



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

AUDIT REPORT

**DIVISION OF TOURISM,
DEPARTMENT OF ECONOMIC DEVELOPMENT
AND AGRICULTURE,
GOVERNMENT OF THE VIRGIN ISLANDS**

**REPORT NO. 95-I-41
OCTOBER 1994**



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20240

NOV 2 1994

MEMORANDUM

TO: The Secretary

FROM: Acting Inspector General

SUBJECT SUMMARY: Final Audit Report for Your Information - "Division of Tourism, Department of Economic Development and Agriculture, Government of the Virgin Islands" (No. 95-I-41)

DISCUSSION: We concluded that the Department of Economic Development and Agriculture needed to (1) improve its oversight of the offshore tourism offices and firms contracted to advertise and promote tourism in the Virgin Islands and (2) use a greater level of competition in the award of advertising and promotional contracts.

We recommended that the Governor of the Virgin Islands ensure that the Department (1) requires the offshore offices to submit monthly financial and activity reports and employees to submit travel vouchers to support travel advances on a timely basis, (2) reconciles and monitors the revenues and expenditures of the tourism offices on a regular basis, (3) develops procedures so that promotional contractors comply with provisions of their contracts, and (4) implements contracting procedures for promotional contracts that incorporate competitive procurement procedures.

Based on the response to the draft report from the Governor of the Virgin Islands, we considered five of the report's nine recommendations resolved and implemented. The Governor was requested to provide additional information for the remaining recommendations.

Joyce N. Fleischman

Attachment

Prepared by: Marvin Pierce
Extension: 208-4252



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Headquarters Audits
1550 Wilson Boulevard
Suite 401
Arlington, VA 22209

OCT 28 1994

Honorable Alexander A. Farrelly
Governor of the Virgin Islands
No. 21 Kongens Gade
Charlotte Amalie, Virgin Islands 00802

Dear Governor Farrelly:

Subject: Final Audit Report on the Division of Tourism, Department of Economic Development and Agriculture, Government of the Virgin Islands (No. 95-I-41)

This report presents the results of our review of the operations of the Division of Tourism of the Department of Economic Development and Agriculture. The objective of the audit was to determine whether the Department ensured that (1) funds allocated to the Division of Tourism were being used efficiently and in accordance with applicable regulations and (2) the activities of the Division were being carried out in a manner that enhanced the tourism industry in the Virgin Islands.

We concluded that the Department of Economic Development and Agriculture needed to improve its oversight of the Division of Tourism and its offshore tourism offices and promotional contracts and use a greater level of competition in the award of promotional contracts. Specifically, the Department did not:

- Require offshore offices to submit monthly expenditure and activity reports, review the reports that were submitted in order to ensure that over \$900,000 made available to the offshore offices was properly accounted for, and require employees to submit travel vouchers to account for \$8,500 in travel advances.

- Review contractors' invoices to ensure that claimed costs were reasonable and allowable under the contracts, have supporting documentation for \$1.3 million reported by the Department of Finance as having been paid to one contractor, or periodically solicit and evaluate competitive proposals before awarding repeated follow-on contracts for advertising and other promotional activities.

The September 23, 1994, response (Appendix 1) to the draft report from the Governor of the Virgin Islands expressed concurrence with seven of the report's nine recommendations. Based on the response, we consider five of the recommendations resolved and implemented and requested additional information for four recommendations (see Appendix 2).

The Inspector General Act, Public Law 95-452, Section 5(a)(3), as amended, requires semiannual reporting to the U.S. Congress on all audit reports issued, actions taken to implement audit recommendations, and identification of each significant recommendation on which corrective action has not been taken.

In view of the above, please provide a response to this report by December 16, 1994. The response should provide the information requested in Appendix 2. A copy of your response should also be provided to our Caribbean Regional Office.

Sincerely,

A handwritten signature in cursive script that reads "Judy Harrison".

for
Marvin Pierce

Acting Assistant Inspector General
for Audits

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INTRODUCTION

BACKGROUND

Under the Government Reorganization and Consolidation Act of 1987, the former Departments of Commerce and Agriculture were merged to form the Department of Economic Development and Agriculture. One of the four administrative units of the new department is the Division of Tourism, which is primarily responsible for the promotion of the Virgin Islands in the tourism market.

