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Homeland Security Inspector General Audit Finds VIHFA Mismanaged Federal Funds Leading to \$296 Million in Cost Overruns

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A St. John home destroyed by Hurricane Irma in 2017. The STEP Program allows people to live in their homes while repairs are being made from damages. By. ERNICE GILBERT FOR VI CONSORTIUM

An audit of FEMA, the Virgin Islands Housing Finance Authority and the Virgin Islands Territorial Emergency Management Agency, which was performed by the U.S. Department of Homeland Security, Office of the Inspector General, found a litany of noncompliance issues with the manner in which Public Assistance (PA) funds have been managed in the U.S. Virgin Islands. Relative to FEMA, the O.I.G. audit report, which was published in May, found that the federal agency did not provide adequate guidance to V.I.H.F.A. and VITEMA that would have possibly

helped in preventing the mismanagement of funds, which has led to cost overruns, potential conflict of interest scenarios with contracts, and an insufficient financial system "to verify completeness of costs on a project-by-project basis, or enough staff to adequately manage FEMA funding," among other important functions.

The activities of the V.I. Housing Finance Authority, which administers the \$766 million Sheltering & Temporary Essential Power (STEP) Program, was the main focus of the audit, as the bulk of FEMA funding following Hurricanes Irma and Maria in 2017 is managed through V.I.H.F.A.

Along with the lack of a sufficient financial system, V.I.H.F.A. did not have:

- Sufficient oversight of contractors and subcontractors and any requirement for supporting documentation for all costs incurred
- Policies and procedures to ensure accurate recording of management costs
- Adequate procurement policies, procedures, and business practices to comply with Federal procurement regulations

Mismanagement and Cost Overruns

According to the audit, which was obtained by the Consortium, V.I.H.F.A. "did not conform fully to federal regulations or FEMA guidelines when managing two projects under the STEP program." The audit found FEMA awarded two projects for \$222 million; however, V.I.H.F.A. has incurred nearly \$296 million of cost overruns. The cost overruns led to an initial cost total of \$222 million to \$518 million — an approximate 133 percent increase.

Additionally, V.I.H.F.A. did not notify FEMA of the cost overruns on the two projects prior to incurring the incremental costs. "Specifically, in January 2018, V.I.H.F.A. began identifying cost overruns on the project worksheets. However, V.I.H.F.A. did not notify FEMA of the \$296 million in cost overruns until September 2018 — nearly 9 months after incurring a significant amount of the costs," according to the audit, seen in full [here](#). These cost overruns are largely related to costs that were not included in the project scope of work, the audit found. FEMA was reviewing the project worksheet for these additional funds at the time of the O.I.G. audit in February 2019.

"Recipients of federal funding are required to report deviations from budget or project scope or objectives and request prior approvals from federal awarding agencies for budget and program plan revisions," said the O.I.G. "FEMA policy requires that states report cost overruns as soon as they identify them." The O.I.G. report says the V.I. Housing Finance Authority, which has been led by Daryl Griffith during the Mapp administration years and currently in the Bryan administration, indicated it was not aware of the requirement to report cost overruns.

"Failure to notify FEMA of project cost overruns may result in delayed payments to contractors. This may result in an increase in the total costs of related services because damaged facilities may deteriorate further if they are not repaired or replaced promptly. Additionally, failure to promptly notify FEMA of project cost overruns has caused delays in payments to contractors, resulting in litigation claims against V.I.H.F.A. Such delays may damage V.I.H.F.A.'s reputation with existing and potential contractors and increase the likelihood that contractors do not bid on future work," the Dept. of Homeland Security, Office of the Inspector General said.

Additionally, due to delays in notifying FEMA of project cost overruns, V.I.H.F.A. may place undue pressure on FEMA to fund costs that are not allowable or reasonable, the report says.

The O.I.G. recommended that FEMA perform a detailed review of the \$296 million in cost overruns and disallow all costs that do not fully comply with Federal regulations. It also recommended that FEMA require that V.I.H.F.A. adhere to federal regulations for all future project worksheet requests and modifications.

FEMA concurred with the O.I.G.'s findings, and said it implemented a manual drawdown review process for reimbursement on June 20, 2019, for all V.I.H.F.A. STEP projects. "Through that process, FEMA is reviewing all requests to drawdown funding from project worksheets and will only approve the drawdown of eligible costs. FEMA Region II will ensure that VITEMA and V.I.H.F.A. are aware of FEMA regulations and policies regarding requests for scope of work changes," FEMA said in its response.

The matter of nonpayment for STEP program work has been a mounting problem for the local government. In May, U.S. Senator John Kennedy, (R-LA) said his office would [initiate a Congressional investigation](#) whose aim is to learn why full payment had yet to come years later for U.S.-based contractors that expended millions of dollars in upfront costs to perform work in the territory.

Mr. Griffith said during a May Senate hearing that the local government owed \$366 million to contractors for the STEP program, along with an additional \$150 million in soft costs (soft costs typically constitute about 30 percent of the total construction cost, while the remaining portion of the total costs is related to hard costs, such as for the building, site work, landscaping, and overhead).

Mr. Griffith said invoices for the \$336 million were projected to be submitted to FEMA by the end of May 2020. Those invoices were for projects completed on April 15, 2019 — one year and two month ago. Mr. Griffith said it took a while to reconcile the invoices because of the scope of the project, which was roughly \$800 million. Another reason was quality control of the invoices, he said. However, the submittal of invoices to FEMA does not mean that payments will be immediately made to contractors owed. FEMA has to first approve the invoices.