

The Virgin Islands Consortium

EDA Program In Need Of Reform, IG Says; Urges New Laws Be Written By Senate

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The Office of the Virgin Islands Inspector General's recent audit of the territory's Economic Development Program administered by the Virgin Islands Economic Development Authority (EDA), revealed a program, while largely beneficial to the territory, in much need of reform.

The 78-page audit, which can be read in full [here](#), pinpointed areas of deficiencies, as well as gave recommendations that would improve the EDA's ability to create a program that is thoroughly beneficial to the territory, and one that would not be abused by some companies, as revealed by the audit.



Steven van Beverhoudt, Virgin Islands Inspector

General

The IG's executive summary highlighted problems in the areas of economic impact, extension of benefits awards, monitoring, reporting to regulatory agencies, and the program's application process.

In relation to extension of benefits, the IG report revealed that the "Economic Development Commission Rules and Regulations contradicted the Virgin Islands Code regarding extension of benefits," that "full benefits were extended to beneficiaries who were not eligible to receive them at that level under the law," and "extensions of benefits were granted in numbers and durations in excess of what was allowed under the law."

As it relates to monitoring, the audit revealed that "infrequent compliance reviews were performed," and "the Economic Development Commission did not effectively ensure that beneficiaries complied with reporting requirements."

The application process of the EDC was also found to be inadequate, as it did not "consistently adhere to the time requirements for the various phases of the application process," according to the IG's audit. The collection of information to process applications for economic development benefits were also "not adequately monitored," and applications were not "always processed in an organized and systematic manner."

The audit also found that "regulatory agencies were not always promptly informed of changes in the certification statuses of beneficiaries."

The Inspector General was also unsatisfied with the response to the audit from Economic Development Authority CEO Percival Clouden, stating that his response "primarily addressed audit findings and recommendations from the preliminary draft report instead of the official draft report," and that the Authority's response to the recommendations given were "vague."

"The Authority's response did not always accurately and adequately address audit findings and recommendations in the audit report. First, its response primarily addressed findings and recommendations from the preliminary draft instead of the official draft. As noted, the official draft was a revised report. Content revisions were based on our exit conference with agency executives in August 2014," Steven van Beverhoudt said.

He continued: "In addition, we considered recent changes that had occurred in the tax benefits law after the exit conference. The Authority's failure to address the correct draft even resulted in the agency issuing responses to two recommendations that had been removed from the audit report in the Finding 2 section, Extension of EDC Benefits Awards. Secondly, for the most part, the Authority's responses to the recommendations were vague.

"The agency did not provide clear and detailed plans of action to correct critical issues facing the Territory's Economic Development Program. More emphasis was placed on defending its position regarding certain findings than providing viable solutions to program challenges. For instance, in addressing a finding related to recommendation 1, the agency acknowledged that neither the Code nor the agency's rules and regulations require the measurement and reporting of the overall economic and fiscal impact of the EDC program on the Territory's economy.

"However, instead of answering the recommendation, which calls for the establishment of such a requirement through the Virgin Islands Legislature, the agency responded that an annual report is conducted on every applicant and cumulative annual report.



Delia Thomas,

Deputy Virgin Islands Inspector General

"On the contrary, our audit found that reviewed annual reports were deficient in that they did not provide statistics on the taxes and benefits given up by the Territory to the various beneficiaries. In addition, they did not provide information on the amount of direct contributions to the treasury of the Government. These components are essential in measuring the overall economic and fiscal impact of the EDC program on the Territory's economy. We also note that the statistics published in reviewed annual reports were not always reliable because they did not match actual supporting document information provided by the Authority," van Beverhoudt said.

The IG's report provided the EDA recommendations in its administration of the territory's Economic Development Program, including changes to the tax benefit law that have created a potential "business welfare" program by providing beneficiaries with 100 percent benefits for 40 to 50 years; establish and implement policies and procedures to efficiently obtain financial data from beneficiaries to conduct timely and accurate assessments of the tax incentive program's impact on the territory; to establish and

implement policies that encourage and require the various categories of beneficiaries to contribute more equally to the territory's economy based on their cost/benefit ratios; and to request that the Virgin Islands Legislature revise the Code allowing the EDC to grant "up to 100%" to new beneficiaries, for the purpose of implementing a sliding scale approach in determining reduction amounts in tax liabilities, based on historical cost/benefit trends for various categories of business.

A list of all EDA beneficiaries can be found [here](#).

Feature Image: RC Hotels (Virgin Islands) doing business as The Ritz Carlton

Image Credit: Ritz Carlton

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