The main offices of the Division of Tourism are located on St. Thomas, with a small visitor information center located on St Croix. There are seven offshore offices located in New York, New York; Washington, D. C.; Atlanta, Georgia; Miami, Florida; Chicago, Illinois; Los Angeles, California; and San Juan, Puerto Rico. These offshore offices promote tourism in the Virgin Islands within their geographical regions. The Division has a staff of 49 persons, including 25 who are stationed in the offshore offices.

In addition to maintaining personal contacts with travel industry representatives through its offshore offices, the Division's primary means of promoting tourism in the Virgin Islands is by a series of professional service contracts for advertising, publicity, promotion, and public relations. Contracts valued at \$12.2 million and \$10.7 million were awarded in fiscal years 1992 and 1993, respectively. These contracts were funded from the Tourism Advertising Revolving Fund.

The Division's General Fund operating budget was \$2.6 million for fiscal year 1992 and \$2.3 million for fiscal year 1993. Hotel occupancy taxes deposited into the Tourism Advertising Revolving Fund totaled \$8.4 million in fiscal year 1992 and \$10.3 million in fiscal year 1993.

OBJECTIVE AND SCOPE

The objective of the audit was to determine whether the Department of Economic Development and Agriculture ensured that (1) funds allocated to the Division of Tourism were being used efficiently and in accordance with applicable regulations and (2) the activities of the Division were being carried out in a manner that promoted the tourism industry in the Virgin Islands. The scope of the audit included transactions and activities of the Division during fiscal years 1992 and 1993 and the first quarter of fiscal year 1994.

Our review was made 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.

We limited the evaluation of internal controls to the extent necessary to accomplish the audit objective. The internal control weaknesses identified were in the areas of oversight of the offshore offices, the award of contracts, and the monitoring of contractors' performance. These weaknesses are discussed in the Findings and Recommendations section of this report. The recommendations, if implemented, should improve the internal controls in these areas.

PRIOR AUDIT COVERAGE

In March 1986, the Office of Inspector General issued the audit report "Funds Allotted to the Division of Tourism, Virgin Islands Department of Commerce" (No. V-TG-VIS-24-85). The report noted deficiencies in the procedures used for evaluating and awarding professional service contracts, the internal controls over payments to one contractor, and the accounting controls over cash advances made to offshore offices. Our current review disclosed problems similar to those reported in 1986.

FINDINGS AND RECOMMENDATIONS

A. OFFSHORE TOURISM OFFICES

The financial management functions of the Department of Economic Development and Agriculture's offshore tourism offices were not being carried out efficiently. Specifically, monthly expenditure and activity reports were not being submitted timely or reviewed, cash advances were not routinely reconciled by the Office of Administration and Management, and employees did not submit travel vouchers for official travel on a timely basis. The Department's Office of Administration and Management was responsible for coordinating the budgetary, accounting, and personnel functions of the local and off-island tourism offices. However, the Department could not ensure that its offshore offices effectively used the \$900,000 allotted to them during fiscal years 1992 and 1993 and the first quarter of fiscal year 1994. Additionally, travel vouchers were not submitted by offshore office employees to liquidate travel advances totaling \$8,500.

Monthly Reports

The Department did not ensure that the offshore tourism offices submitted required monthly reports of expenditures and promotional activities on a timely basis. Further, when it did receive reports, the Department did not use the reports to monitor the activities of the off-shore offices. As a result, the Department could not ensure that funds of \$900,000 made available to the offshore offices during fiscal years 1992 and 1993 and the first quarter of fiscal year 1994 were being used efficiently and economically and in accordance with established rules and regulations. Although the Office of Administration and Management monitored its offshore offices through annual on-site reviews, we believe that the timely submission and review of the offshore offices' monthly expenditure reports would improve internal controls over cash advances and enable the Department to ensure that Government funds were not being misused.

