



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



A bank of video lottery terminals at the Wyndham Sugar Bay Resort on St. Thomas. (OIG photo)

Controls Over Video Lottery Terminal Operations, Government of the Virgin Islands

Report No. V-IN-VIS-0004-2005

June 2007

This report contained information that was redacted pursuant to 5 U.S.C. § 552(b)(2) of the Freedom of Information Act.



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL

Western Region Office
2800 Cottage Way – Suite E-2712
Sacramento, CA 95825

June 8, 2007

Honorable John P. de Jongh, Jr.
Governor of the Virgin Islands
No. 21 Kongens Gade
Charlotte Amalie, VI 00802

Re: Final Audit Report, *Controls Over Video Lottery Terminal Operations, Government of the Virgin Islands* (Report No. V-IN-VIS-0004-2005)

Dear Governor de Jongh:

The enclosed report presents the results of our audit of controls over video lottery terminals (VLT) by the Virgin Islands Lottery (Lottery). Our objective was to determine whether the Lottery had an adequate level of control over VLT operations on the islands of St. Thomas and St. John.

We were troubled to find that the Lottery has virtually no control over VLT operations, a condition that raises serious concerns about whether your Government is receiving all the VLT-related revenues and taxes to which it is entitled. Our audit, which covered calendar years 2003 through 2005, revealed that the Lottery received \$8.3 million in revenues during this period. We believe, however, that unrealized revenues may be in the millions. We were unable to determine the exact amount of these revenues because the Lottery failed to obtain and maintain the financial documents necessary to make such a determination. Identified monetary impacts are shown in Appendix 1.

We noted that increasing revenues to the Government was a primary motivation for allowing video gaming on St. Thomas and St. John. VLTs were expected to generate additional revenues to the Government of about \$15 million annually, thereby enabling the Government to implement or supplement programs to improve the economy and quality of life for the people of the Virgin Islands. The Lottery, however, could not verify the actual revenues generated from VLTs and has not acted to collect the Government's share of these revenues. Instead, Southland Gaming of the Virgin Islands (SGVI) controls every aspect of video gaming on the islands as a result of (1) a flawed contract and master license agreement that did not protect the Government's interests and (2) the failure of the Lottery to oversee VLT operations and retailer accounts.

The lack of Lottery oversight is evidenced by the absence of standard gaming protocols at nearly every level of VLT operations, from equipment installation and testing to revenue collection. For example, the Lottery does not participate in or monitor either the downloads by SGVI of data from VLTs on the amount of cash gambled and won by customers or the distribution of net VLT revenues among the Lottery, SGVI, and retailers. Without a verification protocol, the Lottery must accept at face value the revenue data presented by SGVI. In contrast, a gaming protocol instituted by New Jersey mandates that representatives of both the casino and the casino control commission be present to verify that gaming receipts are accurately and completely accounted for and not improperly removed from machines. All gaming machines have a double-locked compartment, with one key controlled by the casino and a second key controlled by the casino control commission.

Standard gaming protocols provide a system of checks and balances to protect gaming from fraud and abuse of gaming revenues. The lack of such a system for VLT operations not only compromises the integrity of these operations, but also jeopardizes public confidence and trust in video gaming. We made 11 recommendations, which, if implemented, should significantly improve the Lottery's effectiveness in administering and monitoring VLT operations to ensure that the Government receives all revenues and taxes to which it is entitled.

In your February 2, 2007 response to our draft report (Appendix 4), you concurred with Recommendation Nos. 1, 2, 3, 6, 9, and 10 and indicated that actions had been taken to address Recommendation Nos. 4, 5, 7, 8, and 11. Based on your response, we consider Recommendation Nos. 1 and 4 to be resolved and implemented; Recommendation Nos. 2, 3, 6, 9, and 10 to be resolved, but not implemented; and Recommendation Nos. 5, 7, 8, and 11 to be unresolved. The status of the audit recommendations is shown in Appendix 5.

The legislation, as amended, creating the Office of Inspector General (OIG) requires that we report to Congress semiannually on all audit reports issued, the monetary effect of audit findings, actions taken to implement our audit recommendations, and recommendations that have not been implemented. This report will therefore be included in our next semiannual report to Congress.

Please provide a response to this report by July 13, 2007, and send the response to:

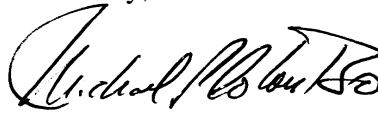
Ms. Anne L. Richards
Assistant Inspector General for Audits
U.S. Department of the Interior
1849 C Street, NW, MS 5341
Washington, D.C. 20240

Also send a copy of the response to our Mr. Hannibal Ware, Field Office Supervisor, Office of Inspector General, Caribbean Field Office, Ron deLugo Federal Building,

Room 207, Charlotte Amalie, Virgin Islands 00802. The response should provide the information requested in Appendix 5.

We appreciate the cooperation shown by Government staff during our audit. If you have any questions concerning this report, you may contact me at (916) 978-5653 or Mr. Ware at (340) 774-8300.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael P. Colombo". The signature is fluid and cursive, with the first name "Michael" being the most prominent part.

Michael P. Colombo
Regional Audit Manager

Enclosure

cc: Executive Director, Virgin Islands Lottery
Chairperson, Virgin Islands Lottery Commission

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Acronyms

GLI.....	Gaming Laboratories International
OIG	Office of Inspector General
SGVI	Southland Gaming of the Virgin Islands
VIC.....	Virgin Islands Code
VLT	Video Lottery Terminal

INTRODUCTION

BACKGROUND

The Virgin Islands Lottery (Lottery) was created by statute in 1937 and established as an independent instrumentality of the Government of the Virgin Islands in 1971. Lottery operations are managed by an Executive Director, who is subject to supervision by a seven-member Lottery Commission. The Virgin Islands Code (VIC) specifies the powers and duties of the Executive Director and the Lottery Commission.

In 1998, a contract was awarded to Southland Gaming of the Virgin Islands (SGVI)¹ to operate video lottery terminals (VLT) in the Virgin Islands if and when video lottery gaming became legal. VLT operations were originally established on the Virgin Islands as a means to provide additional revenues to the Government. The Governor, however, on three occasions, vetoed legislation to revise the VIC to authorize VLTs. The Legislature voted to override the Governor's latest veto in December 2002, and on that basis, SGVI installed and operated VLTs at three locations on St. Thomas from January through April 2003.

