with the collection procedures" in the manual, as those procedures have been outdated for some time. The bulk of our aviation revenue is derived from the large airlines and two of the regional airlines (American Eagle and Liat), whose headquarters are all off-Island. On the marine side, our main revenues are from the shipping companies and the cruise lines, whose agent is the West Indian Company Ltd. The industry turn-around time for payment of invoices (the amounts of which can be quite substantial) varies from 60 to more than 90 days. Consequently, at any given time there is apt to be an outstanding amount on an account of this nature in excess of 60 to 90 days. This is not to suggest that they are not good tenants or that the accounts are delinquent.

**Finding No. 8A
Delinquent Accounts
Totaling \$909,562
Written Off Without**

The Port Authority did not have written procedures regarding the write-off of uncollectible accounts. Therefore, the Director of Property Management periodically made recommendations for the write-off of uncollectible accounts to the Executive Director. We found that in December 1998 and February 2000, the Director of Property Management recommended that 32 accounts totaling \$911,497 be approved for write-off. The Port Authority's Board of Directors approved for write-off 31 of the accounts totaling \$909,562.

We reviewed the 31 accounts that were approved for write-off to determine the collection activities performed by the Port Authority prior to classifying these accounts as

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uncollectible. We found that 13 of the 31 accounts contained some type of collection activity, that 13 accounts had no documentation to support that any collection activity was ever undertaken, and that the tenant files could not be located by Port Authority personnel for the remaining 5 accounts.

Response to Finding 8A

In the review of the manual now being developed, a policy for bad debt write off will be included. However, the current procedure for uncollectible accounts is as follows:

Each year the Director of Property Management reviews the non-active accounts and analyzes their potential for collection. A schedule is made detailing the reason for the recommendation for write-off. The schedule is then discussed with the Executive Director, then it is presented to the Port Authority's Board of Directors. Of great concern to the Port Authority is the inaccuracy of certain findings such as the 13 accounts with no documentation as cited above. Many of the accounts cited by the auditors have in fact been reconciled and reversed where there was an error, or judgment was obtained and a writ of execution filed, or paid in full through garnishment, or discharged through bankruptcy, all information which was readily available to the auditors. Of the 5 files that the auditors claimed were not found, at least two are clearly known to be closed as having been paid in full (one through garnishment, the other through foreclosure by the tenant's lending institution which paid all of the tenant's debts and obligations under the lease to the Port Authority). These two files, along with the other three files which the auditor claims "...could not be located by Port Authority personnel...", are files which repose in VIPA's inactive file accounts located at the airport terminal building.

Finding No. 8B

During the Port Authority's Board of Directors meeting in December 1998, the Executive Director stated that although the Board could anticipate additional recommendations for the write-off of uncollectible accounts from the Director of Property Management, the Executive Director did not approve of additional write-offs. The Executive Director stated that he did not believe that "sufficient due diligence to

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collect" on these delinquent accounts had been performed by the Property Management Officers.

Response to Finding 8B

Each Property Management Officer is assigned specifically named accounts. All property management activities for an account is handled by a particular Property Management Officer (including collections). We believe that the Property Management Officer has built up a rapport with the tenant or user of the facilities, so that he/she can carry out the collection assignment.

We concur with the statements made by the Executive Director regarding the lack of collection efforts both performed and documented by the Property Management Officers. In order to strengthen internal controls over the collection of delinquent and inactive accounts, we believe that the Port Authority should either take action to ensure that the Property Management Officers carry out the assigned collection enforcement tasks or consider reimplementing the position of the Collection Officer and removing the collection function from the Property Management Officers.

**Finding No. 9
AIRPORT PARKING
LOT COLLECTIONS**

The Port Authority did not have standardized procedures for collecting, depositing, recording, and verifying parking fees at its airport parking lots on St. Thomas and St. Croix. The airport access system, which machine-stamped onto a ticket the date and time that a vehicle entered and exited the airport parking lot, did not work at the exit locations. As a result, the date and time that a vehicle exited the airport parking lot could not be determined from the used tickets. In addition, because the Port Authority did not issue magnetic card keys to taxicab association members (who were authorized to use the airport facilities) or to other daily users of the parking lots, the access system had to be bypassed to indicate a nonrevenue ticket. Further, the Port Authority's Internal Auditor did not review the used tickets on a periodic basis to ensure that the value of the tickets used was equal to the amount of funds collected and deposited. Accordingly, there was no assurance that funds collected by the airport parking lot cashiers were appropriately deposited into the Port

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Authority's bank account.