In addition to the expenditure reports, the offshore offices were required to submit activity reports by the last day of each month. For the period included in our review (October 1991 to December 1993), each of the seven offshore offices should have submitted 27 monthly activity reports, for a total of 189 reports required from all seven offices. However, 79 of the 189 required reports had not been submitted, and none of the seven offshore offices had submitted all required reports.

The activity reports provide details regarding the work performed by each offshore office with travel agents, tour operators, airlines, cruise lines, hotel representatives, and trade and consumer groups. The activity reports also describe the offices' participation in trade shows and other promotional activities and attendance at meetings and conferences. Because the activity reports were not always submitted, the Department could not ensure that the offices were effectively contributing to the

promotion of the Virgin Islands as a tourist destination. In a 1993 memorandum to one offshore office concerning the monthly activity reports, the Commissioner of Economic Development and Agriculture had urged submission of the reports on a timely basis in order to fully realize the contribution that each office made toward the overall promotional programs.

Cash Advances

Revenues and expenditures of the offshore tourism offices were not reconciled at least quarterly to ensure that all revenues received were accounted for and expenditures were limited to the extent of available funds. During fiscal years 1992 and 1993 and the first quarter of fiscal year 1994, the seven offshore offices received quarterly allotments totaling \$900,000 for regular operating expenses. However, the Director of Administration and Management said that the quarterly allotments were not sufficient to meet actual operating expenses. For example:

The Chicago office received operating expense allotments totaling \$50,500 in fiscal year 1993 but incurred expenses totaling more than \$106,000.

- The Los Angeles office received operating expense allotments totaling \$81,000 in fiscal year 1993 and the first quarter of fiscal year 1994 but incurred expenses totaling more than \$84,000.

The New York office received operating expense allotments totaling \$92,471 in fiscal year 1993 and the first quarter of fiscal year 1994 but incurred expenses totaling more than \$175,000.

In each case, the difference between quarterly allotments and total expenditures was covered by (1) special cash advances from the Department for trade shows and other promotional activities and (2) funds from private tourism-related organizations to help defray the costs of such activities as familiarization tours to the Virgin Islands by travel agents. Additionally, during fiscal year 1993, the New York office received more than \$111,000 from the Rockefeller Center Management Corporation for interior design of the New York office's new space.

The Department did not review the expenditures made by the offshore offices against special cash advances and private funds because, according to the Director of Administration and Management, these amounts were reconciled by the offices themselves when the monthly expenditure reports were prepared and submitted. However, because the Department did not routinely review the expenditure reports submitted by the offshore offices, the extent to which these reconciliations were complete and accurate and the extent to which quarterly allotments were sufficient to meet operating expenses were not known. In our opinion, increased Departmental review and oversight of the offshore offices' expenditure reports, cash advances, and funds received from private tourism-related organizations could

encourage the offices to limit costs to the amounts available through their regular quarterly allotments.

Travel Advances

Travel advances were issued to the employees of the offshore offices to defray travel expenses within and outside their geographic regions. Our review disclosed that the New York, Los Angeles, and Chicago offices did not submit travel vouchers within 5 days after completion of travel, as required by travel regulations (Executive Order 310-1989) for the Government Executive Branch. For fiscal year 1993, we identified, at three of the tourism offices, 63 travel advances, totaling \$23,100, that had been outstanding from 2 to 16 months.

The Director of the Office of Administration and Management told us that her staff of five employees could not provide significant oversight of the offshore tourism offices in addition to performing their duties related to the other units within the Department of Economic Development and Agriculture.

Recommendations

We recommend that the Governor of the Virgin Islands:

1. Ensure that the Commissioner of Economic Development and Agriculture requires the offshore offices to submit required monthly expenditure and activity reports.

2. Ensure that the Commissioner of Economic Development and Agriculture requires the Office of Administration and Management to review the offshore tourism offices' monthly expenditure reports, reconcile the revenues from all sources with the total expenditures of each office, and insist that the offices control their expenditures and stay within the limits of available funds.

3. Ensure that the Commissioner of Economic Development and Agriculture requires employees of the offshore tourism offices to submit travel vouchers in accordance with Executive Order 310-1989 in order to account for travel advances in a timely manner.

