

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

Audit Report

Virgin Islands Fire Service Government of the Virgin Islands



**Report No. 2002-I-0001
October 2001**



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL

Insular Area Audits
Federal Building, Room 207
St. Thomas, Virgin Islands 00802

October 30, 2001

Honorable Charles W. Turnbull
Governor of the Virgin Islands
No. 21 Kongens Gade
Charlotte Amalie, Virgin Islands 00802

Subject: Audit Report on the Virgin Islands Fire Service, Government of the Virgin Islands
(No. 2002-I-0001)

Dear Governor Turnbull:

This report presents the results of our audit of the administrative operations of the Virgin Islands Fire Service.

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 November 30, 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,

Arnold E. van Beverhoudt, Jr.
Audit Manager for Insular Areas

cc: Director, Virgin Islands Fire Service
Commissioner of Licensing and Consumer Affairs
Commissioner of Public Works
Commissioner of Property and Procurement
Commissioner of Finance
Virgin Islands Attorney General

EXECUTIVE SUMMARY

BACKGROUND

The Virgin Islands Fire Service was established in 1979, and is administered by a Director, who is appointed by the Governor with the advice and consent of the Legislature. For administrative purposes, the Fire Service is divided into the District of St. Thomas/St. John and the District of St. Croix, with administrative offices in both districts. Each district has a Suppression Unit that is responsible for extinguishing fires and an Arson Prevention and Investigation Unit that is responsible for investigating the causes of fires and conducting fire prevention activities. As of April 2001, there were two active fire stations on St. Thomas, two on St. John, and four on St. Croix. The Fire Service received appropriations of \$10.9 million in fiscal year 1999 and \$10.4 million in fiscal year 2000.

OBJECTIVE

The objective of the audit was to determine whether the Fire Service effectively carried out its administrative functions of personnel and property management, collection of fire inspection fees, and documentation of fire emergencies and fire prevention activities. We expanded the objective of the audit to include an analysis of lump sum payments made to eight former Fire Service employees.

RESULTS IN BRIEF

The Fire Service adequately documented fire emergencies to which it responded and adequately conducted fire safety education programs, but other controls needed improvement. Specifically, the Fire Service should:

- ' Conduct required biennial fire safety inspections at commercial establishments and collect the appropriate fees for this service as authorized by the Virgin Islands Code.
- ' Deposit collections on a daily basis and ensure that collections are adequately safeguarded.
- ' Analyze and document its staffing needs to reduce the excessive use of overtime.
- ' Ensure that a high-ranking official submits time sheets to support the hours worked.

- ' Fully use the \$2 million allotted to renovate the fire stations and upgrade fire fighting equipment.
- ' Prepare and maintain complete property management records for all Fire Service property and equipment and conduct a physical inventory of the property at least once every two years.
- ' Obtain price quotations from at least three sources when purchasing fire fighting equipment and supplies on the open market.
- ' Request that the Virgin Islands Water and Power Authority disconnect electric service at the two closed fire stations on St. Thomas to avoid monthly electric charges at unmanned fire stations.
- ' Implement a formal records retention policy.

We concluded that, as a result of the administrative control weaknesses noted, the Fire Service (1) did not generate fire inspection fees of at least \$1.1 million during fiscal years 1999 and 2000; (2) exceeded its overtime budgets by a total of \$798,909 during fiscal years 1999 and 2000; (3) paid a high-ranking official about \$94,035 in salary costs without documentation of the hours worked; (4) did not use about \$1.2 million that was available to renovate and improve living conditions at the fire stations and purchase upgraded fire fighting equipment; and (5) incurred electricity charges of about \$3,060 at unmanned fire stations. In addition, we concluded that lump sum payments to former Fire Service employees totaling \$274,285 should be reviewed by the Attorney General for legal sufficiency.

RECOMMENDATIONS

We made 11 recommendations to the Governor of the Virgin Islands to address the internal control weaknesses related to administrative functions of the Fire Service and to lump sum payments made to eight former Fire Service employees.

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

The Governor and the Fire Service concurred with the 11 recommendations and indicated that corrective actions had been or would be taken on 9 of the recommendations. Corrective actions on two recommendations were not addressed in the response. Based on the response, we considered six recommendations resolved and implemented, three recommendations resolved but not implemented, and requested additional information for two recommendations.

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INTRODUCTION

BACKGROUND

In 1979, the Virgin Islands Fire Service was established within the Office of the Governor by Act No. 4206. The Fire Service is administered by a Director, who is appointed by the Governor with the advice and consent of the Legislature. For administrative purposes, the Fire Service is divided into the District of St. Thomas/St. John and the District of St. Croix, with administrative offices in both districts. Each district has a Suppression Unit that is responsible for extinguishing fires and an Arson Prevention and Investigation Unit that is responsible for investigating the causes of fires and conducting fire prevention activities. There are four fire stations on St. Thomas,¹ two on St. John, and four on St. Croix.

The Fire Service had 250 filled positions and 27 vacant positions during fiscal year 1999, and 254 filled positions and 11 vacant positions during fiscal year 2000. In March 2001, the Government hired 15 additional fire fighters.

In October 1998, the Legislature passed Act No. 6269, the Revenue Enhancement Act of 1998, which was incorporated into the Virgin Islands Code (23 V.I.C. §605(d), (e), and (f)). With respect to the Fire Service, the Act authorized the Director of the Fire Service to impose a fee on commercial establishments for inspectors from the Arson Prevention and Investigation Unit to inspect the buildings and premises of the commercial establishments for conditions liable to cause fires. Collections totaled \$8,285 in fiscal year 1999 and \$148,465 in fiscal year 2000.

The Fire Service received appropriations of \$10.9 million in fiscal year 1999 and \$10.4 million in fiscal year 2000. Based on information contained in the Government's financial management system, the Fire Service expended \$12.6 million in fiscal year 1999 and \$10.8 million in fiscal year 2000, thus overspending its appropriations by \$1.7 million in 1999 and \$0.4 million in 2000.

