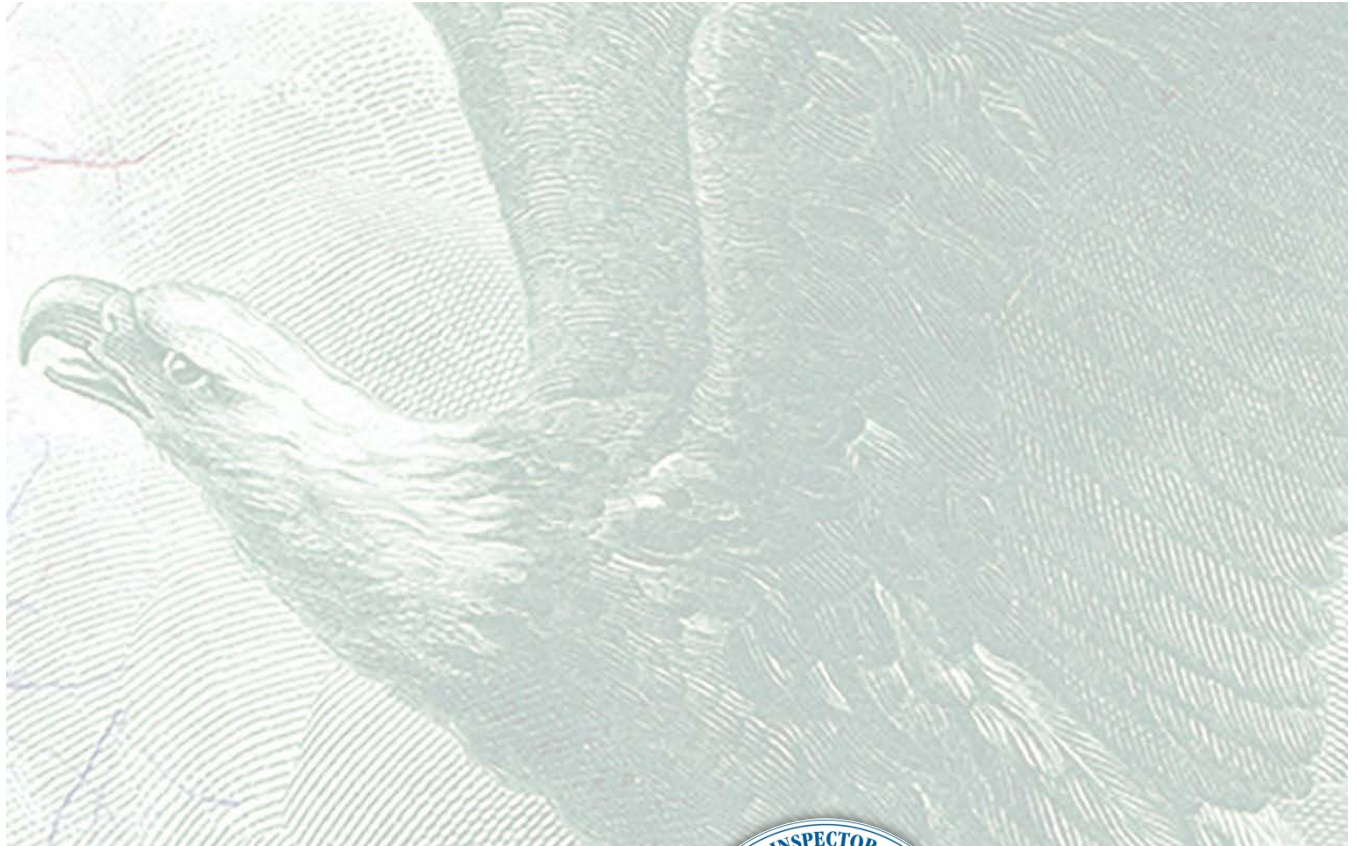


Audit Report

# Unnecessary Expenses Charged to the Hardest Hit Fund



# SIGTARP



OFFICE OF THE SPECIAL  
INSPECTOR GENERAL FOR  
THE TROUBLED ASSET  
RELIEF PROGRAM

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OFFICE OF THE SPECIAL INSPECTOR GENERAL

FOR THE TROUBLED ASSET RELIEF PROGRAM

1801 L STREET, NW, 4<sup>TH</sup> FLOOR

WASHINGTON, D.C. 20220

MEMORANDUM FOR: Honorable Steven T. Mnuchin – Secretary of the Treasury

FROM: Honorable Christy Goldsmith Romero – Special Inspector General  
for the Troubled Asset Relief Program

A handwritten signature in black ink, appearing to read "Christy Goldsmith Romero".

SUBJECT: Unnecessary Expenses Charged to the Hardest Hit Fund  
(SIGTARP 17-002)

We are providing this report for your information and use. SIGTARP found \$3 million in unnecessary expenses charged to TARP by state agencies participating in TARP's Hardest Hit Fund.

The Office of the Special Inspector General for the Troubled Asset Relief Program conducted this audit (engagement code 035) under the authority of the Emergency Economic Stabilization Act of 2008 and Public Law 110-343, as amended, which also incorporates certain duties and responsibilities of inspectors general under the Inspector General Act of 1978, as amended.

We considered comments from the Department of the Treasury when preparing the report. Treasury's comments are addressed in the report, where applicable, and a copy of Treasury's response is included in its entirety.

We appreciate the courtesies extended to our staff. For additional information on this report, please contact me at any time.



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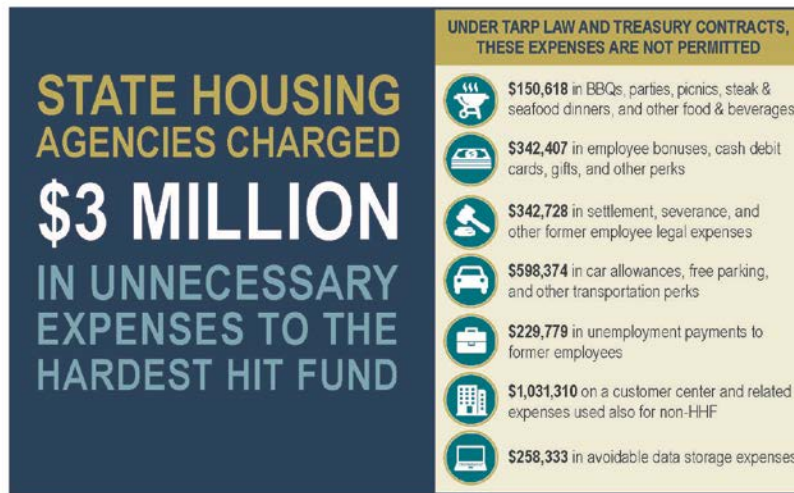
## Executive Summary

Homeowner relief was so important to Congress that it rejected initial TARP legislation that solely focused on recapitalizing financial institutions. It was only after funds were allotted to foreclosure prevention that the legislation passed. And the need for a temporary safety net to save the homes of unemployed or underemployed Americans and demolish blighted homes remains so critical that in 2015 Congress added \$2 billion to the Hardest Hit Fund (HHF), one of the primary homeowner relief programs.

To ensure that the HHF follows TARP law and funds reach their intended recipients, Treasury set significant limits in its HHF contracts with state agencies: all expenses must be “necessary” to facilitate loan modifications. A lesser, “reasonable” standard was not used. Treasury’s contracts with the state agencies administering HHF also included a schedule of permitted expenses, which listed specific categories of necessary expenses and dollar limits.

Such precautions are much needed: state agencies will spend \$1.1 billion in administrative expenses to distribute \$8.5 billion. Every dollar spent on unnecessary expenses is a dollar that is no longer available for homeowner assistance. After a SIGTARP audit of Nevada’s state agency found millions in waste, Senator Charles Grassley asked SIGTARP to open a program-wide audit of HHF administrative expenses.

In our second audit, SIGTARP used the U.S. Department of the Treasury’s own expense criteria to identify \$3 million in unnecessary expenses made by state agencies. Some of the unnecessary expenses are large: Rhode Island charged to TARP hundreds of thousands for the construction of a customer center that is also used also for non-HHF purposes—years after billing TARP for the build-out of an office in 2010.



Source: SIGTARP analysis of data provided by the HHF state agencies and Treasury.



Others are relatively small but numerous: TARP gift cards for employees, TARP barbeques, TARP flowers, TARP gym memberships, TARP balloons—even a TARP piñata. All these unnecessary expenses violate TARP law and Treasury’s contracts. And, most importantly, every dollar that state agencies used such unnecessary expenses is a dollar no longer available for homeowners.

Many state agencies treat HHF as a windfall: money that can be used for anything. North Carolina called HHF a “game changer.” It was: the agency charged more than \$100,000 in unnecessary expenses, including barbeques, parties, cash bonuses, and steak and seafood dinners.

For TARP and taxpayers to be made whole, these state agencies must pay back their ill-gotten gains. SIGTARP is making 30 recommendations for Treasury to recover the \$3 million in unnecessary expenses identified in this report, and to protect taxpayers from spending more than is necessary in the future. Treasury responded by saying they appreciate SIGTARP’s oversight and thorough review of the administrative expenses charged to TARP and agree that Treasury should recover the amounts expended in violation of program requirements.

The audit’s objective was to review the use of TARP funds for administrative expenses, operating expenses, or other spending by the 19 state housing finance agencies (and/or their contractors or partners) who receive Hardest Hit Fund dollars. SIGTARP conducted this audit in accordance with generally accepted government auditing standards established by the U.S. Government Accountability Office (GAO). For a complete discussion of the audit scope and methodology, see Appendix A.



## Background

Congress did not pass TARP in the first bill. In his book, *On The Brink*, former Treasury Secretary Henry Paulson talks about Treasury's efforts to get TARP passed after being voted down. He said, "With Senate approval, TARP's success now depended once again on the House, where Barney Frank was working hard to push things along. To win Democratic votes, he pressed us to do something about homeowner relief." TARP passed in October 2008. The Emergency Economic Stabilization Act (EESA) added authority for TARP dollars for foreclosure mitigation.

In EESA, Congress also imposed limitations on its authorization, with Congress giving the U.S. Department of the Treasury (Treasury) authority to use \$250 billion of \$700 billion, and the President authority to decide on an additional \$100 billion, but keeping the right to disapprove the final tranche of \$350 billion. Secretary Paulson discussed in his book calling Congressman Frank in November and telling him that Treasury could not do more on foreclosures without the final tranche of TARP money, and that Treasury was not going to ask for it. Secretary Paulson recalled telling Congressman Frank, "We hadn't told Congress or the public that the TARP funds would be used for a spending program." He recalled in his book that Congressman Frank called him the next morning and said, "You need a housing program," and that if Treasury came up with a foreclosure plan, it could get the last tranche of TARP. On January 22, 2009, the House voted to disapprove the final \$350 billion tranche, but because the disapproval did not pass the Senate, the \$350 billion was authorized.<sup>1</sup> In February 2009, Treasury announced the Making Home Affordable Program. In February 2010, Treasury announced the Hardest Hit Fund (HHF), a program that would end up providing TARP dollars to homeowners in 19 hard-hit states, including the District of Columbia.

### *To Be Authorized Under TARP Law, Treasury Set a Strict Test in its Contracts for State Agency Expenses: Expenses Must Be "Necessary" to Facilitate the Loan Modifications Authorized by the Emergency Economic Stabilization Act*

In 2010, then-Treasury Secretary Timothy Geithner, in letters written to 35 Members of Congress, took the position that, *to be paid by the Hardest Hit Fund, a state expense would have to be authorized under the Emergency Economic Stabilization Act (EESA), the law that authorized TARP.*<sup>2</sup> This

<sup>1</sup>The Senate had voted to approve the last \$350 billion for TARP on January 15, 2009.

<sup>2</sup> See Letter from Treasury Secretary Geithner to the Honorable Mary Jo Kilroy and 33 other Members of Congress, September 13, 2010; Letter from Treasury Secretary Geithner to the Honorable Sherrod Brown, September 13, 2010 (collectively, the "Secretary Geithner Letters").



requirement was implemented in Treasury's 2010 contracts with state agencies for the Hardest Hit Fund, which state, "*HFA [Housing Finance Agency] and Eligible Entity each represent and warrant that it is in compliance with, and covenants that all Services will be performed in compliance with, EESA....*"

Because EESA does not authorize specific expenses, Treasury set a strict test in its contracts that only expenses necessary to carry out the authority granted in EESA would be permitted, as those expenses are authorized by EESA by implication. Treasury's contracts provide: "*Contemporaneously with the execution and delivery of this Agreement, HFA and Eligible Entity shall also deliver to Treasury a budget detailing the administrative expenses necessary to carry out the Services (the "Permitted Expenses").*"<sup>3</sup>

Secretary Geithner's letters to Congress were in response to state agencies' proposals to use TARP dollars to pay housing counselors and legal aid.<sup>4</sup> Then-Secretary Geithner relied on a legal analysis by then-Treasury General Counsel George Madison, whose office would have approved the HHF contracts. Treasury General Counsel Madison analyzed that, under well settled law, by implication Congress authorized expenses that are "necessary or incident to" the implementation of the expressly stated purpose of the law.<sup>5</sup> Through this analysis, Treasury determined that EESA only authorizes expenses necessary to "facilitate loan modifications using credit enhancements in the form of payments to loan servicers, investors, and borrowers"—because that is the authority Treasury uses to operate TARP's Hardest Hit Fund program.<sup>6</sup>

Appropriations law recognizes that Congress holds the power of the purse as a key element of the constitutional framework of checks and balances.<sup>7</sup> As GAO has reported, "No money can be paid out of the Treasury unless it has been appropriated by an act of Congress," citing a Supreme Court decision. GAO reported:

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<sup>3</sup> These Services were outlined in short schedules that listed the type of services provided (for example, modifications of loans through principal reduction or payments to servicers, investors or borrowers). Treasury later included in schedules the demolition of abandoned blighted houses.