4. Ensure that the Department of Economic Development and Agriculture develops a plan to provide assurance that the Department's oversight responsibilities related to the offshore tourism offices are administered effectively.

Governor of the Virgin Islands Response

The September 23, 1994, response (Appendix 1) to the draft report from the Governor of the Virgin Islands concurred with Recommendations 1-4.

Recommendation 1. The response stated that when certain offshore tourism offices do not submit monthly reports on a timely basis, the Director of Tourism “reminds” the office managers of the reporting requirements.

Recommendation 2. The response stated that when the allotments to the offshore tourism offices are not sufficient to meet the offices’ operating expenses, cash advances are provided from the Tourism Revolving Fund.

Recommendation 3. The response stated that the Governor was directing the Commissioner of Economic Development and Agriculture to instruct offshore office managers about the requirement for the timely submission of travel vouchers.

Recommendation 4. The response stated that current personnel of the Division of Tourism have accepted responsibility for providing oversight of the financial operations of the offshore tourism offices.

Office of Inspector General Comments

The Governor’s response was sufficient for us to consider Recommendations 1, 3, and 4 resolved and implemented. Although the response stated concurrence with Recommendation 2, it did not address the portion of the recommendation related to reconciling the revenues and expenditures of each offshore tourism office (see Appendix 3).

B. PROMOTIONAL CONTRACTS

The Department of Economic Development and Agriculture was not monitoring promotional contracts or ensuring that competitive proposals were solicited and considered for promotional contracts. Title 2, Section 28(d), of the Virgin Islands Code and Title 3, Section 335-5, of the Virgin Islands Rules and Regulations contain the procurement requirements applicable to promotional contracts awarded by the Department. Also, the Department did not fully utilize competitive procurement practices for promotional contracts because the broad exemption from competition permitted by the Virgin Islands Code was used without consideration of the more restrictive requirements contained in the Virgin Islands Rules and Regulations. Also, since January 1993, the Department has not provided any oversight of promotional contracts. As a result, at least one contractor was acquiring, on behalf of the Government, goods and services that might have been procured more economically by the Government; supporting documents for 13 payments, totaling \$1.3 million, to one contractor were not available at the Department; and competitive proposals were not solicited and evaluated before 53 professional service contracts, totaling \$23 million, were awarded in fiscal years 1992 and 1993.

Contract Oversight

The Department did not provide adequate oversight of invoices submitted by promotional contractors. Before January 1993, the Department's Legal Counsel was responsible for monitoring the contractors' compliance with the provisions of their promotional contracts. When the Legal Counsel departed in January 1993, that responsibility was assumed by the Commissioner of Economic Development and Agriculture. However, contractor performance and invoices have not been monitored since the Legal Counsel's departure. Regarding the Department's largest promotional contract, we found that:

- The contractor routinely charged the Government for express and expedited shipping charges for promotional materials obtained by the contractor on behalf of the Government, although the contracts specified that express mail or other express or expedited service was not to be used except as specifically requested by the Commissioner or his designee. The Legal Counsel had questioned charges for the use of expedited shipping sources on many invoices; however, during fiscal years 1992 and 1993, the contractor was paid more than \$128,000 for these charges.

- The contractor acquired, on behalf of the Government, such items as letterhead stationery for the Governor and the offshore tourism offices; business cards for Departmental officials, employees, and a former employee under contract with the Department; and invitations for a cocktail party sponsored by the Department, at a cost of at least \$28,000 during fiscal years 1992 and 1993, including about \$3,300 in commissions to the contractor. The Commissioner adequately justified the acquisition of only \$1,100 of the items. Therefore, we believe that to the extent these items are required, the items should be acquired directly by the

Government, thus saving the advertising contractor's commission and possibly obtaining the items at a lower cost.

- Our review of payments, as recorded in the Financial Management System of the Department of Finance, disclosed that 13 payments to the contractor, totaling \$1.3 million, made during December 1991 to August 1993 were not supported by invoices or other supporting documents.

