



OFFICE of
INSPECTOR GENERAL
★ ★ ★ ★
UNITED STATES DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT

The Virgin Islands Housing Finance Authority's Administration of Its Non-Federal Match Program Had Weaknesses

Audit Report Number: 2023-FW-1002

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, GA

Subject: The Virgin Islands Housing Finance Authority's Administration of Its Non-Federal Match Program for Community Development Block Grant Disaster Recovery Funds Had Weaknesses

Attached is 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 Non-Federal Match Program for Community Development Block Grant Disaster Recovery funds.

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

The Virgin Islands Housing Finance Authority's Administration of Its Non-Federal Match Program Had Weaknesses | 2023-FW-1002

What We Audited and Why

We audited the Virgin Islands Housing Finance Authority's Non-Federal Match Program for Community Development Block Grant Disaster Recovery (CDBG-DR) funds. This Match Program was developed to assist non-Federal entities in paying for their share of projects that addressed unmet needs because of the 2017 Hurricanes Irma and Maria. We initiated this audit due to the \$415 million of CDBG-DR funds allocated by the Authority and to support the U.S. Department of Housing and Urban Development's (HUD) strategic objective of promoting effectiveness and accountability in long-term disaster recovery.

Our audit objective was to determine whether the Authority effectively administered its Match Program by identifying and assessing any challenges that hindered its ability to achieve program goals.

What We Found

We determined that the Authority's administration of its Match Program had weaknesses. Specifically, the Authority had (1) insufficient financial controls, (2) insufficient oversight of its Match Program-funded projects, (3) inaccurate performance measures reported in its quarterly performance reports, and (4) insufficient documentation to support its national objectives. This condition occurred because the Authority did not have adequate policies and procedures or did not implement its existing policies to ensure effective administration of its Match Program. As a result, the Authority was at risk of not managing its Match Program in compliance with HUD requirements and achieving program goals. Further, this condition could result in the Authority providing program benefits to the intended beneficiaries late and increasing the risk of the Authority issuing improper payments.

What We Recommend

We recommend that the Deputy Assistant Secretary for Grant Programs require the Authority to (1) develop and implement policies and procedures to address the challenges identified and (2) conduct training for its staff and CDBG-DR Match Program recipients.

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Background and Objective

The Virgin Islands Housing Finance Authority (the Authority) manages various U.S. Department of Housing and Urban Development (HUD) programs for the U.S. Virgin Islands (USVI), including its Community Development Block Grant Disaster Recovery (CDBG-DR) funds. The Authority used its CDBG-DR funds for the Non-Federal Match Program (Match Program) to assist non-Federal entities in paying for their share or match of projects that addressed unmet recovery needs because of the 2017 Hurricanes Irma and Maria.


After Hurricanes Irma and Maria devastated the Islands in September 2017, HUD allocated USVI \$1.14 billion in CDBG-DR funds¹ for unmet disaster recovery needs. Of the \$1.14 billion, the Authority budgeted \$415.75 million to the Match Program, and more than \$99 million had been disbursed as of December 31, 2022, to the following eight projects (table 1).

Table 1. Disbursements for Match Program-funded projects as of December 31, 2022

| | Name of project | Project identifier | CDBG-DR disbursement | FEMA cost share | CDBG-DR cost share |
|---|---|--------------------|----------------------|-----------------|--------------------|
| 1 | St. John Electrical Distribution | PW60 | \$5,569,918 | 90% | 10% |
| 2 | Juan F. Luis Hospital Facilities | PW81 | 7,055,844 | 90% | 10% |
| 3 | Water Island Electrical Distribution | PW85 | 198,388 | 90% | 10% |
| 4 | Sheltering and Temporary Essential Power (STEP) | PW100 | 14,246,937 | 90% | 10% |
| 5 | Department of Education Temporary Facility Purchase | PW121 | 4,969,236 | 90% | 10% |
| 6 | St. Croix Electrical Distribution | PW126 | 22,744,796 | 90% | 10% |
| 7 | STEP Program Management - Call Center | PW273 | 30,133,003 | 90% | 10% |
| 8 | St. Thomas Electrical Transmission and Distribution | PW307 | 14,963,798 | 90% | 10% |
| | Total | | 99,881,920 | | |

