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INSPECTOR GENERAL
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UNITED STATES DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT

Virgin Islands Housing Finance Authority Ineffectively Monitored CDBG-DR Activities

Audit Report Number: 2023-FW-1003

June 12, 2023

To: Claudia I. Monterrosa
Deputy Assistant Secretary, Office of Deputy Assistant Secretary for Grant Programs, DG

//signed//
From: Kilah S. White
Assistant Inspector General for Audit, Office of Inspector General, GA

Subject: The Virgin Islands Housing Finance Authority Did Not Effectively Monitor Its CDBG-DR Activities

Attached are the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our audit of the Virgin Islands Housing Finance Authority's monitoring of its Community Development Block Grant Disaster Recovery (CDBG-DR) activities for the 2017 disasters.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, as amended, requires that OIG post its reports on the OIG website. Accordingly, this report will be posted at <https://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call Danita Wade, Audit Director, at (817) 978-9309.

Highlights

Virgin Islands Housing Finance Authority Ineffectively Monitored CDBG-DR Activities | 2023-FW-1003

What We Audited

We audited the Virgin Islands Housing Finance Authority's monitoring of its Community Development Block Grant Disaster Recovery (CDBG-DR)-funded activities. We initiated the audit because of the large amount of CDBG-DR funds awarded to the U.S. Virgin Islands for the 2017 disasters and to aid in the U.S. Department of Housing and Urban Development's (HUD) strategic objective to support effectiveness and accountability in long-term disaster recovery.

Our objective was to determine whether the Authority effectively monitored its CDBG-DR-funded activities administered by itself and its subrecipients to ensure that the national objectives and performance measures were met.

What We Found

The Authority did not effectively monitor its CDBG-DR-funded activities. Specifically, it did not (1) assess the activities' performance during its monitoring, (2) consistently track the status of corrective actions, (3) verify that the activities' national objectives were or are being met, and (4) consistently monitor the activities. These deficiencies occurred because the Authority lacked policies and detailed procedures to guide its staff on effectively monitoring and tracking corrective actions and ensure performance metrics included in subrecipient agreements were assessed. Therefore, HUD could not be assured that activities were progressing, identified deficiencies were corrected, and funds were used for authorized purposes.

Recommendations

We recommend that the Deputy Assistant Secretary for Grant Programs require the Authority to develop and implement monitoring policies and detailed procedures to ensure that an activity's performance is assessed, corrective actions in monitoring reports are tracked, and documentation supporting the national objectives is verified. In addition, we recommend that the Authority revise subrecipient agreements to include performance metrics and milestones that are tailored to the activity.

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Background and Objective

The Virgin Islands Housing Finance Authority, an autonomous agency of the U.S. Virgin Islands (USVI) government, manages U.S. Department of Housing and Urban Development (HUD) grants to USVI, including Community Development Block Grant Disaster Recovery (CDBG-DR) grants. As a result of the September 2017 category 5 hurricanes that struck USVI, HUD allocated more than \$1.14 billion in CDBG-DR funds to USVI. Although the Authority had previously received allocations of HUD funding, the CDBG-DR funding was not only the largest grant allocation to the Authority but its first allocation of disaster grant funds.

The Authority’s Compliance and Monitoring Unit (CMU) is responsible for conducting monitoring on activities administered by the Authority and its subrecipients. It manages the disaster recovery program’s monitoring activities through desk reviews, onsite and remote reviews, and inspections. As stated in the Authority’s policies and procedures, regular monitoring is essential to the overall management of the grant and is necessary to identify whether project objectives, timelines, budgets, and related program and financial requirements are met. Specifically, the monitoring includes reviews for national objectives¹ and sample program, project, contractor, or subrecipient documentation to assess the subrecipient’s or activity’s capacity and performance.

As shown in the table below, the Authority drew down funds for 12 activities and performed monitoring on 8 during our review period.

Table 1. List of activities monitored and their drawdown as of December 31, 2022

#	Description	Monitored?	Month/Year of review ²	CDBG-DR disbursement
1	Local match projects ³	No	Not applicable	\$109,146,016
2	Purchase and install generators and energy storage	Yes	Sep and Nov 2020	59,229,363
3	Donoe Bypass – road improvement	Yes	Jun 2021	57,334
4	Northside Highway – road improvement	Yes	Jun 2021	39,332
5	Homeowner Rehabilitation and Reconstruction Program	Yes	Mar - Apr 2020 Aug 2020 May 2021 Apr 2022	22,668,983

¹ Federal Register (FR) Notice 83 FR 5851 states that all CDBG-DR-funded activities must address an impact of the disaster to meet a national objective. There are three national objectives an activity can meet: (1) benefiting low- and moderate-income persons, (2) aiding in the prevention or elimination of slums or blight, and (3) meeting an urgent community development need.