¹The fire station at Estate Fortuna was closed in November 1998 and the fire station at Estate Dorothea was closed in November 1999, both due to a shortage of fire fighting personnel. As of April 30, 2001, the two fire stations had not been reopened.

OBJECTIVE AND SCOPE

The objective of the audit was to determine whether the Fire Service effectively carried out its administrative functions of personnel and property management, collection of fire prevention fees, and documentation of fire emergencies and fire prevention activities. We expanded the objective of the audit to include an analysis of lump sum payments made to eight former Fire Service employees. The scope of the audit included a review of transactions that occurred and the policies and procedures that were in effect during fiscal years 1999 and 2000 and other periods as appropriate.

The audit was conducted from December 2000 through April 2001 at the Fire Service's St. Thomas, St. John, and St. Croix locations; the Departments of Finance, Labor, and Licensing and Consumer Affairs; and the Division of Personnel.

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 internal controls at the Fire Service to the extent we considered necessary to accomplish the audit objective. Internal control weaknesses were identified in the areas of conducting inspections at commercial establishments, safeguarding collections, controlling overtime charges, maintaining property control records, establishing a records retention policy, and processing lump sum payments to employees. 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 Fire Service during the past five years. However, in March 1994, the Office of Inspector General issued a report on the administration of the Fire Service (see Appendix 2).

RESULTS OF AUDIT

OVERVIEW

The Fire Service adequately documented fire emergencies to which it responded and adequately conducted fire safety education programs, but other controls needed improvement. Specifically, the Fire Service should:

- ' Conduct required biennial fire safety inspections at commercial establishments and collect the appropriate fees for this service as authorized by the Virgin Islands Code.
- ' Deposit collections on a daily basis and ensure that collections are adequately safeguarded.
- ' Analyze and document its staffing needs to reduce the excessive use of overtime.
- ' Ensure that a high-ranking official submits time sheets to support the hours worked.
- ' Fully use the \$2 million allotted to renovate and improve living conditions at the fire stations and upgrade fire fighting equipment.
- ' Prepare and maintain complete property management records for all Fire Service property and equipment; ensure that each piece of equipment has a Government property identification tag; and conduct a physical inventory of the property at least once every two years and reconcile the results with the inventory records.
- ' Obtain price quotations from at least three sources when purchasing fire fighting equipment and supplies on the open market to ensure that the Government receives the most favorable prices, terms, and conditions.
- ' Request that the Virgin Islands Water and Power Authority disconnect electric service at the two closed fire stations on St. Thomas to avoid monthly electric charges at unmanned fire stations.
- ' Implement a formal records retention policy.

We concluded that, as a result of the administrative control weaknesses noted, the Fire Service (1) did not generate fire inspection fees of at least \$1.1 million during fiscal years 1999 and 2000; (2) exceeded its overtime budgets by a total of \$798,909 during fiscal years 1999 and 2000; (3) paid a high-ranking official about \$94,035 in salary costs without documentation of the hours worked; (4) did not use about \$1.2 million that was available to renovate and improve living conditions at the fire stations and to purchase upgraded fire fighting equipment; and (5) incurred electricity charges of about \$3,060 at unmanned fire stations. In addition, we concluded that lump sum payments to former Fire Service employees totaling \$274,285 should be reviewed by the Attorney General for legal sufficiency.

ADMINISTRATIVE FUNCTIONS

The Fire Service needed to increase the extent to which it performed fire inspections of commercial establishments and improve internal controls over administrative functions related to collections, payroll expenses, facilities and equipment, non-payroll expenses, and records.

Potential Fire Inspection Fees of \$1.1 Million Were Not Realized

The Revenue Enhancement Act of 1998, which was codified in Title 23, Section 605 of the Virgin Islands Code established a fire inspection fee. The Code (23 V.I.C. §605(d)) states that the Director of the Fire Service "shall inspect or cause to be inspected . . . every commercial establishment in the Virgin Islands not less than once each two years." The Code (23 V.I.C. §605(e)) authorizes the Director of the Fire Service to impose a fee of \$200 for each inspection performed on commercial establishments with annual gross receipts of over \$150,000 and \$100 for all other commercial establishments. The Code (23 V.I.C. §605(f)) also states that 50 percent of the monies collected for inspection activities shall be deposited into the Fire Service Emergency Fund. Finally, the Code (33 V.I.C. §3032(b)) states, "Monies shall be disbursed from the [Fire Service Emergency] Fund . . . for the purpose of making payments for extraordinary expenses incurred in fighting fires and other emergencies involving the Virgin Islands Fire Service. Monies in the Fund may also be utilized for the hiring of fire inspectors and for the purchase of fire fighting equipment and supplies."

To determine whether the Fire Service was complying with requirements of the Virgin Islands Code, we obtained a list of

commercial establishments from the Department of Licensing and Consumer Affairs. The list included 12,788 commercial establishments that were issued business licenses in fiscal year 2000. Utilizing a conservative estimate of \$100 per inspection, we determined that the Fire Service could have collected at least \$1,278,800 over a 2-year period.

However, we found that, during fiscal year 2000, the Fire Service inspected only 1,293 commercial establishments and collected only \$148,465 and, during fiscal year 1999, the Fire Service inspected only 937 commercial establishments and collected only \$8,285. Therefore, total collections for fiscal years 1999 and 2000 were \$156,750. Based on our conservative estimate of potential collections totaling \$1,278,800 during fiscal years 1999 and 2000, we concluded that the Fire Service did not collect at least \$1,122,050 that could have been used to hire fire inspectors and purchase fire fighting equipment and supplies.

Regarding the fiscal year 1999 collection activity of only \$8,285, we found that although the Revenue Enhancement Act was passed in October 1998, the Fire Service's Arson Investigation and Prevention Unit did not begin charging a fee for the inspection service until August 1999, or 1 month before the end of the fiscal year.