These projects had match requirements set by the Federal Emergency Management Agency (FEMA). Specifically, FEMA agreed to fund 90 percent of the projects, while the non-Federal entities were required to pay the remaining 10 percent. A Federal Register notice from February 9, 2018 (FR-6066-N-01) allowed non-Federal entities to use CDBG-DR funds to pay for the required match. To do so, the non-Federal entities applied to the Authority requesting to use CDBG-DR funding to cover their 10 percent cost share. This resulted in FEMA funding 90 percent of the project and HUD's CDBG-DR funds covering the remaining 10 percent. The payment process consisted of two different payment approaches, the

¹ The \$1.14 billion was comprised of four allocations. Allocation 1 for \$242.68 million was awarded February 9, 2018, allocation 2 for \$779.21 million was awarded August 14, 2018, and allocation 3 for \$53.58 million was awarded January 27, 2020. Allocation 4 for \$67.65 million was for USVI to enhance its electrical power systems. HUD and the Authority have not executed the grant agreement for this allocation.



traditional approach or the coordinated approach. The traditional approach to matching the local cost share consisted of the Authority paying 10 percent of each invoice, while FEMA paid the remaining 90 percent. The coordinated approach consisted of the Authority paying 100 percent of invoices on HUD-eligible costs until it reached 10 percent of the total project costs.

Where the Authority is the grantee receiving CDBG-DR funds, the Virgin Islands Territorial Emergency Management Agency (VITEMA) is the grant recipient of FEMA funds. The Authority and VITEMA staff collaborated to ensure that the two entities satisfied non-Federal Match Program requirements. Specifically, VITEMA administered the cost share portion for FEMA and, when possible, shared information with the Authority to minimize collecting duplicative documentation.

Our audit objective was to determine whether the Authority effectively administered its Match Program by identifying and assessing any challenges that hindered its ability to achieve program goals.

Results of Audit

The Virgin Islands Housing Finance Authority's Administration of its Non-Federal Match Program Had Weaknesses

We determined that the Authority's administration of its Match Program had weaknesses. Specifically, the Authority had (1) insufficient financial controls, (2) insufficient oversight of its Match Program-funded projects, (3) inaccurate performance measures reported in its quarterly performance reports (QPR), and (4) insufficient documentation to support its national objectives. This condition occurred because the Authority did not have adequate policies and procedures or did not implement its existing policies to ensure effective administration of its Match Program. As a result, the Authority was at risk of not managing its Match Program in compliance with HUD requirements and achieving program goals. Further, this condition could result in delays to the intended beneficiaries receiving program benefits and increasing the risk of improper payments.

Insufficient Financial Controls and Procedures

The Authority had insufficient financial controls and procedures to ensure that it appropriately matched FEMA funds. According to Federal Register Notice 83 FR 5844, the grantee should have in place proficient financial controls and adequate procedures for grant management. We found (1) three overpaid vouchers, (2) two projects that exceeded the 10 percent match requirement, (3) no written procedures for award increases, and (4) needed enhancements to the payment review process. The Authority conducts payment reconciliation at project closeout. This increases the risk that improper payments go undetected before project closeout and limits the Authority's ability to mitigate improper payments in a timely manner.

- **Overpaid invoices:** For three of seven vouchers reviewed, the Authority paid 100 percent of the invoices supporting the voucher amount using CDBG-DR funds, while FEMA paid 90 percent of the same invoices, as shown on the Disaster Recovery Grant Reporting system (DRGR) and FEMA drawdown packages (table 2). While these invoices were overpaid, as of June 30, 2022, the Authority did not exceed the 10 percent match requirement that applies to the project's total cost, not individual vouchers. Regardless, this condition raises the risk of potential improper payments since the Authority conducts the reconciliation at project closeout.²

Table 2. Three overpaid vouchers

| Voucher number | Voucher amount | Authority payment | FEMA payment |
|----------------|----------------|-------------------|--------------|
| 576322 | \$4,848,418 | \$4,848,418 | \$4,363,576 |
| 583423 | 198,388 | 198,388 | 178,550 |
| 578761 | 1,859,477 | 1,859,477 | 1,673,529 |

² We were unable to determine which payment approach should have been used for each invoice to quantify the potential overpayments at a transactional level. Since these projects are not yet closed, the grantee could use these voucher overpayments to pay for other project-related expenditures and, potentially, avoid an improper overpayment of CDBG-DR funds. Additionally, because the project is not yet closed, HUD OIG cannot determine if the Authority overpaid the grantee through these specific vouchers.