<sup>4</sup> See Congressional Record Volume 156, Number 168 (Friday, December 17, 2010) [House] [Pages H8623-H8629], <https://www.gpo.gov/fdsys/pkg/CREC-2010-12-17/html/CREC-2010-12-17-pt1-PgH8623.htm> (accessed 7/14/2017).

<sup>5</sup> See attachments to Secretary Geithner Letters. Secretary Geithner's letter and Treasury General Counsel George Madison's legal memorandum became public. See, e.g., Congressional Record Volume 156, Number 168 (Friday, December 17, 2010) [House] [Pages H8623-H8629], <https://www.gpo.gov/fdsys/pkg/CREC-2010-12-17/html/CREC-2010-12-17-pt1-PgH8623.htm> (accessed 7/14/2017).

<sup>6</sup> Section 109(a) of EESA authorizes the Secretary to use "loan guarantees and credit enhancements to facilitate loan modifications to prevent avoidable foreclosures," which is the assistance the Hardest-Hit Fund provides homeowners. See attachment to Secretary Geithner letters.

<sup>7</sup> GAO, Principles of Federal Appropriations Law, Chapter 1, 4<sup>th</sup> ed. 2016 rev., GAO-16-463SP, pg 5.



*[T]he Constitution vests in Congress the power and duty to affirmatively authorize all expenditures. Regardless of the nature of the payment—a salary, a payment promised under a contract, a payment ordered by a court—a federal agency may not make such a payment and, indeed, may not even incur a liability for such a payment, unless Congress has made funding authority available.<sup>8</sup>*

Any government obligation or expenditure whatsoever may be made only as authorized by an appropriation, either annually or in a permanent appropriation.<sup>9</sup> These activities are subject to the limitations imposed by law upon the use of all appropriated funds.<sup>10</sup> One key law is the purpose statute that provides that “appropriations may be used only for their intended purpose.”<sup>11</sup>

*Treasury Determined that EESA Did Not Allow Expenses for Housing Counselors for General Foreclosure Prevention, Legal Aid, or Other Expenses that Are Merely “Reasonably Related” to EESA’s General Purpose to Prevent Foreclosures, But Not “Necessary” to Modify Loans*

Treasury determined that EESA did not allow payments for legal aid and counseling programs. Treasury also decided, “programs that involve direct or indirect payments of TARP funds for lawyers, legal expenses, legal aid or mediation assistance are not permissible.”<sup>12</sup>

Treasury applied the Comptroller General’s three-part test to determine whether an expense is necessary. First, it must be reasonably related to the purpose for which the appropriation was made. However, that, on its own, is not enough as all three factors must be met. Second, it must not be prohibited by law. Third, it must not fall within the scope of another appropriation. Treasury concluded that the proposed expenditure of EESA funds for legal aid services under the Hardest Hit Fund clearly failed factor three because legal aid services were already appropriated by Congress under another law.

Treasury set the standard for payments of expenses through EESA: “We recognize that typical legal aid services, such as those proposed by the various state HFAs, are reasonably related to foreclosure prevention efforts generally. However, we do not believe they are necessary or essential to loan

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<sup>8</sup> *Id.*, pg. 6.

<sup>9</sup> *Id.*, pg 6-7.

<sup>10</sup> *Id.*, pg 7.

<sup>11</sup> *Id.*, pg 8.

<sup>12</sup> Letter from Representative Mary Jo Kilroy and 33 other Members of Congress to Secretary Timothy Geithner citing Treasury guidance, June 21, 2010; Letter from Senator Sherrod Brown to Secretary Timothy Geithner, June 1, 2010.



modification programs under the HFA Hardest Hit Fund.” Treasury rejected prior Comptroller General opinions that expenditures merely need to be “reasonably related” or “contribute materially” to a law’s expressed purpose, stating:

*Here, one could argue that a general statutory purpose of EESA is to prevent foreclosures and that any expenditures reasonably related to that purpose are permissible. We believe that such an interpretation sweeps too broadly. It would authorize an almost unlimited number and variety of government expenditure—i.e. anything that is reasonably related to preventing foreclosures. It also would render meaningless the express provisions in EESA that together provide authority for the Hardest Hit Fund: Section 101 authorizes the Secretary to purchase “troubled assets from any financial institution,” and 109(a) authorizes the Secretary to use “loan guarantees and credit enhancements to facilitate loan modifications to prevent avoidable foreclosures. Lastly, such an interpretation would be contrary to how Treasury has implemented EESA.*

In a 2013 interview about the Hardest Hit Fund, Mark McArdle, a senior Treasury official who later became the Deputy Assistant Secretary, told SIGTARP that Treasury told the state agencies what Treasury thought EESA could and could not fund, and that when state agencies proposed legal aid, Treasury’s counsel believed “it did not directly facilitate a modification to prevent foreclosure, which is what EESA requires.” Deputy Assistant Secretary McArdle explained to SIGTARP, “EESA was pretty clear about the language, which says facilitate a modification to prevent an avoidable foreclosure. So it had to be before the foreclosure occurred or prevented a foreclosure.” Mr. McArdle told SIGTARP that a counselor can be an intake agent, adding “We can’t pay for general counseling.”

### ***SIGTARP Applied Treasury’s Own Test, Criteria, and Reporting to Determine Whether to Question a State Agency’s Administrative Expenses Charged to TARP as Violating Treasury’s Contracts***

In this audit, SIGTARP reviewed certain administrative expenses charged to TARP in HHF to determine whether they were “necessary to carry out” HHF as required under Treasury’s contracts.<sup>13</sup> SIGTARP also applied GAO standards to determine whether the expense constituted waste and/or abuse. We also questioned certain costs. A questioned cost means a cost that is questioned because of an audit finding:

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<sup>13</sup> For this report, SIGTARP is not including other expenses such as travel, conferences, professional expenses, marketing, IT, salaries, or counseling (except for a limited number of items identified in the course of the audit). SIGTARP is continuing to review these expenses.



- (a) Which resulted from a violation or possible violation of a statute, regulation, or the terms and conditions of a Federal award, including for funds used to match Federal funds;
- (b) Where the costs, at the time of the audit, are not supported by adequate documentation; or
- (c) Where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.<sup>14</sup>

As part of its questioned cost analysis, SIGTARP examined whether each charge violated Treasury's contract as unnecessary to modify loans (or demolish blighted houses) in the Hardest Hit Fund. In that determination, SIGTARP considered: (1) criteria articulated by Treasury General Counsel Madison; (2) Treasury's list of "Permitted Expenses" in its HHF contracts with state agencies; and (3) Treasury reporting on state agency performance in modifying loans.

*Treasury's Then-General Counsel Articulated Two Criteria to Determine Whether an Expense Is Necessary to Modify Loans Under the Hardest Hit Fund, Criteria that Treasury Should Apply to All Expenses in the Program*

Treasury's General Counsel analyzed that there were two important criteria for an expense to be necessary to loan modifications under the Hardest Hit Fund and determined that, after applying those criteria, legal aid servicers were not permitted:

1. *Legal aid services frequently would result in outcomes other than loan modifications.* Accordingly, they are not—by definition—necessary or essential to loan modifications under the Hardest Hit Fund.
2. *Borrowers can obtain loan modifications without legal services.* By contrast, Treasury determined that limited services such as homeowner eligibility review and document review related to TARP-funded modifications would be eligible for EESA funding. Treasury determined that it would be very difficult for many of these programs to run effectively without such services.<sup>15</sup>

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<sup>14</sup> 2 CFR § 200.84

<sup>15</sup> Treasury's strict test from its interpretation of EESA's limitations on Hardest Hit Fund spending led to two Ohio Congressmen introducing companion bills in the House and Senate entitled "The Aiding Those Facing Foreclosure Act," to amend EESA to allow this spending, with neither bill passing as law. See S. 3979 (November 29, 2010) and H.R. 5510 (June 10, 2010). Specifically, the bills authorized the Treasury Secretary to allow amounts authorized by EESA to provide assistance to nonprofit counseling intermediaries and nonprofit legal organizations to provide assistance to homeowners in, or at risk of, default, delinquency, or foreclosure. On the house floor, Congressman Marcy Kaptur argued, "Nothing could be more important than allowing families facing foreclosure to be afforded proper legal assistance to rework their loan where that is possible."



As these two criteria were articulated by Treasury's General Counsel whose office would have approved the HHF contracts, and that analysis was relied on by the Treasury Secretary. SIGTARP considered these criteria in determining whether expenses were necessary for loan modifications in the Hardest Hit Fund.

*Treasury's Contracts Include a Schedule of "Permitted Expenses" Listing Categories of Expenses and Dollar Limits*

In addition to the criteria articulated by then-Treasury General Counsel Madison, in its contract with state agencies, Treasury made an initial determination that certain categories of expenses may be necessary to modify loans, which it referred to as "Permitted Expenses," as follows:<sup>16</sup>

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<sup>16</sup> Presumably, Treasury applied the two criteria articulated by its then-General Counsel George Madison in determining the types of expenses it initially would permit as necessary.





**Figure 1: Permitted Expenses Under Treasury’s Original Contract with the North Carolina State Agency**

<b>SCHEDULE C</b>	
<b>PERMITTED EXPENSES</b>	
<b>North Carolina</b>	
<b>One-time / Start-Up Expenses:</b>	
Initial Personnel	\$ 0
Building, Equipment, Technology	100,000
Professional Services	100,000
Supplies / Miscellaneous	-
Marketing /Communications	-
Travel	-
Website development /Translation	300,000
Contingency	-
<b>Subtotal</b>	<b>\$ 500,000</b>
<b>Operating / Administrative Expenses:</b>	
Salaries	\$ 6,069,058
Professional Services (Legal, Compliance, Audit, Monitoring)	350,000
Travel	118,500
Buildings, Leases & Equipment	170,000
Information Technology & Communications	2,463,120
Office Supplies/Postage and Delivery/Subscriptions	80,275
Risk Management/ Insurance	239,147
Training	78,500
Marketing/PR	130,000
Miscellaneous	-
<b>Subtotal</b>	<b>\$ 10,001,400</b>
<b>Transaction Related Expenses:</b>	
Recording Fees	\$ 797,600
Wire Transfer Fees	200,000
<b>Counseling Expenses</b>	
File Intake	\$ 2,928,800
Decision Costs	-
Successful File	3,375,000
Key Business Partners On-Going	2,700,000
<b>Subtotal</b>	<b>\$ 10,001,400</b>
<b>Grand Total</b>	<b>\$ 20,200,000</b>
<b>% of Total Award</b>	<b>12.70%</b>
<b>Award Amount</b>	<b>\$159,000,000</b>

TAMPA/HPA - North Carolina/121385.1

Source: Treasury’s original HFA Participation Agreement with the North Carolina state agency, Schedule C “Permitted Expenses,” dated August 3, 2010.

All expenses in these Permitted Expenses are not automatically necessary to modify loans, and therefore, authorized under Treasury’s contract in compliance with EESA. Treasury requires quarterly reporting on expenses in these categories, and conducts on and off site expense reviews. Treasury also caps spending in each category and overall administrative expenses.



## SIGTARP Found Elevated Risk of Fraud, Waste, Abuse, and Overpayment Because State Agencies Are Lumping Unnecessary Expenses Into Permitted Expense Categories

SIGTARP found elevated risk of fraud, waste, abuse, and overpayment because the state agencies are charging TARP for administrative expenses not allowed under Treasury's contract that are lumped into "Permitted Expense" categories in quarterly reports to Treasury.

- SIGTARP found that some agencies are charging TARP for expenses such as meals, parties, picnics, outings, and gifts that are lumped into Permitted Expense categories.
- SIGTARP found that some agencies are charging TARP for expenses that may be related to broad categories of Permitted Expenses but are not necessary to modify loans. For example, some state agencies lumped employee bonuses and gym memberships into the high-level category of "Salaries." One state agency lumped a car allowance for a Mercedes Benz for the Chief Executive Officer (CEO) into Permitted Expense categories of travel. Another state also charged exclusive use of a car for an employee.
- SIGTARP found that some agencies are charging TARP for expenses lumped into a "Miscellaneous" category.