In order to improve internal controls in this area and to increase revenues for the purchase of fire fighting equipment and supplies, we believe that the Department of Licensing and Consumer Affairs should coordinate its efforts with the Fire Service by providing the Fire Service with up-to-date lists of commercial establishments. The Fire Service, in turn, should develop a methodology to conduct inspections at a representative share of commercial establishments each year.

We found, however, that the Fire Service requested lists of commercial establishments from Licensing and Consumer Affairs in July 1999 and January 2001, but that Licensing and Consumer Affairs did not provide the information to the Fire Service. Because the Fire Service did not have a current list of commercial establishments, we provided the Fire Service with the list of commercial establishments that we obtained from Licensing and Consumer Affairs.

**Deposits Were Not
Always Made Daily And
Collections Were Not
Safeguarded**

The Department of Finance Accounting Manual (Section 310.4) states, "Except as otherwise authorized by the Commissioner [of Finance], Collectors must deposit daily, through the use of the night depository, all collections made by them during the day." However, Fire Service officials told us that they usually made deposits on a weekly basis even though they had not sought the approval of the Commissioner of Finance.

We compared the collection date with the deposit date for 231 transactions and found that the average elapsed time between date of collection and date of deposit was 9 working days in fiscal year 1999 and 6 working days in fiscal year 2000. For example, we found that \$660 collected during the period of August 8 to September 8, 2000, at the Cruz Bay, St. John Fire Station was not deposited until September 8, 2000, or as much as 22 working days after the date of collection. Included in this amount was a cash collection of \$100 that was collected on August 11, 2000, and held for deposit until September 8, 2000.

We also found that undeposited collections were not adequately safeguarded. For example, on St. John undeposited collections were kept in the office of the Deputy Chief of Operations, but fire fighters had spare keys to this office. On St. Croix, the administrative office was burglarized four times in a 12-month period. In addition, we witnessed a non-Fire Service employee bring prior days' collections to the administrative office because the employee responsible for the collections was on leave.

In order to improve internal controls in this area, we believe that the Fire Service should (1) make deposits on a daily basis as required by the Department of Finance Accounting Manual and (2) adequately safeguard funds collected during the day by keeping funds in a secure, limited-access area. We believe that this matter is of particular importance because daily collections should increase significantly due to the fees collected for inspections of commercial establishments.

**Overtime Amounts
Exceeded Budgeted
Amounts by \$654,010
in 1999 and by \$144,899
in 2000**

In order to maintain a safe level of staffing at fire stations, Fire Service officials allowed existing fire fighters to work extra shifts at overtime pay rates. During fiscal year 1999, overtime costs totaled \$754,010, or \$654,010 (654 percent) more than the overtime budget of \$100,000. Total overtime costs in fiscal year 2000 decreased to \$335,399, but were still

\$144,899 (76 percent) more than the overtime budget of \$190,500.

Our analysis of the overtime hours for the St. Croix District for fiscal year 1999 showed that of the 15,397 overtime hours claimed, 14,175 hours (92 percent) were required because of manpower shortages. For fiscal year 2000, of the 5,015 overtime hours claimed, 4,671 hours (93 percent) were required because of manpower shortages.

We were unable to conduct a similar comparison for the St. Thomas/St. John District because neither the Fire Service nor the Department of Finance was able to provide us with the overtime authorization forms for the period of March to September 1999 (the last 7 months of fiscal year 1999). Therefore, for fiscal year 1999, although the payroll registers recorded 17,158 overtime hours for Fire Services personnel, there were no overtime authorization forms for 13,746 of those hours. For fiscal year 2000, although the payroll registers recorded 12,115 overtime hours for Fire Services personnel, there were no overtime authorization forms for 4,442 of those hours.

In March 2001, the Government hired 15 additional fire fighters. Fire Services officials told us that these 15 employees would help reduce overtime costs but would not be sufficient to reopen the two closed fire stations on St. Thomas.

**Payroll Costs of \$94,035
Were Not Supported
by Time Sheets**

During the period of January 1999 to February 2001, a high-ranking Fire Service official did not submit time sheets to support hours worked. We reviewed the payroll registers for the pay periods ending January 30, 1999 to February 10, 2001 (54 pay periods) and determined that the official's earnings during this period totaled \$94,035. Because there were no time sheets to validate the hours worked by the official, we classified the \$94,035 as unsupported costs. Although the Fire Service always required that time sheets be submitted, the official did not begin submitting time sheets until the second pay period in February 2001 (February 11, 2001). We concur with the policy of requiring time sheets for all Fire Services personnel.

\$1.2 Million Available for Capital Improvements and Equipment Was Not Used

In October 2000, the Governor authorized the use of \$2 million (\$1.5 million appropriated from the Asset Recovery Fund and \$500,000 appropriated from the Fire Maintenance Fund²) for the purchase of fire fighting equipment and supplies and for the renovation of fire stations in the Virgin Islands. As of March 20, 2001, \$276,791 of the \$1.5 million was expended from the Asset Recovery Fund and \$83,910 of the \$500,000 was expended from the Fire Maintenance Fund. In addition, the Fire Service provided us with a list of expenditures totaling about \$400,000 that had been incurred against the Asset Recovery and Fire Maintenance Funds but were not yet processed for payment by the Department of Finance. Therefore, total expenditures were \$760,701, leaving available balances totaling \$1,239,299.

Our analysis of the expenditures incurred against the two funds showed that the renovation work was primarily being conducted on St. Croix. We found that renovation work had not started on St. Thomas primarily because contractor bids were higher than the amounts allotted for renovation at the fire stations. Accordingly, in April 2001, the Department of Public Works revised the scope of work for renovation repairs and was coordinating with the Department of Property and Procurement to obtain new contractor bids.

The renovations were required because of deteriorating conditions at the fire stations, which had been documented by the Department of Labor's Division of Occupational Safety and Health (OSHA) during the period of September 1991 to December 1999. OSHA cited the fire stations for a myriad of health and safety concerns including: (1) lack of respiratory equipment, (2) exposed electrical wiring, (3) infestation by rodents and poisonous insects, (4) leaking roofs, (5) non-operational lavatory facilities, and (6) cluttered storage areas with obsolete items that created a fire hazard.