Attempts by the Legislature to repeal the law authorizing VLTs prompted a lawsuit by SGVI and a countersuit by the Government. After the repeal legislation failed, the Government and SGVI dropped their respective lawsuits. In July 2003, the Lottery and SGVI negotiated a new contract allowing SGVI to install VLTs at retail locations on St. Thomas and St. John. Full-scale VLT operations began in August 2003. In December 2003, the Lottery and SGVI entered into a Master License Agreement, which expanded the July 2003 contract. As of February 2006, 489 VLTs were located at 42 retailers on St. Thomas and St. John.

Based on information provided by SGVI, we estimated that during calendar years 2003, 2004, and 2005, VLTs received about \$87 million in cash and paid out about \$61 million, or 70 percent, in prizes. The \$26.1 million in net gaming proceeds was distributed as follows:

- \$5.7 million (22 percent) among the retailers where VLTs were located,
- \$8.3 million (32 percent) to the Lottery, and
- \$12.1 million (46 percent) to SGVI (see Figure 1).

¹ A company incorporated and based in North Carolina.

Figure 1. Summary of VLT Receipts

Description	Calendar Year 2003	Calendar Year 2004	Calendar Year 2005	Totals	Percent of Cash In	Percent of Net Proceeds
(Dollars in Millions)						
Estimated Cash In ^a	\$1.6	\$22.8	\$62.4	\$86.8	100	---
Estimated Prize Payouts ^a	\$1.0	\$16.0	\$43.7	\$60.7	70	---
Actual Net Proceeds ^b	<u>\$0.6</u>	<u>\$6.8</u>	<u>\$18.7</u>	<u>\$26.1</u>	30	100
Estimated Retailer Share ^c	\$0.1	\$1.5	\$4.1	\$5.7	---	22
Actual Lottery Share ^b	\$0.1	\$1.9	\$6.3	\$8.3	---	32
Estimated SGVI Share ^d	\$0.4	\$3.4	\$8.3	\$12.1	---	46

^a Estimated cash in and estimated prize payouts are based on information obtained from SGVI, which suggests that, over the long term, VLTs pay out about 70 percent of the cash played by customers.

^b Actual net proceeds and actual Lottery share are based on weekly statements submitted to the Lottery by SGVI.

^c Estimated retailer share is based on the 22-percent share required to be paid to retailers.

^d Estimated SGVI share is the remaining balance of actual net proceeds, after deducting the estimated retailers' share and the actual Lottery share.

The distribution of net gaming proceeds among SGVI, retailers and the Lottery is determined based on VLT contract stipulations and retailer rules and regulations. Share percentages are as follows:

Amount of Net Gaming Proceeds	SGVI Share	Retailer Share	Lottery Share
Less than \$300,000 per week	48.75%	22%	29.25%
\$300,000 to \$600,000 per week	44.75%	22%	33.25%
More than \$600,000 per week	41.5%	22%	36.5%

OBJECTIVE

We conducted our audit to determine whether the Lottery adequately controlled VLT operations on St. Thomas and St. John. Our scope and methodology are detailed in Appendix 2.

RESULTS OF AUDIT

LOTTERY HAS NO EFFECTIVE OVERSIGHT OF VLT OPERATIONS

The Lottery has exercised virtually no oversight of VLT operations on St. Thomas and St. John. We found serious deficiencies, such as substantial unrealized tax revenues, an overall lack of operational control, a flawed contract and master lease agreement, an absence of monitoring, neglect of payment to special Government funds, and insufficiencies in records management. The Lottery allows SGVI to control every aspect of video gaming from equipment installation to revenue collection and remittance and has no records to show whether VLT-related revenues or appropriate taxes have been paid to the Government. The lack of any working system of checks and balances over VLT operations significantly increases the risk of fraud, waste, and abuse of VLT revenues and undermines public confidence and trust in VLT operations. We were unable to determine the exact amount of unrealized revenues because the Lottery failed to obtain and maintain the financial documents necessary to make such a determination, although we believe unrealized revenues may be in the millions.

Potential Unrealized Tax Revenues

The primary goal of introducing VLTs in the Virgin Islands was to generate additional Government revenues. However, the Lottery failed to ensure that these Government tax revenues were maximized. Specifically, it did not monitor SGVI performance to ensure that appropriate taxes were withheld, gross receipts taxes were handled properly, and corporate income taxes were paid to the Government of the Virgin Islands.

Tax Withholding

An SGVI official told us that SGVI withholds 25 percent from VLT prizes of more than \$5,000 for remittance to the Bureau of Internal Revenue. As the oversight agency, however, the Lottery has no mechanism in place to determine whether SGVI actually withheld or remitted the correct amounts. Additionally, a Bureau of Internal Revenue official told us that the Bureau could not determine if SGVI deposited amounts withheld for individuals. Without a mechanism to ensure that withholding was remitted by SGVI, the Lottery had no assurance that SGVI either deducted or remitted the 25 percent withheld from winnings over \$5,000.

Gross Receipts Taxes

Without legislative authority, the Lottery expanded the definition in the VIC of “commissions” paid for the sale of lottery tickets to include VLT gaming proceeds. These commissions were exempt from gross receipts taxes to help lottery ticket dealers, who were usually individual local residents. By expanding the definition to include gaming proceeds, the Lottery, in effect, made all VLT revenues exempt from gross receipts taxes. As a result, the Government did not realize \$3.5 million in gross receipts tax revenues that would have been paid had the 4-percent tax rate been applied to the \$87 million in gross revenues. Retailers would also have owed 4 percent on their profits of nearly \$6 million, resulting in additional tax revenues of \$240,000.

Corporate Income Tax

The VIC requires individuals and corporations conducting business in the Virgin Islands to file income tax returns; however, according to the Bureau of Internal Revenue, it had no record of SGVI having filed corporate income tax returns in the Virgin Islands for fiscal years 2003 through 2005.² Because SGVI is not required to submit audited annual financial statements to the Lottery, neither we nor the Lottery could determine the amount of corporate income tax that should have been paid.

Lack of Operational Control

We identified several shortcomings in regard to operational control, including unmonitored cash collections, inadequate testing of VLT machines, and an overall lack of security.

Cash Collections

The Lottery neither participated in nor monitored the removal of cash receipts and betting and payout data from VLT machines. It also did not reconcile weekly VLT revenue statements provided by SGVI with payment checks for the Lottery’s share of net gaming proceeds. The Lottery was therefore unaware of errors in remittance computations involving its share of gaming revenues which we brought to the attention of Lottery officials. At the majority of retail locations, retailers removed cash receipts from VLTs at the end of each business day and deposited the funds into their individual business accounts.

