

**UNITED STATES VIRGIN ISLANDS
HOUSING FINANCE AUTHORITY**

**CDBG-DR COMPLIANCE AND MONITORING
POLICIES AND PROCEDURES**

**VERSION: 2.0
March 2, 2021**

Prepared by:
Virgin Islands Housing Finance Authority



The policies and procedures stated in this manual are current as of March 2, 2021. This Manual represents the current version of the Virgin Islands Housing Finance Authority’s (VIHFA) policies which shall provide general guidance for the operation of the CDBG-DR Program. All manuals will be reviewed periodically and will be updated. Therefore, you are strongly urged to visit our website www.cdbgdr.vihfa.gov to ensure that you have the latest version. There may be times, however, when a policy or procedure will change before the manual is revised.

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Compliance and Monitoring Policy Version Control

VERSION NUMBER	DATE REVISED	DESCRIPTION
VERSION 1 (DRAFT)	02/15/19	Monitoring and Compliance Policy and Procedure Draft
	03/11/19	Table 2 Updated
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VERSION 1.1	07/15/19	Insert Cybersecurity Resilience
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VERSION 2.0	02/04/21	Updated language in Section 2 – Definitions; Section 3 – Governing Regulations; Section 6 – Roles and Responsibilities
	02/17/21	Table 2 Deleted; Table 1 Updated; Updated Language in Sections 7 and 8
	02/23/21	Removed Appendix A – Sample Pre-Monitoring Document Checklist Updated 6.2.1 adding training

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1.0 VERSION HISTORY

Version Policy

Version history is tracked in Table 1, with notes regarding version changes. The dates of each publication are also tracked in this table. The first version of this document is 1.0.

Substantive changes within this document that reflect a policy change will result in the issuance of a new version 2.0, an increase in the primary version number. Future policy changes will result in additional revision and the issuance of a new primary version number.

Non-substantive changes such as minor wording and editing, or clarification of existing policy, that do not affect the interpretation or applicability of the policy will be included in minor version updates denoted by a sequential number increase behind the primary version number. Such changes would result in a version number such as 2.1, 2.2, etc.

Policy Change Control Board

Policy review and changes for a program are considered through a change control process. When policy clarifications, additions, or deletions are needed to more precisely define the rules by which the Program will operate, Program staff will submit a Policy Change Request Form or a Request for Decision Form for internal review by the Policy Change Control Board (PCCB). Within the PCCB, two members will separately perform a review to verify that all relevant information and any supporting documentation are included in the request. Upon PCCB concurrence by these two members that the request raises a policy issue, rather than a process issue, the Policy Change Request Form or Request for Decision is forwarded to the Policy Change Control Board for consideration. The requests are compiled and brought before the entire PCCB for a final policy change determination.

The PCCB is composed of the Special Council for Disaster Recovery, the Senior Policy Manager, Compliance and Monitoring Senior Manager, and at least one Subject Matter Expert, and other program staff members representing Program leadership as needed.

The PCCB meets biweekly, as needed, to consider all pending requests but may meet as frequently as necessary to consider critical policy decisions. The schedule for PCCB meetings is expected to move to a lower frequency as the Program matures.

2.0 DEFINITIONS

CDBG – Community Development Block Grant Program

CDBG-DR – Community Development Block Grant – Disaster Recovery Program

CDBG-MIT – Community Development Block Grant - Mitigation

Concern - A deficiency in program performance that is not currently a violation of a statutory, regulatory, or other program requirement. A concern is a program weakness that potentially could become a finding (see below) if not addressed.

Contractor – An entity competitively procured and selected to provide specified goods or services.

Corrective Action – Required steps to be taken to resolve findings and concerns.

Developer - The Neighborhood Stabilization Program (NSP) and CDBG programs consider a developer as a for-profit or private nonprofit individual or entity that the grantee provides assistance to for (1) acquiring homes and residential properties to rehabilitate for use or resale for residential purposes and (2) constructing new housing in connection with the redevelopment of demolished or vacant properties. The term is used frequently in the rehabilitation and new construction industries. A community-based development organization carrying out a project can be a “developer”. However, a Public Housing Authority cannot be a developer. A grantee entrusts a developer with funds to complete a project. Developers must have site control (ownership or lease in some cases) and must plan, obtain permits, and manage the project from start to finish, assuming part of the risk of the project.

Finding - A finding is a deficiency in program performance based on noncompliance with a statute, regulation, agreement, or Subrecipient Agreement for which sanctions or other corrective actions can be taken.

Grantee – The state entity (VIHFA) that has a binding agreement in place with the U.S. Department of Housing and Urban Development (HUD) to administer the CDBG Disaster Recovery program(s) and/or project(s). May also be referred to as Recipient.

Informational Issue - An issue that is important but does not rise to the level of a finding or concern.