In January, March, and April 2001, we conducted site inspections at all of the Fire Services' fire stations and administrative offices in the Virgin Islands and found that many of the conditions cited by OSHA as far back as 1991

²Act No. 6351 appropriated \$500,000 from the Virgin Islands Board of Public Accounting Special Funds. However, the Government's financial management system recorded the expenditures against the Fire Maintenance Fund. Officials at the Department of Finance told us that the two funds have the same "fund number" but different "cost center codes" in the financial management system. For purposes of this report, we have referred to the fund as the Fire Maintenance Fund.

still existed. We believe that the effective use of the \$2 million appropriated to the Fire Service for fire fighting equipment and supplies and for the renovation of fire stations would correct the deficiencies cited by OSHA. Accordingly, we believe that the Department of Public Works should expedite the revision of the scope of work for the St. Thomas fire stations and coordinate with the Department of Property and Procurement to promptly seek bids from responsible bidders.

**Non-Expendable
Equipment Was Not
Properly Accounted For**

Fire Service officials were not familiar with Federal and local regulations related to the safeguarding of non-expendable equipment. The "Common Rules" issued pursuant to U.S. Office of Management and Budget Circular A-102 contain procedures for managing equipment acquired in whole or in part with Federal grant funds.³ In addition, the Department of Property and Procurement promulgates regulations to manage all non-expendable Government property.

The Fire Service provided us with an inventory list for the St. Thomas/St. John District that was prepared in September 2000 and a vehicle list that was prepared in January 2001. The inventory list contained only a description and the quantity of each equipment item, and the vehicle list contained the year, make, model and condition of each vehicle. The Fire Service did not provide us with inventory or vehicle lists for the St. Croix District, but instead provided us with a list of equipment items that were damaged or destroyed as a result of Hurricane Marilyn in September 1995.

To determine whether purchased equipment could be physically located, we selected for review a sample of 20 equipment items valued at \$30,717 that were purchased during fiscal years 1998, 1999, and 2000. We were able to

³The Circular A-102 Common Rules state that procedures for managing equipment acquired in whole or in part with Federal grant funds will, as a minimum, meet the following requirements:

(1) Property records must be maintained that include a description of the property; a serial number or other identification number; the source of the property; who holds title; the acquisition date; the cost of the property; the percentage of Federal participation in the cost of the property; the location, use and condition of the property; and any ultimate disposition data including the date of disposal and the sale price of the property.

(2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.

(3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated.

(4) Adequate maintenance procedures must be developed to keep the property in good condition.

locate 13 of the items but were unable to locate 6 items valued at \$6,708. One additional item valued at \$569 was only traced to the inventory list.

Neither the inventory list nor the vehicle list provided by the St. Thomas/St. John District contained sufficient information to adequately identify the value and property numbers of the inventory items. Accordingly, in order to strengthen internal controls in this area, we believe that both the St. Thomas/St. John and St. Croix districts should prepare inventory lists that contain the information required by Circular A-102 Common Rules and the Department of Property and Procurement's Property Manual. The lists should be periodically updated to reflect the purchase of new equipment and the disposition of old equipment, and a physical inventory should be conducted at least once every 2 years and the results reconciled to the inventory lists.

Price Quotations Were Not Always Obtained For Open Market Purchases

We found that the Fire Service did not always obtain price quotations for goods purchased on the open market. Although the Virgin Islands Code (31 V.I.C. §239(a)) states that supplies, material, and equipment costing less than \$5,000 may be purchased without observing competitive bidding requirements, we believe it is prudent business practice to obtain telephonic quotations from at least three sources when purchasing goods on the open market. We found, particularly for tire purchases made on the open market, that price quotations were not obtained by the Fire Service.

Our analysis of tire purchases showed that prices for the same brand and size tire differed by a range of \$18 to \$105. For example, in August 2000, the Fire Service purchased an 1100-20/16 ply highway tire from a St. Croix vendor for \$365 and, in July 2000, purchased the same tire on St. Thomas for \$260, or a difference of \$105. Similarly, in February 2000, the Fire Service purchased an 1100-20/16 ply track tire for \$520 from a St. Croix vendor and, in August 2000, purchased the same tire from a different St. Croix vendor for \$450, or a difference of \$70.

We also contacted four tire vendors that were used by the Fire Service to request tire price quotations for various size tires. We found, for example, a 385/65 R22-5/18 ply highway tire was sold by a St. Thomas vendor for \$648 and by a St. Croix vendor for \$485, for a difference of \$168. A third vendor did

not sell this particular tire and the fourth vendor did not respond to our request for a price quotation. Although we did not classify these tire price differences as material exceptions, we do believe that price quotations should be obtained from at least three vendors for purchases made on the open market so that the Government can obtain the best prices, terms, and conditions when expending limited financial resources.

Electricity Charges of \$3,060 Were Incurred for Unmanned Fire Stations

The fire station at Estate Fortuna, St. Thomas was closed in November 1998 and the fire station at Estate Dorothea, St. Thomas was closed in November 1999. However, we noted during our review of operating expenditures that the Fire Service was billed on a monthly basis for electricity charges at these two fire stations even after they were closed. The monthly charges were about \$60 at the Fortuna fire station (which as of April 30, 2001 had been closed for 30 months) and \$70 at the Dorothea fire station (which as of April 30, 2001 had been closed for 18 months). Therefore, as of April 30, 2001, we estimated that the Fire Service incurred electricity charges of about \$3,060 at the two unmanned fire stations.

We discussed this matter with officials at the Water and Power Authority, who informed us that there were consistent monthly meter readings at the two fire stations. Therefore, electricity was being used at the stations. The Water and Power Authority officials suggested the Fire Service should request that the meters at the two fire stations be disconnected to avoid further charges. We concur with the recommendation of the Water and Power Authority officials.