Contract Award

The Department awarded, without the benefit of competitive proposals, 28 promotional contracts, valued at \$12.3 million, during fiscal year 1992 and 25 contracts, valued at \$10.7 million, during fiscal year 1993. According to the Director of Administration and Management, these procurements were exempted from the requirements of the Government's basic procurement law because of the uniqueness of the professional services needed by the Department and the need to avoid the delays caused by the "procurement bureaucracy."

Title 2, Section 28(d), of the Virgin Islands Code does state that the provisions of the Government's basic procurement law (Title 31, Chapter 23, of the Virgin Islands Code) are not applicable to the awarding of such promotional contracts.

However, Title 3, Section 335-5, of the Virgin Islands Rules and Regulations provides that as practical, contracts for advertising, promotion, publicity, and public relations or the operations of offices outside the Virgin Islands are to be made after advertising and bids and that no purchases over \$2,000 for these purposes are to be made without competition except upon the Governor's written approval.

The Department has an internal policy of designating an evaluation team, composed of key Departmental officials and representatives from the Virgin Islands tourism industry, to evaluate annually the performance of current promotional contractors. Based on the team's recommendations, the Commissioner of Economic Development and Agriculture then decides, for each contract, whether to award a follow-on contract to the current contractor or solicit proposals from other potential contractors. Although established policy requires that competitive proposals be solicited for each contract every 3 to 5 years, our review disclosed that such proposals were solicited only if the Department was dissatisfied with a contractor's performance or if the current contractor, for some other reason, could not continue to provide the needed promotional services.

By limiting the extent to which competitive proposals were solicited and evaluated, the Department was unable to realize the benefits of competitive procurements, which included (1) exposure to contractors who may have been able to provide better quality services or equivalent services at a lower cost and (2) creation of an incentive for current contractors to improve their performance and lower their costs.

During our June 6, 1994, exit conference, the Commissioner of Economic Development and Agriculture said that he “strongly supported” the process used by the Department to evaluate the performance of existing promotional contractors and to award follow-on contracts. Regarding the contractor that has had the Government’s primary advertising contract since 1974, the Commissioner said that the contractor (1) had developed an advertising “signature” that was immediately recognized as representing the Virgin Islands, (2) had repeatedly won awards for the quality of the advertising campaign on behalf of the Virgin Islands, and (3) had generated tourism revenues for the Virgin Islands that far exceeded the approximately \$10 million annual cost of the advertising contract. However, we believe that the Department should solicit competition in promotional contracts to ensure that it is receiving the best quality of services or equal services at the lowest cost.

Recommendations

We recommend that the Governor of the Virgin Islands:

1. Ensure that the Department of Economic Development and Agriculture develops a plan that provides assurance that promotional contractors comply with the provisions of promotional contracts and that contractor invoices and other documentation are reviewed for support, reasonableness, and allowability under the terms of the contracts.

2. Ensure that the Commissioner of Economic Development and Agriculture does not reimburse contractors for expedited shipping charges unless expedited shipping has been specifically requested by the Commissioner or his representative.

3. Ensure that the Commissioner of Economic Development and Agriculture and other Governmental agencies, as appropriate, do not acquire items such as letterhead stationery, business cards, and party invitations through the advertising contractor unless the items cannot be acquired at lower cost from regular business printing sources.

4. Ensure that the Commissioner of Economic Development and Agriculture obtains, from the Department of Finance and/or the advertising contractor, copies of invoices and other documentation for the 13 unsupported payments, totaling \$1.3 million, included in the check history of payments in the Financial Management System.

5. Ensure that the Commissioner of Economic Development and Agriculture implements contracting procedures that incorporate the competitive procurement requirements of Title 3, Section 335-5, of the Virgin Islands Rules and Regulations. At a minimum, the Department should solicit competitive proposals for promotional contracts at least every 3 to 5 years, as provided in its own internal policy.

Governor of the Virgin Islands Response

The September 23, 1994, response (Appendix 1) to the draft report from the Governor of the Virgin Islands expressed concurrence with Recommendations 1,2, and 3 and nonconcurrence with Recommendations 4 and 5.