Because the state agencies lumped these expenses into Permitted Expenses at such high level categories in Treasury's template, there is a lack of transparency about how state agencies are spending TARP dollars. This lack of transparency elevates the risk that taxpayers pay more for this program than they need to, and the risk of fraud, waste, and abuse. This lack of transparency also shields the expenses from oversight.

SIGTARP found tremendous inconsistency in the types of expenses each state agency charges TARP, an inconsistency that results in taxpayers paying more than they have to for this program.



## SIGTARP Found that Taxpayers Are Paying More for This Program Than Is Necessary, and Losing Federal Dollars to Waste, Because Treasury Is Not Following Its Own Contract to Limit TARP Dollars to Only Necessary Expenses

Taxpayers are paying more for this program than is necessary, and losing Federal dollars to waste, because Treasury is not following its own contract to limit TARP spending to only expenses necessary to modify loans or demolish blighted houses. Treasury has also allowed state agencies to charge TARP for expenses not included in the Permitted Expenses, such as food and beverages, which are not necessary to modify loans or demolish blighted houses. Treasury also does not consider the criteria for what is an unnecessary expense articulated by then-General Counsel Madison: (1) that the expense frequently would result in outcomes other than loan modifications; and (2) that borrowers could obtain loan modifications (or blighted houses could be demolished) without the expense.

***Taxpayers lost \$8.1 million in waste that SIGTARP found in the Hardest Hit Fund in Nevada because Treasury decided not to recover 99% of this waste.*** In its September 9, 2016, audit, SIGTARP reported that expenses charged to TARP by the Nevada Affordable Housing Assistance Corporation (NAHAC) had skyrocketed, even though NAHAC had all but stopped admitting homeowners to the Hardest Hit Fund.

***SIGTARP recommended Treasury seek repayment of \$8.2 million in wasted and abused TARP funds, including:***

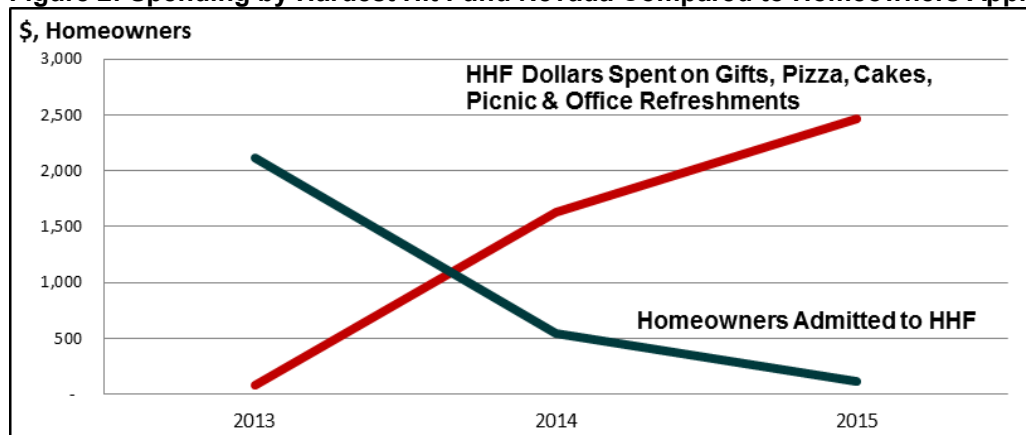
- \$11,000 for the CEO's **car allowance for a Mercedes Benz**
- \$10,963.68 spent on **employee bonuses, employee gifts, employee outings, staff lunches and other employee perks**
- \$5,811.27 spent for **holiday parties and gifts**
- \$100,385.20 wasted on **excessive rent moving to a luxury building with double the rent**, and then relocation and related costs to move from that building
- \$184,319.21 spent on **legal expenses** to defend alleged violations of the law
- \$26,395.70 paid to **forensic auditors** to reconcile its books
- \$10,812.00 paid to an **independent auditor** to reconcile non-HHF bank accounts



- \$19,874.75 paid for the terminated CEO’s **severance package**
- \$10,840.18 spent on **non-HHF expenses** identified by Treasury
- \$23,838.25 identified by Treasury for **unsupported and non-HHF expenses**
- \$2,241,396 wasted in **excessive administrative expenses** during 2015, which exceeded the per-homeowner-cost in 2013, and
- \$7,459,626.22 in overhead as NAHAC **charged 100% of its overhead** to HHF while working on non-HHF matters.

Critical to SIGTARP’s recommendation that Treasury recover these expenses was data showing that NAHAC was not performing its services under Treasury’s contract, but was still charging TARP for its expenses. SIGTARP reported that the already low numbers of Nevada homeowners admitted to HHF plummeted by 94% from 2013 to 2015. NAHAC admitted only 117 homeowners into HHF in 2015, as shown in Figure 2.

**Figure 2: Spending by Hardest Hit Fund Nevada Compared to Homeowners Approved for HHF**



Source: SIGTARP Audit Report: “Waste and Abuse in the Hardest Hit Fund in Nevada,” 9/9/2016, [https://www.sig tarp.gov/Audit%20Reports/HHF%20Nevada\\_090916.pdf](https://www.sig tarp.gov/Audit%20Reports/HHF%20Nevada_090916.pdf).

**Taxpayers had to pay an additional \$8.1 million because in April 2017 Treasury did not apply its own contract limitations, instead only recovering 1% (\$82,000) of the waste identified by SIGTARP.** Treasury did not determine whether the expenses were necessary for loan modifications as required by its contract. In its April 7, 2017, letter to NAHAC, Treasury’s review shows zero analysis or mention of whether the expenses were necessary for loan modifications. Treasury knew that loan modifications under HHF were not taking place from NAHAC’s quarterly reports and from SIGTARP’s report. Treasury never considered this critical nonperformance data. Under Treasury’s analysis, a state agency that did not perform under its contract with Treasury to modify loans for Nevada homeowners, still charged TARP for essentially all of its operating expenses.



***Instead, Treasury only applied Federal cost principles, principles that do not override, but are in addition to, the requirement that an expense must be necessary for loan modifications.*** Treasury's April 2017 review appears to have focused on compliance with Federal cost principles (Office of Management and Budget (OMB) Circular A-87). Cost principles do not authorize Federal spending, but serve as an additional limitation on them.

Treasury's contracts with state agencies explicitly provide that the Federal cost principles are in addition to the requirement that the expense be necessary for loan modifications:

*Contemporaneously with the execution and delivery of this Agreement, HFA and Eligible Entity shall also deliver to Treasury a budget detailing the administrative expenses necessary to carry out the Services (the "Permitted Expenses"). **Additionally**, all administrative expenses paid with HHF Program funds shall be accounted for and are subject to OMB Circular A-87 (revised 5/4/95, as further amended 8/29/97). (emphasis added)*

Thus, once an expense meets the test of being necessary to carry out the services authorized by EESA, the Federal cost principles (OMB Circular A-87) serve as an additional limitation. Federal cost principles are not a substitute for, and do not override, Treasury's contractual requirement that the spending must be necessary to carry out the specific action EESA authorizes (loan modifications). For example, OMB Circular A-87 may allow an expense that is authorized by state law or policy, but that, on its own, does not make that expense allowable under Treasury's contract.

Treasury's failure to determine whether each NAHAC expense identified by SIGTARP was necessary for loan modifications in HHF resulted in Treasury allowing TARP to pay for expenses that were not allowed under the contract, and beyond that, constituted waste. For example:

- Treasury allowed TARP to pay NAHAC for a \$20,000 severance payment for NAHAC's CEO, who had just been fired by NAHAC's board.
- Treasury allowed TARP to pay NAHAC for \$123,217.96 in legal fees defending discrimination complaints by former employees.
- Treasury allowed TARP to pay \$100,385.20 for NAHAC to double its rent by moving into a luxury building dubbed the "Taj Mahal" and then later, when NAHAC's board determined the rent to be too expensive, pay legal fees and other costs associated with breaking the lease and moving into a new building, including new furniture, and rent on two offices during one month.



- Treasury allowed NAHAC to keep nearly one TARP dollar for itself for every TARP dollar it provided to a homeowner in 2015. For 6 months in that year, Treasury allowed NAHAC to keep more in TARP dollars for itself than it distributed to homeowners.

Treasury allowed TARP to pay all of these expenses, and others identified by SIGTARP, despite the fact that NAHAC incurred these expenses at a time when it had all but stopped distributing TARP dollars to Nevada homeowners, and was not performing under Treasury's contract. These expenses, and others SIGTARP identified, are not necessary to modify loans and, therefore, violate Treasury's contract, whether or not they comply with Federal cost principles.

Treasury compliance staff's application of only Federal cost principles in OMB Circular A-87 is not sufficient for the Department of the Treasury to fulfill its responsibility as a steward over taxpayer dollars.



## Eight State Agencies Charged TARP a Total of \$4,179.65 for Meals with Treasury Employees, Which Violates Treasury’s Contract, Including Five Catered Barbeques for Treasury and State Agency Employees

Treasury employees attended five catered barbeques thrown by state agencies in North Carolina and Alabama, where the cost of the food, the gratuities, and the décor were charged to TARP. None of these expenses are permitted under Treasury’s contract as they are not necessary to modify loans.

- The North Carolina state agency charged TARP \$2,749.69 for four catered barbeque lunches for their employees and Treasury employees. There were 50-60 people at three barbeques, and 90 people at the fourth barbeque. The North Carolina state agency used a check drawn on the HHF account and charged a credit card to pay the barbeque company (Figure 3) and another restaurant for food and gratuities, and other stores for additional food and décor, and later paid the credit card bill from the TARP account. The North Carolina state agency also charged TARP \$80.54 for breakfast for Treasury employees (Table 1).

Figure 3: Menu for BBQ Restaurant Where TARP Paid for Lunch for Treasury and North Carolina Agency Employees



Source: Cooper’s Barbeque website: <https://www.clydecoopersbbq.com/> accessed 8/7/2017.



**Table 1: North Carolina Agency’s Charges to TARP for Treasury Employee Meals**

Date	Charge to TARP	Type of Charge	Attendees	Treasury Employee Reimbursement
	<b><u>\$606.16 Total</u></b>			
Jan. 25, 2011	\$550.25 Cooper’s BBQ (food and tip) + \$55.91 Walmart for sodas, cookies, salad	BBQ Lunch for 50 people	Treasury employees + state agency employees	\$0
	<b><u>\$359.64 Total</u></b>			
Sept. 15, 2011	\$320.55 Cooper’s BBQ (food and tip) + \$39.09 Walmart for napkins, plates	BBQ Lunch for 50 people	Treasury employees + state agency employees	\$0
Sept. 12, 2011	<b>\$80.54</b>	Breakfast for Treasury audit kickoff	Treasury employees + state agency employees	\$0
	<b><u>\$868.87</u></b>			
Oct. 18, 2012	\$745.33 Cooper’s BBQ (including food and tip) + \$115 Italian Kitchen (salads and tip) + \$8.54 tablecloth and decorations	BBQ Lunch for 60 people	Treasury employees + state agency employees	(\$111)
	<b><u>\$915.02 Total</u></b>			
March 17, 2016	\$873.99 Cooper’s BBQ (food and tip) + \$19.96 Costco salad + \$21.07 Dollar General for bamboo table torches, balloons, tablecloths and pottery light	BBQ lunch or dinner for 90 people	Treasury employees + state agency employees	(\$132)
<b>Subtotal</b>	<b>\$2,830.23</b>			(\$243)
<b>Total</b>		<b>\$2,587.23 TARP charge</b>		

Source: SIGTARP analysis of state agency provided data in the Hardest Hit Fund program.

- The Alabama state agency also charged TARP for a catered barbeque with Treasury employees.** In 2011, the Alabama state agency charged TARP \$197 for the food and gratuity paid to Champs BBQ for 10-15 Treasury and state agency employees. In 2012, the Alabama state agency also charged TARP \$33.50 for “Lunch for Treasury staff” at two restaurants—both on the same day. In 2014, the state agency charged TARP \$110 for a catered lunch at Jennie Weller Catering for 10 people including Treasury employees.





*Other state agencies also charged TARP for meals for Treasury employees, including:*

**The Mississippi state agency** charged TARP \$327.00 for lunch for 30 people at, or catered by, the Basil's Belhaven restaurant and charged another \$42.16 at Lil Tony's Restaurant including all of the Treasury employees visiting and the state agency employees.

**The Kentucky state agency** charged TARP \$130.80 for a catered lunch for 12 people including Treasury employees, on July 11, 2011. That same day, the Kentucky state agency charged an additional \$13.99 for food for the Treasury meeting. On January 9, 2012, the Kentucky state agency charged \$13.99 for "breakfast items for Treasury visit."

**The Oregon state agency** charged TARP in June 2011 for a Treasury visit, including \$194.05 for lunch catered from a restaurant for multiple Treasury employees including a senior Treasury official and nine state agency employees. That same day, the state agency did not charge TARP for Treasury employee's lunches, but did charge TARP \$161.17 for state employees' lunches during a "UST visit lunch at Sassy Onion." The state agency also charged \$48.85 for coffee, pastries and desserts that same day for Treasury employees, as well as \$26 for coffee for meetings with Treasury on other occasions.