Subrecipient – An entity that is provided federal funds which includes CDBG-DR and CDBG-MIT funds by VIHFA for their use in carrying out agreed-upon, eligible activities including autonomous and semi-autonomous, and other governmental agencies and non-profit organizations (see Chapter 1 of HUD [Guidebook for Entitlement Grantees on Subrecipient Oversight](#)).

3.0 GOVERNING REGULATIONS

VIHFA is responsible for assuring compliance with federal regulations under 24 CFR 570, 2 CFR 200, and other related requirements including the following and any future applicable federal regulations:

- The Robert T. Stafford Disaster Relief and Emergency Assistance Act, PL 100-707, as amended by the Disaster Relief Act of 1974, PL 93-288
- Public Law 115-56 (Division B): Additional Supplemental Disaster Relief Appropriations approved September 8, 2017
- Public Law 115-123: Additional Supplemental Disaster Relief Appropriations approved February 9, 2018
- Federal Register Notice [83 FR 5844 or Docket No. FR-6066-N-01] – 02/09/2018
- Federal Register Notice [83 FR 40314 or Docket No. FR-6109-N-01] – 08/14/2018
- Federal Register Notice [84 FR 97 or Docket No. FR-6136-N-03] – 01/09/2019
- Federal Register Notice [84 FR 6813 or Docket No. FR-6136-N-02] – 02/28/2019
- Federal Register Notice [84 FR 28836 or Docket No. FR-6169-N-01] – 06/20/2019
- Federal Register Notice [84 FR 28848 or Docket No. FR-6169-N-02] – 06/20/2019
- Federal Register Notice [84 FR 47528 or Docket No. FR-6109-N-02] – 08/30/2019
- Federal Register Notice [84 FR 47528 or Docket No. FR-6109-N-03] – 09/10/2019
- Federal Register Notice [85 FR 4681 or Docket No. FR-6182-N-01] – 01/27/2020
- Federal Register Notice [85 FR 60821 or Docket No. FR-6219-N-01] – 09/28/2020

4.0 INTRODUCTION

The Virgin Islands Housing Finance Authority (VIHFA) CDBG-DR Division has the ongoing responsibility to monitor all programs funded by the Community Development Block Grant - Disaster Recovery (CDBG-DR) and Community Development Block Grant – Mitigation (CDBG-MIT) Programs. This document will establish a plan to monitor and evaluate program performance and compliance for the VIHFA’s federal funds awarded to contractors, developers, and subrecipients of the Territory of the United States Virgin Islands (USVI). Periodic monitoring is an essential element of the overall grant management process and is necessary to observe whether project goals, objectives, timelines, budgets, and other related program and financial criteria are being met.

This plan establishes a monitoring protocol that will observe whether contractors, developers, subrecipients, and the Grantee administer CDBG-DR grants in compliance with program, financial and administrative requirements outlined in the HUD CDBG-DR rules and regulations, Federal Register Notices, Grant Agreements, Memoranda of Understanding (MOUs) and applicable federal and territory laws, regulations, and guidelines. In addition, this process will help to fulfill VIHFA’s monitoring and evaluation obligations under the CDBG-DR and CDBG-MIT programs as required by HUD as well as subrecipient monitoring responsibilities as set forth in 2 CFR 200 Subpart D.

The purpose of this Compliance and Monitoring Policy and Procedures is to provide a reference source for the CDBG-DR and CDBG-MIT programs. This manual contains the basic compliance and monitoring policies, rules, and procedures that govern all VIHFA disaster recovery and mitigation programs. It is a guide for the administration of the VIHFA's Compliance and Monitoring Unit. The procedures are consistent with those used by HUD to monitor state-administered programs and are modified as appropriate to monitor specifics of the Virgin Islands' Disaster Recovery Program.

This policy complements VIHFA's CDBG-DR and CDBG-MIT Action Plans (Action Plans) and its subsequent amendments.

5.0 MONITORING PLAN & STRATEGY

The Compliance and Monitoring Plan (Plan) outlines principles of governance, standards, and management supporting the VIHFA CDBG-DR and CDBG-MIT programs (Programs).

It also sets forth the activities required by the Program and expectations from, subrecipients, contractors, and the Grantee (to include the records required to document these activities). In addition, the Plan may require corrections to any issues raised as part of the monitoring process and documentation of activities required to remedy these issues. The Plan aims to do so in a way that balances VIHFA's need to monitor program activities and participants that represent the greatest risk and susceptibility to fraud, waste, and mismanagement while maximizing available resources within VIHFA for this purpose.