SGVI downloaded data from internal counters in the VLTs that recorded the amount of cash put into the machine by customers and the amount paid out on a weekly basis. SGVI used this data to determine the amount retailers were

² In a letter dated April 4, 2007, SGVI provided OIG with copies of its income tax returns.

entitled to keep and the amount retailers must pay SGVI. SGVI also used the data to prepare manual revenue statements and make weekly payments to the Lottery. This practice is contrary to established gaming controls. For example, in New Jersey, all gaming machines have double-locked compartment, with one key controlled by the casino and the second key controlled by the casino-control commission. The double-locked internal control technique ensures that gaming receipts are accurately and completely accounted for and that receipts are not improperly removed from machines. Because the Lottery did not monitor cash collections, it was totally dependent on SGVI data and could not verify the accuracy of that data.

VLT Testing

Despite contract stipulations, the Lottery failed to test VLTs before or immediately after operation began. Without documented evidence that specific machines were tested and the results of those tests, the Lottery could not ensure that VLT's were operating properly. Testing is a standard protocol within the gaming industry.

Lottery and SGVI representatives told us that the VLTs installed in the Virgin Islands were originally salvaged from an Indian casino in the United States and then reconfigured for use in the Virgin Islands. An SGVI report indicates that Gaming Laboratories International (GLI) tested VLTs prior to their shipment to St. Thomas, but failed to identify which machines were tested. In July 2005, the Executive Director of the Lottery told us that he was waiting on approval of a contract with GLI to test the VLTs already operating in the Virgin Islands. At the April 24, 2006 exit conference, Lottery officials presented documentation indicating the first phase of testing had begun in January 2006.

Security

VLTs operate on a computer-based system subject to the wide range of risks associated with computer technology. The Lottery has failed to appropriately assess these risks and lacks a comprehensive security program to protect the system's sensitive proprietary and financial data. [Ex. 2]

[Ex. 2]

Flawed Contract and Master Lease Agreement

The contract and master license agreement lacked key provisions to protect the financial interest of the Government. This condition, coupled with the failure of the Lottery to effectively monitor VLT operations, left the Lottery with little or no control over VLT operations.

Audited Financial Statements

Five years before lottery operations were legal in the Virgin Islands, SGVI secured a contract with the Lottery as the sole operator of VLTs. The subsequent contract and master license agreement did not require annual audited financial statements from SGVI. Without annual audited financial statements, the Lottery cannot determine whether its share of net gaming proceeds is based on actual revenues collected by SGVI.

Minimum Payout Rates

The contract and master license agreement also failed to establish a minimum payout rate for VLTs, which is contrary to standard gaming protocol. For example, the Nevada Gaming Commission and State Gaming Control Board is governed by a minimum payout rate to ensure “public confidence and trust that gaming is conducted honestly and competitively, that the rights of the creditors of licensees are protected and that gaming is free from criminal and corruptive elements.” While established payout rates can vary,³ establishing minimum rates is a vital control over gaming. VLT revenue data from SGVI suggest an average payout rate of about 70 percent, but there is no guarantee that such a rate will continue absent a legal or contractual minimum payout requirement.

Monitoring Deficiencies

The Lottery also did not monitor compliance with the contract requirement that at least 65 percent of goods and services (with the exception of gaming hardware, software,

³ Nevada’s established minimum payout rate for gaming machines, for example, is 79 percent, while New Jersey’s is 83 percent.

**SGVI
Investment in
Local Economy**

and machines) be purchased from Virgin Islands companies. This requirement was established to assist in fostering the economic development of the Virgin Islands. We obtained expenditure information directly from SGVI to determine that SGVI had met this requirement. This does not absolve the Lottery from its responsibility to monitor compliance with this requirement.

**Licensing
Fees**

The master license agreement requires that SGVI pay an annual license fee to operate VLTs in the Virgin Islands. The Lottery, however, could not provide documentation showing that SGVI paid \$6,000 in license fees for 2004 (\$2,800) and 2006 (\$3,200).

**Lottery Payments to
Special Government
Funds**

The Lottery failed to pay \$807,983 in VLT revenues to two special Government funds: 25 percent to the Virgin Islands Educational Initiative Fund and 15 percent to the Pharmaceutical Assistance to the Aged Program, as required by the VIC.⁴ As of December 2005, the Lottery had paid almost \$1.6 million into the Educational Initiative Fund, with \$443,898 still owed, and \$829,652 into the Assistance to the Aged Program, with \$364,085 still owed. The VIC requires that payments to both funds be made in four quarterly installments. At the April 24, 2006 exit conference, Lottery officials stated that the Lottery was now current with transfers to the special funds.

**Records Management
Deficiencies**

We identified several areas of deficiency in records management, including the Lottery's failure to (1) maintain complete and up-to-date files for retailer applicants, (2) ensure applicants submitted required documents, and (3) assign qualified staff to manage retailer files.

**Management
of Retailer
Accounts**

Rules and regulations established by SGVI and approved by the Lottery require retailer applicants to complete a one-page application form, submit a copy of their police record (even if it is a "no infraction on record" report) and a passport-size photo, and provide other pertinent documentation. Both SGVI and the Lottery are responsible for approving applications; however, the Lottery plays no role in determining the locations and quantities of VLTs to be installed at each retail site.

Of the 42 active retailer files, the Lottery could provide only 35 files because files were not available for the remaining 7.

⁴ VIC Section 246(a)(iv)

We found application files to be incomplete, disorganized, and missing at least one piece of required information. For example:

- 12 applicants did not submit required police records or passport photos.
- 32 applicants did not provide floor plans of their business establishments.
- 34 applicants did not submit copies of current business licenses.
- 5 applicants did not submit completely filled-out application forms.
- 22 applications did not show the date of approval by the Lottery.

Our review of the Lottery's updated retailer files revealed that the Lottery did not have files for three retailers included in SGVI's most current list of retailers. SGVI had files for 42 active retailer locations, while the Lottery had files for 59 retailers, without differentiation among files for active retailers, inactive retailers, and applications in process.

The Lottery did not monitor the movement of VLT machines at or among retail locations. The number of current approved retailers or installed machines had to be obtained directly from SGVI because no Lottery officials or employees interviewed knew this information.

Although VLT operations began in August 2003, the Lottery did not make a concerted effort to compile and organize retailer application files until December 2005. Even then, the Lottery did not assign a specific employee as custodian of the files. The Lottery's Director of Enforcement maintained original documents for 9 retailers in his office filing cabinet, and the Lottery's Director of Technology maintained 35 retailer applications (some duplicates) in a manila folder in his office.