² Some of the monitoring reviews conducted covered more than one activity while some monitoring reviews covered the Authority’s general oversight of the CDBG-DR program (e.g., procurement, website) and did not relate to a specific activity.

³ Some federal programs require local government organizations to pay a share of the cost of a project. For USVI, this included infrastructure and utility repair projects.

#	Description	Monitored?	Month/Year of review ²	CDBG-DR disbursement
6	Donoe – new construction of an 84-unit affordable rental	Yes	Jun 2021	10,601,672
7	Rental Rehabilitation and Reconstruction Program	Yes	Aug 2020 May 2021 Apr 2022	3,664,979
8	Construction of a 60-unit affordable rental	No	Not applicable	3,532,177
9	Ross – new construction of three-story commercial-affordable rental	No ⁴	Not applicable	20,333
10	Skills training – train low- and moderate-income individuals	Yes	Sep 2021	3,854,988
11	Marketing campaign to increase tourism	Yes	Apr 2021 Feb - Mar 2022	1,873,843
12	Dredging of harbor	No ⁵	Not applicable	129,893
	Total			\$214,818,913

Our objective was to determine whether the Authority effectively monitored its CDBG-DR-funded activities administered by itself and its subrecipients to ensure that the national objectives and performance measures were met.

⁴ The Authority stated that it had not monitored the activity because there was no activity to monitor at the time and that the disbursements related to staffing costs.

⁵ The Authority stated that it had not monitored the activity because it was in the process of requesting guidance from HUD on the eligibility of the activity as an infrastructure activity. The first request was in April 2022. HUD stated that in February 2023, it shared with the Authority that the activity could be eligible as an economic development activity.

Results of Audit

The Virgin Islands Housing Finance Authority Did Not Effectively Monitor Its CDBG-DR Activities

The Authority did not effectively monitor its CDBG-DR-funded activities. Specifically, it did not (1) assess the activities' performance during its monitoring, (2) consistently track the status of corrective actions, (3) verify that the activities' national objectives were or are being met, and (4) consistently monitor the activities. These deficiencies occurred because the Authority lacked policies and detailed procedures to guide its staff on effectively monitoring and tracking corrective actions and ensure performance metrics included in subrecipient agreements were assessed. Therefore, HUD could not be assured that activities were progressing, identified deficiencies were promptly corrected, and funds were used for authorized purposes.

The Authority Did Not Assess Performance During Its Monitoring

The Authority did not assess the activities' performance during its monitoring or when receiving monthly status reports from its subrecipients. The Authority conducted monitoring reviews on 8 of its 12 activities. Four of the monitored activities did not include an assessment of the activity's performance in relation to established performance metrics or expectations. For the other four monitored activities, the Authority did not establish performance metrics by which an assessment could be made.

- Established metrics not assessed: The subrecipient agreements for four activities included performance metrics that the Authority did not assess during its monitoring. As the passthrough entity, the Authority must monitor the activities of its subrecipients as necessary to ensure that the subaward is used for authorized purposes and performance goals are achieved according to regulations at 2 CFR (Code of Federal Regulations) 200.332(d). Subrecipients submitted to the Authority monthly status reports that included performance details, such as activity progress and status, that the Authority nevertheless did not use to compare with the performance metrics included in the subrecipient agreements. For example, the May 2021 and December 2022 monthly status reports for the activity to purchase and install generators and energy storage noted significant delays⁶ that were not addressed in the Authority's monitoring reports for this subrecipient. As of December 31, 2022, the Authority had used more than \$59 million of the \$95 million in CDBG-DR funds budgeted for this activity, which continued to be delayed. Authority staff members stated that they used the reports to obtain the activity's status and not to assess the activity's performance. By not including the performance assessment in its monitoring reviews, the Authority missed opportunities to enhance its oversight and reduce some of the delays.
- No metrics established: The Authority did not establish performance metrics for four activities. Two of the activities had executed subrecipient agreements, but the agreements did not include performance metrics. The other two activities did not have subrecipient agreements because they were administered by the Authority. However, the Authority should have established

⁶ Based on the monthly status reports, delays were related to the infrastructure and supply of propane for the generators.

performance metrics as required. According to 24 CFR 570.501 (b), regardless of whether it is the recipient or the subrecipient that administers the activity, the recipient is responsible for determining the adequacy of performance and for taking appropriate action when performance problems arise. In determining the adequacy of an activity's performance and what corrective action might be needed, it is key to establish performance metrics, or benchmarks, by which to compare.

The Authority did not monitor the performance of activities administered by itself and its subrecipients because it did not have policies and procedures in place to assess performance during monitoring reviews or reviews of monthly status reports. Further, the Authority did not have policies and procedures to require its staff to consistently establish performance metrics in its subrecipient agreements or supplemental⁷ documents. The Authority's monitoring policies and procedures only stated that its staff would pay special attention to the performance metrics in the subrecipient agreement in conducting its monitoring without providing guidance on how to assess the performance. During our status meetings, the Authority acknowledged the need to revise its policies and procedures and conduct training for its staff.