Because there were no established collection procedures at the airport parking lots, the airport parking lot cashiers used different procedures on St. Thomas and St. Croix. However, in our opinion, neither the collection procedure used at the Cyril E. King airport parking lot on St. Thomas nor the collection procedure used at the Henry E. Rohlsen Airport parking lot on St. Croix provided adequate controls to ensure that amounts collected were appropriately deposited into the Port Authority's bank account.

Response to Finding No. 9

The Port Authority has purchased revenue control systems for the Cyril E. King Airport, St. Thomas, VI. These systems will be installed at the exit booths and will stamp the time and date of exit, along with the fee incurred on each ticket. These machines will be installed by April 1, 2001.

With regards to the issuance of magnetic card keys to taxicab association members and other daily users of the airport parking lots to reduce the number of nonrevenue parking lot tickets processed each day, the Port Authority used card keys at the Cyril E. King Airport until September, 2000. The system at the entrance was changed from push button dispensing to automatic dispensing because the ticket spitters jammed constantly due to misuse by hurried users. The automatic dispensing mechanism has decreased the amount of breakdowns significantly, thereby decreasing the number of persons entering the lot without tickets when such a malfunction occurs. Because the system is automatic, the card readers can not be used. In addition, it has been witnessed that card key holders do not always use their keys because they can punch tickets. While the ideal use of card key will reduce the number of nonrevenue tickets generated, it will never eliminate nonrevenue tickets due to other federal and local government users. Because the use of card keys increases the potential for misuse, all users will be required to take a ticket upon entry, and upon exiting the lot return the ticket at the exit booth.

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**St. Thomas Parking Fees
Not Verifiable Based on
Parking Lot Tickets**

At the Cyril E. King Airport on St. Thomas, the cashiers (three shifts per workday) completed a Parking Lot Daily Summary of Collections and Deposits worksheet, prepared a Certificate of Deposit (deposit slip) for the funds collected during their work shift, and deposited the funds into the bank depository located at the airport. The worksheets were forwarded to a Property Management Officer, who completed a Daily Summary of Collections and Deposits worksheet, which combined the collection activities of the three cashiers and provided a month-to-date collection total. However, these procedures did not ensure that the funds collected could be verified based on the parking lot tickets processed by the cashiers. We selected for review the collection documents related to 7 working days (May 28 to May 31, 1999 and July 3 to July 5, 1999). The total funds deposited during these 7 days was \$4,512, but the amounts to be collected based on the parking lot tickets totaled only \$4,156. Although the deposits were \$356 more than could be determined from the used tickets, the potential existed for the difference to be a cash shortage because controls were not adequate to ensure that all collections were deposited to the Port Authority's account.

We also found that because the access control system did not work at the exit locations, the cashiers wrote the amount collected on each ticket or indicated in writing that the ticket was a nonrevenue ticket. The cashiers told us that a nonrevenue ticket would result from a taxicab association driver, a daily user of the airport parking lot who paid on a monthly basis, or a person who spent less than 15 minutes between the time of entry and exit at the airport. Based on our review for the 7 workdays in our sample, we found that the cashiers handled an average of 1,250 tickets per day but that only about 315 tickets yielded actual cash collections. Therefore, on a daily basis, about 935 tickets were classified as nonrevenue. However, there was no way to verify these classifications.

**Finding No. 10
St. Croix Parking Fees
Also Not Verifiable Based
on Parking Lot Tickets**

At the Henry E. Rohlsen Airport on St. Croix, prior to February 2000, the cashiers did not prepare any documentation to show how much funds they collected. Rather, at the end of each work shift (three work shifts per

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day), the cashier would place the funds collected and the parking lot tickets in an envelope and would write the amount collected on the outside of the envelope. The envelope was then put into a locked box at the Port Authority's Administration Building. The following workday, the Airport Operations Supervisor retrieved the envelopes from the locked box; prepared the Daily Summary of Collections and Deposit worksheet, the Parking Lot Daily Summary of Collections and Deposits worksheet, and a Certificate of Deposit (deposit slip); and deposited the funds at the bank. Beginning in February 2000, the cashiers began preparing the Parking Lot Daily Summary of Collections and Deposits worksheet and the Certificate of Deposit and began depositing the funds into the bank depository located at the airport.

We selected for review the collection records for 6 working days (December 23 and 30, 1998; January 6, 1999; and November 10, 15, and 16, 1999) and found that the cashiers did not write the amount of funds collected on each ticket, as was done at the airport on St. Thomas. Therefore, the tickets could not be used to verify or even to estimate the amounts that should have been collected.