**The Michigan state agency** charged TARP \$77 for "refreshments for meals with Treasury" on July 31, 2015.

**The Illinois state agency** charged TARP \$14.35 for breakfast for a meeting with Treasury on September 23, 2013.

**The Washington, DC agency** charged TARP \$202.28 for a continental breakfast with Treasury on March 6, 2012.

Treasury should have been on notice that these meals were being charged to TARP. SIGTARP questions these charges as not necessary for loan modifications, and therefore, not permitted under Treasury's contract. In addition, SIGTARP finds that these expenses constitute waste. The GAO defines waste as "the act of using or expending resources carelessly, extravagantly, or to no purpose."<sup>17</sup> GAO has also described waste as: "...taxpayers do not receive reasonable value for their money in connection

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<sup>17</sup> GAO, Standards for Internal Control in the Federal Government (the Green Book).



with any government-funded activity due to inappropriate acts or omissions by officials with control over or access to government resources.”<sup>18</sup>

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<sup>18</sup> Statement of David M. Walker, Testimony before the U.S. Senate Committee on Appropriations, “Stabilizing and Rebuilding Iraq: Actions Needed to Address Inadequate Accountability over U.S. Efforts and Investments,” GAO-08-568T, March 11, 2008, <http://www.gao.gov/new.items/d08568t.pdf> (accessed 07/13/2016).



## North Carolina Housing Finance Agency's Culture Involves Charging TARP for TARP Barbeques, Parties, Restaurant Outings, Gifts, Employee Gym Memberships, Regular Employee Meals, and Employee Cash Bonuses

SIGTARP found \$107,578 in waste, abuse, and questioned costs that violated Treasury's contract by the North Carolina Housing Finance Agency, including the TARP barbeques with Treasury. SIGTARP found that the North Carolina agency's culture involves regularly charging TARP for expenses that other state agencies were not charging.<sup>19</sup>

According to the North Carolina Housing Finance Agency, "the game changer" was being selected by Treasury to receive initially \$482.8 million in the Hardest Hit Fund. Previously, the state agency operated a small, focused state program from 2005 to 2010, receiving \$12.4 million in non-TARP grants.

SIGTARP found that TARP was not only a "game changer" in the number of people who could be helped by the North Carolina agency, but also in the number of dollars now available for spending. The TARP funding was 38 times the total amount of grants the North Carolina agency previously received.

The culture at the North Carolina agency was that officials could use almost any justification to charge TARP for barbeques, parties, celebrations, restaurant outings, gifts, gym memberships, regular employee meals, and employee cash bonuses. For example:

- Treasury officials' visit was the North Carolina agency's justification to throw four big TARP barbeques with 50, 60, or 90 people. The charges to TARP were \$600, \$350, \$870, and \$915.
- When Treasury left, it was cause to celebrate with a lunch for all employees. For example, the agency charged TARP \$660 for another TARP barbeque to recognize the employees who worked on Treasury's "audit."
- Opening up the HHF program to North Carolina homeowners was the North Carolina agency's justification to take all employees who worked on it to a steak and seafood dinner, and charge TARP the bill.

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<sup>19</sup> For this report, SIGTARP is not including other expenses such as travel, conferences, professional expenses, marketing, IT, salaries, or counseling (except for a limited number of items identified in the course of the audit). SIGTARP is continuing to review these expenses.



- “Get to know new staff” was the North Carolina agency’s justification to charge TARP for a “Hardest Hit Fund Staff Picnic” for employees and family on a Saturday, with TARP even paying for the piñata and candy to fill it for the children.
- Reaching milestones of homeowners helped was the North Carolina agency’s justification to charge TARP \$290 for another TARP barbeque, and \$829 for a restaurant-catered lunch.
- “To meet and learn the role of the Hardest Hit Fund” was the North Carolina agency’s justification for a celebration for all employees, and even non-HHF employees, on Valentine’s Day, charging TARP \$277 for food and Valentine’s Day décor, including a “V-day mailbox.”
- “Employee health, welfare, and morale” was the justification for many charges to TARP.

The North Carolina agency started this culture at the very beginning of the Hardest Hit Fund. Before providing \$1 in TARP to any North Carolina homeowners, the North Carolina agency charged TARP \$2,349 in meals, and \$2,115 in cash bonuses to two employees. After helping just 16 homeowners in its first quarter it accepted applications for HHF, the state agency paid an additional \$1,688 in meals and an additional \$5,000 in bonuses (to the same two employees).

The following calendar shows one month of meals totaling \$1,100 charged to TARP, a few months later in January 2011:

**Figure 4: Meals Charged in January 2011 by the North Carolina Agency**

<b>Jan 2011</b>	2	3	4	5	6	7	8
	9	10	11	12	13	14	15
	16	17	18	19	20	21	22
	23	24	25	26	27	28	29

Source: SIGTARP analysis of data provided by North Carolina state agency.

The North Carolina agency’s culture included that “Working breakfasts/lunches/dinners” were regularly charged to TARP. One manager had a “working breakfast” at IHOP one morning and a “working lunch” at Firebirds Restaurant that same day ordering seared tuna and crab cakes, all



charged to TARP. Two employees bought two coffees at Dunkin Donuts one morning for \$4.72 and charged it to TARP as a “working breakfast.” Employees could often charge their meals to TARP if they worked through the breakfast or lunch hour. Even one bottle of water bought at CVS for \$1.81 was charged to TARP.

This culture of spending did not stop at meals. The state agency purchased shirts from Land’s End with their logo for employees and contractors who attended events “so they could be easily identified” and charged it to TARP at a cost of \$1,113.

The culture of the North Carolina Housing Finance Agency included regularly charging gifts to a credit card paid from the TARP bank account.<sup>20</sup> While not luxurious gifts, employees were not willing to spend their own personal money or state funds on less than \$5 on a balloon for one employee or \$8 on balloons and a card for their student intern, or to pay for “Hammer & Nail” awards to recognize employees who “nailed it” with a note from the supervisor and a gift card. Unfortunately, these gift cards, which are the equivalent of cash, were charged to TARP. When North Carolina homeowners were approved for new TARP funding in 2016, one employee was given a \$50 gift card, charged to TARP.

Treasury showed up on site and routinely reviewed only samples of the state agency’s spending on expenses. Treasury’s April 2016 review of expenses charged to TARP from September 2014 to February 29, 2016, led to “No Observations” about administrative expenses.

SIGTARP identified the following waste, abuse, and questioned costs. Because the North Carolina agency provided information on expenses only up to September 30, 2016, it is highly likely that the agency has charged TARP even more in these categories since then.

### *Nearly \$11,000 for Employee Parties, Celebrations, and Outings Charged to TARP*

In addition to the unreimbursed amount of \$2,587<sup>21</sup> charged for TARP barbeques and other meals with Treasury, the North Carolina agency also charged TARP \$8,219 as of September 30, 2016, for employee holiday parties, celebratory dinners and lunches, an employee family picnic, and to celebrate other events. For most of these expenses, North Carolina officials

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<sup>20</sup> SIGTARP’s analysis of North Carolina agency’s credit card statements in FY 2011 through FY 2016 revealed other questionable expenses that appeared to be charged to TARP. These include charges to Roly Poly Sandwich, Spirit Halloween, Windy City Novelties, Panera Bread, Mrs. Pumpkin Muffins, Tom’s Pizza Salad, and the Italian Kitchen. SIGTARP will continue to review these expenses.

<sup>21</sup> Amount shown is net of \$243 reimbursed by Treasury.



charged the expense to a credit card, with the bill expensed to the TARP bank account.

**HHF Program Rollout Steak and Seafood dinner:** To celebrate the opening of the HHF program in November 2010, the North Carolina agency charged TARP \$734 for a steak and seafood dinner for 18 employees at Winston’s Grill, charging TARP for the following food and gratuity at \$41 per person, as shown in Table 2.

**Table 2: North Carolina Agency’s 11/4/10 Dinner at Winston’s Grill Charged to TARP**

Food Paid By TARP	
5 Ribeye Specials	2 Goat Cheese Bruschetta
1 Prime Rib	6 Salads & 1 Collards
1 Grilled Tuna	4 Bananas Foster
2 Cashew Salmon	5 Cheesecake
1 Tilapia	1 Bread Pudding
1 Shrimp and Grits	1 Chocolate Soufflé
1 Pork Loin	1 Butter Pecan
1 Shrimp Rigatoni	1 Crème Brule
1 Triple Crown meal	1 Key Lime Pie
2 Calamari	Soda, tea, coffee
4 Crab Dip	Gratuity
<b>Total Charged to TARP: \$734</b>	

Source: Documentation provided by the North Carolina state agency for the Winston Grill dinner.

**Employee Recognition Lunch at Winston’s Grill:** On Friday, January 7, 2011, the North Carolina agency charged TARP \$161 for a lunch for employees at Winston’s Grill. Employees ordered steak salad, catfish, Triple Crown meal, and sandwiches.

**Lunch the Week of Christmas 2010:** On December 20, 2010, the North Carolina agency charged TARP \$289 for three deluxe sandwich trays. There was no justification for this charge to TARP.

**December 2011 Holiday Party at The Square Rabbit:** The North Carolina state agency charged TARP \$666 for a “Holiday Luncheon for HHF Staff” on Friday December 16, 2011, at a restaurant called The Square Rabbit for approximately 60 people. They bought butternut squash lasagna, pork roast with glazed apples, and roast beef, all charged to TARP.

**Pizza for Employees who Missed the 2011 Holiday Party:** The North Carolina agency charged TARP \$59 for pizza for the employees who missed the holiday party to work.

**December 2014 Holiday Lunch:** The North Carolina agency charged TARP \$96 for a Honey Baked Ham holiday lunch, plus drinks and supplies.



**December 2015 Employee Potluck:** In mid-December 2015, the North Carolina agency held an employee potluck and charged TARP \$18 for drinks, table covers, and napkins.

**December 2015 Holiday Breakfast:** On December 22, 2015, the North Carolina agency charged TARP \$63 for a breakfast for “employee health, welfare, and morale.”

**Catered Lunch by The Square Rabbit:** On May 3, 2012, the North Carolina agency charged TARP \$457 for a lasagna lunch catered by The Square Rabbit for 40 employees. The agency’s justification was employee recognition after a conference.

**Seafood Lunch:** The North Carolina agency charged TARP \$41 to treat two employees to a seafood lunch at the restaurant Firebirds the week of Thanksgiving 2011. The agency’s justification was recognition for helping with a conference.

**Family Picnic:** The North Carolina agency charged TARP \$348 for a “Hardest Hit Fund Staff Picnic” on a Saturday in June 2011 that included a piñata and candy for the children, balloons, donuts, games, toys, drinks, and supplies.

**HHF Program Rollout Lunch:** Just prior to the steak and seafood dinner in November 2010, as described above, the North Carolina agency employees had already celebrated the rollout of the HHF program in October 2010, charging TARP \$183 for lunch for 11 state employees at the Fox and Hound.

**Employee Recognition Lunch:** In September 2010, before the first North Carolina homeowner applied for HHF, it charged TARP \$200 for a lunch for 14 employees at the Duck & Dumpling, charging TARP for food.

**New Employee Welcome Breakfast:** Also in September 2010, the North Carolina agency charged TARP \$91 for a welcome breakfast for new employees.

**Cakes and Party Supplies for Employee Celebration of Milestone of Homeowners Helped:** In January 2013, the North Carolina agency charged TARP \$426 for an employee luncheon to celebrate a milestone in the number of homeowners assisted. Charges to TARP included \$182 for five different kinds of cakes, \$106 to Party City for candles and balloons, plus \$138 in snacks and party supplies.

**TARP Barbeque for Employee Celebration of Milestone of Homeowners Helped:** In January 2014, the North Carolina agency charged TARP \$290 for a catered barbeque from Q Shack including 5 pork butts, 5 chickens, 4 gallons of tea, and 60 cookies, to celebrate a milestone in the number of homeowners assisted.



**TARP Barbeque to Celebrate Employees Working on Audit:** In late October 2014, the North Carolina agency charged TARP \$660 for a catered barbeque from Q Shack, and for cakes, drinks, and supplies.

**Catered Lunch for 75 Employees to Celebrate Milestone of Homeowners Helped:** In July 2015, the North Carolina agency charged TARP \$829 for an employee luncheon to celebrate a milestone in the number of homeowners assisted. The Square Rabbit catered 45 lemon chicken lunches and 30 lasagnas, and salads were bought from another restaurant.

**Employee Valentine's Day Open House:** The North Carolina agency charged TARP \$277 for an open house on Valentine's Day 2012 for all employees with the justification "to meet and learn the role of the Hardest Hit Fund." The North Carolina agency charged TARP for Valentine décor including hearts, bowls, chocolate hearts, seven Valentine garlands, one "mailbox V-day" and flower bouquets, Chick-Fil-A iced tea, cookies, red velvet cake, cupcakes, and soda.

**Celebrate TV Promo:** The North Carolina agency charged TARP \$80 for lunch to recognize employees who worked on the promo in May 2015.

**Celebrate a New Program:** The North Carolina agency charged TARP \$228 for pizza, cake, and fruit tarts to recognize 22 employees who worked on the new HHF program in September 2015.