As a result of the Authority's failure to sufficiently assess an activity's performance, the Authority could not hold the subrecipient or itself accountable for meeting specific performance deliverables or expectations. Further, HUD could not be assured that activities were progressing, delays were assessed and mitigated, and funds or activities reached the intended beneficiaries in a timely manner.

Delays in Reporting Monitoring Findings and Corrective Actions Were Not Consistently Tracked

Ensuring the timely remediation of monitoring findings is a critical component of the monitoring process. However, the Authority's monitoring reporting and corrective action processes did not ensure timely reporting of findings and efficient corrective action tracking. Specifically, the Authority did not ensure that monitoring reports were issued within the required 45-day timeframe and that responses to the monitoring reports were obtained within 30 days.⁸ Of the 19 reports issued, 13 were issued past the 45-day timeframe, 5 of which were issued more than 90 days after completion of the review. Of the 14 reports that required responses, 5 were not responded to by subrecipients, while 7 responses were received beyond the 30-day timeframe, 2 of which were received more than 150 days late. In addition, the Authority did not consistently track corrective actions to ensure that findings identified in the monitoring reports were resolved. According to 2 CFR 200.332(d)(2), the monitoring of the subrecipient must include the followup and ensure that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the Federal award.

Authority staff attributed the excess time for monitoring reports to be issued and responses to be provided to the high workload and staff turnover experienced by the Authority and its subrecipients. We also noted that the Authority's policies and procedures lacked a process for taking action when reports

⁷ Supplemental documents would be applicable if the Authority administered the project and, therefore, would not have had a subrecipient agreement to document the established performance metrics needed to hold itself accountable.

⁸ Per the Authority's CDBG-DR Compliance and Monitoring Policies and Procedures.

were not issued, or responses were not received within established timeframes such as a referral to upper management. Further, the Authority did not consistently track corrective actions due to the CMU's lack of an established tracking process. The Authority stated that each specialist tracked the corrective actions on individual worksheets, but its monitoring procedures did not address the process for tracking its corrective actions and the amount of detail to document. During our review of the worksheets, we found that some statuses showed "resolved" or "unresolved" without sufficient detail to support these statuses.

As a result, HUD could not be assured that identified deficiencies were corrected and risks to the CDBG-DR program were promptly mitigated. Further, inconsistent processes result in inefficiencies in the use of staff resources, which could be used to ensure that monitoring findings are reported in a timely manner.

The National Objective Was Not Verified During Monitoring Reviews

The Authority did not verify that CDBG-DR-funded activities met or are meeting the national objective during the monitoring for 8 activities. Federal Register (FR) Notice 83 FR 5851 states that all CDBG-DR-funded activities must meet a national objective. Additionally, the Authority's monitoring policies and procedures directed that its monitoring process include the review of national objectives.

This condition occurred because the CMU relied on reviews conducted by the Authority's program staff and did not understand its responsibilities related to verifying that this requirement was met. Specifically, the policies and procedures were not sufficiently detailed to identify specific procedures staff should follow to monitor compliance with the national objective. Since the CMU has the responsibility to ensure that the grant funds are used for authorized purposes, it was necessary to verify the accuracy of the information during monitoring. Without independent verification by the CMU, the CDBG-DR grant would be at risk of not achieving the desired program outcomes.

Two of Twelve CDBG-DR Activities Were Not Consistently Monitored

The Authority did not consistently perform monitoring reviews on its CDBG-DR-funded activities as required. According to 2 CFR 200.332(d), all passthrough entities must monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes in compliance with Federal requirements and that performance goals are achieved. Of the 12 activities, the Authority did not perform monitoring reviews on 1 completed activity that spent \$3.5 million and another ongoing activity that drew down \$109.1 million of its \$415 million budgeted grant funds as of January 2023.⁹

This condition occurred because the Authority did not understand how to monitor these activities as it did not have policies and procedures in place to address the process for monitoring all CDBG-DR activities or documenting the basis for not monitoring an activity. The Authority also acknowledged that monitoring was not conducted for these activities due to a lack of training and inadequate knowledge of how to monitor these activity types. Specifically, CMU staff was not familiar with the completed activity as it used low-income housing tax credits. In addition, CMU staff had not determined how to perform monitoring of the local match program because the activity was comprised of several different projects

⁹ For the two other activities not monitored as noted in Table 1 on page 2 of the report, the Authority stated that it had not monitored the activities because there was no activity to monitor at the time. In Recommendation 1G, we recommend the Authority document the basis for not monitoring an activity in the monitoring files.

and the process for administering the activity had changed. As a result, for these two activities, HUD could not be assured that the activities complied with regulations, their performance was on track or delays were assessed, and CDBG-DR funds were used appropriately.