The Fire Service Did Not Have a Records Retention Policy

During the conduct of our audit, Fire Service personnel attempted to provide us with all of the information we requested. However, there were instances where specific records could not be located. We believe this condition occurred because the Fire Service did not have a formal records retention policy. Specifically, the Fire Service was unable to provide us with the following documents:

- Daily Summaries of Collections and Deposits and Certificate of Deposits (deposit slips) for deposit numbers 0001-99 through 0026-99 for the St. Croix District.

- Receipt books for September 1998 to December 1999 for the St. Croix District.

- Daily Summaries of Collections and Deposits and Certificate of Deposits (deposit slips) for deposit numbers 0001-99 through 0015-99 for St. John.

- Request and Authorization To Pay For Overtime Assignment forms for March through September 1999 for the St. Thomas/St. John District.

We believe that if the Fire Service had implemented a records retention policy, these records might have been safeguarded and readily retrievable.

LUMP SUM PAYMENTS

Eight former Fire Service employees who held exempt (unclassified) positions received lump sum settlement payments totaling \$274,285 for the period of March 3, 1991, to each employee's resignation or retirement date (with the latest date being May 7, 1999). The lump sum payments were based on a February 23, 2000, Public Employees Relations Board (PERB) settlement agreement pursuant to provisions of a series of Executive Orders of the Governor related to executive salary levels. However, based on our review, we question whether the Government representatives at the PERB hearing acted correctly in agreeing to award the lump sum payments to the eight employees. Additionally, significant breaches of internal controls related to the Government's payroll system occurred during the processing of the lump sum payments.

Executive Salary Levels Were Established by Executive Order

In a series of Executive Orders beginning in December 1980, the Governors of the Virgin Islands have periodically adjusted the salaries of Government employees holding executive-level positions. For purposes of this report, four of these Executive Orders are of special significance, as follows:

- Executive Order 301-1987 was issued in August 1987. It established four executive levels and set the salary ranges for these levels at \$55,000 for Executive I, \$40,000 to \$47,500 for Executive II, \$27,500 to \$40,000 for Executive III, and \$25,000 to \$37,500 for Executive IV. The Executive Order stated that for Executive II to IV positions, the appropriate salary levels for specific positions would be determined by the Governor in consultation with the Director of Personnel and the head of the agency in which each executive position was located, and taking into consideration a series of 10 factors. These factors included previous

managerial experience, number of persons supervised and their salaries, the employee's own previous salary, nature of work, years of service, and level of training, among others. The Executive Order also required that each agency head and the Director of Management and Budget certify, on the Notice of Personnel Action (NOPA), that the designated salary level for each executive employee does not exceed the existing level of appropriations for the agency.

- Executive Order 325-1990 was issued in September 1990. It amended Executive Order 301-1987 by changing the top level of the salary ranges for Executive II to IV positions. The new salary ranges were \$40,000 to \$54,500 for Executive II, \$27,500 to \$51,500 for Executive III, and \$25,000 to \$48,000 for Executive IV. The Executive Order further provided:

Nothing in this Order shall be construed as vesting in any employee of the Exempt Service of the Executive Branch of the Government of the Virgin Islands, a right to have his or her salary adjusted. Salary adjustments shall be recommended by a Commissioner or other [agency] head after evaluation of any employee in the Exempt Service using all the criteria enumerated in Section 1 of Executive Order No. 301-1987, and . . . certification by the Commissioner or other [agency] head and the Director of Management and Budget that the salary or salaries recommended do not exceed the existing level of appropriations for the [agency].

- Executive Order 347-1994 was issued in December 1994. It amended Executive Order 325-1990 by again changing the top level of the salary ranges for Executive III and IV (but not Executive II) positions. The new salary ranges were: \$27,500 to \$57,680 for Executive III and \$25,000 to \$53,760 for Executive IV. The Executive Order again stated, "Nothing in this Order shall be construed as vesting in any employee of the Exempt Service of the Executive Branch of the Government of the Virgin Islands, a right to have his or her salary adjusted." The Executive Order further stated, "Salary adjustments shall be recommended by the Head of the Department/Agency and certified by the Department/Agency Head and approved by the Governor."

- Lastly, Executive Order 350-1995 was issued in January 1995. It repealed the executive salary levels implemented by Executive Order 347-1994 (and salary increases implemented by Executive Orders 348-1994 and 349-1994 for other classes of Government employees). Therefore, Executive Order 350-1995 had the effect of reinstating the executive salary levels established by Executive Order 325-1990.

Our review of the official Executive Orders on file at the Office of the Lieutenant Governor did not disclose any further Executive Orders reinstating the executive salary levels established by Executive Order 347-1994. The only related Executive Order on file was Executive Order 383-1999, which was issued in May 1999 and replaced "all language pertaining to Executive Level I" in prior Executive Orders with new language establishing a base salary of \$65,000 for "all Commissioners, Department and Agency Heads."

**Lump Sum Payments
Totaling \$274,285 May Not
Have Been Warranted**

Based on our reading of the pertinent Executive Orders, it appears that Government representatives at the PERB hearing may have been in error in agreeing to award retroactive salary increases totaling \$274,285 to eight former Fire Service employees for the period of March 3, 1991, to each employee's resignation or retirement date (with the latest date being May 7, 1999). Our conclusion is based on two factors:

- The executive salary levels established by Executive Order 347-1994 in December 1994 were repealed by Executive Order 350-1995 in January 1995, and we found no subsequent Executive Order that reinstated the December 1994 executive salary levels. At most, the eight former Fire Service employees would have been entitled to about 1 month's worth of increased salaries.

- Even if Executive Order 347-1994 had been reinstated by the Governor at some time subsequent to January 1995 by some means other than Executive Order, Executive Order 347-1994 clearly intended that executive salary increases would not be "automatic" but would have to be based on the specific recommendation of the department or agency head and be approved by the Governor. Our review of the official personnel files at the Division of Personnel for the eight former Fire Service employees did not reveal the existence of any Notices of Personnel Action that were fully

executed by the appropriate Fire Service Director and approved by the Governor. The files at the Fire Service contained copies of Notices of Personnel Action that were prepared in July 1995 for two of the eight employees by the then-Fire Service Director (who was himself one of the recipients of lump sum payments). But neither of these Notices of Personnel Action had been certified by the Director of Personnel or approved by the Governor.