As a result, the VIHFA CDBG-DR and MIT monitoring strategy will assess subrecipients and apply a monitoring approach that aligns with the level of risk. (See Table 1) Monitoring of the program occurs through a series of activities that are conducted throughout the life of the programs. The frequency of monitoring will be determined, in part, based on the capacity assessment analysis. At a minimum, VIHFA shall assess potential subrecipients by function, risk potential (capacity), and financial integrity. VIHFA shall also confirm that recorded documentation is adequate for the needs of the Programs and are in line with established policies and procedures including the Action Plans.

6.0 MONITORING ROLES AND RESPONSIBILITIES

Program monitoring is managed by VIHFA's CDBG-DR Compliance and Monitoring Unit and overseen by the Director of CDBG-DR, reporting to the Chief Disaster Recovery Officer. The Compliance and Monitoring Unit will conduct monitoring through desk reviews, onsite and remote visits, and inspections, as needed. When necessary, Subject Matter Experts (SME) will assist as a resource to provide technical expertise. Staff positions and responsibilities are as follows:

6.1 VIHFA

Executive Director or Chief Disaster Recovery Officer

- Reviews and signs monitoring letters to subrecipients.

Director of CDBG-DR

- Reviews CDBG-DR monitoring reports prepared by the Compliance and Monitoring Unit
- Approves the initial monitoring letter to the subrecipients.

CDBG-DR Finance Director

- Assists the CDBG-DR Compliance and Monitoring Unit in any financial monitoring issues or concerns.

CDBG-DR Special Counsel

- Assists the CDBG-DR Compliance and Monitoring Unit with any contractual compliance issues.
- Assists the CDBG-DR Compliance and Monitoring Unit with resolving issues related to monitoring findings.

6.2 CDBG-DR Compliance & Monitoring Team

6.2.1 Compliance & Monitoring Senior Manager

- Responsible for the overall compliance and monitoring unit, including performing capacity assessments and monitoring of subrecipient compliance with contractual agreements, coordination on the development of policies and procedures for programs and operations, development of monitoring plans and schedules for periodic internal compliance reviews of CDBG-DR and CDBG-MIT program activities and oversight of subrecipient, grantee and contractor compliance with all applicable federal and local rules and regulations.
- Leads the compliance and monitoring activities including:
 - Development and review of CDBG-DR and CDBG-MIT policies and procedures for compliance
 - Development of monitoring approach and methodology
 - Creation of monitoring plans
 - Oversight of programmatic reviews
 - Operational, grantee, subrecipient, and contractor monitoring
 - Other programmatic reviews as needed
 - Conduct training on federal cross cutting requirements with DR staff, subrecipients and contractors.
 - Conduct onboarding for new CDBG-DR staff
- Facilitates external audits and regulatory monitoring visits by HUD, the HUD Office of the Inspector General (OIG), and the Territory and responds to state and federal government investigations and queries.
- Works closely with the Director of CDBG-DR to ensure that staff, subrecipients, grantees, and contractors have knowledge of all applicable federal and local requirements.

6.2.2 Compliance & Monitoring Specialists

- Supports the development of monitoring plans and schedules for periodic internal compliance reviews of CDBG-DR and CDBG-MIT program activities and oversight of

subrecipient, grantee, and contractor compliance with all applicable federal and local rules and regulations.

- Monitors the implementation of activities associated with the VIHFA CDBG-DR and CDBG-MIT programs and operations.
- Provides ongoing technical assistance and training on HUD and CDBG-DR and CDBG-MIT requirements to staff, subrecipients, and contractors.
- Prepares monitoring reports.
- Assures that all bid documents, contracts, and sub-contracts contain all applicable program and technical requirements including Federal Labor Standards Provisions and Davis-Bacon wage decisions.
- Conducts onsite inspections including interviews with laborers and mechanics.
- Explains Federal Labor Standards Provisions to contractors.
- Oversees monitoring of Section 3 compliance.
- Performs outreach, training, and assistance to Section 3 business concerns, residents, and other stakeholders and serves as a resource to contractors that are required to comply with Section 3 requirements.
- Determines applicability of the Section 3 requirement for programs and projects.

6.2.3 Environmental Manager

- Lead and participate in the preparation of CATEX, EIS, EA, and similar environmental review documentation.
- Provide oversight, direction, and ongoing open communication to VIHFA Directors and CDBG-DR staff.
- Provide and coordinate environmental training to CDBG-DR Environmental/NEPA Specialists.
- Leads CDBG-DR environmental team with the preparation of environmental reviews.
- Recommends mitigative measures where non-compliant conditions are identified for Program activities.
- Corresponds with regulatory agencies on behalf of VIHFA to ensure every project complies with applicable laws and requirements.
- Develops and prepares reports for internal and external use
- Facilitates Technical Assistance.

6.2.4 Environmental Specialists

- Reviews the environmental documentation provided by subrecipients to assist the Compliance and Monitoring Unit with monitoring to ensure compliance with applicable environmental laws and requirements.
- Recommends mitigation measures where non-compliant conditions are identified for program activities.