To strengthen controls in this area, the Port Authority should (1) repair the access control systems at the Cyril E. King Airport on St. Thomas and the Henry E. Rohlsen Airport on St. Croix to provide a method for automatically stamping the date and time of exit on the parking lot tickets; (2) consider issuing magnetic card keys to taxicab association members and other daily users of the airports' parking lots to reduce the number of nonrevenue parking lot tickets processed each day; and (3) require the Port Authority's Internal Auditor to review, on a periodic basis, the airports' parking lot tickets and the certificates of deposit to ensure that the funds collected are appropriately deposited into the Port Authority's bank accounts. Finally, because a primary method of preventing theft is segregation of duties, we believe that the collection of the cash and the preparation of the bank deposits should be performed by separate individuals.

Response to Finding No. 10

The Port Authority has purchased revenue control systems for the Henry E. Rohlsen Airport, St. Croix, VI. These

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machines will be installed by April 1, 2001. With the installation of the new revenue control system, the Internal Auditor will be able to verify fees on tickets collected. The Internal Auditor will be trained on the new system in order to understand and utilize the system's auditing and control capabilities. VIPA accepts the recommendation that separate individuals should be responsible for collection and deposit of revenues derived from parking.

RECOMMENDATIONS

TO THE VIRGIN ISLANDS PORT AUTHORITY

We recommend that the Executive Director of the Port Authority:

1. Develop and implement a standard lease agreement format to be issued to tenants of the Port Authority. The lease agreement should include standard language with respect to the subleasing of properties and facilities similar to the wording compiled by the Port Authority's legal counsel and approved by the Board of Directors in February 1996.

RESPONSE:

The Port Authority concurs with this recommendation. The inclusion of the wording provided since February, 1996 is a practice that has already been done. All of the lease agreements sampled are agreements entered into before February, 1996. Thus, the Authority feels that it is already complying with this recommendation.

2. Update the Property Management Manual to delete the existing clause that prohibits subleasing and replace it with a clause that grants the approval to sublease at the discretion of the Board of Directors.

RESPONSE:

The Port Authority concurs with this recommendation. The current Property Management Manual was established in

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1986. The procedures listed are out of date and impractical. The Director of Property Management and his staff will conduct a comprehensive review of the procedures listed and update them accordingly. A significant change in the updated manual will be the definition of accounts which are in arrears as those accounts with unpaid invoices in excess of 90 days. The update of the manual should be completed by June 30, 2001.

3. Ensure that Port Authority tenant files contain a copy of every sublease approved by the Port Authority's Board of Directors. Also, consideration should be given to creating and maintaining a database of sublease agreements to include but not be limited to tenant name, tenant address, tenant rental amount, tenant lease terms, sublessee name, sublessee rental amount, sublease term, and sublease fee. The database should be updated periodically to include any new tenants that are approved for subleasing.

RESPONSE:

The Port Authority concurs with this recommendation. Property Management has already obtained copies of sublease agreements entered into by tenants. A supporting database listing tenants' sublessees will have to be linked to the current Tenant Information System. The system is currently maintained by the Authority's website designer/master, who is currently on extended leave. This project should be completed by September 30, 2001.

4. Obtain copies of all sublease agreements from current Port Authority tenants to determine the amount of sublease fees owed the Port Authority and take appropriate collection action. Procedures should also be established to require tenants with subleases to pay the appropriate sublease fees concurrently with regular monthly rental payments.

RESPONSE:

The Port Authority concurs with this recommendation. Property Management has obtained copies of sublease agreements entered into by tenants. Tenants will be billed retroactively for sublease fees from the commencement of

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the lease. Tenants will also be billed monthly for sublet fees due in accordance with sublease agreements, concurrently with the tenants' regular monthly rental payments.

5. Ensure that all lease agreements are current and properly executed, that all tenants submit a copy of an appropriate liability insurance policy, and that rental rates are timely updated in accordance with the changes in the Consumer Price Index.

RESPONSE:

The Port Authority concurs with the recommendation regarding the retention of liability insurance policies and that rental rates are timely updated in accordance with the changes in the Consumer Price Index. However in regards to all leases being current, the Port Authority does not negotiate leases with delinquent tenants. Delinquent tenants, therefore, will remain on a month-to-month tenancy for a reasonable period until they become current; if they are not brought current within that period they will be terminated.

6. Require the Property Management Officers to conduct site visits on at least a quarterly basis and to document the site visits on Property Inspection Report Forms.