- 10 percent match requirement exceeded: For each of the eight funded projects, we identified the 10 percent match requirement by calculating the 10 percent of the project costs approved by FEMA in the project worksheet and then compared it to the total amount of CDBG-DR funds drawn as of June 30, 2022. We identified that two of the eight projects (PW100 and PW273) exceeded the Authority's 10 percent cost share by more than \$10 million. The Authority's policies and procedures indicated that CDBG-DR funds would not be used beyond the 10 percent of the project costs approved by FEMA in a project worksheet.

In response to the draft audit report, the Authority stated an exception was made for PW100 and PW273 regarding exceeding the 10 percent match requirement. However, evidence of this exception was not provided by the Authority during our audit and therefore we could not validate it. Therefore, this condition raises the risk of an improper payment occurring.

- Lack of written procedures for award increases: Our review identified an instance in which the award amount requested for CDBG-DR funds on the initial application was later increased from \$265,870 to \$1.64 million. This Match Program recipient planned to submit amendments to request additional funds for its other applications, and according to the project worksheets, this increase could be up to \$33 million. While the Authority explained that it conducted a review of increase requests, it acknowledged that there were no written procedures for what should be conducted during this review, which could enhance consistency and cost reasonableness determinations. Due to the significant increases requested, it is important to determine the reasonableness for these increases to ensure that CDBG-DR funds are used in the most prudent and cost-efficient manner.
- Needed enhancements to the payment review process: We reviewed the FEMA determination memorandums for two projects,³ which determined that the Authority did not provide adequate support for costs incurred and identified unreasonable costs. The resolution of these memorandums was ongoing, but we did not identify recommendations from FEMA to address procedural concerns. During our review of the Authority's approval of payment process, we identified a checklist to facilitate its review and a listing of documentation to support costs, but it did not detail how to conduct a reasonableness review of payments. Enhancing its payment review process could ensure that payments are reasonable and supported.

These conditions occurred because the Authority had insufficient financial controls and procedures to ensure that it appropriately matched FEMA funds. Specifically, the Authority did not have written procedures that detailed controls designed to prevent (1) paying invoices that were also paid by FEMA and (2) exceeding the 10 percent match requirement. The Authority stated that at closeout, it will conduct a reconciliation of expenditures to ensure that costs paid with CDBG-DR funds were not also paid by another source; however, waiting until the closeout period to conduct this review does not prevent the risk of overpaying for project costs with CDBG-DR funds. In addition, the Authority did not realize the need to develop policies and procedures for reviewing amended applications requesting additional funds and believed its controls were sufficient for payment processing.

³ These projects were PW100 and PW273.

Because the Authority did not establish and maintain effective financial controls over its Match Program, the Authority and HUD do not have reasonable assurance that the program was managed in compliance with HUD requirements. Further, the Authority's insufficient controls placed CDBG-DR funds at higher risk of fraud, waste, abuse, and improper payments. The remaining budgeted funds for these activities totaled \$308.6 million as of December 31, 2022.⁴

Insufficient Oversight of Match Program-Funded Projects

The Authority did not ensure proper oversight of the Match Program-funded projects and its recipients because it did not collect monthly status reports or perform monitoring reviews. Our review disclosed that for the period of July 2019 through June 2022, the Authority did not perform any monitoring reviews of the Match Program-funded projects as required by 2 CFR (Code of Federal Regulations) 200.332(d) and did not collect any monthly status reports as required in the subrecipient agreement. Further, our interviews of Match Program recipients identified challenges they faced and recipients suggested that the Authority provide them with training and guidance to help them understand HUD requirements. This condition occurred because the Authority did not implement its policies and procedures, which required monthly status reports from Match Program recipients, and develop procedures to explain how to monitor its Match Program activities. The Authority further acknowledged that its lack of experience and understanding of the Match Program contributed to this condition. By not conducting monitoring reviews and not collecting and reviewing monthly status reports, the Authority did not ensure that projects met program requirements and performance goals. This condition could also result in negative impacts to the intended beneficiaries of the projects and activities if there are performance challenges that are not sufficiently monitored. Further, the Authority did not obtain the necessary data to populate the QPRs that it submits to HUD, which HUD uses to offer input, assistance, and oversight on program activities and awards. The QPRs may also inform HUD's decisions to continue with the existing award and future funding decisions.