RECOMMENDATIONS

TO THE GOVERNOR OF THE VIRGIN ISLANDS

We recommend that the Governor of the Virgin Islands direct the Bureau of Internal Revenue to:

1. Determine whether VLT gaming proceeds are taxable under the gross receipts tax laws.
2. Ensure that SGVI has remitted VLT prize winning withholdings in accordance with tax law.
3. Ensure that SGVI files corporate income tax returns in the Virgin Islands and pays any corporate taxes due.

We recommend that the Governor of the Virgin Islands direct the Lottery to:

4. Update its records on retailer applicants.
5. Establish and implement procedures to ensure the accuracy of SGVI payments.
6. Establish and implement procedures for cash collection.
7. Ensure that on-going and independent testing is performed on all VLTs in the Virgin Islands.
8. Establish and implement security protocol.
9. Obtain audited annual financial statements for VLT operations in the Virgin Islands prepared in accordance with Generally Accepted Accounting Principles.
10. Revise the existing VLT contract and master license agreement to include a minimum payout rate and physical and computer controls over VLT operations.
11. Confirm that SGVI has paid required annual license fees for 2004 and 2006 and ensure annual fees are collected timely in the future.

GOVERNOR'S RESPONSE AND OIG REPLY

In his February 2, 2007 response to our draft report (Appendix 4), the Governor of the Virgin Islands, through the management of the Lottery, concurred with 6 of the 11 recommendations and stated what action will be taken to implement the recommendations. All six recommendations

were related to the failure of the Lottery to ensure that the Government received all the VLT related revenues and taxes to which it was entitled. The Governor did not concur with the remaining five recommendations, indicating that corrective action had already been taken. Based on the response, we consider Recommendation Nos. 1 and 4 to be resolved and implemented, Recommendation Nos. 2, 3, 6, 9, and 10 to be resolved, but not implemented, and Recommendation Nos. 5, 7, 8, and 11 to be unresolved. Appendix 5 describes the status of the audit recommendations and the actions required for resolution.

**Recommendation
No. 5**

The response stated the Lottery has been verifying the accuracy of all payment receipts received from SGVI and immediately reconciling any outstanding differences. At the time of the audit, however, gaming proceeds were not being reconciled to payment remittances to detect errors.

**Recommendation
No. 7**

The response stated that prior to this audit, the Virgin Islands Lottery Commission entered into a contract with GLI to test and perform an audit on all machines. However, in July 2005, the Executive Director told us that he was waiting on approval of a contract with GLI to test the VLTs already operating in the Virgin Islands, but that the contract was never provided. At the April 24, 2006 exit conference, Lottery officials presented documentation indicating the first phase of testing had begun in January 2006. At the time of our audit, however, on-going and independent testing was not being performed on all VLTs in the Virgin Islands.

**Recommendation
No. 8**

The response stated that the Lottery has established and implemented a proper security protocol and provided a copy of Standard Operating Procedures that was not available during the audit. While Standard Operating Procedures are in place, they do not address any of the security issues detailed in the report, such as a comprehensive security program to protect the system's sensitive proprietary and financial data.

**Recommendation
No. 11**

The response stated the Lottery has verified that all annual license fees for 2004 and 2006 were collected. At the time of the audit, however, the Lottery could not provide evidence that these fees had been collected and has yet to provide documentation showing the collection of these fees.

APPENDIX 1

MONETARY IMPACT

Finding Area	Unrealized Revenue*
Revenue Collection	
Potential Gross Receipts Taxes:	
Total Revenues	3,500,000
Retailers	240,000
Unpaid License Fees	<u>6,000</u>
Total	<u>\$3,746,000</u>

* All amounts represent local funds.

APPENDIX 2

AUDIT SCOPE AND METHODOLOGY

SCOPE AND METHODOLOGY

The scope of the audit included VLT operations and Lottery oversight from August 2003 through December 2005. To accomplish our objective, we interviewed Lottery and SGVI officials. We also reviewed contracts between the Lottery and SGVI; Lottery operating procedures; SGVI business plans and retailer policies; weekly statements of VLT revenues collected and distributed by SGVI; and other related documents at the Lottery, SGVI, retailer locations, and Virgin Islands Department of Finance and Bureau of Internal Revenue. In addition, we researched standard protocols related to effective management of computer-based gaming within the United States and incorporated these protocols, as appropriate, into our findings and recommendations.

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. As part of our audit, we evaluated the internal controls related to VLT revenue collection and distribution, contract compliance, selection and approval of retailer locations, file management, and VLT-related computer security. We used the Federal Information Systems Controls Audit Manual issued by the U.S. Government Accountability Office as our guide for the computer security phase of the audit. Internal control weaknesses identified in these areas are discussed in the Results of Audit section of this report. The recommendations, if implemented, should improve internal controls in these areas.

PRIOR AUDIT COVERAGE

A May 2001 OIG audit report on Lottery operations (No 01-I-290) found deficiencies related to the use of Lottery funds, collection of Lottery ticket revenues, controls over unsold lottery tickets, distribution of net Lottery revenues, financial statement audits, records management, and supervision of computer operations. Three of the report's 16 recommendations were resolved by the time the final report was issued. In September 2003, the Lottery provided

documentation indicating that the remaining 13 recommendations had been implemented.

**FISCAL YEAR 2004
FINANCIAL
STATEMENT AUDIT
REPORT**

A November 2005 audit report *Virgin Islands Lottery Financial Statements, September 30, 2004*, by an independent Certified Public Accountant on Lottery financial statements for the fiscal year ended September 30, 2004, found deficiencies similar to those discussed in our May 2001 report and in this report. The November 2005 report included a qualified opinion on the financial statements and presented 15 internal control findings on the Lottery's financial operations. The findings, which included reportable conditions and material weaknesses, related to:

1. A lack of effective controls over financial reporting.
2. Failure to establish an escrow account for past due receivables.
3. Concerns about the integrity of high payouts at certain Lottery sites.
4. Inadequate verification of accounts receivable.
5. Inadequate controls over delinquent Lottery sales agents.
6. Inadequate training of financial staff and lack of segregation of duties.
7. Inadequate maintenance of supporting documentation.
8. Improper use of daily cash collections for other purposes.
9. Inadequate controls over purchasing and disbursement transactions.
10. Improper maintenance of fixed assets.
11. Inadequate controls over automated gaming systems operated by its third party contractor.
12. Untimely transfer of proceeds to the Government of the Virgin Islands.
13. Inadequate and ineffective controls over ticket sales.
14. Failure to obtain tax information on prize winners.
15. Improperly determined prize payments.