Recommendation 1. The response stated that the Legal Secretary and the Commissioner of the Department of Economic Development and Agriculture provide oversight of promotional contracts.

Recommendation 2. The response stated that charges for expedited shipping occur when materials require the Commissioner's approval before advertisements are placed in the appropriate printed media. The response further stated that the Department's Director of Administration and Management reviews contractors' invoices and brings questionable items to the attention of the Commissioner.

Recommendation 3. The response explained the circumstances under which a special promotional letterhead and business cards for the Commissioner of Economic Development and Agriculture were procured through the advertising contractor.

Recommendation 4. The response expressed nonconcurrence, stating that it was "not the practice" of the Department of Finance to issue payments without supporting documents. The response requested that we provide a list of the 13 unsupported payments mentioned in our report so that the Commissioner could obtain the appropriate supporting documents.

Recommendation 5. The response expressed nonconcurrence, stating that except for advertising and public relations contracts, all contracts issued for tourism promotion were "one time" contracts for specific activities. The response further stated that there was no policy requiring competitive proposals to be solicited for each contract every 3 to 5 years. According to the response, a contract evaluation team reviews the performance of promotional contractors each year and "does not make change for the sake of change" if a contractor "is producing" and this fact is supported by the team's evaluation. The response concluded that "notwithstanding the above," the Department of Economic Development and Agriculture will request proposals for the advertising contract during the fall of 1994.

Office of Inspector General Comments

The Governor's response was sufficient for us to consider Recommendations 1 and 2 resolved and implemented. However, Recommendations 4 and 5 are unresolved, and additional information is needed for Recommendation 3 (see Appendix 2).

Recommendation 3. Although the response justified the procurement of special letterhead and business cards from the advertising contractor, our review

showed that these items represented a small portion of the total cost for stationery items obtained in this manner. We still believe that many of the other items could have been acquired from more traditional sources at lower cost to the Government.

Recommendation 4. At the time of our audit, documents to support the 13 unsupported payments were not available for our review. We provided a list of these payments to the Department of Economic Development and Agriculture on September 29, 1994.

Recommendation 5. The statement in the response that “there is no established policy that requires that competitive proposals be solicited for each contract every 3 to 5 years” is not accurate. On February 2, 1986, the Commissioner of the then-Department of Commerce issued the “Department Policy Statement re: Annual Evaluation of Firms Contracted for Advertising, Public Relations and Other Promotions and Procedures for Awarding Such Contracts.” One provision of this policy statement was that “competitive proposals are required no more frequently than every three years, no less frequently than five years.” During our audit, nothing was brought to our attention to indicate that this policy statement had subsequently been rescinded. In fact, a copy of the February 2, 1986, directive was included in a procedures manual for the Division of Tourism that was given to us by the Commissioner of Economic Development and Agriculture. The intent of our recommendation is for the Department to implement this policy, since we believe that the Department cannot objectively determine whether the Virgin Islands tourism industry is being promoted in the most effective and economical manner by an existing contractor if the Department does not consider competing proposals from other potential contractors.



THE United STATES **VIRGIN** ISLANDS

OFFICE OF THE GOVERNOR
GOVERNMENT HOUSE
Charlotte Amalie, V. I. 00802
809-774-0001

September 23, 1994

Mr. **Marvin** Pierce
Acting Assistant Inspector General
for Audits
Office of the Inspector General
1550 **Wilson Boulevard - Suite** 401
Arlington, VA 22209

Dear Mr. Pierce:

In response to the **Draft** Audit Report on the Division of Tourism, Department of Economic Development and Agriculture (EDA), Government of the Virgin Islands (V-IN-VIS-003-94), I submit the following based on information received from Commissioner Eric **E. Dawson, ED&A**:

Recommendation A.1 Ensure that the Commissioner of Economic Development and Agriculture **requires** the offshore **offices** to submit required monthly expenditure and activity reports.

Response: We concur.

All offshore tourism **office managers** are **required to** submit monthly **reports** on a **timely basis** to the Director of Tourism. When certain managers **fail** to **submit** timely report, the Director of Tourism reminds **them** by correspondence (see sample Attachment A).