Inaccurate Data Reporting in Quarterly Performance Report

The Authority reported inaccurate accomplishment performance measures (estimated and actual) for its Match Program activities in the QPR ending June 30, 2022. For one activity, it reported assisting 2 of 53 nonbusinesses and 2 of 397 public facilities, and for another activity, it reported assisting 0 of 53 nonbusinesses and 1 of 397 public facilities. When we asked the Authority to provide the documentation supporting these numbers, it acknowledged that the information it reported in the QPR was incorrect. According to Federal Register Notice 83 FR 5852, HUD requires grantees to enter information into DRGR in sufficient detail to permit HUD's review of grantee performance quarterly through the QPR. This condition occurred because the Authority did not understand how to report performance outcomes as it had not established policies and procedures to identify specific reporting requirements. Inaccurate information in QPRs hinders the reliability of information that HUD uses to report to Congress regarding program goals and what the Authority uses to report to the public on its disaster recovery website. In addition, inaccurate QPRs prevent HUD from properly assessing a grantee's level of compliance and risk.

⁴ As of December 31, 2022, the Authority had disbursed a total of \$109.14 million. This amount includes (1) \$99.88 million for the eight projects reviewed within our scope period, (2) \$8.32 million for another project that was outside our scope period, and (3) \$942,877 for other expenditures related to the Match Program activities.

The Authority acknowledged its plans to revise its disaster recovery website to further enhance the transparency of its Match Program activities.

Insufficient Record Keeping for National Objective

Our review of the eight Match Program projects showed that the Authority did not maintain adequate documentation to support that the projects were consistent with the applicable national objective⁵. For the eight projects reviewed, the Authority classified them in DRGR as being the low- and moderate-income area benefit national objective. For these projects the Authority did not maintain evidence to show how the service areas for the projects were determined and, therefore, did not document its justification for the projects' meeting the national objective as required by 24 CFR 570.506 and Office of Community Planning and Development Notice CPD-20-10. In addition, the project files did not contain evidence to show that the service areas were primarily residential as required by the Authority's policies and procedures and Notice CPD-20-10. This condition occurred because the Authority did not understand the process for documenting how its projects supported the national objective. The Authority's policies and procedures did not require that documentation be maintained to support how the service area was determined and provide a list of acceptable documents to support that the service area was primarily residential. Without sufficient procedures to ensure proper documentation, the Authority risked not ensuring that Match Program activities met their intended purposes and achieved CDBG-DR program goals.

Recommendations:

We recommend that the Deputy Assistant Secretary instruct the Virgin Islands Housing Finance Authority to

- 1A. Develop and implement procedures, including financial controls, to enhance its tracking of payments made with CDBG-DR funds and payments made with FEMA funds to ensure that payments are not made for the same invoices, match requirements are not exceeded before closeout, and a thorough review is conducted for award increases and cost reasonableness.
- 1B. Enforce its subrecipient agreement requirement to submit monthly status reports.
- 1C. Develop and implement procedures to ensure that all Match Program activities are monitored, and guidance is provided to its Match Program recipients.
- 1D. Develop and implement detailed policies and procedures to guide staff in reporting performance outcomes in the QPR and on its disaster recovery website.
- 1E. Revise its policies and procedures to include requirements to document its basis for activities' meeting the national objective, including the rationale for the service area used and a list of acceptable documents to support that the area was primarily residential for the low- and moderate- income area benefit national objective.

⁵ The CDBG-DR program has three national objectives: (i) benefit to low- and moderate- income persons; (ii) aid in the prevention or elimination of slums or blight; and (iii) meet a need having a particular urgency (referred to as urgent need).



1F. Conduct training for Authority staff on the newly developed or revised policies and procedures.

We recommend that the Deputy Assistant Secretary

1G. Work with the Authority to assess the risk of potential improper payment for projects PW273 and PW100 and vouchers 576322, 583423, and 578761.

1H. Require HUD program staff to provide technical assistance to the Authority to address deficiencies noted throughout the audit report.

Scope and Methodology

We performed our audit work from August 2022 through March 2023 in Miami, FL, and Atlanta, GA. Our audit period was from September 2017, when Hurricanes Irma and Maria struck USVI, through June 2022. To update drawdown amounts, we extended our audit period to December 31, 2022.