6.3 Subrecipients

The VIHFA CDBG-DR Compliance and Monitoring Unit are tasked with developing a relationship with the subrecipients. This relationship includes verbal and written communication with the subrecipients through formal methods (notices, website postings, training, etc.) and informal methods (phone calls, messages, meetings, etc.). The Compliance and Monitoring Unit will provide the Subrecipients with up-to-date information on VIHFA CDBG-DR Division's role and guidance on the monitoring process. While VIHFA is responsible for monitoring the CDBG-DR and CDBG-MIT programs, each Subrecipient is responsible for establishing its internal monitoring process and performing monitoring of its internal processes and projects to adhere to all monitoring requirements established by the CDBG-DR and MIT Programs.

6.4 Contractors

Contractors hired by VIHFA, or any Subrecipient, are also subject to compliance with the applicable federal & local regulations, contract terms, and conditions. The principal contractor (also referred to as the prime or general contractor) is responsible for the full compliance of all applicable federal requirements, including but not limited to the contractor, subcontractors, and any lower-tier subcontractors. They are responsible for achieving performance expectations and invoicing allowable, reasonable, and fully supportable costs. VIHFA Compliance and Monitoring Unit along with their Subrecipients will ensure that contractors are aware of these requirements by providing individual and/or joint technical assistance workshops and communicating any updates as they are available. Information about the applicable federal regulations will be made available to potential contractors through various methods such as the website, flyers, public notices, outreach workshops, solicitation processes, and other communication mediums, as necessary.

6.5 Developers

Developers are not contractors. They may apply for federal funding for housing projects but do not receive capacity (risk) assessments. Developers are expected to comply with the applicable federal & local regulations, contract terms, and conditions set forth by HUD. Developers will be held to the same reporting and monitoring requirements as Subrecipients.

7.0 MONITORING PROCESS

7.1 Overall Program Monitoring

Compliance monitoring is necessary to ensure that subrecipients are undertaking a federally assisted activity in accordance with the applicable subrecipient agreement and federal rules and regulations.

VIHFA's monitoring process will include, but is not limited to, the following areas:

- National Objectives
- Environmental Reviews
- Eligible Activities / Cost Allowability
- Procurement

- Flow of Funds (including subrecipient disbursements)
- Financial Management
- Fair Housing and Equal Opportunity
- Public Facility Improvements
- Labor Standards
- Acquisition and Relocation
- Property Management/Lead-Based Paint
- Duplication of Benefits
- Section 3
- New Construction (Housing)
- Public Service
- Davis Bacon

7.2 Risk-Based Monitoring

7.2.1 Capacity (Risk) Assessment and Analysis

Using a capacity assessment model, potential and existing subrecipients receiving CDBG-DR and CDBG-MIT grants will be reviewed to determine the level and frequency of monitoring that should be performed to determine if the subrecipient is accounting for and expending grant funds according to grant terms and federal and territorial laws, regulations and guidelines. Working units outside of the Compliance and Monitoring Section will be consulted for their input regarding subrecipient performance, risks, and program compliance.

Capacity assessments include an evaluation of both the magnitude of potential noncompliance and the probability that noncompliance will occur. Subrecipient characteristics examined include, but are not limited to, the following:

- Staffing, Experience, and Leadership
- Adequacy of Policies and Procedures
- Compliance History Including Monitoring and/or Audit Results
- Complexity of Projects
- Accounting and Financial Management Including Procurement
- Size of the Grant(s)

The VIHFA Compliance and Monitoring Unit will use a rubric of relevant capacity factors to evaluate potential and existing subrecipients in terms of risk (very low, low, medium, high, very high). A final, total score will then be computed for each subrecipient based on this analysis.

An important element in the capacity assessment is documentation of the process and results. This is critical in determining the frequency of desk monitoring and onsite visits. The subrecipient's work performance, changes in the organization, or the nature of its activities may account for a capacity re-evaluation. This will be considered and determined on a case-by-case basis. Any deviations from the initial assessments will be fully documented and approved by senior management.

Table 1 Capacity (Risk) Assessment Rubric

Category	Staffing, Experience, Leadership	Policy and Procedures	Compliance History	Complexity of Projects	Current Accounting Processes	Size of Grant	Total
Score Range	0-20	0-15	0-15	0-15	0-15	0-20	0-100

Very Low Risk: 0-20 Low Risk: 21-40 Medium Risk: 41 - 60
 High Risk: 61-80 Very High Risk: 81-100

7.2.2 Scheduling

The VIHFA Compliance and Monitoring Unit will establish an appropriate schedule of monitoring for all active subrecipients based on the results of the capacity assessment and risk analysis measured against staffing, travel, and other resources available to conduct monitoring. The goal is to strike a reasonable balance between monitoring activities and limited staff and travel resources available. The highest priority for monitoring will be based on the above capacity assessment scores unless modified for specific, documented exceptions that are approved in advance by senior management. A monitoring schedule will be established based on the result of a capacity assessment/risk analysis process. For consistency, modifications will not be made at this time to the risk factors evaluated. Should a variance occur, the Compliance and Monitoring Section must provide written documentation to support a change in the capacity assessment. All variances must receive final approval upon review by the Director of CDBG-DR prior to any changes being made.