**Celebrate Financial Year:** The North Carolina agency charged TARP \$34 for taco bar supplies for the "Fiscal Year kickoff for the Financial Team" for "Employee Health, Welfare & Morale."

**Employee Party:** The North Carolina agency charged TARP \$38 for chicken wings, roast chicken, sausage, and flowers for "Employee Recognition" in June 2016.

**Employee Farewells:** The North Carolina agency charged TARP \$103 to recognize employee farewells called "transitions," including an ice cream sundae party.<sup>22</sup> They also charged TARP for flowers for "transitions," which is addressed in the next section.

**Cupcakes, Cakes, Candy, and Ice Cream for Employees:**

- In March 2011, the North Carolina agency charged TARP \$59 to treat 15 employees to frozen yogurt.

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<sup>22</sup> One celebration was bagels, another was an ice cream sundae party, one was buying the employee's tacos and truffle fries at a restaurant.





- Between March 2011 and September 2011, the North Carolina agency bought candy and charged TARP \$351.
- The North Carolina agency charged TARP \$27 for a cake for a birthday in December 2011.
- In June 2012, the North Carolina agency charged TARP \$22 for cake and supplies.
- In September 2012, the North Carolina agency charged TARP \$36 for cupcakes, cakes, and packs of gum.
- In October 2012, the North Carolina agency charged TARP \$53 for ice cream and cake.
- In May 2015, the North Carolina agency charged TARP \$20 for cupcakes and pie.

***Balloons:*** The North Carolina agency spent less than \$10 on balloons for “Employee Recognition” for “HHF Staff,” but was unwilling to use anything but TARP dollars to pay for it.

***Donuts and Other Breakfast Items for Employee Recognition:*** The North Carolina agency charged TARP \$682 to buy donuts and other breakfast items regularly for “Employee Recognition.”

***Charges to Restaurants and Supply Stores with no Receipts or Justification:*** The North Carolina agency charged \$590 to TARP to restaurants and other stores where they had purchased food and party supplies. For example, there was a \$99 charge to Italian Kitchen with no receipt. The state agency lumped most of these expenses into the “Miscellaneous” category.

SIGTARP questions all of these expenses as violating Treasury’s contract because they are not necessary to modify homeowner loans in HHF. Other state agencies modified loans in HHF without these expenses, and parties, celebrations, or employee recognition are not listed as “Permitted Expenses” in Treasury’s contract. In addition, these expenses constitute waste as they have no purpose in HHF, some are extravagant, and are the subject of inappropriate acts by officials with control over government resources. These charges also constitute abuse.<sup>23</sup>

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<sup>23</sup> Abuse involves behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary operational practice given the facts and circumstances. This includes the misuse of authority or position for personal gain or for the benefit of another. *GAO’s Green Book on Federal Internal Control Standards*.



### *\$1,965 in Gift Certificates and Other Gifts Charged to TARP*

The North Carolina Housing Finance Agency charged TARP at least \$1,965 for gifts, as of September 30, 2016, including:

- \$1,113 in Land's End shirts with the agency's logo for employees and contractors
- A \$50 CVS gift card in 2016 in recognition of getting new HHF funding
- A \$50 Target gift card for an employee
- A \$50 Chockstone gift card from Nantucket Grill for an employee
- Three \$75 Visa gift cards plus service charges of \$17.85 for three employees
- Two \$25 Bath and Body Works gift cards to employees of Housing Consultant Group
- A \$25 McDonald's gift card for an employee
- \$31.38 for an Exxon gift card, poinsettia, and card for an employee
- \$17.76 for a Lindt chocolate truffle bag and flowers for an employee
- \$29.42 for supplies to make a poster for an employee's farewell
- \$31.99 for flowers for an employee
- \$8.52 for flowers (a fall bouquet) for one employee
- \$10.66 for flowers for an employee
- \$6.39 for flowers for an employee
- \$9.87 for flowers for an employee
- \$17.06 for tulips and other flowers for two employees, \$12.78 for sunflowers for an employee, \$35.16 for a floral bouquet for two employees, and \$38.38 for a floral arrangement for the 2016 Annual Housing Counseling Conference
- Three \$5 gift cards for the 2016 Annual Housing Counseling Conference
- \$8.01 for balloons, a bow, and a card for a student intern's graduation
- \$4.26 for a balloon for an employee
- Six award pins worth \$108 to housing counselors

SIGTARP questions all of these expenses as violating Treasury's contract because they are not necessary to modify homeowner loans in HHF. Other state agencies modified loans in HHF without these expenses. Gifts are not



listed as “Permitted Expenses” in Treasury’s contract. In addition, these expenses constitute waste as they have no purpose in HHF, and they are the subject of inappropriate acts by officials with control over government resources. These charges also constitute abuse.

### *\$8,880 Gym Memberships Charged to TARP*

The North Carolina state agency was the only agency to charge TARP for employee gym memberships/wellness benefits, paying six employees \$30 a month. As of September 2016, the North Carolina agency had charged TARP \$8,580 for these gym memberships/ wellness benefits. From October 2016 through February 2017, the North Carolina agency charged TARP \$300 for employee gym memberships/wellness benefits for two of the six employees. SIGTARP assumes that the charges for the two employees have and would continue to accrue at an annual rate of \$720. SIGTARP questions these expenses as violating Treasury’s contract because they are not necessary to modify loans. No other state agency charged for gym memberships. Gym memberships are not listed as “Permitted Expenses” in Treasury’s contract. In addition, these charges constitute waste as they have no purpose in HHF.

### *\$18,091 Employee Cash Bonuses Charged to TARP*

The North Carolina Housing Finance Agency also charged TARP for cash bonuses of at least \$15,841 to three employees, as of September 30, 2016. In 2010, before the North Carolina agency had provided \$1 to any North Carolina homeowners, the North Carolina agency charged TARP \$1,320 to pay cash bonuses to Employee 1 and \$795 to Employee 2. The state agency paid these two employees bonuses of \$2,700 and \$2,696, respectively, on December 31, 2010. In June 2011, the North Carolina agency charged TARP \$2,850 for another cash bonus to Employee 1. Both employees had received 2 bonuses each in a 6-month period. In 2013, the North Carolina agency charged TARP for four bonuses of \$750 each to Employee 3 in January, April, July, and October. In 2014, the North Carolina agency charged TARP \$1,500, paying Employee 3 two bonuses of \$750 each in January and April. In October 2014, the North Carolina agency charged TARP \$480 for a bonus to Employee 2. In April 2016, the North Carolina agency charged TARP \$500 for a cash bonus to Employee 1 for working with Treasury’s audit team. The North Carolina agency also charged TARP \$2,250 to cash bonuses to contractors for working with Treasury’s audit team.

SIGTARP questions these charges as violating Treasury’s contract. They were not necessary to modify loans in HHF given that 11 state agencies modified loans in HHF without paying cash bonuses. Bonuses are also not listed as “Permitted Expenses” in Treasury’s contract.



### *\$14,124 Charged to TARP for Employee Breakfasts, Lunches, and Dinners Not During Travel, Sometimes with External Parties*

The North Carolina agency regularly charged TARP for breakfasts, lunches, and dinners for employees not during travel or training. The North Carolina agency charged TARP \$9,314 for employee meals at restaurants to interview job candidates and conduct annual reviews, and for employee breakfasts, lunches, and snacks where just employees dined. The North Carolina agency also charged TARP \$4,810 in lunch meetings between state agency employees and outside parties. The person approving the spending often had their meal paid with TARP funds.

**At least \$4,854 in Employee-Only Meetings in (or catered by) Restaurants Unrelated to Travel:** The North Carolina agency regularly charged TARP for nearly 90 breakfasts, lunches, or dinners at (or catered by) restaurants for employees.<sup>24</sup>

- The North Carolina agency charged TARP \$794 for 22 meals at restaurants to interview job candidates (\$264) and conduct employees' annual reviews (\$530). Sometimes employees had multiple "annual reviews" in a year with the lunch charged to TARP. TARP paid for the lunch of the employee and manager.
- The North Carolina agency charged TARP nearly \$4,060 for 65 breakfasts, lunches, or dinners at (or catered by) restaurants. Only state agency employees attended these meals. For example:
  - There were many working meetings during these meals. One senior employee often held working breakfasts and lunches at restaurants and charged it to TARP.
  - There was a monthly lunch meeting to discuss "marketing," usually held at restaurants or sandwich shops.
  - The North Carolina agency charged TARP \$265 in lunch from the Italian Kitchen restaurant for employees who did not attend the annual housing conference but worked in the office, and \$318 for sandwiches, desserts, and fruit for employees who did not attend the annual agency meeting, but worked in the office.
  - Often when Treasury conducted a review, employees who prepared for the review would have their meals charged to TARP before and during the review, sometimes delivered from restaurants like The Square Rabbit (\$286.54) on the

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<sup>24</sup> Restaurants included Bahama Breeze, Firebirds, Carolina Ale House, Italian Kitchen, The Olive Garden, Kanki House of Steaks, Bonefish Grill, Pittsboro Roadhouse, Vivace, Zoe's Kitchen, and IHOP.



same week as one of the big barbeques with Treasury, Zoe's Kitchen (\$107), or Japan Express (\$68.26).

- Sometimes the North Carolina agency charged TARP for meals for employees to meet each other, such as \$160 charged to TARP for seafood and other lunches for "HHF Legal and HHF closers met for team building and to discuss process flow," for "Employee Health, Welfare and Morale."

**At least \$4,460 Charged to TARP for Fast Food Breakfasts, Lunches, or Snacks for Employees, Not During Travel:** The North Carolina agency also charged TARP \$2,901 for fast food for state agency employees who worked through breakfast or lunch hour, or on the rare weekend. Sometimes the lunch would be sandwiches or burritos for many employees costing nearly \$150 and another over \$300. However, the culture at the North Carolina agency allowed charges to TARP even if it was not a big staff lunch, but instead a couple of employees. Two small coffees from Dunkin Donuts that cost less than \$5 were charged to TARP for a "working breakfast." One employee charged TARP \$9 for a Chick-Fil-A nugget meal while she worked to meet a deadline. There was even a \$1.81 charge to TARP for one water bottle from CVS. Although most of the charges to TARP for meals were unrelated to training, the North Carolina agency charged TARP \$967 for food during employee training. Additionally, North Carolina charged TARP \$591 for snacks and water.

**\$4,810 in Breakfast and Lunch Meetings Between Employees and Outside Parties Paid for with TARP:** North Carolina agency officials met with lenders and others over lunch or breakfast at (or catered by) restaurants and charged the bill to TARP, as shown in Table 3.



**Table 3: Breakfast and Lunch Meetings With Outside Parties Charged to TARP**

Date	Charge to TARP	Type of Charge	Recipients and State Agency Staff
Aug. 5, 2010	\$110 Panera	Lunch for 6 people	Homeowners
Nov. 9, 2010	\$154	Lunch for 12 people	Bank of America
Dec. 6, 2010	\$193	Lunch for 16 people	Chase Mortgage
Feb. 24, 2011	\$106	Lunch for 12 people	Bank of America
May 24, 2011	\$114	Lunch for 4 people	Wells Fargo
July 2011	\$304 + \$607 The Square Rabbit	Breakfast + Dinner for 45	Congressional staff
Aug. 31, 2011	\$125	Lunch for 10 people	CitiMortgage
July 12, 2012	\$238 CCAB	Lunch	Homeowners
Sept. 20, 2012	\$632 The Square Rabbit	Dinner for 45	Congressional staff
Sept. 26, 2012	\$309 Rosca Tuscan Grill	Lunch during PHCO Annual Conference	Wells Fargo, CitiMortgage, Bank of America, Chase
Sept. 2013	\$397 Honey Baked Ham, sandwiches, drinks	Lunch	Homeowners
Feb. 25, 2014	\$576 Firehouse Subs	Lunch	Homeowners (receipt missing)
July 2015	\$64	Snacks	Congressional staff
May 2012 – Aug. 2015	\$878	Lunch	Lenders and others
<b>Total</b>	<b>\$4,810*</b>		

\* Dollar amounts may not add due to rounding.

Source: SIGTARP analysis of North Carolina agency provided data in TARP's Hardest Hit Fund program.

SIGTARP questions these charges as violating Treasury's contract. It is not necessary for TARP to pay for employee meals, or even meals with lenders or other external parties, for homeowners to receive a modification on their mortgage. Other state agencies did not charge TARP for meals. Meals are not listed as "Permitted Expenses" in Treasury's contract. In addition, these charges constitute waste.

*\$53,712 in Food and Other Costs at Events with Housing Counselors Charged to TARP*

As of September 30, 2016, the North Carolina agency charged TARP \$53,712 for food and other costs at events with housing counselors and others, as shown in Table 4.