Recommendations:

We recommend that the Deputy Assistant Secretary instruct the Authority to

- 1A. Develop and implement monitoring policies and detailed procedures to guide the Authority's CMU staff in assessing activity performance to meet the subrecipient monitoring requirements and establish written performance metrics to progressively achieve the performance outcome for those activities the Authority administers.
- 1B. Revise subrecipient agreements to include performance metrics and milestones tailored to the activity in sufficient detail to enable the Authority to collect information to effectively assess the activity's performance.
- 1C. Revise the monthly status report template to allow the subrecipient to report its current progress against the established performance metrics.
- 1D. Develop a tracking process to ensure that the Authority issues monitoring reports and receives responses to these reports within the timeframe required by its policy. This process should also include a referral to management when the timeframe requirements are not met.
- 1E. Develop detailed procedures to ensure that the corrective action tracking process is consistently followed to ensure proper resolution.
- 1F. Develop and implement policies and detailed procedures to establish the CMU's responsibilities related to verifying that the CDBG-DR activity meets the stated national objective.
- 1G. Develop and implement policies and detailed procedures to identify the risk analysis process for monitoring all CDBG-DR-funded activities during the course of the activity and require that the monitoring files document the basis for why an activity is or is not monitored.
- 1H. Train the CMU staff on the newly developed policies and procedures and obtain technical assistance from HUD as needed.

Scope and Methodology

We performed our audit work between August 2, 2022, and February 2023 in our offices in Atlanta, GA, Greensboro, NC, and Miami, FL. Our audit period covered September 6, 2017, when Hurricane¹⁰ Irma struck USVI, through June 30, 2022. To update disbursement amounts, we extended our audit period to December 31, 2022.

To accomplish our audit objective, we interviewed and corresponded with the Authority's CMU staff, the Authority's program staff, and subrecipients. We also discussed our work with HUD's program staff. In addition, we obtained and reviewed

- relevant laws, Federal Register notices, and program guidance;
- USVI's disaster recovery action plans and monitoring policies and procedures;
- reports produced by other agencies pertaining to USVI's recovery;
- relevant subrecipient agreements, contracts, and project agreements;
- the Authority's quarterly performance reports and subrecipient monthly status reports;
- HUD and Authority monitoring reports and responses; and
- financial data from HUD's Disaster Recovery Grant Reporting system (DRGR).

As of June 30, 2022, the Authority had drawn down CDBG-DR funds for 12 activities according to the DRGR financial reports obtained. Our review of the 12 activities showed that the Authority performed monitoring on 8 of these activities. We were provided 19 monitoring reports¹¹, of which 15 were conducted remotely and 4 were desktop reviews¹². We conducted a review of all monitoring reports provided and, therefore, did not conduct statistical sampling.

We did not assess the reliability of the computer-processed data as we did not rely on the data to materially support audit conclusions or recommendations.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusion based on our audit objective.

¹⁰ Hurricane Maria struck USVI shortly after, on September 20, 2017.

¹¹ These 19 reports relate to the 8 activities monitored.

¹² The CMU initiated a desktop review when it identified a concern with an activity or subrecipient. Desktop reviews can include, but are not limited to, assessment of subrecipient documents and reports, and communication with subrecipients. Desktop reviews are less extensive than on-site or remote monitoring reviews, which take a broader look at activities and may include physical inspections.

Appendixes

Appendix A – Auditee Comments and OIG’s Evaluation

Ref to OIG Evaluation – Auditee Comments



VIRGIN ISLANDS HOUSING FINANCE AUTHORITY

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April 20, 2023

VIA ELECTRONIC MAIL: [REDACTED]

Ms. Nikita N. Irons
Audit Director
Office of the Inspector General
451 7th Street SW, Room 8180
Washington, DC 20410

**RE: VIHFA Administration of Overall Monitoring of CDBG-DR Activities
Audit Report Number: 2023-AT-XXX**

Dear Director Irons:

This correspondence provides responses to findings outlined in the draft report dated April 11, 2023, which identifies four (4) program weaknesses.

 **Comment 1 >**

Prior to addressing the findings below, the Authority wishes to bring attention to the mention of twelve (12) activities of which we failed to monitor four (4) of those activities. The Authority wishes to disagree with the number of activities that should have been monitored and the number that we failed to monitor. VIHFA believes that 10 of the 12 activities were actual activities to be monitored and two (2) of the four (4) were actual activities that weren't monitored. As mentioned during the audit, the Ross Activity had not started any activity and the only charges to this activity was for staffing and manpower. Since the project had not started and there was no activity except for staffing and planning, the CMU did not monitor as there was no activity to monitor. Additionally, as mentioned during the audit review, the Port Dredging project, though listed in DRGR, was not yet an approved eligible activity. At the time of the audit, the Authority was in the process of requesting a waiver for eligibility to proceed with the activity. Since we did not receive waiver/approval, VIHFA could not proceed with any activity. While funds may have been drawn down, it was only for staffing and planning. Additionally, these funds have been reallocated from this activity back to administrative costs. That said, neither activity would warrant monitoring as there was no activity to monitor at the time.