Because the final resolution of this issue is dependent on a legal reading of the pertinent Executive Orders and a legal interpretation as to the effect of those Executive Orders, we believe that this issue should be officially referred to the Attorney General for legal review. If the Attorney General determines that the lump sum payments were improperly made, consideration should be given to requiring the former Fire Service employees to reimburse the appropriate amounts to the Government.

Payroll System Internal Controls Were Bypassed

Our review of the lump sum payments disclosed that in the processing of the payments, there was a significant breach of basic internal controls related to the Government's payroll system. According to Division of Personnel officials, in order to process a lump sum payment resulting from a salary increase, a fully executed Notice of Personnel Action must be forwarded to the Division along with documents supporting the payment and identifying the source of funding for the payment. The Notice of Personnel Action would then be reviewed and certified by the Director of Personnel and, in the case of unclassified employees (which the eight former Fire Service employees were), approved by the Governor. Once this process was completed, the fully executed Notice of Personnel Action would be forwarded to the Department of Finance for processing of the payment.

However, in the case of the lump sum payments for the former Fire Service employees, Notices of Personnel Action were never fully executed for certification by the Director of Personnel or approval of the Governor. Instead the lump sum payments were processed by the Department of Finance's Payroll Division using Miscellaneous Payroll Record forms, which are normally used to process retroactive, back pay, and supplemental payrolls. In addition, at the time that the lump sum payments were processed, the former employees' records in the Financial Management System were changed from "inactive" to "active" status by payroll clerks and, in one case,

by the Director of Payroll. Normally such employee status changes should be made only by the Division of Personnel, not the Department of Finance. Further, lump sum payments in amounts of more than \$5,000 are supposed to be forwarded to the Commissioner of Finance for review and approval before being issued. However, in this case, the Commissioner of Finance did not know that the lump sum payments had been processed until after the checks had already been distributed, and was surprised to learn that payroll clerks were able to change the former employees' record status from "inactive" to "active." Therefore, there appears to be a security flaw in the Financial Management System's programming that allowed the payroll clerks to bypass the normal process. We were unable to determine who directed the payroll clerks to process the lump sum payments without the knowledge of the Commissioner of Finance or the Division of Personnel.

Because of the significance of the breakdown in internal controls in the Financial Management System's payroll process, we believe that the Commissioner of Finance should take immediate action to have the system software modified to prevent future unauthorized access by payroll clerks. In addition, the Attorney General's anti-corruption task force should be requested to further investigate the manner in which the lump sum payments were processed to determine if criminal charges should be brought against any Government employees for improper manipulation of the payroll system.

RECOMMENDATIONS

TO THE GOVERNOR OF THE VIRGIN ISLANDS

We recommend that the Governor of the Virgin Islands direct the Director of the Fire Service to:

1. Conduct required biennial fire safety inspections at commercial establishments and collect the appropriate fees for this service as authorized by the Virgin Islands Code (23 V.I.C. §605).

2. Deposit collections on a daily basis as required by the Department of Finance Accounting Manual and ensure that undeposited collections are adequately safeguarded.

3. Conduct an analysis of and document the staffing requirements of the Fire Service to reduce the need for overtime and to adequately staff all fire stations in the Virgin Islands. Appropriate requests for increased staffing should be made through the Office of Management and Budget.

4. Prepare and maintain accurate, current, and complete property control records for all Fire Service property and equipment; ensure that each piece of equipment has a Government property identification tag; and conduct a physical inventory of the property at least once every two years and reconcile the results to the property records.

5. Obtain and document price quotations from at least three sources when purchasing fire fighting equipment and supplies on the open market to ensure that the Government receives the most favorable prices, terms, and conditions.

6. Request that the Virgin Islands Water and Power Authority disconnect electric service at the two closed fire stations on St. Thomas if they will remain unmanned for extended periods of time.

7. Implement a formal records retention policy for the Fire Service.

We recommend that the Governor of the Virgin Islands direct the Commissioner of Licensing and Consumer Affairs to:

8. Provide the Fire Service, on an annual basis, with lists of commercial establishments licensed to conduct business in the Virgin Islands.

We recommend that the Governor of the Virgin Islands direct the Commissioners of Public Works and Property and Procurement to:

9. Expedite revisions to the scope of work for renovations at the St. Thomas fire stations and the solicitation of bids from responsible bidders.

We recommend that the Governor of the Virgin Islands direct the Commissioner of Finance to:

10. Revise the access authority of the payroll clerks so that these employees do not have the ability to change the status of employees and former employees in the payroll system from "inactive" to "active" status. Also implement procedures to ensure that such employee status changes can be made only with appropriate supervisory authorization.

We recommend that the Governor of the Virgin Islands direct the Attorney General to:

11. Review the legal appropriateness of and methodology used to process lump sum payments to eight former Fire Service employees, determine why the Division of Personnel was bypassed during the payment process, and determine who authorized the payroll clerks at the Department of Finance to alter information in the Government's financial management system and to use Miscellaneous Payroll Record forms to process the lump sum payments.

**GOVERNOR OF THE
VIRGIN ISLANDS AND
FIRE SERVICE
RESPONSES**

The September 27, 2001 response (Appendix 3) to the draft report from the Governor of the Virgin Islands, which transmitted a response from the Fire Service, expressed concurrence with the 11 recommendations and indicated that corrective actions had been or were being taken on 9 recommendations. Corrective actions for Recommendations 10 and 11, were not addressed in the responses.