RESPONSE:

The Port Authority concurs in part with this recommendation. With the update of the Property Management manual, a new form for property inspections will be created. In addition, since 1986, VIPA's tenants have increased significantly; the new requirement will be for Property Management Officers to visit properties at least every six (6) months, unless circumstances dictate the necessity for shorter inspection periods on a case by case basis, a determination that will be made by the Property Management Director.

7. Either take action to ensure that the Property Management Officers carry out the assigned collection enforcement tasks or consider implementing the position of

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Collection Officer and removing the collection function from the Property Management Officers.

RESPONSE:

The Port Authority concurs with this recommendation. The Authority maintains that it is more feasible for a Property Management Officer to handle collection duties of his/her account than to involve another person at this level. However, while a Collections Officer is impractical, due to the increases in tenants, accounts and operations (i.e. airport parking lots), Property Management will be required to more effectively monitor and operate its properties.

8. Establish and implement written policies and procedures for the write-off of uncollectible accounts and ensure that "due diligence" has been performed prior to the approval of accounts for write-off.

RESPONSE:

The Port Authority concurs with the recommendation as it relates to implementing a written policy for write-off of uncollectible accounts.

9. Establish and implement written policies and procedures for the collection, deposit, and recording of cash collections at the airport parking lots.

RESPONSE:

The Port Authority concurs with this recommendation. Procedures for handling cash collections for the airport parking lot operations were established in July, 1998. The reliability of revenue machines, however, has been a serious problem, thereby causing VIPA to alter and adopt less secure procedures. The Authority has purchased new revenue machines and will review the old written policies to ensure compliance.

10. Repair and/or replace the airport access systems at the Cyril E. King Airport on St. Thomas and the Henry E. Rohlsen Airport on St. Croix to ensure that tickets are

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machine stamped at the exit locations to indicate the date and time that vehicles exit the airport parking lot. Also, consideration should be given to issuing magnetic card keys to taxicab association members and other daily users of the Port Authority parking lots to reduce the number of nonrevenue tickets processed each day.

RESPONSE:

The Port Authority concurs with the portion of this recommendation that relates to the revenue exit machines. The Authority has purchased new revenue machines that will validate tickets, noting departure time and fees incurred, at the exit booths. Due to the unreliability of the push-button ticket spitters, VIPA changed to automatic ticket dispensers, rendering card readers for taxi franchise members and employees at the Cyril E. King Airport unusable. Because all terminal users must enter the parking lots, there is no other way to ensure that tickets are not being abused. With the previous usage of card readers (for magnetic card keys) and push button spitters, taxi drivers and employees, not having their cards readily available would punch a ticket to access the lot. In this situation, VIPA has no way of denying them such a privilege. With the installation of the new revenue machines, tickets will be necessary to enter and to exit.

11. Require the Port Authority's Internal Auditor to periodically review the tickets and deposits for a sample of workdays to ensure that the funds deposited can be validated by the tickets processed. Also, separate individuals should be assigned to make cash collections at the parking lots and to prepare daily deposits.

RESPONSE:

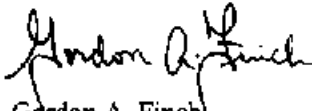
The Port Authority concurs with this recommendation. With the installation of the new revenue machines, the Authority's Internal Auditor will have records to review and verify accordingly. With regards to the separation of collection and deposit duties, the Authority has hired or will hire supervisors for the airport parking operations who will prepare the daily deposits.

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The Virgin Islands Port Authority thanks the Office of the Inspector General for conducting this audit. By implementing its recommendations and resulting revised policies and procedures, increased efficiencies in the Authority's billing and collection system will be achieved.

Sincerely,

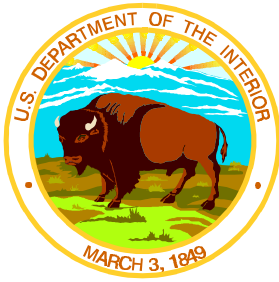


Gordon A. Finch
Executive Director

pc: Board Members - V. I. Port Authority
Kenn Hobson, Director of Property Management
Don C. Mills, Esq., Legal Counsel

APPENDIX 4 - STATUS OF RECOMMENDATIONS

<u>Finding/Recommendation Reference</u>	<u>Status</u>	<u>Action Required</u>
1, 4, 5, 6, 7, 8, 9, and 11	Management concurs; additional information requested.	Provide target dates for completing the proposed corrective actions. Also, supporting documentation should be provided upon completion of the corrective actions.
2 and 3	Resolved; not implemented.	Provide this office supporting documentation upon completion of the corrective actions.
10	Implemented.	No further action is required.



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