To accomplish our audit objective, we

- reviewed relevant public laws and Federal Register notices;
- reviewed the Authority's policies and procedures for the Match Program;
- interviewed HUD and Authority staff, recipients of Match Program funds, FEMA, and the USVI entity that oversaw the FEMA cost share;
- reviewed quarterly performance reports and drawdown reports from DRGR;
- reviewed Match Program-funded project files, which included but were not limited to FEMA project worksheets, CDBG-DR Match Program applications, FEMA drawdown requests, and written agreements;
- reviewed expenditure reports, invoice listings, and vouchers, which included supporting documentation, such as invoices and proof of payments; and
- reviewed the Authority's disaster recovery website.

As of June 30, 2022, the Authority had disbursed 23 vouchers totaling \$93.7 million in CDBG-DR funds for eight Match Program-funded projects. We reviewed all eight projects to determine whether match funds were awarded to projects that (1) required match funds, (2) addressed an unmet need, (3) addressed a national objective, and (4) tied back to the 2017 disaster. In addition, we conducted a review of vouchers paid as of June 30, 2022, to determine whether CDBG-DR funds were used for expenditures that were also paid with FEMA funds and whether the Authority drew down CDBG-DR funds in excess of the 10 percent match requirement for each project. Due to the large volume of supporting documents, including the invoices tied to each voucher, we used a nonstatistical approach to select the sample of vouchers paid by HUD from DRGR. We selected the largest voucher for each project that was not reviewed by HUD,⁶ which resulted in a sample of seven vouchers because one project had only one voucher, which had already been reviewed by HUD. Therefore, we reviewed seven vouchers totaling \$20.52 million. The results from the review of these vouchers cannot be projected to the universe of vouchers that were not reviewed.

We did not assess the reliability of the computer-processed data as we did not rely on that 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 finding and conclusion based on our audit objective(s). We believe that the evidence obtained provides a reasonable basis for our finding and conclusion based on our audit objective.

⁶ Of the 23 vouchers disbursed for the eight Match projects funded, HUD reviewed six vouchers totaling \$51.77 million.

Appendix

Appendix A – Auditee Comments and OIG’s Evaluation Ref to OIG Evaluation – Auditee Comments



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April 14, 2023

VIA ELECTRONIC MAIL: [REDACTED]

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

**RE: VIHFA Administration of Non-Federal Match Program Weakness
Audit Report Number: 2023-AT-XXX**

Dear Director Irons:

This letter serves as a response to findings outlined in draft correspondence dated March 29, 2023, which states four (4) identified program weaknesses:

Insufficient Financial Controls and Procedures

 **Comment 1 >**

Item 1 - Overpaid invoices

The Coordinated match process was utilized for payments of the referenced WAPA (herein referred to as applicant) vouchers. Coordinated match approaches the required cost shares as a holistic package, then isolates 10% of the total activities to focus only on those that are HUD-eligible costs. The Authority contends this was not an overpayment and did not violate the local match payment policy.

Voucher 576322 – This invoice for \$4,848,418.26, payment #1, was paid under PW60 and obligated by FEMA for a total project cost of \$55,760,341.37 with a match requirement of \$5,576,034.14 (10%). The payment in reference represented 87% of the 10% match requirement and 8.7% of the total project cost.

Voucher 583423 – This invoice for \$198,388.30, payment #1, was paid under PW85(v1) and obligated by FEMA for a total project cost of \$2,658,702.71 with a match requirement of \$265,870.27 (10%). The payment in reference represented 75% of the 10% match requirement and 7.46% of the total project cost.

Voucher 578761 – This invoice for \$1,859,476.63, payment #1, was paid under PW307 which was obligated by FEMA for \$158,996,325.35 with a match requirement of \$15,899,632.53 (10%). The payment in reference represented 12% of the match requirement and 1.17% of the total project cost.



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In summary, the gross receipt was paid by the applicant utilizing FEMA funds. A memo to file accompanied all payment request and noted that since the applicant paid some contractor invoices in their entirety, some gross receipt taxes are paid in full by the applicant using FEMA funds, despite the associated contractor invoice not being paid with FEMA funds. Therefore, the applicant may not always request full payment of the invoice paid by VIHFA.

 **Comment 2 >**

Item 2 - 10 percent match requirement exceeded.