As a general guide, onsite visits for projects will be conducted by the Compliance and Monitoring Unit at 10% of the project’s completion and before project closeout subject to results of capacity assessments and desktop monitoring results for the following types of activities:

- Housing Rehabilitation and Reconstruction Projects
- Infrastructure Projects
- Economic Revitalization Projects

Additional onsite visits may be required due to special circumstances. Visits may also be triggered by critical monitoring issues that require immediate correction, high visibility, citizen complaints/media coverage, or major changes in the approved subrecipient agreement. In addition, onsite monitoring will be conducted at the time of the first request for payment to ensure proper recordkeeping, timekeeping, and other financial management issues have been properly addressed before additional payments can be made.

7.2.3 Project Monitoring

The VIHFA’s Compliance and Monitoring plan includes the use of desktop monitoring reviews and onsite monitoring visits. Onsite monitoring may include visits to the subrecipient base of operation as well as project sites. The monitor should sample program, project, contractor, or subrecipient documentation to draw conclusions about performance and capacity. Sample size can vary depending on the nature of the activity. A subrecipient with only a few activities might need very few samples; however, one with a high number of activities may require a larger number of samples. In all cases, the monitor will select t sample to be reviewed, not the subrecipient.

The overall level of risk identified for the subrecipient should dictate the frequency and depth of monitoring including how to mitigate identified risks, e.g., provide additional training, technical assistance, or increase the frequency of onsite reviews.

7.2.4 Desktop Monitoring

The VIHFA Compliance and Monitoring Unit will conduct desktop monitoring of its subrecipients. A desktop monitoring review assesses compliance with program, contractual, HUD, CDBG-DR, CDBG-MIT, and other federal and territorial requirements. A desk review can assist with identifying potential problems early, preventing compliance violations, helping improve performance, and establishing a positive working relationship. Desk reviews may include but are not limited to, assessment of documentation (i.e. current employee listing and wages), phone discussions or email exchanges with subrecipients, and assessment of subrecipient reports. The CDBG-DR Compliance and Monitoring Unit will require monthly reports to be submitted by the subrecipients to be reviewed for progress and spending against project scope, performance measures, and budgets. Monthly reports must include but are not limited to the following:

- Narrative
 - List project or program activities worked on to include activity progress
 - Subrecipient procurement status
- Images
 - Maps
- Draw requests and total expenses

The monitoring team may use the monitoring checklists to aid in identifying potential areas of concern to determine the necessity and frequency of desk reviews. Desktop monitoring will remain throughout the project lifecycle. Deficiencies will be provided in writing to ensure attention is directed to areas in need of improvement.

7.2.5 Onsite Monitoring

Onsite monitoring builds on previously completed capacity assessments and monitoring desk reviews. Onsite reviews should be specific as to which projects are to be discussed during the visit. The subrecipient should expect the monitors to spend a minimum of one business day onsite, which may include the base of operation or the project site.

During the onsite visit, the Compliance and Monitoring team will conduct an entrance conference to confirm that the subrecipient has a clear understanding of the purpose, scope, and schedule for the monitoring visit. A reasonable sample of project files will be sampled based on industry standards for each subrecipient. Additional files might be reviewed in-depth based on concerns of significant compliance developments.

The Compliance and Monitoring Unit schedules visits to meet with subrecipients or contractors to review program files, project files, administrative records, and financial records, if applicable, for accuracy. The Unit also conducts physical inspections of projects and sites.

VIHFA Compliance and Monitoring Unit onsite monitoring reviews include the following key issues:

- Determine compliance with federal, state, and local program requirements.
- Verify record retention operations are fulfilled and consistent with applicable federal and Territory regulations.
- Verify proper source documentation exists and adequately substantiates undertaken processes.
- Verify subawards (direct, subrecipient, and contractors) are managed in accordance with their respective subaward agreements and approved-upon scopes of services.
- Efficacy of internal controls will be reviewed including segregation of duties, organizational charts, job descriptions, policies and procedures, and other relevant documentation.

7.2.6 Remote Monitoring

VIHFA’s Compliance and Monitoring Unit will conduct remote monitoring until onsite monitoring becomes appropriate. All activities in the monitoring review will be conducted remotely from an alternative/office worksite. All documents requested will be shared electronically. Unless otherwise decided, Microsoft Teams will be used as the medium to conduct entrance and exit conferences and interviews if necessary. The review process will remain the same as explained in Section 7.2.5 and 8.0.