**Table 4: Charges to TARP at Housing Counselor Events**

Date	Charge to TARP	Recipients and State Agency Staff
	<b>\$516</b>	
<b>Aug. 18, 2010</b>	\$441.53 The Square Rabbit \$74.08 Costco cookies, chocolate, napkins, cutlery	HUD, N.C. Dept. of Commerce, Northwestern Regional Housing Authority, Center for Responsible Lending, and others
	<b>\$11,152</b>	
<b>Oct. 21, 2011</b>	\$5,836 in food to Center Plate + \$5,316 in additional direct costs	2011 Annual Housing Counselor Conference at Raleigh Convention & Performing Arts Complex
	<b>\$27,208</b>	
<b>April 25, 2012</b>	\$1,990 to Rick's Diner & catering + \$25,218 additional direct costs	N.C. Free Foreclosure Prevention Event at NC State University's McKimmon Center
<b>Jan. 25, 2013</b>	\$134	Wake County Housing Counselors
	<b>\$5,590</b>	
<b>Nov 19, 2013</b>	Deposit + food charge to TAVO restaurant (including tilapia, chicken, pork chops, \$400 in virgin cocktails and \$200 in mini cupcakes + \$770 gratuity)	Housing Counselors Dinner
	<b>\$9,113</b>	
<b>June 30, 2016</b>	\$1,346 RAVE! Catering + \$2,851 Lip Service Catering + \$4,916 additional direct costs	2016 Annual Housing Counseling Conference
<b>Total</b>	<b>\$53,712*</b>	

Note: Dollar amounts may not add due to rounding.

Source: SIGTARP analysis of state agency provided data in TARP's Hardest Hit Fund program.

The largest TARP spending was on its Annual North Carolina Foreclosure Prevention Conferences, which more than 100 counselors attended each year. A description of the November 2013 conference in the North Carolina agency's report to Treasury is "We celebrated counselors for their work preventing foreclosures. We also provided new marketing materials for distribution to homeowners."<sup>25</sup> The \$5,590 dinner was a celebration, which violates Treasury's contract.

In some of these other conferences, TARP is being charged the cost of the conference, despite the purpose of the conference for general foreclosure prevention, even if that includes HHF. This violates Treasury's contract. Then-Treasury Secretary Geithner and then-Treasury General Counsel Madison determined in 2010 that under EESA, TARP funds could not pay for housing counselors' general foreclosure prevention efforts, even though that is the general purpose of TARP as stated in EESA. Under EESA, TARP cannot pay for food or for counselors to attend a general foreclosure prevention conference.

These meals and conference expenses for counselors are not necessary to modify loans. The North Carolina agency made many trips to meet and train counselors throughout the state charged to TARP. These annual conferences

<sup>25</sup> See <http://www.ncforeclosureprevention.gov/PDFs/TreasuryReport2013Q4.pdf.8/7/2017>.



are different from those specific HHF trainings. Treasury’s contract explicitly limits “Permitted Expenses” under the category of “counseling” to “File intake, decision costs, successful file, keep business partners on-going.” The North Carolina agency lumped these charges into one of these categories, presumably.

There is no transparency so that taxpayers can see where TARP dollars are being spent. This lack of transparency also makes oversight extremely difficult. To the extent that the North Carolina agency continues to hold these conferences, it should pay for them using the millions of dollars in grants received from others directly for counseling costs, not with TARP dollars.<sup>26</sup>

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<sup>26</sup>Grants include the Department of Housing and Urban Development for counseling costs, the National Foreclosure Mitigation Counseling Program, the NC Association of Realtors, NeighborWorks America.





## The Florida Housing Finance Corporation, Whose Executive Director Was Forced to Resign in December 2016 Over Bonuses Paid For with State Dollars and a Lavish Dinner, Also Charged TARP for a TARP Barbeque and \$106,774 for Bonuses Including Doubling and Tripling Bonuses After SIGTARP's Audit

SIGTARP questions \$106,774 in bonuses by the Florida Housing Finance Corporation charged to TARP, as well as \$636 in gift certificates to employees and \$454 in a TARP barbeque, an all-employee lunch, and a lunch with Bank of America.<sup>27</sup> These expenses violate Treasury's contract because they are not necessary to modify loans. Other state agencies modified loans without paying bonuses or having TARP barbeques. Additionally, these are not listed in Treasury's "Permitted Expenses" in its contracts. These expenses also constitute waste. Paying bonuses when a state agency is severely underperforming in HHF constitute waste.

Florida agency officials told SIGTARP that the Executive Director of the Florida agency authorized all of the bonuses charged to TARP. This same Executive Director was reportedly asked to resign by the Governor around December 23, 2016, after the Florida Inspector General found that state funds had paid nearly \$443,000 in employee bonuses and a \$52,000 dinner, while thousands of Floridians were waiting for assistance to save their homes.<sup>28</sup> The Governor's spokesperson reportedly told the *Miami Herald* that the Governor asked the Executive Director to resign, saying, "Whenever any tax dollars aren't used effectively and transparently, the governor is obviously concerned."<sup>29</sup>

In October 2015, SIGTARP issued a report finding that the Florida Housing Finance Corporation had severely underperformed in the Hardest Hit Fund. SIGTARP reported that only 20% of homeowners who applied to modify their loan received assistance, the lowest of any HHF state, and that the Florida state agency consistently denied a higher percentage of homeowners for assistance than the national average.

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<sup>27</sup> From August 19, 2011 to December 16, 2016, the Florida state agency charged TARP \$106,774 to pay 27 bonuses to 15 employees and 1 contractor.

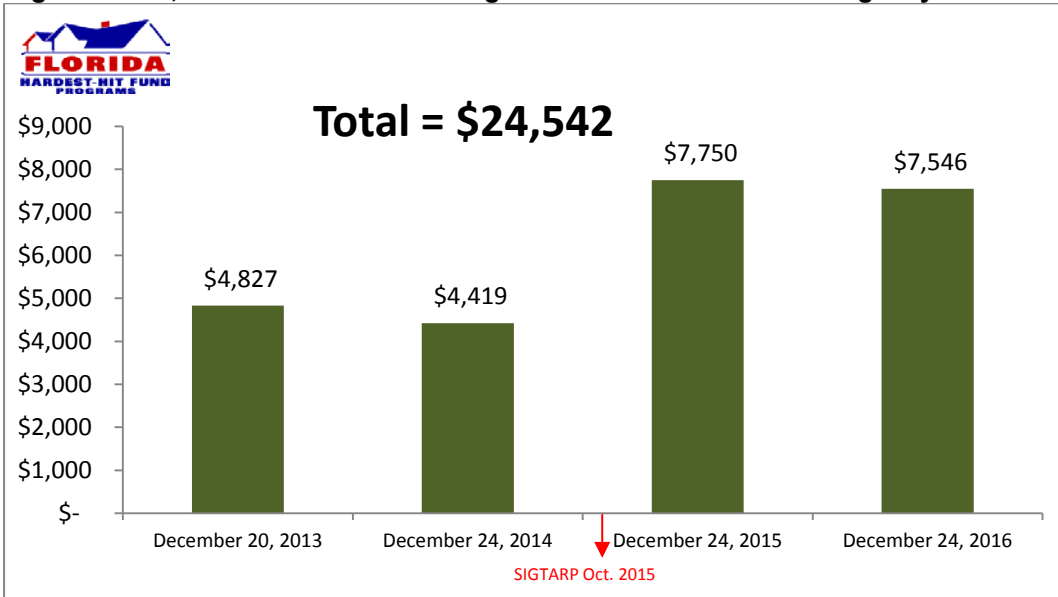
<sup>28</sup> "Director of Florida housing agency resigns in wake of scathing audit," Susan Taylor Martin and Kristen Clark, *Miami Herald*, December 23, 2016 <http://www.miamiherald.com/news/politics-government/state-politics/article122710764.html.7/27/2017>.

<sup>29</sup> *Id.*



- The Florida state agency charged TARP for a \$15,000 signing bonus to a contractor in 2011.
- The Florida state agency charged TARP for bonuses for 15 employees.
  - The Florida state agency charged TARP for an annual bonus to the Director<sup>30</sup> in charge of HHF despite consistent underperformance in HHF.

**Figure 5: \$24,542 Cash Bonuses Charged to TARP for the Florida Agency’s Director of HHF**



Source: SIGTARP analysis of Florida state agency data.

The director’s bonus charged to TARP nearly doubled in 2015 and 2016 (Figure 5), despite SIGTARP’s October 2015 report showing that the Florida agency had provided HHF to homeowners at the lowest rate of any state agency in HHF,<sup>31</sup> and the fact that, during those years, the number of Florida homeowners provided HHF dropped significantly from 2014.

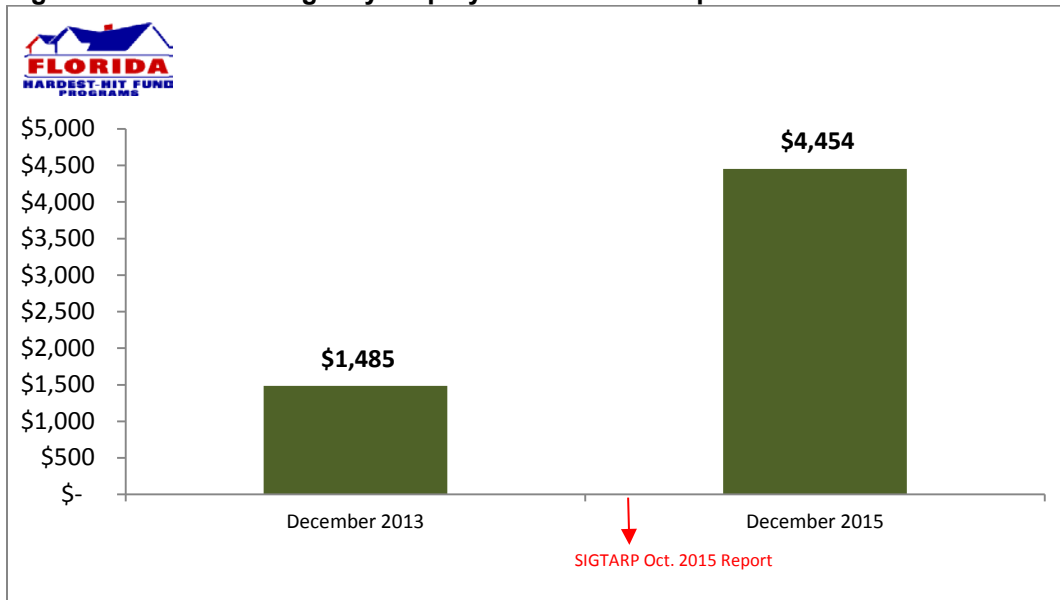
- SIGTARP found that the amount of bonuses the state agency charged to TARP doubled and tripled to other senior Florida officials after SIGTARP’s October 2015 audit report on the severe underperformance of the Florida agency. Figures 6 and 7 shows some examples of increased employee bonuses.

<sup>30</sup> The Director is one of the 15 employees.

<sup>31</sup> See SIGTARP, *Factors Impacting the Effectiveness of Hardest Hit Fund Florida*, October 6, 2015.

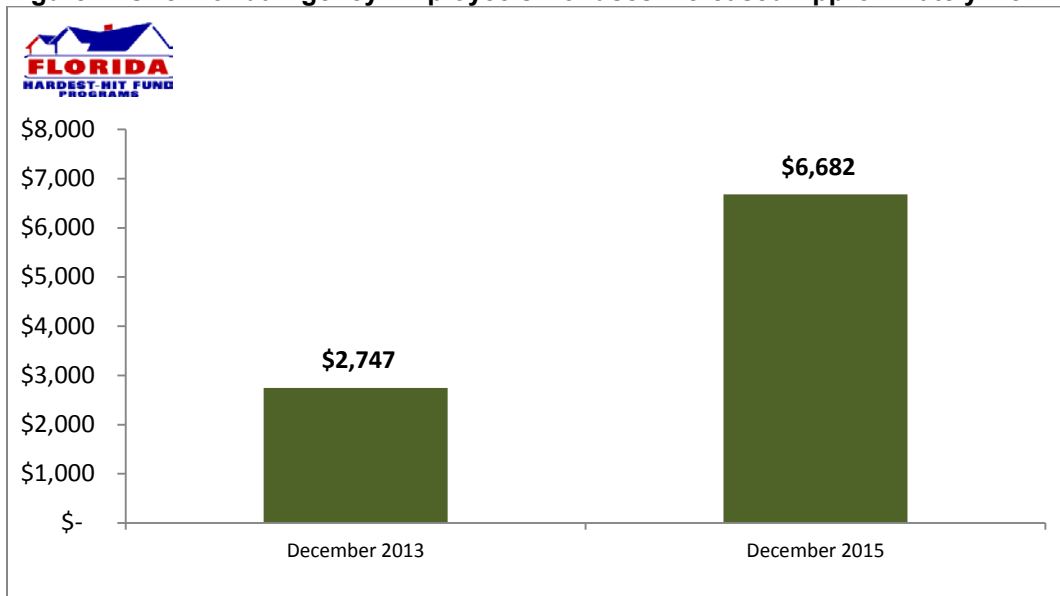


**Figure 6: One Florida Agency Employee’s Bonuses Tripled**



Source: SIGTARP analysis of Florida state agency data.