**OFFICE OF
INSPECTOR GENERAL
REPLY**

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

APPENDIX 1 - MONETARY IMPACT

FINDING AREAS	Questioned Costs* <u>(Unsupported)</u>	Unrealized Revenues* <u> </u>	Funds To Be Put <u>To Better Use*</u>
Fire Inspection Fees		\$1,122,050	
Excess Overtime Expenses			\$798,909
Unsupported Payroll Charges	\$94,035		
Unused Capital Improvement Funds			1,239,299
Electricity Charges at Closed Fire Stations			3,060
Lump Sum Payments	<u>274,285</u>	<u> </u>	<u> </u>
Totals	<u>\$368,320</u>	<u>\$1,122,050</u>	<u>\$2,041,268</u>

* Amounts represent local funds.

APPENDIX 2 - PRIOR AUDIT REPORT

OFFICE OF INSPECTOR GENERAL REPORT

The March 1994 report "Virgin Islands Fire Service, Government of the Virgin Islands" (No. 94-I-477) stated that (1) because the Fire Service did not have a sufficient number of fire fighters, overtime costs of about \$800,000 were being incurred annually and fire stations were understaffed; (2) during a 16-month period, 4 fire fighters were paid \$141,000 in overtime and \$49,000 in regular wages under questionable circumstances; (3) the Fire Service did not have a sufficient quantity of self-contained breathing apparatuses or any resuscitators to protect fire fighters; (4) the Fire Service did not ensure that working and living conditions at fire stations were safe and healthy; and (5) the Fire Service did not have effective fire safety inspection and fire education programs. The report also stated, that as a result of these conditions, the ability of the Fire Service to effectively carry out its primary fire fighting responsibilities was compromised, and the safety of fire fighters and residents of the Virgin Islands was at additional risk in the event of fires.

APPENDIX 3 - RESPONSES TO DRAFT REPORT



THE UNITED STATES VIRGIN ISLANDS

OFFICE OF THE GOVERNOR
GOVERNMENT HOUSE

Charlotte Amalie, V.I. 00802
340-774-0001

September 27, 2001

Mr. Arnold VanBeverhoudt
Audit Manager for Insular Affairs
Caribbean Regional Office
Federal Building Rm. 207
St. Thomas, V.I. 00802

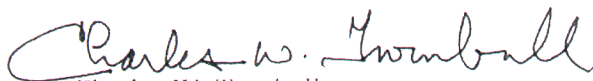
Dear Mr. VanBeverhoudt:

Attached is the Virgin Islands Fire Service's response to the Draft Audit Report No. V-IN-VIS-004-01-M. I am aware that this response was due on 9/21/01, however, because of the disruption of things after the tragic incidents of September 11, 2001, Mr. Alric Simmonds of my staff requested an extension of the submission date to September 28, 2001. I thank you for your understanding and for granting the requested extension.

The Draft Audit Report stated (11) specific recommendations. The Virgin Islands Fire Service concurs with all (11) recommendations and has provided in their response corrective actions indicating targeted deadlines and the responsible officials. As usual we find these reports to be very helpful in our continuing efforts to provide more efficient Government service. I thank you for your efforts.

If you require additional information, please contact Mr. Alric Simmonds at 693-4315.

Sincerely,


Charles W. Turnbull
Governor

Responses to Department of Interior Audit (V-IN-VIS-004-01-M)

RESPONSES TO AUDIT FINDINGS – V-IN-VIS-004-01-M

FINDING #1: Conduct required biennial fire safety inspections at commercial establishments and collect the appropriate fees for this service as authorized by the Virgin Islands Code (23 V.I.C. §605)

RESPONSE: The V.I. Fire Service (VIFS) concurs with finding. The Agency has implemented changes that will increase the inspection and collection of fees from commercial establishments. The Agency has been working closely with the Department of License & Consumer Affairs (DLCA) to provide a current listing of all commercial businesses as well as provide an updated listing on a weekly basis. In compliance with Act No. 6391, § , Subsection g, authorized the Commissioner of DLCA, to establish a "One-Stop Business Service Center", DLCA has agreed to provide limited office space for VIFS personnel to collect revenues for business inspections. VIFS presence at DLCA location provides a one-stop shop operation that will enable the Agency to collect revenues at its maximum level while providing the customer with optimum service. All revenues will be collected at this location and will be deposited on a daily basis. This partnership with DLCA will assist the VIFS in keeping its database current, provide a reliable source of information as well as improve revenue collections.

We have already begun the process of reorganizing the Arson Prevention Investigation (Prevention) Unit. We have requested from the Department of Finance as well as the Office of Management and Budget to provide a separate budgetary/accounting code necessary to separate this Prevention Unit from the Suppression Unit. We have also requested from the Division of Personnel to provide assistance in the development and administering of a separate testing instrument for personnel assigned to Prevention Unit. These changes will allow the Agency to hire personnel committed to the functions of the Prevention Unit.

Compliance Date: December 2001

Person Responsible – Director

FINDING #2: DEPOSIT COLLECTION ON A DAILY BASIS AND ENSURE THAT COLLECTIONS ARE ADEQUATELY SAFEGUARDED.

RESPONSE: The V.I. Fire Service (VIFS) concurs with finding. A directive to deposit monies collected on a daily basis has been issued. The collectors work stations in both administrative offices (St. Thomas and St. Croix) will be enclosed to establish a safe and secure area. The completion of the construction is scheduled for October 2001. Daily collection on the island of St. John is small; however, measures are being undertaken to do night deposit. The lock to the Deputy Chief's office where revenues collected are being stored in a secured place to prevent easy access by fire personnel and the public. A Prevention Unit personnel will be assigned to the island of St. John to handle the anticipated increase in commercial business activities. The matter will be addressed in the reorganization of the Arson Prevention and Investigation Unit.

Compliance Date: Continuous

Person Responsible – Director

FINDING #3: ANALYZE AND DOCUMENT ITS STAFFING NEEDS TO REDUCE THE EXCESSIVE USE OF OVERTIME

RESPONSE: The V.I. Fire Service (VIFS) concurs with finding. An analysis will be prepared and submitted to the Office of Management and Budget that will indicate the necessary staff needed for the Agency to operate at its optimum level. This analysis will provide information to include costs for training, overtime hours incurred because of training, military, sick and annual leave; as well as additional staff required for the reorganization

Responses to Department of Interior Audit (V-IN-VIS-004-01-M)

of the Prevention Unit. The required additional personnel will assist the Agency in reduction of high levels of overtime costs. The assessment is in progress and will be submitted by October 2001.