7.2.7 Executing the Onsite Monitoring Visit

The steps shown in the flowchart below provide the high-level process for executing an onsite monitoring review.



8.0 MONITORING REVIEW PROCESSES & PROCEDURES

1. Sending the Monitoring Notification Letter

Upon notification by the Compliance & Monitoring Unit, the Compliance & Monitoring Specialist will contact the subrecipient via e-mail and/or by telephone at least **45** days prior to the monitoring to advise them of an upcoming visit and present the dates and time tentatively scheduled and issues to be reviewed.

The Compliance and Monitoring Specialist will prepare the official Monitoring Notification Letter (MNL or Letter) notifying the subrecipient of the monitoring visit. The MNL will notify the subrecipient of the date, time, location, necessary participants, and reason for the visit. Also included in the letter will be a request for pre-monitoring documents, which will allow the subrecipient to review and gather their files before the visit to ensure complete records are available, as required. The letter and accompanying documents will be sent via e-mail (or another acceptable form of digital medium) at least

30 days prior to the visit. VIHFA reserves the right to provide less notice if special situations arise.

The Compliance and Monitoring Specialist will follow up with an e-mail and phone call to the designated point of contact at least **14** days *prior* to the visit to confirm the date and time and obtain logistics for the date of arrival. Additionally, for any items not provided in the Pre-Monitoring Document Checklist, an additional request should be made, and an email sent for follow-up identifying outstanding documents. Any changes needed in scheduling will be communicated and discussed with the subrecipient to schedule an appropriate date, time, and location.

2. *Conducting the Entrance Conference*

The monitoring visit will begin with the Compliance and Monitoring Specialist conducting an entrance conference. The meeting should include an authorized representative (the person who signed the CDBG-DR or CDBG-MIT Subrecipient Agreement, or designated representative based upon delegation of authority), program staff, fiscal staff, and other interested parties for the subrecipient. The Compliance and Monitoring Specialist will review the purpose of the visit, discuss the activities to be monitored, explain the review and identify the possible outcomes. The Compliance and Monitoring Specialist will ask the subrecipient to identify contact staff for each activity and/or general support functions such as location of the copiers, access hours, exits, etc.

3. *Completing the Review*

The Compliance and Monitoring Specialist will use the Onsite Monitoring Checklist(s) (see Appendix B for a list of possible checklists to be used) to guide the review. The review will assess issues identified in the Capacity Assessment and related sources with special attention to the following:

- Project scope
- Project schedule/period of performance
- Project benefit
- Project budget
- Eligibility requirements
- Performance reports
- Compliance with policies and procedures
- Job creation / retention
- Environmental review
- Procurement
- Labor standards
- Property acquisition, relocation, and displacement
- Housing activities
- Public improvements, public services, and public facilities
- Equal opportunity and fair housing
- Financial management
- Improper payments

- Construction projects and activities
- Subrecipient payments
- Conflict of interest
- Record retention
- Information technology
- Duplication of benefits
- Program income when applicable

The Compliance and Monitoring Specialist will accompany the Quality Assessment/Quality Control Specialist (QA/QC) to conduct project site inspections during the period of review. The subrecipient or their designee is expected to accompany the Compliance and Monitoring Specialist during this phase.

The VIHFA Compliance and Monitoring policy include a wide range of program and technical review checklists (exhibits). The appropriate checklists will be completed for every onsite monitoring review. It should be noted that many review areas include checklists that can be used for “limited” and “in-depth” reviews.

4. Conducting the Exit Conference

At the end of the onsite monitoring visit, the reviewer(s) will hold an exit conference with the appropriate members of the subrecipient’s management team to:

- Solicit any questions, comments, or concerns that may not have been addressed during the visit;
- Identify preliminary conclusions and areas where compliance can be strengthened through corrective actions (i.e., possible findings and concerns);
- Identify follow-up measures to obtain corrective action to be taken by VIHFA CDBG-DR Division and/or the subrecipient as a result of the monitoring review (i.e., reimbursement, technical assistance, training, written guidelines, job aids, required resources including other measures); and
- Solicit feedback from the subrecipient to identify any areas of self-improvement in which the monitors can better support, assist, or otherwise enable project success.

The exit interview should highlight what will be included in the Monitoring Report.

5. Drafting the Monitoring Report

After the visit, the Compliance and Monitoring Specialist will meet with the Director of CDBG-DR and/or the Monitoring & Compliance Senior Manager to discuss the results of the visit.

Within **45** days of the visit, the subrecipient’s authorized representative or designee will receive formal notification of the monitoring results. In rare cases, depending on the nature of the issues, a follow-up visit may be necessary. If so, the subrecipient will be advised within the 45-day window after the monitoring visit.