Item 1: The Authority Did Not Assess Performance During Its Monitoring

The Authority did not assess the activities' performance during its monitoring or when receiving monthly status reports from its subrecipients. The Authority conducted monitoring reviews on 8 of its 12 activities. Four of the monitored activities did not include an assessment of the activity's performance in relation to established performance metrics or expectations. For the other four monitored activities, the Authority did not establish performance metrics by which an assessment could be made.

Established Metrics Not Assessed

The subrecipient agreements for four activities included performance metrics that the Authority did not assess during its monitoring. As the passthrough entity, the Authority must monitor the activities of its



Unlocking the Door to Affordable Housing

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subrecipients as necessary to ensure that the subaward is used for authorized purposes and performance goals are achieved according to regulations at 2 CFR (Code of Federal Regulations) 200.332(d). Subrecipients submitted to the Authority monthly status reports that included performance details, such as activity progress and status, that the Authority nevertheless did not use to compare with the performance metrics included in the subrecipient agreements. For example, the May 2021 and December 2022 monthly status reports for the activity to purchase and install generators and energy storage noted significant delays that were not addressed in the Authority’s monitoring reports for this subrecipient. As of December 31, 2022, the Authority had used more than \$59 million of the \$95 million in CDBG-DR funds budgeted for this activity, which continued to be delayed. Authority staff members stated that they used the reports to obtain the activity’s status and not to assess the activity’s performance. By not including the performance assessment in its monitoring reviews, the Authority missed opportunities to enhance its oversight and reduce some of the delays.

Comment 2 >

VIHFA Comments:

The Authority has since reviewed all subrecipient and project agreements to assess for project deliverables and performance metrics for each activity and updated our monthly status reports template to include a quantitative section that includes the project/activity deliverable and monthly performance measures/indicators as well as a variance section/column that indicates progress. Data entered into the section will be analyzed against the deliverable(s) and performance measure(s) and the variance will be calculated into the variance column. Negative variances and/or variances not hitting benchmarks will be highlighted in red indicating project status. The CMU unit has also created a project status tracker for each project. Data reported monthly will be entered into the project status tracker. VIHFA will also incorporate a quarterly performance report to be completed by each subrecipient. In this report, VIHFA will analyze the quarterly data reported against the data reported in the project status tracker and the project deliverables to determine project status for on time completion. VIHFA anticipates full implementation on the use of the new templates and process on June 1, 2023. Further, to ensure that we receive timely reports, in October of 2022, the CMU sent out notices to all programs explaining the importance and requirement of timely monthly status reports, issuance of noncompliance notification letters, and the sanctions such as nonpayment that can occur for failure to turn in timely reports.

No Metrics Established

The Authority did not establish performance metrics for four activities. Two of the activities had executed subrecipient agreements, but the agreements did not include performance metrics. The other two activities did not have subrecipient agreements because they were administered by the Authority. However, the Authority should have established performance metrics as required. According to 2 CFR 570.501 (b), regardless of whether it is the recipient or the subrecipient that administers the activity, the recipient is responsible for determining the adequacy of performance and for taking appropriate action when performance problems arise. In determining the adequacy of an activity’s performance and what corrective action might be needed, it is key to establish performance metrics, or benchmarks, by which to compare.

Comment 3 >

VIHFA Comments:

As stated above, the Authority has since reviewed all subrecipient and project agreements to assess for project deliverables, performance measures, milestones, and benchmarks (if any) and identified the agreements that requires amendments to include performance metrics. VIHFA also assessed the quality and strength of existing performance metrics that were included in other subrecipient and



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project agreements. VIHFA will meet with each subrecipient to include and/or update the performance sections of the agreements to include performance metrics that will indicate the status and performance of the project. All agreements will be amended to include the metrics by end of 3rd Quarter FY 2023.

The Authority did not monitor the performance of activities administered by itself and its subrecipients because it did not have policies and procedures in place to assess performance during monitoring reviews or reviews of monthly status reports. Further, the Authority did not have policies and procedures to require its staff to consistently establish performance metrics in its subrecipient agreements or supplemental documents. The Authority's monitoring policies and procedures only stated that its staff would pay special attention to the performance metrics in the subrecipient agreement in conducting its monitoring without providing guidance on how to assess the performance. During our status meetings, the Authority acknowledged the need to revise its policies and procedures and conduct training for its staff.