Our current audit of VLT operations disclosed deficiencies similar to findings 1, 7, 11, 12, and 14 of the Certified Public Accountant's report. We addressed these deficiencies in our findings and recommendations.

APPENDIX 3

LIST OF VIDEO LOTTERY RETAILERS

Name of Retailer	Location of Retailer	No. of VLTs
1 Wyndham Sugar Bay	Estate South Bay	99
2 Offshore Bar	Havensight	15
3 Shipwreck Tavern	Havensight	10
4 Havensight Café	Havensight	4
5 Delly Deck	Havensight	4
6 Magen's Point Hotel	Magen's Bay Road	10
7 St. Thomas Time	Havensight	10
8 Bonnie's	Elysian Beach Resort	10
9 The Greenhouse	Veteran's Drive	6
10 Pony Bar	Frenchtown	10
11 Giggling Gecko	Dronnigens Gade	8
12 Caribbean Saloon	Red Hook	11
13 Glenn's Gifts & Bags	Kronprindsens Gade	6
14 Paradise Jackpot	Nisky Center	10
15 Poli's	St. John	6
16 Cap's Place	St. John	8
17 Larry's Landing	St. John	8
18 The 19th Hole	Dronnigens Gade	7
19 Little Bar	Contant	10
20 Sharky's	Havensight Port of Sale	4
21 Tropic Sun Bar	Curacao Gade	6
22 Mountain Top	Estate St. Peter	4
23 Holiday Inn Windward Passage	Veteran's Drive	87
24 Pirates Cove	Frydenhoj	6
25 Captain's Cabin	St. John	9
26 Banana Tree Grill	Bluebeard's Hotel	6
27 The North Drop	Hull Bay	5
28 Hull Bay Hideaway	Hull Bay	4
29 West Indies Bistro	Havensight	5
30 Paradise BBQ Too	Vitraco Mall	10
31 Playtime, Inc.	Frigang Gade	9
32 Lime Tree Hotel	Lime Tree Bay	2
33 Two of Us Entertainment	Sub-Base	10
34 The Office	Nisky	8
35 Johnny Mangoes	Fort Mylner Mall	8
36 Contant Gaming	Contant	10

Name of Retailer	Location of Retailer	No. of VLTs
37 Latte Bucks	Vitraco Mall	8
38 The Old Mill	Upper Contant	10
39 Cyber Zone	Havensight	6
40 Charlotte Tamales	Havensight	6
41 Sibs on the Mountain	Estate St. Elizabeth	6
42 Gentlemen's	Sub-Base	<u>8</u>
Totals		<u>489</u>

APPENDIX 4

GOVERNOR'S RESPONSE



THE UNITED STATES VIRGIN ISLANDS

OFFICE OF THE GOVERNOR
GOVERNMENT HOUSE

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

February 2, 2007

VIA HAND DELIVERY

Mr. Hannibal Ware
Field Office Supervisor
Office of the Inspector General
Ron de Lugo Federal Building
St. Thomas, Virgin Islands 00802

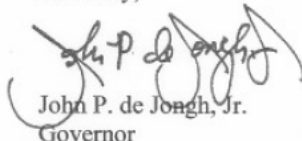
Dear Mr. Ware:

The attached information is the Virgin Islands Government's response to the Draft Audit Report No. V-IN-VIS-0004-2005 on "Controls Over Video Lottery Terminals Operations, Government of the Virgin Islands." Your report recommends that I direct the Bureau of Internal Revenue and the Virgin Islands Lottery to take certain actions to improve compliance with the Video Lottery Terminals (VLT's) law. I have enclosed copies of directives sent to both agencies requesting their responses, corrective actions (where indicated) and other actions taken to mitigate recurrence of these findings.

The draft audit report made eleven (11) recommendations for corrective action. The management of the Virgin Islands Lottery concurs with some of the recommendations and has indicated in their response corrective actions, person responsible and targeted dates for completion. My office will follow up with the Virgin Islands Lottery to ensure that these corrective measures are implemented.

I am thankful for the assistance your office provides the Government through the audit process and I hope the attached responses are acceptable to resolve these findings.

Sincerely,



John P. de Jongh, Jr.
Governor

Enclosures



THE UNITED STATES VIRGIN ISLANDS

OFFICE OF THE GOVERNOR
GOVERNMENT HOUSE

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

January 30, 2007

Mr. Paul Flemming
Executive Director
Virgin Islands Lottery
Barbel Plaza South
8A Estate Ross
St. Thomas, V.I. 00802

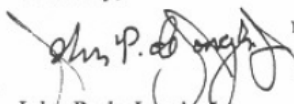
Dear Mr. Flemming:

I have received and reviewed a copy of the draft Report V-IN-VIS-0004-2005 from the office of the U.S Inspector General on "Controls Over Video Lottery Terminals Operations, Government of the Virgin Islands." I am extremely concerned about the issues raised and request that you submit your response to the findings and corrective actions required no later than February 1, 2007.

Further, I request that you immediately forward a copy of the Southland Gaming, V.I. contract to the Acting Attorney General for review and recommendations regarding possible renegotiation, pursuant to recommendations number three (3), six (6) and ten (10) of the Inspector General's draft report. Additionally, contact the Acting Commissioner of the Department of Licensing and Consumer Affairs to request a complete inspection of all licensees, to determine the true number and location of all Video Lottery Terminals (VLT) in the Virgin Islands. A cursory review of the list provided in the audit indicates that some businesses with VLT's may not be listed. On each of these deliverables submit a listing of the timeline to complete each item.

Please submit copies of all correspondence forwarded to these agencies on this matter to my office. Your prompt attention to these matters is required.

Sincerely,


John P. de Jongh, Jr.
Governor



THE UNITED STATES VIRGIN ISLANDS

OFFICE OF THE GOVERNOR
GOVERNMENT HOUSE

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

January 30, 2007

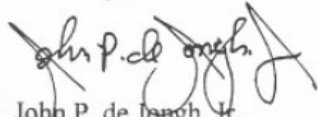
Ms. Gitzette Canegata Thomas
Acting Director
Bureau of Internal Revenue
9601 Estate Thomas
St. Thomas, Virgin Islands 00802

Dear Ms. Canegata-Thomas:

I am requesting your immediate attention to Recommendations 1, 2, 3 in the attached draft report from the Office of the Inspector General on "Control Over Video Lottery Terminal Operations, Government of the Virgin Islands." I am extremely concerned about the issues raised in this audit and would appreciate receiving your responses to these audit findings, no later than February 2, 2007, for transmittal to the Office of the Inspector General.