The VIHFA can demonstrate the utilization of the program's draft policy, an exception was made for PW100 and PW273. No additional payments were made for the two (2) PWs after October 30, 2022. All future payments are aligned with the policy. Please refer to the payment information for the eight (8) referenced projects:

| AGENCY | PW Version | Cost Share | Local Match | Funded Total | Funded Balance |
|----------------------|-----------------------|------------|------------------|-------------------|-----------------|
| Depart. of Education | PW121 (AMENDED) | 90% | \$11,424,291.03 | \$11,424,291.03 | \$0.00 |
| Juan F. Luis | PW81(2) | 90% | \$7,499,096.09 | -\$7,055,844.32 | \$443,251.77 |
| WAPA-STX | PW126(1) | 90% | \$31,788,361.01 | -\$22,744,795.03 | \$9,043,565.98 |
| WAPA-STT | PW307(1) Amendment 1 | 90% | \$34,325,050.46 | \$14,963,797.60 | \$19,361,252.86 |
| WAPA-St. John | PW60(5) Amendment 1 | 90% | \$20,195,359.39 | -\$5,569,918.34 | \$14,625,441.05 |
| WAPA-WI | PW85 - V2 Amendment 1 | 90% | \$1,640,521.18 | -\$198,388.30 | \$1,442,132.88 |
| STEP* | PW100(5) | | \$7,924,951.54 | -\$14,246,936.73 | -\$6,321,985.19 |
| STEP* | PW273(3) | 90% | \$24,052,994.65 | -\$30,133,002.95 | -\$6,080,008.30 |
| Total | | | \$148,241,498.95 | -\$115,712,132.29 | \$32,529,366.66 |

*Exceptions

 **Comment 3 >**

Item 3- Lack of written procedures for award increases.

An amended application is utilized to address FEMA version increases to the original PW. VIHFA shall amend its program policy to include support language for version increases, ensuring additional CDBG funds are used in the most prudent and cost-efficient manner. Because the Local Match program is a back-end effort, where funds are used to match FEMA approved projects, our records and support for funding payments shall include the cost reasonableness analysis conducted by FEMA will be reviewed and incorporated if it meets HUD standards.

 **Comment 4 >**

Item 4 - Needed enhancements to the payment review process.

Requests that exceed established Match project budgets will be reviewed and rejected by the Program.

The established Program Checklist will provide a detailed explanation to the applicant for the rejection. Once again, the Authority reiterates that the FEMA Cost Reasonableness Analysis will be adopted and utilized to support funding approvals. As part of the Project Worksheet review, FEMA's obligations include conducting a CRA. So, when we assess the project, it is mainly for costs related to HUD eligible activities.

Create a cost reasonableness checklist to accompany each payment request that assesses the FEMA Cost Reasonableness Analysis. The checklist would ensure a thorough review and sign off for the following:

- The decision to incur the cost using CDBG-DR funds can be justified.
- The cost is generally recognized as a common operation under the award.



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- The cost is permissible given other laws, regulations, business practices.
- The cost adheres to market prices for comparable goods.
- The cost adheres to the established practices of VIHFA.

Establish budget to actual line items in our Grants and Financial Management Systems that traces all amendments or adjustments to established project budgets. Ensure that the Grants and Financial Management Systems are set to deny/limit any payment request that surpasses the current established budget. Establish monthly budget variance report that identifies project award, obligations, expenses to date and balances that is reviewed and signed off on at an executive level.

 **Comment 5 >**

Insufficient Oversight of Match Program – Funded Projects

The Authority has since reviewed the performance measures associated with the Non-Federal Match Programs as well the deliverables for current applicants/projects being assisted with Match funds. Through this review we have identified the accurate projected outcomes and performance measures in DRGR and will align it with the deliverables of each project, quarterly performance goals, and monthly key performance indicators that will be included in an updated monthly status report that includes variances that indicate project status. To ensure that we are capturing the correct data that accurately indicates a project's performance as well as including benchmarks that assists with monitoring, all applicants will receive a project agreement that outlines the project scope, its deliverables, milestones, and benchmarks, expected period of performance, mandatory subrecipient management training as well as technical assistance and other expectations. This will serve as an official binding expectation for each project while allowing us to monitor projects thoroughly and accurately.

 **Comment 6 >**

Inaccurate Data Reporting in Quarterly Performance Reports

VIHFA acknowledge and affirms the statement therein. We have amended the information provided in subsequent reports ending December 31, 2022, where performance measures were incorporated and reported for residential and utilities. See below. We have also as stated above, identified the accurate projected outcomes and performance measures in DRGR and will align it with the deliverables of each project, quarterly performance goals, and monthly key performance indicators that will be included in an updated monthly status report. The monthly status report will include feed into a quarterly performance report that mirrors the fields necessary in the DRGR system. Both reports will have information that will allow the Authority to capture accurate monthly data the rolls into quarterly data that aligns with the DRGR QPR. It will also allow the Authority to measure the data reported against the expected outcomes and deliverables as indicated in the project agreements.