As a result of the Authority's failure to sufficiently assess an activity's performance, the Authority could not hold the subrecipient or itself accountable for meeting specific performance deliverables or expectations. Further, HUD could not be assured that activities were progressing, delays were assessed and mitigated, and funds or activities reached the intended beneficiaries in a timely manner.

Comment 4 >

VIHFA Comments:

VIHFA's CMU has updated its policies and procedures to include a Monitoring and Performance Section. This section has three main subsections: Establishing Metrics, Assessing Performance, and Reports and Monitoring.

Establishing Metrics: This section includes reviewing the initial subrecipient agreement and project agreement to analyze and ensure the sufficiency of metrics included in the agreement prior to the agreement being sent to the Executive Director and the subrecipient for signature. We provide a timeframe as to when this will occur as well as items that will be reviewed such as project deliverable(s), performance measures, benchmarks, and period of performance.

Assessing Performance: This section outlines how we will assess a project's performance. We detail the use of the monthly status reports, QPR's, and agreements to measure and compare against reported data. This section also discusses the use of the project status tracker to track quantitative data and its utilization as a comparison tool in assessing project performance.

Reports and Monitoring: This section details how we will monitor projects monthly through the use of various tools and actions including the monthly review of monthly status reports, inputting the data in the project status tracker, and comparing data against project deliverables, measures, and benchmarks indicated in the agreements. Further, we discuss corrective actions that we will take for projects that are not on track with the implementation of a Performance Improvement Plan (PIP) action that is triggered when there is a variance indicating that the project is not on schedule. In detail, we explain how and when this trigger occurs and when the PIP is sent to the subrecipient.

The CMU meets weekly to go over program updates and receive training on new processes. We are continuing to refine and update our policies and procedures and estimate a completed final draft by the end of 3rd quarter FY 2023.



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Item 2: Delays in Reporting Monitoring Findings and Corrective Actions Were Not Consistently Tracked

Ensuring the timely remediation of monitoring findings is a critical component of the monitoring process. However, the Authority's monitoring reporting and corrective action processes did not ensure timely reporting of findings and efficient corrective action tracking. Specifically, the Authority did not ensure that monitoring reports were issued within the required 45-day timeframe and that responses to the monitoring reports were obtained within 30 days. 7 Of the 19 reports issued, 13 were issued past the 45-day timeframe, 5 of which were issued more than 90 days after completion of the review. Of the 14 reports that required responses, 5 were not responded to by subrecipients, while 7 responses were received beyond the 30-day timeframe, 2 of which were received more than 150 days late. In addition, the Authority did not consistently track corrective actions to ensure that findings identified in the monitoring reports were resolved. According to 2 CFR 200.332(d)(2), the monitoring of the subrecipient must include follow up and ensure that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the Federal award.

Authority staff attributed the excess time for monitoring reports to be issued and responses to be provided to the high workload and staff turnover experienced by the Authority and its subrecipients. We also noted that the Authority's policies and procedures lacked a process for taking action when reports were not issued, or responses were not received within established timeframes such as a referral to upper management. Further, the Authority did not consistently track corrective actions due to the CMU's lack of an established tracking process. The Authority stated that each specialist tracked the corrective actions on individual worksheets, but its monitoring procedures did not address the process for tracking its corrective actions and the amount of detail to document. During our review of the worksheets, we found that some statuses showed "resolved" or "unresolved" without sufficient detail to support these statuses.

As a result, HUD could not be assured that identified deficiencies were corrected and risks to the CDBG-DR program were promptly mitigated. Further, inconsistent processes result in inefficiencies in the use of staff resources, which could be used to ensure that monitoring findings are reported in a timely manner.

Comment 5 >

VIHFA Comments:

The VIHFA CMU staff identified this deficiency and refined and updated our monitoring tracker to a centralized tracker that includes all subrecipient information, monitoring(s) that occurred as well as corrective actions taken. The unit also reached out to every subrecipient that received a monitoring and provided a monitoring response letter and/or requested status on all open findings and corrective actions taken. To date, we have responded to and closed all past monitoring reports and are completely up to date on all previous monitoring's. We have also put into practice a tracker review with updates weekly during staff meetings. The CMU has also created a monitoring calendar that aligns with our monitoring plan and have put in place additional actions that will occur prior to the monitoring (such as 60 days out triggers) as well as triggers for post monitoring such as reminders to both CMU staff as well as subrecipients for upcoming due dates for responses, follow ups, and technical assistance as needed regarding findings and corrective actions. Our policies and procedures have been updated to include these actions. Also, as stated above, in October of 2022, the CMU staff sent out notices to all programs explaining the importance and requirement of timely monthly status reports, issuance of noncompliance notification letters, and the sanctions such as nonpayment that can occur for failure to turn in timely reports. This action was done to ensure that we receive timely reports and advise all programs that the noncompliance actions will be enforced.