Additionally, please advise whether Southland Gaming V.I., is current on all taxes due, and whether they are exempt from any other taxes.

Sincerely,


John P. de Jongh, Jr.
Governor



Virgin Islands Lottery.

Barbel Plaza South, 8A Est. Ross
Charlotte Amalie, St. Thomas, V. I. 00802-0118
Tel.: (340) 774-2502
Fax: (340) 776-4730

January 31, 2007

John P. de Jongh, Jr.
Governor,
The United States Virgin Islands
Office of the Governor
Government House
Charlotte Amalie, V. I. 00802

Dear Governor de Jongh Jr.,


This letter is in reply to your letter dated January 30, 2007, in which I was directed to respond to the draft Report V- IN- VIS-0004-2005 from the office of the U.S Inspector General on "Controls Over Video Lottery Terminal Operation, Government of the Virgin Islands". I understand your concern of the issues raised, and I want to assure you that the report did not reflect a true picture of the issues articulated. In my response to the draft audited findings, I indicated the recommendations to which the lottery concurred, and those to which the lottery did not concur. Nevertheless, the lottery is making all efforts to correct the recommended findings pointed out by the U.S Inspector General. The Lottery is also continuing our regulatory efforts to further enforce compliance from the contractor, so as to ensure integrity to the gaming public.

Please find enclosed the following documents:

- A Copy response to the draft Audit Findings address to Mr. Hannibal Ware
- A copy of the letter to the Attorney general's office requesting an opinion of Recommendations # (3), (6), and (10) as per your directive
- A letter addressed to Acting Commissioner Grace Fahie requesting an investigation on all VLT locations and numbers in the Virgin Islands, specifically the District of St. Thomas and St. John, and,
- A copy of the Standard Operation Procedures of the Virgin Islands Lottery Enforcement Division

Finally, I do appreciate you bringing this matter to my attention.

Sincerely,


Paul Flemming
Executive Director

Cc: Mr. Louis Penn, Chief of Staff
Mr. Austin Nibbs, Acting Commission Chair

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Virgin Islands Lottery.

Barbel Plaza South, 8A Est. Ross
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Tel.: (340) 774-2502
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January 23, 2007

Mr. Hannibal Ware,
Caribbean Field Office Supervisor
Office of the Inspector General
Ron de Lugo Federal Building
Suite 207
St. Thomas, VI 00802

RE: Draft Audit Report, "Controls Over Video Lottery Terminal Operations,
Government of the Virgin Islands" (Assignment No. V-IN-VIS-0004-2005)

Dear Mr. Ware:

Our response to your findings and recommendations to the Draft Audit Report
(Assignment No. V-IN-VIS-0004-2005) dated December 21, 2006 is as follows:

Recommendation 1: ***Determine whether VLT gaming proceeds are taxable under the
Gross Receipts Tax laws.***

We concur: The lottery will be meeting with the Acting Director of
the Bureau of Internal Revenue (BIR) to determine whether Video
Lottery Terminal (VLT) gaming proceeds are taxable under the
Gross Receipts Tax law. I have assigned Ms. Uthanie Joseph of the
Lottery's Accounting Office to meet with the Acting Director
(BIR) during the month of February, but no later than March 15th
2007 to resolve this issue.

Person Responsible: Accounts Manager
Due Date: March 15th, 2007

Recommendation 2: ***Ensure that SGVI has remitted to BIR the VLT prize winnings
withholdings in accordance with tax laws.***

We concur: The Virgin Islands Lottery will be requesting from
Southland Gaming of the Virgin Islands (SGVI) the names of all
VLT prize winning withholdings by March 15th 2007. Mr. Mike

Official Lottery Sponsored by the Government of the U.S. Virgin Islands.

Toussaint, Accounts Manager will be tasked to perform the review. The review will be conducted in compliance with the contract agreement between the Government of the Virgin Islands and SGVI and in accordance with the tax laws.

Person Responsible: Accounts Manager
Due Date: March 15th, 2007

Recommendation 3: *Ensure that SGVI files corporate income tax returns in the Virgin Islands and pay any corporate taxes due.*

We concur: The lottery will be reviewing the contract with the Attorney General's office before March 15th, 2007 to verify whether or not SGVI is required to pay corporate income taxes. Once a legal opinion is rendered, the Lottery will be working with the Lieutenant Governor's Office of Corporations to ensure compliance with the contractual agreement. This task has been assigned to Mr. Mike Toussaint, Accounts Manager for follow up.

Person Responsible: Accounts Manager
Due Date: March 15th, 2007

Recommendation 4: *Update its records on retailer applications.*

We do not concur: The Lottery is the regulatory agency that approves and keeps on file all requests from applicants for VLT's from Southlands Gaming of the Virgin Islands. During the 2006 audit, the lottery confirmed that all the files pertaining to applicants for video lottery terminals were current and updated. A copy of these files is available for review by the auditors. The files are currently managed by Mr. Ray Chesterfield, Director of Investigation for safe keeping.

Person Responsible: Director of Investigations
Due Date: N/A

Recommendation 5: *Establish and implement procedures to ensure the accuracy of SGVI payments. Reconcile remittances with wager reports and ensure over and under payments are resolved in a timely manner.*

We do not concur. The Lottery has been reconciling and verifying that all payment receipts received from Southlands Gaming are accurate and that SGVI is adhering and following contractual procedures in remitting payments to the Virgin Islands Government. Immediately upon any noticeable discrepancies, the accountants of both the VI Lottery and Southland Gaming meet

and reconcile any outstanding differences. Additionally, a request was made and approved for an Accounts Manager to manage the accounts receivables from Southland Gaming to further ensure contractual compliance. Reconciliation documents are available for further review. Mr. Mike Toussaint Accounts Manager is currently assigned the reconciliation task.

Person Responsible: Accounts Manager
Due Date: N/A

Recommendation 6: ***Establish and implement procedures for cash collection.***

We concur: The contract established between the Government of the Virgin Islands and Southlands Gaming stipulates that (SGVI) is solely authorized to collect, secure and deposit all monies collected by (SGVI). This appears to be contrary to "Generally Accepted Accounting Principles (GAAP) and contrary to the best interest of the Government of the Virgin Islands. The Lottery has therefore requested an opinion on the matter from the Attorney General's office. An opinion is expected to be rendered before March 15th 2007.