6. Drafting and Issuing the Monitoring Letter

A letter with a detailed monitoring report summarizing each program/technical area monitored, instances of compliance and noncompliance conclusions, and any related findings or concerns and the associated corrective actions will be prepared and delivered to the subrecipient via hard copy or email. All conclusions must be supported by facts stated in the letter. The subrecipient will be required to provide a written response, within 30 days of the monitoring letter date. In some cases, an interim response might be appropriate when additional time is required to address key issues.

Failure by subrecipients to take the action specified in the monitoring report may cause suspension and termination of the contract and de-obligation of any remaining CDBG-DR or MIT funds. It could also lead to recommendation for inclusion of the Territory's debarment list and associated financial penalties.

7. Follow Up: Providing Technical Assistance and Corrective Actions

As with all phases of monitoring, the information provided in the exit conference is designed to identify areas of strength and weakness build capacity, and ensure program compliance when necessary. The Monitoring Report reflects technical assistance provided on-site during the visit and corrective actions will be structured to reinforce capacity-building and sound internal controls to ensure the funds are used for the intended purposes and in compliance with all applicable requirements.

Subrecipient's have **30** days to submit a written response, including corrective actions to address all findings or concerns. Generally, a period of 30 days will be given to correct all findings and concerns. The corrective action plan should correct the immediate problem, mitigate any adverse consequences of the deficiency, and create future controls that prevent the situation from recurring. Extensions of the corrective action period may be requested in writing for a period that is acceptable to both parties.

At the conclusion of the corrective action period, the Compliance and Monitoring Specialist will review the corrective action documentation submitted.

If the Subrecipient is uncooperative, does not comply with the monitoring report requirements, or does not act to clear the findings and concerns, VIHFA may consider this a violation of the Subrecipient Agreement.

Possible actions that the VIHFA CDBG-DR Division may impose include issuing a letter of warning that the below additional action(s) will be taken if instances of noncompliance and deficiencies are not corrected or are repeated.

- Advise the subrecipient that additional information or assurances will be required before additional funding is provided.
- Suspend or terminate the expenditure of funds for a deficient activity or grant.
- Refrain from extending any further assistance to the subrecipient until all instances of noncompliance have been remedied.
- Require reimbursement of funds in question and identified improper payments.

8.1 Monitoring Conclusions

As a result of monitoring, the Compliance and Monitoring Unit will determine an appropriate conclusion. The conclusions will be categorized as a “finding,” “concern” or “informational”. Informational conclusions can be positive as well as negative. The final monitoring category and necessary corrective actions will be transmitted to the subrecipient via a formal Monitoring Report.

Each issue will be identified as either a finding or a concern. Program deficiencies will be rectified through constructive discussion, negotiation, and technical assistance.

A “finding” is an action, or lack of action(s), in direct violation of a statute, regulation, subrecipient agreement, or other legally binding requirement. A “concern” is an action or actions that could result in a finding if not corrected within the specified period. Both findings and concerns require corrective actions to be submitted to the Compliance and Monitoring Unit for review and approval. A finding may result in the repayment of CDBG-DR funds if the problem is an ineligible activity/project or a violation of other major program/technical requirements. “Informational” issues will be provided as technical assistance to strengthen the subrecipient’s program management capacity and usually do not require corrective action.

8.2 Monitoring Tools

The VIHFA Compliance and Monitoring Unit will use five (5) primary tools to assist in the execution of a full monitoring process.

- a. Federal Register Notice(s) – The Federal Register Notice will be used for adhering to HUD regulations.
- b. Monitoring Checklists - The Monitoring Checklists will be used for monitoring. The checklist is created for all categories of projects, therefore, all sections may or may not apply to each project or situation.
- c. Program Policies - Program policies will serve as a resource for the Monitoring Unit.
- d. Monthly Progress Reports - Monthly Progress Reports will serve as a tool for Desk Monitoring and will provide the most current project timeline to the Monitoring Unit.
- e. Subrecipient Agreement – Special attention will be paid to the Scope of Services including performance measures and the standard list of federal and local requirements that relate to the CDBG-DR and CDBG-MIT funding.

8.3 Contractor Monitoring

Monitoring contractors for compliance with the terms of their contracts is a federal requirement. Contractors procured to implement a specific project (i.e., construction projects) will be monitored during the project monitoring component of the compliance and monitoring plan. VIHFA will conduct desktop and site visit monitoring at regular intervals. Monitoring is planned to occur on a periodic basis with ad-hoc monitoring to be conducted based on follow-up for corrective action plans and issues that may arise. Special conditions will be monitored and followed-up on a case-by-case basis.