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Item 3: The National Objective Was Not Verified During Monitoring Reviews

The Authority did not verify that CDBG-DR-funded activities met or is meeting the national objective during the monitoring for 8 activities. Federal Register (FR) Notice 83 FR 5851 states that all CDBG-DR-funded activities must meet a national objective. Additionally, the Authority's monitoring policies and procedures directed that its monitoring process include the review of national objectives.

This condition occurred because the CMU relied on reviews conducted by the Authority's program staff and did not understand its responsibilities related to verifying that this requirement was met. Specifically, the policies and procedures were not sufficiently detailed to identify specific procedures staff should follow to monitor compliance with the national objective. Since the CMU has the responsibility to ensure that the grant funds are used for authorized purposes, it was necessary to verify the accuracy of the information during monitoring. Without independent verification by the CMU, the CDBG-DR grant would be at risk of not achieving the desired program outcomes.

Comment 6 >

VIHFA Comments:

The CMU has since implemented two additional practices: National Objective supporting documentation (if applicable at time of application) verification during application review and National Objective verification during our monitoring reviews. This ensures that we verify that activities meet a national objective and there is verified supporting documentation (if applicable) prior to activity approval and again during monitoring. Additionally, the CMU has since brought on Quality Assurance staff that will serve as an additional reviewer to ensure that not only are activities meeting a national objective but also that each activity has the proper supporting documentation that verifies that requirements are met. On February 23, 2023, the entire VIHFA CDBG-DR staff received National Objectives training by our regional HUD Representatives and continue to receive technical assistance during our biweekly touchpoint meetings to strengthen our knowledge on National Objectives for our projects. Our policy and procedures have been updated to include CMU staff responsibilities in reviewing and verifying activity national objectives.

Item 4: Two of Twelve CDBG-DR Activities Were Not Consistently Monitored

The Authority did not consistently perform monitoring reviews on its CDBG-DR-funded activities as required. According to 2 CFR 200.332(d), all passthrough entities must monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes in compliance with Federal requirements and that performance goals are achieved. Of the 12 activities, the Authority did not perform monitoring reviews on 1 completed activity that spent \$3.5 million and another ongoing activity that drew down \$109.1 million of its \$415 million budgeted grant funds as of January 2023.

This condition occurred because the Authority did not understand how to monitor these activities as it did not have policies and procedures in place to address the process for monitoring all CDBG-DR activities or documenting the basis for not monitoring an activity. The Authority also acknowledged that monitoring was not conducted for these activities due to a lack of training and inadequate knowledge of how to monitor these activity types. Specifically, CMU staff was not familiar with the completed activity as it used low-income housing tax credits. In addition, CMU staff had not determined how to perform monitoring of the local match program because the activity was comprised of several different projects and the process for administering the activity had changed. As a result, for these two activities, HUD could not be assured that



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Ref to OIG Evaluation – Auditee Comments

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the activities complied with regulations, their performance was on track or delays were assessed, and CDBG-DR funds were used appropriately.

Comment 7 >

VIHFA Comments:

VIHFA has created a monitoring calendar that includes every activity. These activities will be monitored during 2023 and annually thereafter. Further, in November of 2022, VIHFA surveyed CMU staff as well as program staff to identify areas for training and technical assistance needs. Based on the results, a staff training calendar was developed and implemented. The Authority has requested assistance from our HUD representatives on training coordination and implemented biweekly HUD touchpoint meetings. During these meetings, we provide updates on our activities and our HUD representatives provide technical assistance on the training topics identified. The Authority have also sought out technical assistance and training from other industry experts. For example, the staff attended Low Housing Tax Credits training hosted by industry expert Novogradac as well as HUD National Objectives Training in February 2023. Our future trainings will assist the CMU staff in gaining a thorough understanding of our projects as well as CDBG-DR rules and requirements. With the training and support as well as the monitoring calendar, the CMU is poised to complete monitoring of all activities.

Thank you for the opportunity to include our comments in the upcoming report. Should you have questions/concerns with the details contained herein do not hesitate to contact Ms. Alanah Lavinier, Director of Policy, Procedure, and Regulatory Services at alavinier@vihfa.gov.

Sincerely,



Dayna Crendinen

Interim Executive Director/Chief Disaster Recovery Officer

cc: Alanah Lavinier, DR Director of Policy, Procedure, and Regulatory Services
Judy-Ann Frederick, DR Finance Director
Laura Smith- Dawkins, DR Senior Manager, Compliance and Monitoring



Unlocking the Door to Affordable Housing

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OIG Evaluation of Auditee Comments

Comment 1 The Authority stated that it disagreed with the number of activities that should have been monitored (12) and the number of activities it failed to monitor (4). Of the 12 activities listed, the Authority believed 10 were activities that it should have monitored and 2 were activities that it did not monitor. It commented that the Ross activity and harbor dredging activity did not warrant monitoring as there was no activity to monitor at the time.