**Figure 7: One Florida Agency Employee’s Bonuses Increased Approximately 2.5 Times**



Source: SIGTARP analysis of Florida state agency data.

Also in December 2015, the Florida agency paid one employee \$7,424—the highest bonus charged to TARP other than the Director and contractor signing bonus.

- In December 2016, despite no substantial improvement after SIGTARP’s report, the Florida agency paid cash bonuses to HHF staff, as shown in Table 5 (in addition to the director’s bonus):



**Table 5: December 2016 Cash Bonuses Charged to TARP**

\$3,252
\$3,712
\$4,454
\$5,345
\$6,459
\$7,424
<b>Total: \$30,646</b>

Source: SIGTARP analysis of Florida state agency data.

The Florida state agency also charged TARP \$636 for six \$100 gift cards given to employees to the Publix grocery store.

The bonuses and gifts were not necessary to modify loans. Other state agencies modified loans without paying bonuses and buying gifts. Bonuses are not listed as “Permitted Expenses” in Treasury’s contract.

Given the severe underperformance of the Florida agency, these bonuses and gifts also constitute waste and abuse. At the same time the Florida agency was charging TARP for these bonuses and gifts to employees, it was denying TARP dollars to homeowners at high rates. SIGTARP previously reported that in the first 2 years of the program (2010-2012), nearly half of all homeowners were denied as ineligible. In November 2012, Treasury sent a memorandum to the Florida agency that at current participation and spending rates, Treasury estimated that Treasury will not utilize a significant amount of allocated funds, and that Florida Housing lags behind other HHF states. Subsequently, one employee received the following, which was charged to TARP:

**Table 6: Bonuses and Gifts for One Employee Charged to TARP**

Date	Charge to TARP	Bonus/Gift
Jan. 14, 2013	\$105.95	\$100 Gift card to Publix grocery store
Feb. 15, 2013	\$931.06	Cash bonus
March 11, 2013	\$105.95	\$100 Gift card to Publix grocery store
April 1, 2013	\$105.95	\$100 Gift card to Publix grocery store
June 17, 2013	\$105.95	\$100 Gift card to Publix grocery store
<b>Total</b>	<b>\$1,354.86</b>	

Source: State agency data provided to SIGTARP.

This is waste and abuse when the agency was severely underperforming in modifying homeowner loans in HHF.

*TARP Barbeque and Sandwiches*

SIGTARP also questions the Florida agency’s charge of \$454 for a TARP barbeque, lunch for all employees, and lunch with Bank of America employees as not necessary to modify loans. This is made clear because



meals are not permitted expenses in Treasury's contract, and other state agencies modified loans without a TARP barbeque, employee meals, or meals with banks. In September 2011, the Florida agency charged TARP \$231 for a catered TARP barbeque from Piggy's Barbeque for all of its employees, before Treasury visited for a compliance review.<sup>32</sup> This review would result in Treasury sending an Action Memorandum to the Florida agency about its underperformance in the program. In September 2013, the Florida agency charged TARP \$89 for lunch for all employees as they worked on rolling out a new HHF program. The Florida agency charged TARP \$134 for lunch for a meeting with Bank of America.

All TARP barbeques constitute waste, as do the other lunches.

*Other state agencies also charged TARP for gifts:*

**The Alabama state agency** charged TARP \$166 for a Visa gift card and fruit baskets for individuals who participated in TV and radio commercials and provided customer testimonials.

**The Michigan state agency** charged TARP \$55 for Bed Bath & Beyond gifts to the state agency employees.

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<sup>32</sup> Treasury issued its compliance report on June 14, 2012.



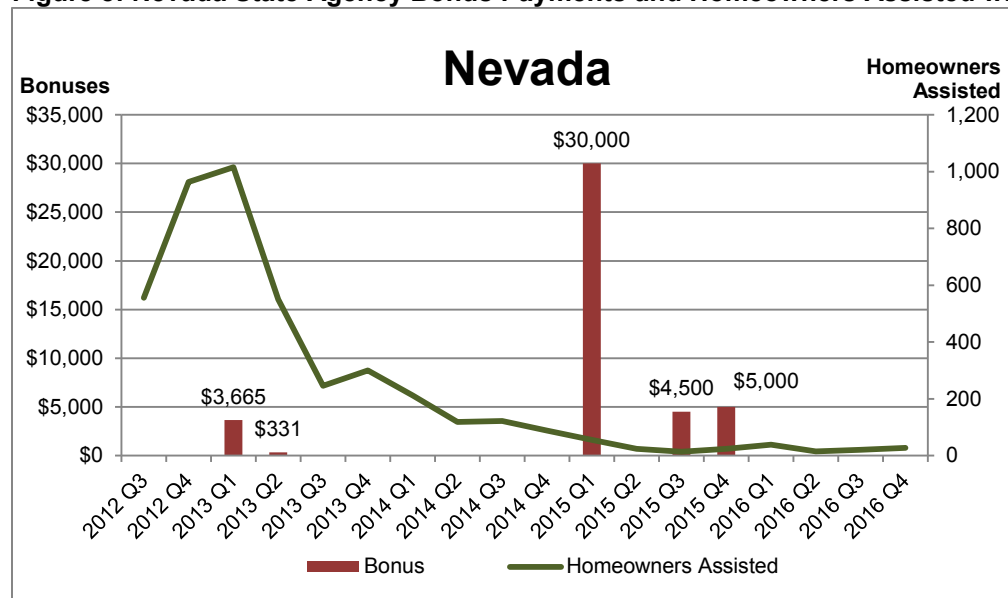
## The Nevada Agency Contractor, NAHAC, Which SIGTARP Previously Found Had Wasted \$8.2 Million, Charged TARP \$43,497 for Bonuses, Almost All to the CEO Who Was Later Terminated

In 2016, SIGTARP found \$8.2 million in waste in the Hardest Hit Fund by the Nevada contractor NAHAC, and NAHAC’s severe underperformance in HHF, which SIGTARP reported in an audit, saying:

*SIGTARP found a deliberate attempt by the Nevada state agency to charge the Hardest Hit Fund for every expenses it could, all while it denied Nevada homeowners admission to the program. Sometimes over the last three years, this state agency lost sight of the fact that it is only in this program to be a conduit through which Treasury provides TARP rescue funds to Nevada homeowners to help them stay in their homes. The Hardest Hit Fund was not intended to be a cash cow for participating state agencies. NAHAC stopped performing under Treasury’s contract.*

SIGTARP previously reported that admission of Nevada homeowners into the Hardest Hit Fund decreased 94% between 2013 and 2015. Despite the plummeting performance, NAHAC charged TARP for \$43,497 in bonuses—nearly 91% of which (\$39,500) was paid to its CEO in 2015, as shown below.

**Figure 8: Nevada State Agency Bonus Payments and Homeowners Assisted with HHF**



Source: SIGTARP analysis of Treasury and state agency provided data in Hardest Hit Fund program, as of September 30, 2016.



In the report *Waste and Abuse in the Hardest Hit Fund in Nevada*, released September 9, 2016, SIGTARP found extensive waste and abuse, including charging TARP for the CEO to drive a Mercedes Benz, for lunches at his country club, for employee parties at casinos and restaurants, employee gifts (such as a Massage Envy gift card, gift cards for the movies, and an Edible Arrangement gift basket), moving into a luxury office, breaking the lease on the luxury office, buying new furniture, a manager's outing at a high-end cocktail bar, and other expenses. Included in SIGTARP's report was a \$4,500 July 2015 bonus paid to the CEO. Treasury implemented SIGTARP's recommendation to recover the \$4,500.

SIGTARP now finds that NAHAC charged TARP for a \$30,000 signing bonus for that same CEO, and an additional \$5,000 bonus for the CEO in December 2015, 6 months before he was terminated. The ousted Nevada CEO received \$39,500 in bonuses charged to TARP, after working there less than 2 years (October 2014 to June 2016). The only other person who received a bonus charged to TARP was a senior official who was paid \$3,997 in bonuses. The new CEO's employment contract provides for quarterly bonuses, which should not be charged to TARP.

SIGTARP's 2016 audit reported that the Nevada state agency had charged \$903.84 to the Hardest Hit Fund to pay for a 2015 company picnic, including supplies. SIGTARP now finds that the state agency also charged TARP for \$109 to reserve a location for a 2016 picnic (\$90 of which was later reimbursed when the agency canceled the reservation).

SIGTARP is concerned about other charges to TARP recently found, including tens of thousands of dollars in legal fees and other expenses for litigation or claims by former employees. SIGTARP will continue to audit NAHAC's spending of TARP dollars and report on these charges in its pending second audit for HHF in Nevada.



## SIGTARP Questions More Than \$100,000 in State Agency Charges to TARP for Barbeques, Parties, Picnics, Celebrations, Outings, Food, and Beverages

SIGTARP questions \$114,928 charged by state agencies to TARP:

- \$11,777 for barbeques, parties, picnics, celebrations, and outings;
- \$98,971 in food and beverages unrelated to travel; and
- \$4,180 in barbeques, and other food and beverages with Treasury officials.<sup>33</sup>

These charges to TARP are in addition to the waste identified in HHF in Nevada in SIGTARP's September 2016 audit.

### *Nine State Agencies Charged TARP \$11,777 for Parties, Picnics, Celebrations, and Outings*

In SIGTARP's September 2016 audit, SIGTARP identified waste by NAHAC in Nevada on parties, picnics, celebrations, and outings. In addition, SIGTARP has now identified other questioned costs and waste by other state agencies that charged TARP \$11,777 for barbeques, parties, picnics, celebrations, and outings, as shown in Table 7.

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<sup>33</sup> Total includes \$454 food and beverages charged by the Florida state agency, and charges by the North Carolina agency including \$8,219 in barbeques, parties, picnics, celebrations, and outings, and \$32,386 in food and beverage charges (not including North Carolina agency charges for direct costs other than food with housing counselors), discussed earlier in report.





**Table 7: Charges to TARP for Barbeques, Parties, Picnics, Celebrations, and Outings**

State Agency	Charge to TARP	Type of Charge
North Carolina	\$8,219	BBQ, parties, picnic, celebrations, outings
Illinois	\$549 Pizanos Pizza and Pasta (\$464 food + \$85 tip)	June 14, 2016 "Celebrate HHF Funds officially given from U.S. Treasury and celebrating [employee's] upcoming wedding"
Illinois	\$243	Employee Retirement party
Kentucky	\$97 (portion charged to TARP)	Picnic with food trucks, gelato outing, breakfast, lunch
Michigan	\$450 Cupcakes, ice cream sandwiches, pizza	Employee appreciation day, 5 Year Anniversary Celebration
Michigan	<b>\$251</b> Including \$100 Beaners Gourmet Coffee, \$17 Party City (Balloons & decorations), \$48 for photo cake, \$40 supplies	Open House, Meet and greet
Rhode Island	\$573 Sandwiches, fruit, cookies	Employee lunch around December holidays 2011
Rhode Island	\$271	Pizza lunch
Rhode Island	\$89*	Chair rentals for grand opening of new center
Oregon	\$90	Pizza to celebrate after Treasury's audit
Oregon	\$60	Lunch to celebrate after Treasury's audit
Nevada (NAHAC)	\$225	Group Picnics 2014 & 2015
Nevada (NAHAC)	\$19*	Unreimbursed portion of 2016 Group Picnic rental
New Jersey	\$472 Land & Sea Restaurant	Misc.
New Jersey	\$277 Italian People's Bakery	Misc.
Arizona	\$0	
California	\$0	
<b>Total</b>	<b>\$11,777**</b>	

\* Amount discussed later in this report, and not included in the chart total.

\*\* Dollars may not add due to rounding.

Source: SIGTARP analysis of state agency provided data for the Hardest Hit Fund program.

SIGTARP questions all of these expenses as violating Treasury's contract because they are not necessary to modify homeowner loans in HHF. Other state agencies modified loans in HHF without these expenses. Barbeques, parties, celebrations, and outings are not listed as "Permitted Expenses" in Treasury's contract. In addition, these expenses constitute waste as they have no purpose in HHF.



*Recovered Taxpayer Dollars: After SIGTARP questioned Rhode Island Housing, the state agency told SIGTARP it would reimburse Treasury \$271 for pizza for employees that it charged to TARP.*



*SIGTARP Found No Consistency in Charges to TARP by State Agencies for Food and Beverages, and Found Unnecessary Charges to TARP of \$98,971*

All but two state agencies (in Arizona and California) charged TARP for food and beverages, unrelated to travel, with total charges to TARP of \$98,971. "Meals" or "food and beverages" are not listed as "Permitted Expenses" under Treasury's contract.<sup>34</sup>

SIGTARP questions all of these expenses as violating Treasury's contract because they are not necessary to modify homeowner loans in HHF. Arizona and California modified loans in HHF without these charges. The California agency has the most allocated TARP dollars for HHF compared to the other 18 states, and did not charge TARP for food and beverages. Without Treasury bringing accountability, taxpayers were charged in TARP based on the culture and decisions of each state agency.