For each project, the Specialist will select a sample of contractors to be reviewed. The sample will be determined by the monitoring team based on the number of contractors, size, and scope of the

project. The sample will be defined and documented as part of the monitoring file. Some of the sample documents that will be reviewed include procurements, contracts, invoices, disbursements, and other documentation associated with each project and/or subrecipient (including contractors). A reasonable sample of files will be reviewed during desk or site visit monitoring based on industry standards. Variables that may inform sampling include: number of payments, dollar amounts of projects, federal requirements.

8.4 Internal Monitoring

The Compliance and Monitoring Unit will perform internal monitoring of VIHFA operations and management of CDBG-DR and CDBG-MIT activities utilizing the policies set forth in this document to determine compliance with all applicable rules and procedures and to correct any deficiencies noted in a timely manner.

8.5 Information Systems

VIHFA currently utilizes a managed service provider, for its internet services and miscellaneous IT professional services. VIHFA operates a private autonomous network, based on Multi-Protocol Label Switching (MPLS) technology. VIHFA's internet provider is currently providing basic firewall services.

The Compliance and Monitoring Unit will perform desktop and internal monitoring of VIHFA's MIS systems and will conduct onsite visits of the IT and professional services provider with the assistance of the CDBG-DR MIS Senior Manager. The information systems implemented by the subrecipients will also be monitored. The monitoring procedures will be geared to determine compliance with cybersecurity safeguards and firewalls to prevent access to and the loss of VIHFA data.

9.0 TECHNICAL ASSISTANCE

Prior to the initialization of the CDBG-DR and CDBG MIT programs, all Subrecipients must attend a subrecipient orientation. The orientation will provide an initial introduction to the Community Development Block Grant - Disaster Recovery and Mitigation programs. It will also present an opportunity to review the requirements tied to the funding awarded through CDBG-DR and CDBG-MIT. Once the initial orientation has occurred, subrecipients who may have missed the initial orientation will be scheduled for a one on one or group technical assistance session.

Each individual or group technical assistance session may briefly cover the topics discussed in the initial orientation as well as bring all parties up to date with the status of the CDBG-DR and MIT programs and their respective project(s). The sessions are intended to ensure that no subrecipient is left behind when executing the programs. Missed mandatory technical assistance sessions may affect CDBG-DR and CDBG-MIT funding. Subrecipients in that position must make every effort to remedy the situation.

If it is determined through the monitoring process that additional technical assistance is needed for subrecipients, the Compliance and Monitoring Unit will work to determine the most appropriate form of technical assistance to be provided. Technical assistance may be determined based on a need identified by the Compliance and Monitoring Unit or based on a request from the subrecipient

or the VIHFA CDBG-DR Program Staff. Examples of technical assistance that may be provided, but is not limited to, the following:

- Training
- Additional capacity/resource support
- Written guidelines
- Job aids
- Flow of funds and disbursements
- Reporting requirements, i.e., monthly progress report

Recurrence and extent of technical assistance will be determined by the Compliance and Monitoring Unit based on working with the Subrecipients and based on additional outcomes of ongoing monitoring.

10.0 REPORTING FRAUD, WASTE, AND ABUSE

The VIHFA Compliance and Monitoring Unit will report in writing, any suspected instance of fraud, waste, and abuse to the VIHFA Internal Auditor. The VIHFA Internal Auditor will review reports received for further investigation. Should there be substantial concern, the VIHFA Internal Auditor will perform ongoing fraud risk assessment to detect fraud, waste, abuse, and mismanagement of funds, and will ensure that the VIHFA Board of Directors are updated on all reports of fraud, waste, and abuse through a monthly report. Suspected instances of fraud, waste, and abuse can be reported by contacting the Fraud Hotline at (340) 777-4655 or (855) 777-4656. See the overall Fraud Waste and Abuse policy for additional guidance.

Fraud, waste, and abuse can also be reported to the HUD Office of Inspector General (OIG). To report instances of fraud waste and abuse to the HUD OIG, please call (800) 347-3735.

APPENDIX A: MONITORING CHECKLISTS

The Exhibits should be used to monitor the overall management of a Community Development Block Grant - Disaster Recovery (CDBG-DR) Program. It is divided into sections for the purpose of monitoring CDBG-DR grants awarded to states and state grant recipients. Per the *Federal Register* Notices, CDBG-DR state grantees are provided a waiver and alternative requirements that allow them to carry out activities directly or through a subrecipient.

Listed below are monitoring checklists (not all-inclusive) that may be used to monitor the VIHFA CDBG-DR and MIT Programs and its subrecipients:

- Overall Management of CDBG Disaster Recovery Grants
- Written Agreements
- Citizen Participation Plan
- Financial Management
- Procurement
- Housing Rehabilitation and Reconstruction
- New Construction of Housing
- Infrastructure
- Labor Standards Administration
- Economic Development
- Environmental Monitoring