The 12 activities listed in the Background and Objective section are the CDBG-DR activities that had expenditures during our scope period and help to provide context for the results of the audit. The section does not make an assessment that the Authority failed to monitor the four activities. We included footnotes to the Ross and harbor dredging activities to provide the Authority's reasons for not monitoring them. On page 5 of this report, we describe the results of our review of the Authority's monitoring efforts. We cite the Authority for not monitoring 2 of the 12 activities in which one was completed and drew down \$3.5 million of grant funds and the other was an ongoing activity that drew down \$109.1 million of grant funds. For the Ross and harbor dredging activities, we included a footnote that the Authority stated that the activities did not warrant monitoring at the time and our recommendation that the Authority's basis for not monitoring them be documented in the monitoring files.

Comment 2 The Authority shared that it is taking corrective steps to assess an activity's performance in relation to established metrics. The Authority stated that it reviewed all subrecipient and project agreements for deliverables and metrics; updated the monthly status report template to include a quantitative section to calculate the activity's progress variance; created a project status tracker for each activity; will incorporate a quarterly performance report to be completed by each subrecipient; and have sent out notices to the program staff on the requirement to submit the monthly status reports on time.

We commend the Authority for initiating the actions necessary to assess the activity's performance against established metrics. The Authority should work with HUD during the audit resolution process to fully implement recommendations 1A and 1C to ensure that activities are progressing, and delays are assessed and mitigated.

Comment 3 The Authority stated that it has reviewed all subrecipient and project agreements to assess the project deliverables, measures, and milestones; assessed the quality of existing performance metrics; and has identified the agreements that require amendments. The Authority also plans to meet with each subrecipient to include or update the performance section of the agreements.

We commend the Authority for developing or revising the performance metrics in the subrecipient and project agreements. The Authority should work with HUD

during the audit resolution process to fully implement recommendation 1B to ensure the Authority and subrecipients are held accountable for meeting specific performance deliverables or expectations.

Comment 4 The Authority shared that the CMU has updated its policies and procedures that incorporated a Monitoring and Performance section which is comprised of three areas of review: Establishing Metrics, Assessing Performance, and Reports and Monitoring.

We commend the Authority for updating its monitoring and compliance policies and procedures. The Authority should work with HUD during the audit resolution process to fully implement recommendations 1A, 1B, and 1C to ensure the Authority assesses the activity's performance during monitoring with the intention that program outcomes are achieved, and grant funds reach the beneficiaries in a timely manner.

Comment 5 The Authority stated that the CMU has updated its monitoring tracker to a centralized tracker that includes all subrecipient information, monitoring reviews that occurred, and corrective actions taken. In addition, the CMU reached out to all subrecipients that were monitored and stated that it has responded to and closed all past monitoring reports. It also created a monitoring calendar that triggers actions that occur before a monitoring and after a monitoring to remind CMU and subrecipient staff. These actions have been updated in the Authority's policies and procedures.

We commend the Authority for revising its tracking process and addressing prior monitoring reports. The Authority should work with HUD during the audit resolution process to fully implement recommendations 1D and 1E to ensure that deficiencies identified during the monitoring reviews are corrected to mitigate risks to the program.

Comment 6 The Authority shared that it updated its policies and procedures to include CMU staff responsibilities to review and verify an activity's national objective. The CMU implemented two actions for verifying the national objective, one is to verify the supporting documentation during the application review process, and another is to verify during the monitoring process, as applicable. In addition, the CMU has brought on Quality Assurance staff to ensure that the activity meets a national objective and has the proper support.

We commend the Authority for incorporating the new practices to ensure that each activity meets a national objective. The Authority should work with HUD during the audit resolution process to fully implement recommendation 1F to ensure that CDBG-DR grant funds are used to meet a national objective.

Comment 7 The Authority stated that it created a monitoring calendar with every activity and each activity will be monitored during 2023 and annually thereafter. In addition, the Authority shared that it had surveyed CMU staff to identify areas for training and

technical assistance needs. The survey resulted in developing a training calendar and having biweekly meetings with HUD to update them on the activities and for HUD to provide technical assistance.

We commend the Authority for setting up the monitoring calendar and identifying CMU staff training needs. The Authority should work with HUD during the audit resolution process to fully implement recommendation 1G to ensure that activities comply with grant requirements and its performance is assessed and 1H to ensure staff understand and updated policies and procedures and their implementation.

HUD Comments On May 23, 2023, HUD provided its written response to our draft discussion audit report. HUD provided clarification regarding the circumstances of an activity that was not monitored and indicated that recommendations 1A and 1G needed further clarification and that HUD continues to provide technical assistance as recommended in the proposed recommendation 1H. We took HUD's comments under consideration and made revisions to the report as appropriate.