Person Responsible: Executive Director
Due Date: March 15th, 2007

Recommendation 7: ***Ensure that on-going and independent testing is performed on all VLTs in the Virgin Islands.***

We do not concur: Prior to this audit, the Virgin Islands Lottery Commission entered into a contract with Gaming Laboratory International (GLI) to test and perform an audit on all machines. The results were given to the auditors who came to interview the Lottery staff. The result also showed that all the machines that were tested proved that they were communicating with the Central Monitoring System, and that the machines are recording real time up-to-date information on all monies collected, and paid out. Training and testing is ongoing with GLI annually to further ensure compliance. Mr. Everson Benjamin Director of Technology is assigned the in-house task of testing all VLT machines before they are deployed in the field.

Person Responsible: Director of Technology
Due Date: N/A

Recommendation 8: ***Establish and implement security protocol.***

We do not concur: The Lottery has established and implemented a proper security protocol (See Standard Operating Procedures attached) within the operations. This is not only required for ensuring internal controls with Video Lottery Terminals, but also to comply with the established Multi State Lottery Association protocols. To this end, the lottery has established an Enforcement Division, and an Investigation Division. These two divisions are responsible for performing regular security and enforcement procedures in the field, and to reinforce compliance issues stipulated within the contract. Mr. Richard Velasquez Director of Enforcement and Mr. Ray Chesterfield, Director of Investigations are assigned the tasks of ensuring internal and external compliance with the contractual agreements.

Persons Responsible: Director of Enforcement
Director of Investigations
Due Date: Ongoing

Recommendation 9: ***Require SGVI to prepare and publish audited annual financial statements for VLT operations in the Virgin Islands in accordance with General Accepted Accounting Principles.***

We concur: The Lottery will be making a recommendation to the Lottery Commission at the first meeting that will be held in February 2007 to enforce the contract option which allows the VI Lottery to require SGVI to prepare and publish audited annual financial statements for Video Lottery Terminal operations in the Virgin Islands.

Person Responsible: Executive Director
Due Date: March 15th, 2007

Recommendation 10: ***Revise the existing VLT contract and master license agreement to include a minimum payout rate and physical and computer controls over VLT operations.***

We concur: The Lottery Commission has drafted rules and regulations which will provide strict oversight and leverage in implementing the rules of the games. These draft Rules and Regulations were resent to the Attorney General's Office for a review of conflicting contractual provisions in December 2006. Upon review and promulgation of the rules and regulations, they will be immediately implemented. Included in the drafted rules and regulations are 1) minimum pay out rate and, 2) physical and computer controls over VLT operations by the VI Lottery. Once

the rules and regulations are implemented, Mr. Richard Velasquez Director of Enforcement and Mr. Ray Chesterfield, Director of Investigations will be assigned the task of ensuring compliance.

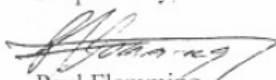
Person Responsible: Director of Investigations
Director of Enforcement
Due Date: March 31st, 2007

Recommendation 11: *Recover from SGVI required annual license fees for 2004, and 2005, identify underpayments and interest owed, and ensure that annual fees are collected timely in the future.*

We do not concur: The Lottery has verified that all annual license fees for 2004 and 2005 were collected consistent with the contractual agreement. As such, there are no underpayments and interest owed to the Government of the Virgin Islands. Additionally, SGVI has been paying its contractual obligations in a timely manner based on a review of our records. Ms. Euthanie Joseph, Accountant Supervisor has been assigned the task to verify and reconcile the books on a monthly basis and these are available for further inspection.

Person Responsible: Accounts Manager
Due Date: Ongoing

Respectfully,


Paul Flemming
Executive Director

Cc: Mr. Hannibal M. Ware, Caribbean Field Office Supervisor
Mr. Louis Penn, Chief of Staff,



Virgin Islands Lottery.

Barbel Plaza South, 8A Est. Ross
Charlotte Amalie, St. Thomas, V. I. 00802-0118
Tel.: (340) 774-2502
Fax: (340) 776-4730

January 31, 2007

Honorable Elliott Davis,
Acting Attorney General
Department of Justice
G.E.R.S. Building
St. Thomas, V.I. 00802

Re: **Legal Opinion on Southland Gaming Contract Pc-VIL 135-2003 between the Government of the Virgin Islands (Virgin Islands Lottery Commission) and Southland Gaming of the Virgin Islands, INC.**

Dear Attorney General Elliott,

I am requesting a Legal Opinion on Contract Number Pc-VIL135-2003 between the Government of the Virgin Islands (Virgin Islands Lottery Commission) and Southland Gaming of the Virgin Islands, Inc. regarding recommendations number three (3), six (6), and ten (10) of a "Draft Audit" conducted by the U.S Inspector General's Office (See attached).

The issues raised are as follows:

Recommendation # 3: *Ensure that SGVI files corporate income tax returns in the Virgin Islands and pay any corporate taxes due.*

Question: Is Southland Gaming of the Virgin Islands required to pay corporate income tax returns in the Virgin Islands? Should SGVI be paying Gross Receipts Tax on the total gross income of the VLT's?

Recommendation # 6: *Establish and implement procedures for cash collection.*

Question: Does the Government of the of the Virgin Islands (the Virgin Islands Lottery) have the authority to implement alternative procedures for cash collection, and should government officials be

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physically present to supervise the collection procedures? (See page ____ of the attached contract)

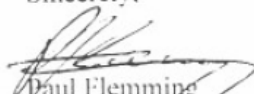
Recommendation # 10: *Revise the existing VLT contract and master license agreement to include a minimum payout rate and physical and computer controls over VLT operations.*

Question: Can the Government of the Virgin Islands amend the existing Video Lottery Terminal (VLT) contract and master license agreement to include a minimum payout rate and physical and computer controls over VLT Central Systems and operation as recommended by the Inspector General?

Additionally, does the contract stipulate the number of VLT machines allowed in the District of St. Thomas and St. John? This question requires clarification given the fact that it provides some conflicting interpretation both for the Virgin Islands Lottery Commission and Southlands Gaming. The RFP provided for 2000 machines: 1000 in the district of St. Thomas and St. John; and 1000 in the district of St. Croix. Since St. Croix was subsequently exempted from VLTs, Southland is arguing that the 2000 machines are now applicable to the district of St. Thomas/ St. John.

I appreciate your time and urgent attention to this matter, and would appreciate an opinion issued before March 15th 2007 (see Governor's response to audit).