These reports **are** used by the Department to monitor performance **for** trade show attendance, **literature** distribution, sales representatives on the road, new travel agent contracts, inquires for potential new business prospects, etc.

Recommendation A.2 Ensure that the Commissioner of Economic Development and Agriculture requires the Office of Administration and Management to review the offshore tourism offices' monthly expenditure **reports, reconcile the revenues from** all sources **with** the total expenditures of each office, and insist that the **offices control their** expenditures and stay within **the limit of** available funds.

Mr. Marvin Pierce
September 23, 1994

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Response: We concur.

General fund quarterly allotment have consistently **been** less **than the actual** needs **for** each quarter due to the Government's **overall** fiscal shortfall. However, each office **is** mandated to function to meet the needs of the public **in** the market **place**.

Where an office **did** not have sufficient funds to **defray** the costs of **trade** shows due to deficient quarterly allotments, the **decision** was made to forward a **cash advance** from the Tourism Revolving **Fund** rather than **canceling** a trade show/promotional activity.

Records are maintained for other monies received and utilized for specific purposes to defray expenses.

Recommendation A.3 Ensure that the Commissioner of Economic Development **an** Agriculture requires employees **of** the offshore tourism offices to **submit** travel vouchers in accordance with Executive **Order** 310-1989 in **order** to account **for travel** advances in a timely manner.

Response: We concur.

By copy of **this** response, **I** am directing the **Commissioner** to instruct and remind offshore managers about the **requirement** to submit timely **travel** expenditure reports in accordance with my Executive Order 310-1989.

Recommendation A.4 Ensure that the Department of Economic Development **and** Agriculture develops a **plant** to provide assurance that the Departments oversight responsibilities related **to** the offshore tourism offices are administered effectively.

Response: We concur.

Enhancement **of the department's** oversight responsibilities could be augmented **by** accounting personnel. However, **there** are overall fiscal constraints. Notwithstanding this situation, current personnel on board have accepted such responsibilities.

Recommendation B.1 Ensure **that** the Department of Economic Development **and** Agriculture develops a **plan** that provides assurance that promotional contractors comply with the provision of promotional contracts and that contractors invoices and **other**

Mr. Marvin **Pierce**
September 23, 1994

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documentation **are** reviewed for support, reasonableness, and allowability under **the terms of** the contracts.

Response: **We** concur.

The Department of Economic Development and **Agriculture has always been guided by the law (Title 2, Section 29 (d) VI Code)** seeking contractors to **do promotional** activities for the Division of Tourism. **There** have been annual reviews by committees consisting of private **and** public citizens - the last reviews was November 2, 1993.

Oversight **is in fact** given to **all** contractors, whether **they** are advertising and/or **public** relations, by **the Legal Secretary who is well trained** and the Commissioner who **is** a bar-certified lawyer.

Recommendation B.2 Ensure that the Commissioner of Economic Development **and** Agriculture does not reimburse contractors **for** expedited shipping charges unless expedited shipping **has been** specifically requested by the Commissioner or his **representative**.

Response: We concur.

Any express or expedited shipping charges are the result of materials requiring the Commissioner's immediate response prior placing **print** ads in magazines, **newspapers** or **other** promotional **material** for cooperative advertising. The Commissioner gives the instructions to express the materials as needed. Additionally, **the** Director of Administration and Management Economic Development **and** Agriculture, does **review the** invoices and brings **any** questionable **items** to the Commissioner's attention.

Recommendation B.3 Ensure that the Commissioner of Economic Development and Agriculture and **other** Governmental agencies, as appropriate, do not acquire items such as **letterhead stationery**, business cards, and party invitations **through** the advertising contractor unless the items cannot be acquired at lower cost from regular business printing sources.

Response: We concur.

The Special promotional letterhead consisted of **a collage** of various Virgin Islands scenic which the advertising contractor **has** developed at **the** request of **the Commissioner**. The contractor possessed **the** plates for this project and it **was** most cost

Mr. **Marvin** Pierce
September 23, 1994

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effective to require that the contractor print the special promotional letterhead stationery.