 **Comment 7 >**

Insufficient Record Keeping for National Objective

VIHFA is not in agreement with the statement. Per the language contained in 24CFR 570.506, the Local Match program acquires and retains all elements cited. The Project Worksheet provided by FEMA contains the activity description, location, and budget for the project. The CDBG-DR application collectively contains the aforementioned information. The Application package also contains an assessment of the income levels Territory-wide through the FEMA-IA Data Maps, which were approved by HUD. Because all projects funded to date have either served an entire district or the



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Territory, we have used the FEMA-IA Maps assessment as justification to satisfy the Low-to-Moderate income requirement.

Should you have questions/concerns with the details contained herein do not hesitate to contact Ms. Alanah Lavinier, Director of Policy and Procedures and Mr. Leonard, Local Match Senior Program Manager.

Sincerely,



Dayna Leinen
Interim Executive Director/Chief Disaster Recovery Officer

pc: Judy-Ann Frederick, DR Finance Director
Alanah Lavinier, DR Director of Policy
Ann Hanley, DR Director of Programs
Mario Leonard, Non-Federal Match Senior Program Manager
File



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OIG Evaluation of Auditee Comments

- Comment 1 The Authority stated there were no overpayments for vouchers 576322, 583423, and 578761 since the coordinated approach focuses on the holistic package and their payments did not exceed the overall 10 percent match requirement.
- As discussed in our report, CDBG-DR funds were used to pay 100 percent of these invoices while FEMA funds were used to pay 90 percent on the same invoices. Our report did not indicate the vouchers violated the match policy. However, not focusing on the invoices at a transactional level and completing reviews and reconciliations of the holistic package after the payments are made may place the Authority at risk of potential improper payments.
- Comment 2 The Authority stated an exception was made for PW100 and PW273 regarding exceeding the 10 percent match requirement. Therefore, the Authority should work with HUD during the audit resolution process to provide support for exceptions made and changes to its policy.
- Comment 3 The Authority explained that it plans to amend its policy to address the lack of written procedures for award increases and review FEMA’s cost reasonableness analysis. We recognize the Authority’s efforts to update its policies. The Authority should work with HUD during the audit resolution process to fully implement recommendation 1A.
- Comment 4 The Authority explained its plan to improve its payment review process, such as creating a program and cost reasonableness checklist and establishing a monthly budget variance report. We acknowledge the Authority’s efforts in improving its processes and procedures. The Authority should work with HUD during the audit resolution process to fully implement recommendation 1A.
- Comment 5 The Authority indicated that it has taken steps to enhance its oversight of the Match Program funded projects, such as reviewing performance measures and plans to include benchmarks, mandatory subrecipient management training, and other expectations in the project agreement with applicants. We acknowledge the Authority’s efforts to improve its oversight of Match Program projects. The Authority should work with HUD during the audit resolution process to fully implement recommendation 1C.
- Comment 6 The Authority acknowledged and affirmed that it had inaccurate data reporting in the quarterly performance report for the Match Program activities. It stated that it amended the information provided in subsequent reports ending December 31, 2022, and it explained its plans to ensure proper reporting. We acknowledge the Authority’s efforts for accurate reporting and changes made. The Authority should work with HUD during the audit resolution process to fully implement recommendation 1D.
- Comment 7 The Authority disagreed that it had insufficient records to support the national objective for the Match Program projects which were supported by the FEMA

project worksheets, CDBG-DR applications, and the FEMA-IA Maps assessment which indicated that the Low- and Moderate- income requirement was met.

While we acknowledge the Authority's use of these documents, during the audit, we determined that they did not explain how the service areas were determined or demonstrated whether service areas were primarily residential. According to CPD Notice 20-10, the activity service areas should be reasonably delineated based on the intended beneficiaries and primarily residential.

HUD Comments

On April 25, 2023, HUD provided its written response to our draft discussion audit report. HUD indicated that some parts of the report needed further clarification. Therefore, we took HUD's comments under consideration and made revisions to the report as appropriate.