Sincerely,


Paul Flemming
Executive Director

Cc: Mr. Hannibal M. Ware, Caribbean Field Office Supervisor
Mr. Louis Penn, Chief of Staff
Attorney Paul Paquin, Solicitor General
Mr. Austin Nibbs, Acting Commission Chair

Enc: Inspector General's Draft Audit Report
Contract No: Pc-VIL135-2003
Master License Agreement



Virgin Islands Lottery.

Barbel Plaza South, 8A Est. Ross
Charlotte Amalie, St. Thomas, V. I. 00802-0118
Tel.: (340) 774-2502
Fax: (340) 776-4730

January 31, 2007

Ms. Grace Fahie
Acting Commissioner
Department of Licensing and Consumer Affairs
Property and Procurement Building # 1
1 Sub Base, Room 205
St. Thomas, V.I. 00802

Re: Inspection of Video Lottery Licenses

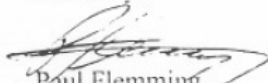
Dear Commissioner Fahie,

I am requesting your assistance in performing a complete inspection of all business licensees of Video Lottery agents contracted by Southlands Gaming to determine the accurate numbers and locations of all video Lottery Terminals in the District of St. Thomas and St. John. I am including a list of vendor's name for quick reference.

Further, if my office can be of any help to you in providing additional information to expedite this process, please do not hesitate to ask, as the information is required before March 15th 2007.

Thank you in advance for your consideration and attention into this matter.

Sincerely,


Paul Flemming
Executive Director

Cc: Mr. Louis Penn, Chief of Staff
Attorney Paul Paquin, Solicitor General
Mr. Austin Nibbs, Acting Commissioner Chair

Official Lottery Sponsored by the Government of the U.S. Virgin Islands.



Director's Office
TEL: (340) 714-9301
FAX: (340) 714-9345

GOVERNMENT OF
THE VIRGIN ISLANDS OF THE UNITED STATES

VIRGIN ISLANDS
BUREAU OF INTERNAL REVENUE

9601 Estate Thomas
Charlotte Amalie, St. Thomas, U.S.V.I. 00802

February 1, 2007

Honorable John P. de Jongh, Jr.
Governor of the Virgin Islands
Office of the Governor
Charlotte Amalie, Virgin Islands 00802

RE: Draft Report
Controls Over Video Lottery Terminal Operations,
Government of the Virgin Islands

Dear Governor de Jongh:

The Virgin Islands Bureau of Internal Revenue submits the following responses to the recommendations included in the draft report of the above referenced audit:

1. *Determine whether VLT gaming proceeds are taxable under the gross receipts tax laws*

RESPONSE: The Virgin Islands Bureau of Internal Revenue advised SGVI of the Virgin Islands Code and did not find any provision that exempts VLT gaming proceeds from the gross receipts tax law. The Bureau received a copy of the contract between the Virgin Islands Lottery and SGVI, which includes a clause that treats gaming proceeds as "commissions" for gross receipts tax purposes. Section 43(a), Title 33, of the Virgin Islands Code specifically exempts 'all commissions paid for the sale of Virgin Islands Lottery tickets from gross receipts taxation.' It appears that the Virgin Islands Lottery and SGVI contractually expanded the scope of this exemption to include not only the traditional lottery, but also the new VLT proceeds. The Bureau requested information from the Lottery Board regarding the legal authority and the intent of the clause in the contract, but has not received a response to date.

2. *Ensure that SGVI has remitted VLT prize winning withholdings in accordance with tax law.*

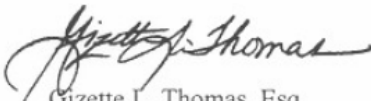
RESPONSE: The Virgin Islands Bureau of Internal Revenue has advised SGVI of its withholding and reporting requirements as it relates to prize winnings. While the system of taxation is premised on a code of voluntary compliance, the Bureau fosters compliance through the conduct of periodic audits of all returns.

3. *Ensure that SGVI files corporate income tax returns in the Virgin Islands and pays any corporate taxes due.*

RESPONSE: The Virgin Islands Bureau of Internal Revenue has advised SGVI of its corporate income tax return filing and payment obligations. The Bureau has the authority to conduct periodic audits of any taxpayer to ensure compliance with the tax laws.

The Bureau is unaware of any exemptions from taxation afforded to Southland Gaming VI. The disclosure laws applicable to the Virgin Islands Bureau of Internal Revenue mandate that a taxpayer's return and return information be held in the strictest confidence with limited exceptions provided by law. In compliance with these laws, Southland Gaming VI's tax filing and payment history with the Bureau cannot be disclosed. The Bureau assures this Government that it will follow through on its mission to consistently apply the tax laws to provide budgetary resources to improve the quality of life for USVI residents.

Sincerely,



Gizette L. Thomas, Esq.
Acting Director

APPENDIX 5

STATUS OF AUDIT RECOMMENDATIONS

Finding/ Recommendation	Status	Action Required
1	Resolved and Implemented.	None.
2	Resolved, Not Implemented.	Provide documentation of review of VLT prize winning withholdings.
3	Resolved, Not Implemented.	Provide documentation of corporate income tax returns filed by Southland Gaming in the Virgin Islands.
4	Resolved and Implemented.	None.
5	Unresolved.	Provide the policies and procedures established that ensure the accuracy of SGVI payments.
6	Resolved, Not Implemented.	Provide documentation of established procedures for cash collections.
7	Unresolved.	Provide documentation to show that independent testing and audits have been performed on all VLT machines in the Virgin Islands and the results of such testing and audits.
8	Unresolved.	Provide documentation to show that the security issues detailed in the report, such as a comprehensive security program to protect the system's sensitive proprietary and financial data, have been included in the Standard Operating Procedures.
9	Resolved, Not Implemented.	Provide documentation to show enforcement of contract option requiring SGVI to prepare and publish audited annual statements for VLT operations in the Virgin Islands.
10	Resolved, Not Implemented.	Provide copy of final Rules and Regulations requiring minimum payout rates and physical and computer controls over VLT operations.
11	Unresolved.	Provide documentation of payments for \$6,000 in unpaid license fees for 2004 and 2006.

Report Fraud, Waste, Abuse and Mismanagement



Fraud, waste, and abuse in government concerns everyone: Office of Inspector General staff, Departmental employees, and the general public. We actively solicit allegations of any inefficient and wasteful practices, fraud, and abuse related to Departmental or Insular area programs and operations. You can report allegations to us in several ways.



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Revised 07/06