GOVERNMENT OF THE VIRGIN ISLANDS
OF THE UNITED STATES

Public Services Commission

In re

TRANSPORTATION SERVICES OF
ST. JOHN, INC. AND VARLACK VENTURES,
INC. RATE INVESTIGATION

Docket No. 640
Order No. 13/2019

ORDER

WHEREAS, on September 6, 2017, the Virgin Islands suffered a direct impact from Hurricane Irma, which directly struck the northern islands as a Category 5 storm; and on September 19, 2017, Hurricane Maria directly struck the Territory as a Category 5 storm; and

WHEREAS, on December 19, 2017, the Virgin Island Public Services Commission (hereinafter “Commission” or “PSC”) held a regular meeting at the Henry E. Rohlsen Airport on St. Croix, where Transportation Services of St. John, Inc. and Varlack Ventures, Inc. (collectively “Ferry Franchise”) testified on the status of their operations since the hurricanes; and

WHEREAS, the Ferry Franchise suffered losses due to various factors including damage to vessels, the imposition of a curfew, loss of employees, guidelines by the U.S. Coast Guard and the Department of Homeland Security, lack of navigational lighting at docking facilities and the availability of fuel and water; and

WHEREAS, on September 25, 2018, the Commission held a regular meeting at its office located at No. 1003 Estate Ross Suite 4, Barbel Plaza, St. Thomas and via teleconference at the Virgin Islands Board of Education office on the island of St. Croix, United States Virgin Islands; and

WHEREAS, the Commission requested that a forensic audit be conducted of the Ferry Franchise as it pertains to their revenue, other relevant information, leases or agreements and documents regarding the two vessels provided to the Franchisees by the Department of Public Works that were purchased with Garvey bonds; and

WHEREAS, the Commission’s request for a forensic audit is also to outline identifiable revenue problems, the ability of the Franchisees to perform its Franchise requirements; and

WHEREAS, the Commission voted to engage the services Mr. Avery Williams (hereinafter “Williams”) as the PSC’s Technical Consultant to define the parameters of a comprehensive forensic audit for the Ferry Franchise by the PSC’s meeting on Thursday October 18, 2018;

WHEREAS, Williams is the principal of Adiuvo, LLP, which provides professional services as a Technical Consultant to the PSC as needed, and hires staff when necessary to perform such services;
WHEREAS, on October 18, 2018, the Commission held a regular meeting at its office located at No. 1003 Estate Ross Suite 4, Barbel Plaza, St. Thomas United States Virgin Islands and via teleconference at the Virgin Islands Board of Education office on the island of St. Croix, United States Virgin Islands; and

WHEREAS, Williams testified at the meeting on the parameters of conducting a forensic audit of the Ferryboat Franchisees as ordered by the Commission; and

WHEREAS, Williams testified that a forensic audit is generally conducted when illegal activity is suspected of the business, advised against conducting such an audit and recommended that a management and procedural audit (hereinafter “audit”) would be more appropriate for the Ferry Franchise; and

WHEREAS, Williams recommended that an audit be conducted to ascertain the financial status of the Ferry Franchise with a focus on their revenues, determine the viability of the run between Cruz Bay, St. John and Charlotte Amalie, St. Thomas, and gain a better understanding of the costs and impact of passenger traffic on the financial sustainability of the Franchise; and

WHEREAS, Williams further recommended the following parameters of the audit:

1. Validate the operating revenue by developing an auditable process for validating revenues. This will include independently validating passenger counts with random sampling. Determine the audit trail for revenue collection and deposit.

2. Determine a break-even revenue target for the franchise.

3. Assessment of operating expenses to include determining fixed and variable costs.

4. Verify and document any cost allocation between the ferry franchise and their parent companies.

5. Determine the optimum asset allocation needed to operate the franchise schedule.

6. Determine if the franchise is in compliance with all outstanding PSC orders.

7. Determine the operational cost of operating the downtown portion of the ferry schedule.

8. Perform a Cash Flow analysis.

WHEREAS, Williams further testified that the audit can take four to six months; and

WHEREAS, the Maria Tankenson Hodge, Esq. (hereinafter “Hodge”) testified on behalf of the Franchise; and

WHEREAS, Attorney Hodge requested that the audit consider the impact of hurricanes Irma and Maria and a revenue target for achieving a rate of return;

WHEREAS, the Commission requested that Williams also determine the optimal ferry schedule modifications based on the needs of the ridership; and
WHEREAS, the Commission agreed with Williams' recommendations and the modifications requested by Attorney Hodge; and

NOW THEREFORE, the Commission hereby appoints Avery Williams of Adiuvo, LLP as Technical Consultant to conduct a management and procedural audit within 4-6 months to accomplish the following:

1. Validate the operating revenue by developing an auditable process for validating revenues. This will include independently validating passenger counts with random sampling. Determine the audit trail for revenue collection and deposit.

2. Determine a break-even revenue target for the franchise.

3. Assessment of operating expenses to include determining fixed and variable costs.

4. Verify and document any cost allocation between the ferry franchise and their parent companies.

5. Determine the optimum asset allocation needed to operate the franchise schedule.

6. Determine if the franchise is in compliance with all outstanding PSC orders.

7. Determine the operational cost of operating the downtown portion of the ferry schedule.

8. Perform a Cash Flow analysis.

9. Consider the impact of hurricanes Irma and Maria.

10. Determine a revenue target for achieving a rate of return.

11. Determine the optimal ferry schedule based on the needs of the ridership.

So Ordered.

For the Commission,

Date: December 6, 2018

David W. Hughes, Vice Chair