Business cards were requested by the Commissioner to be printed in English and Japanese to **aid in** the promotion of tourism in Japan. No **Virgin** Islands Publisher has the capability to print KANJI and it had to be done in New York where a large Japanese community group has businesses. Invitations were printed **for the** Annual **Valentine's** Day travel Writers Luncheon in New York. It was most cost effective to require the advertising contractor to do the task rather than seeking a new and unfamiliar company.

Recommendation B.4 Ensure that the *Commissioner of Economic Development and Agriculture* obtains, from the Department of Finance and/Or the advertising contractor, **copies of invoices and other documentatio_n for the 13 unsupported payments, totaling \$1.3 million, included in the check history of payments in the Financial Management System.**

Response: We do not concur.

It is not **the practice of** the Department of Finance to issue **payments** Without **supporting documents. I am therefore requesting** a listing **of** the 13 unsupported payments so as to ensure that the Commissioner secures supporting documents for same.

Recommendation B.5 Ensure that the **Commissioner of Economic Development and Agriculture** implements contracting **procedures that incorporate the competitive procurement requirements of Title 3, Section 335-5, of the Virgin Islands Rules and Regulations.** At a **minimum,** the Department should solicit competitive **proposals** for promotional contacts at least every 3 to 5 **years,** as provided in its own internal policy.

Response: We do not concur.

With the exception of the main advertising and **public relations** contracts, **all** contracts re "one time" **performances** which invariably **are** not repeated. Many of the latter have short closing dates. All magazines or television ads cover specific markets.

The **department's** contract evaluation team consist of **the** Commissioner, the Director of **Administration** and Management and the Legal Secretary. **The** review team determines whether or not

Mr. Marvin Pierce
September 23, 1994

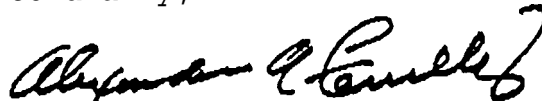
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the contractor performs in accordance with terms and conditions bargained for are executed.

There is no 'established **policy** that **requires** that competitive proposals be solicited **for each contract every 3 to 5 years."** Rather, a contract review team **for** the advertising contracts **has** been established for at least seven **(7) years.** If a contractor is producing **and the** review committee evaluation reveals such, it does not make change **for the sake of** change.

Notwithstanding the above, **the** Commissioner **informs** me the **department will seek that** request for proposals for the advertising contract this fall, **1994.**

Cordially,



Alexander A. Farrelly
Governor **of** the Virgin Islands

cc: Arnold **van Beverhoudt, Jr.**
Regional Audit Manager

Eric E. Dawson, Commissioner
Economic Development and Agriculture

STATUS OF AUDIT REPORT RECOMMENDATIONS

<u>Finding/Recommendation Reference</u>	<u>Status</u>	<u>Action Required</u>
A.1, A.3, and A.4	Implemented.	No further action is required.
A.2	Management concurs; additional information needed.	Provide an action plan, including target dates and the title of the official responsible, for reconciling revenues and expenditures of the offshore tourism offices.
B.1 and B.2	Implemented.	No further action is required.
B.3	Management concurs; additional information needed.	Provide an action plan, including target dates and the title of the official responsible, for ensuring that items such as letterhead stationery and business cards are not acquired from the advertising contractor unless they cannot be obtained from more traditional sources at lower cost.
B.4	Unresolved.	Reconsider the recommendation, and provide a plan for obtaining the supporting documentation for the 13 unsupported payments, totaling \$1.3 million, to the advertising contractor. The plan should include target dates and titles of officials responsible for implementation.

<u>Finding/Recommendation Reference</u>	<u>Status</u>	<u>Action Required</u>
B.5	Unresolved.	Reconsider the recommendation, and provide a plan for implementing the February 2, 1986, policy statement requiring competitive proposals for advertising and other promotional contracts at least every 3 to 5 years. The plan should include target dates and titles of officials responsible for implementation.

ILLEGAL OR WASTEFUL ACTIVITIES
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