Compliance Date: October 2001

Person Responsible – Director

FINDING #4: ENSURE THAT HIGH-RANKING OFFICIALS SUBMIT TIME SHEETS TO SUPPORT THE HOURS WORKED

RESPONSE: The V.I.Fire Service (VIFS) concurs with Finding #4. A directive has been given that all management personnel must submit a time sheet certifying time and attendance on a biweekly basis.

Compliance Date: Continuous

Person Responsible – Director

FINDING #5: FULL USE THE \$2 MILLION ALLOTTED RENOVATE AND IMPROVE LIVING CONDITIONS AT THE FIRE STATIONS AND UPGRADING FIRE FIGHTING EQUIPMENT.

RESPONSE: The V.I.Fire Service (VIFS) concurs with Finding #5. The Agency has already begun the renovation and repairs of fire stations throughout the Territory. Renovations began October 2000 on St. Croix. The Agency worked in conjunction with the partner agencies, Department of Property & Procurement (P&P), Department of Planning & Natural Resources (DPNR) and the Department of Public Works (DPW) to accomplish this goal. The coordinated efforts of some partner agencies, Department of Public Works have been limited and shortcoming; however, we have continued to proceed. To date work on three (3) stations on St. Croix, Estate Richmond, Estate Cotton Valley and Estate Grove Place have been completed. Renovations at Frederiksted station have been delayed due to the latent damages discovered after the initial work began; however, work has commenced with an estimated completion date of October 2001.

We have continuously requested from the Department of Public Works the Scopes of Work, Engineer's Estimate and Plans for the Department of Public Works on five (5) fire stations on the island of St. Thomas. Thus far, we have received from Public Works the required documents for the Estate Tuni Fire and this project is at P&P awaiting the decision of the Award. We are awaiting documents from DPW on the remaining four (4) stations. Renovations are ongoing at the Charlotte Amalie and Estate Tutu fire stations. We anticipate the renovations to all eleven (11) facilities to be completed by December 2001.

Compliance Date: December 2001

Person Responsible – Director

FINDING #6: PREPARE AND MAINTAIN COMPLETE PROPERTY MANAGEMENT RECORDS FOR ALL FIRE SERVICE PROPERTY AND EQUIPMENT – GOVERNMENT PROPUREMENT ID TAG AND CONDUCT A PHYSICAL INVENTORY OF THE PROPERTY AT LEAST ONCE EVERY TWO (2) YEARS AND RECONCILE THE RESULTS WITH THE INVENTORY RECORD.

RESPONSE: The V.I.Fire Service (VIFS) concurs with Finding #6. The directive was issued on 8/9/01 to conduct an inventory of all government property by tagging and recording information. This information will then be inputted into the WinAsset software provided by the Department of Property & Procurement. This task is scheduled for completion by September 2001.

Compliance Date: Continuous

Person Responsible – Director

Responses to Department of Interior Audit (V-IN-VIS-004-01-M)

FINDING #7: OBTAIN PRICE QUOTATIONS FROM AT LEAST THREE (3) SOURCES WHEN PURCHASING FIRE EQUIPMENT AND SUPPLIES ON THE OPEN MARKET.

RESPONSE: The V.I.Fire Service (VIFS) concurs with Finding #7. The Agency has obtained at least three (3) sources when purchasing firefighting equipment and supplies from most vendors. However, acknowledgement is made in instances where this was not done according to regulations. P&P procurement rules and regulations have been distributed to the pertinent staff who deals with the procurement process for the Agency and shall be adhered to accordingly.

Compliance Date: Continuous

Person Responsible – Director

FINDING #8: REQUEST THAT THE V.I. WATER AND POWER AUTHORITY DISCONNECT ELECTRIC SERVICE AT TWO CLOSED FIRE STATIONS ON ST. THOMAS.

RESPONSE: The V.I.Fire Service (VIFS) concurs with Finding #8. The Estate Fortuna fire station that housed police and EMS has one electric meter for the building. It is not clear which entity is responsible for the electric bill. The police remained at the facility after VIFS left. A request was submitted to the V.I. Water & Power Authority to disconnection the electrical meter.

The VIFS is anticipating the reopening of the Estate Dorothea Fire Station as early as November 2001. Renovations at this station has commenced. It is necessary at this time to have electric power at the Estate Dorothea.

Compliance Date: August, 2001

Person Responsible – Director

FINDING #9: IMPLEMENT A FORMAL RECORDS RETENTION POLICY

RESPONSE: The V.I.Fire Service (VIFS) concurs with Finding #9. Procedures have been prepared and distributed to the staff in reference to the Agency retaining documents for ten (10) years and the various designated locations for storing said documents. The storage areas identified are as follows: Hotel Company & Administrative Office – STT/STJ; Frederiksted Station – STX. The storage on St. Croix is under renovations a storage area adjacent to the Frederiksted Fire Station will be repaired and designated for that purpose. In St. Thomas a storage area has been dedicated in the administrative office as well as the main fire station for that purpose.

Compliance Date: Continuous

Person Responsible – Director

FINDING #10: LUMP SUM PAYMENT TO EIGHT (8) FORMER FIRE SERVICE EMPLOYEES

RESPONSE: The Commissioner of Finance and the Attorney General to address this issue.

APPENDIX 4 - STATUS OF RECOMMENDATIONS

<u>Finding/Recommendation Reference</u>	<u>Status</u>	<u>Action Required</u>
1, 3, and 9	Resolved; not implemented.	Provide this office with supporting documentation upon completion of corrective actions.
2, 4, 5, 6, 7, and 8	Implemented.	No further action is required.
10 and 11	Management concurs; additional information requested.	Provide a plan of action to implement the recommendations, including the target dates and titles of the officials responsible for implementation.



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