- State agencies in North Carolina, Illinois (and Nevada as previously identified in SIGTARP's September 2016 audit), regularly charged TARP for employee food and beverages, with North Carolina as far more egregious than any other state agency in HHF.
- State agencies in Georgia and Indiana did not charge TARP for any food, but charged TARP for office beverages for employee breakrooms.
- The Ohio agency charged TARP only for food and related costs at events with housing counselors, which was over \$13,000.
- The South Carolina agency charged TARP only for food/beverages when meeting with legislative staff and business partners.
- State agencies in New Jersey, Tennessee, and Washington, D.C. reported to SIGTARP spending no money on food or beverages, but a search of their general ledgers revealed charges of \$836, \$427, and \$482, respectively.

Federal taxpayers paid more than they had to for HHF because Treasury left TARP charging decisions for expenses to the state agencies. Treasury left these decisions to state agencies, despite food and beverages not listed as a permitted expense under Treasury's contract, and despite Treasury compliance officials regularly reviewing the administrative expenses of each

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<sup>34</sup> Total includes charges by state agencies in North Carolina and Florida reported earlier in this report. These charges do not include charges to TARP by NAHAC in Nevada for meals, meal supplies, office beverages, or snacks identified by SIGTARP in its September 2016 audit.



state agency whereby they would have seen all different types and amounts of expenses, as shown in Table 8 below. Treasury would have also seen that state agencies in California (with the most dollars in HHF) and Arizona charged zero TARP dollars for food and beverages, evidencing that food and beverage are not necessary for homeowners to have their loans modified in HHF.

**Table 8: Food/Beverages Charged to TARP, Not Including Food/Beverages When Treasury Visited or at Parties/Celebration/Outings**

State Agency	Charge to TARP	Type of Charge
<b>North Carolina</b>	<b>\$32,386<sup>a</sup></b> \$14,124+ \$18,262	Food/Beverages for Employees + Food/catering with counselors
<b>Illinois</b>	\$15,297	Water, coffee, ice machine, food
<b>Ohio</b>	\$13,158	Food/catering with counselors
<b>South Carolina</b>	\$12,735	Food/Beverages with legislative staff
<b>Georgia</b>	\$6,813	Water, coffee
<b>Michigan</b>	\$5,941	Food/Beverages for Employees, Food/Beverages with others
<b>Nevada</b>	\$2,661 <sup>b</sup>	Food/Beverages for Employees, Food/Beverages with others
<b>Mississippi</b>	\$2,399	Food/Beverages with counselors
<b>Indiana</b>	\$1,558	Water
<b>Oregon</b>	\$1,418	Food/Beverages for Employees, Food/Beverages with others
<b>Kentucky</b>	\$1,429	Food/Beverages for Employees
<b>New Jersey</b>	\$836	Food/Beverages with others
<b>Rhode Island</b>	\$780	Food/Beverages with others
<b>Washington, D.C.</b>	\$482	Food/Beverages with others
<b>Florida</b>	\$454 <sup>a</sup>	Food/Beverages for Employees, Food/Beverages with others
<b>Tennessee</b>	\$427	Food provided with others
<b>Alabama</b>	\$197	Food/Beverages with others
<b>Total</b>	<b>\$98,971*</b>	

<sup>a</sup> Including state agency food/beverage charges previously discussed in this report.

<sup>b</sup> Excluding NAHAC waste in charges previously identified in SIGTARP's Sept. 2016 audit.

\* Dollars may not add due to rounding.

Source: SIGTARP analysis of state agency provided data for the Hardest Hit Fund program.

### *State Agencies Charged TARP for Employee Food and Beverages*

Most state agencies did not charge TARP for employee food and beverages.

**The North Carolina agency** charged TARP the highest amount, charging \$14,124 for employee food and beverages, as previously discussed in this report.

**The Illinois agency** charged TARP \$4,475 for food and beverages, providing generic justification to SIGTARP, such as “meal,” “business meal,” “employee expense,” or the name of the restaurant. The agency bought cookies, sodas, and donuts, and paid a number of delivery fees. The Illinois agency also



charged TARP \$304 (which includes a \$30 tip + \$20 delivery fee) in food catered by a Cuban restaurant for employees for training.

**The Kentucky agency** charged TARP \$120 for lunch during employee meetings.

**The Alabama state agency** charged TARP \$157 for employee lunches, including for “lunch for noon conference call with Treasury.”

**The Florida state agency** charged TARP \$22 for an employee lunch to prepare for a Treasury visit, as previously mentioned in this report.

In addition to the employee food and beverages charged to TARP by NAHAC that SIGTARP identified in its September 2016 audit, SIGTARP questions \$1,604 in food and beverages charged by **NAHAC in Nevada**. NAHAC charged TARP \$28 for the CEO to have a “business lunch,” and \$127 in business lunches of another executive, with no further justification. In SIGTARP’s 2016 audit, SIGTARP questioned \$215 that NAHAC charged TARP for lunches and snacks for Board of Directors meetings. In this audit, there is an additional \$26 charge for food at those meetings.

**The Oregon state agency** charged TARP \$545 for employee lunches from restaurants when working on 16 Saturdays and Sundays to process homeowner applications. The Oregon agency also charged TARP \$26 for coffee and cookies, and another \$38 for refreshments.

**The New Jersey agency** charged TARP \$836 for food from the Italian Peoples Bakery under the category “Training.”

**The Michigan agency** charged TARP \$144 for food during training.

Charges for employee food and beverages are not necessary to modify loans in HHF and therefore violate Treasury’s contract. Other state agencies modified loans without charging employee food and beverages to TARP. These are not listed as “Permitted Expenses” in Treasury’s contract.

### *Seven State Agencies Unnecessarily Charged TARP for Employee Water and Coffee*

Twelve state agencies did not charge TARP for employee water and coffee. SIGTARP questions six state agency charges to TARP of \$26,101 for employee water and coffee as not necessary to modify loans in HHF.

The **Kentucky agency** charged TARP \$1,309 for coffee and water.

The **Indiana agency** charged TARP \$1,558 for water.



The **North Carolina agency** routinely purchased office beverages charged to TARP, as previously mentioned in this report.

SIGTARP questions these costs as not necessary to modify loans. Other state agencies modified loans in HHF without these charges. Office beverages are not listed as a “permitted” expense under Treasury’s contract. SIGTARP identified in the prior audit that NAHAC in Nevada charged TARP for water, which NAHAC justified because they work in the desert. Nevada homeowners also live in the desert. In this report, SIGTARP found that **NAHAC** charged an additional TARP \$1,058 for coffee and water.

In addition to questioning the remaining costs for office beverages at three other agencies, SIGTARP found that these three state agencies’ charges to TARP also constituted waste because they charged TARP to pay a contractor to provide and deliver office beverages, which raised the cost even higher.

The **Illinois agency** charged TARP \$10,042 to pay a contractor to provide and deliver coffee, coffee supplies, and water, and to rent a water cooler and ice machine.

The **Georgia agency**, who never charged TARP for parties or any employee food, charged TARP \$6,813 to pay a contractor to provide and deliver office beverages. A Georgia official told SIGTARP, “As an agency practice, the Georgia Housing and Finance Authority provide beverages (water, coffee, tea, and hot cocoa) in its break rooms for all employees. Hardest Hit Fund dollars are used to purchase the break room beverages for Hardest Hit Fund staff located in the HomeSafe Georgia office.”

**The Michigan agency** charged TARP \$5,321 to pay Clark Coffee Service and First Choice Coffee to provide and deliver coffee and water.

### *Several State Agencies Charged TARP for Food and Beverages for Meetings with Lenders, Counselors, Legislative Staff or Others, or for Training*

Earlier in this report, SIGTARP discussed that the **North Carolina state agency** and the **Florida state agency** charged TARP for food and beverages for meetings with lenders, counselors, legislative staff, and others. The North Carolina agency charged TARP \$18,262 in charges to TARP for catering and other food and beverages in meetings with housing counselors.

**The Ohio state agency** did not charge TARP for any barbeques/parties/celebrations or employee food and beverages, but charged TARP \$13,158 for catering, food, beverages, and other costs at events (meetings, training) with counselors. For example:



- On February 10, 2014, the Ohio agency charged TARP \$2,032 for a breakfast and lunch for 60 people at the Columbus Zoo and Aquarium.
- On February 12, 2014, the Ohio agency charged TARP \$1,974 for an event at the Cincinnati Zoo and Botanical Garden, charging TARP for breakfast and lunch, equipment, facility rentals, service charges, and zoo admission and parking for 35 people.
- On February 13, 2014, the Ohio agency charged TARP \$1,685 for breakfast and lunch for 80 people (\$1,416) and service charges (\$269) at the Cleveland Metro Park Zoo.
- On September 27, 2013, the Ohio agency charged TARP \$1,102 to Hawk Hospitality for breakfast, coffee, sandwiches, and service charges, and on April 16, 2014, the state agency charged TARP \$925 to Two Caterers for lunch, coffee, and service fee.

**The South Carolina agency** did not charge TARP for any barbeques/parties/celebrations or employee food and beverages, but charged TARP \$8,243 for food and beverages at annual meetings with legislative staff, as well as \$4,492 for food and beverages at eight training events from March 2011 to April 2016 to train their business partners.

**The Mississippi agency** charged TARP \$2,399 for lunches with counselors during training, all in the year 2011.

Several state agencies charged TARP for lunch with Bank of America. **The Alabama agency** charged TARP \$41 for “meals with Bank of America staff for discussion on HHF” in 2012.

**The Oregon agency** charged TARP \$42 for a lunch meeting at the Newport Seafood Grill with Bank of America staff. The Oregon agency also charged TARP \$767 for pastries, coffee, and lunches for another meeting with Bank of America staff, meetings with legislative staff, and others.

**The Michigan agency** charged TARP \$476 for coffee with lenders in Detroit and for an open house.

**The Rhode Island agency** charged TARP \$780 for lunch, desserts, pastries, and fruit platters at meetings and training with lenders and counselors.

**The Washington, D.C. agency** did not charge TARP for any barbeques/parties/celebrations, but had two charges totaling \$482 for breakfast and snacks for training for 25 people.



**The Illinois agency** charged TARP \$233 in charges to TARP for food for “sponsor training,” and \$243 for “food for sponsors” or lunch for counselors.

**The Tennessee agency** charged TARP \$427 for food and beverages for training.

While meetings with counselors, lenders, and legislative staff may be reasonably related to modifying loans in HHF, that is not the standard. TARP providing food and beverages is not necessary, but instead more a matter of hospitality. In many cases, these meetings/trainings can have successful outcomes unrelated to HHF. To the extent that state agencies want to provide these food and beverages, state dollars should be used.



## SIGTARP Questions Nearly One Million Dollars in TARP Charges for Some State Agencies' Employee Cash Bonuses/Awards/Gifts and Payments to Former Employees That Violate Treasury's Contract

SIGTARP questions nearly one million dollars in TARP charges of payments that violate Treasury's contract to current or former employees, including the following.

**Table 9: State Agency Charges to TARP for Employee Cash Bonus/Awards/Gifts Certificates and Payments to Former Employees**

State Agencies	Type of Charge to TARP	Amount of TARP Charge
Florida, Illinois, Indiana, Nevada, North Carolina, South Carolina, Arizona, and Kentucky	Employee cash bonuses/awards or Employee gift certificates/gifts	\$332,022*
Nevada, Oregon, and California	Settlement payments/legal fees/other expenses for claims/disputes by former employees	\$230,692*
Nevada, Kentucky, and Rhode Island	Severance payments to former/resigning/terminated employees	\$132,911
Oregon, Rhode Island, Ohio, Mississippi, Tennessee	Unemployment payments to former employees	\$229,779
<b>Total:</b>		<b>\$925,404</b>

\* Includes amounts identified in an earlier section of this report and/or SIGTARP's Sept. 2016 audit.

Source: SIGTARP analysis of state agency provided data for the Hardest Hit Fund program.

None of these expenses were allowed under Treasury's contract. They are not listed as permitted expenses in Treasury's contract, which makes sense because these charges are not necessary to modify loans under HHF. All payments to former or resigning employees do not lead to modifying loans in HHF. Instead, they are either a state responsibility or a state agency's choice. Payments of bonuses/awards/gifts to current employees are also not necessary to modify loans in HHF, as evidenced by the fact that 11 state agencies modified loans in HHF without charging TARP for employee bonuses/awards.

### *Eight State Agencies Charged TARP \$332,022 for Employee Bonuses/Awards/Gifts, Which Violates Treasury's Contract*

Eleven state agencies modified loans in HHF without charging TARP for employee bonuses/awards/gifts, proving that those charges are not necessary under EESA. Eight state agencies charged TARP for employee





bonuses/awards/gifts in violation of Treasury’s contract as shown in Table 10.

**Table 10: State Agency Charges to TARP for Employee Cash Bonus/Awards/Gifts**

State Agency	Charged to TARP	Type
Florida	\$107,410 <sup>a</sup>	Cash signing bonus for contractor, Cash bonuses for top employees, Gift cards
Illinois	\$98,305	Cash Retention Awards
Indiana	\$45,100	Cash bonuses for Director, Cash incentives for contractor managing program
Nevada	\$43,497 <sup>b</sup>	Cash signing bonus for CEO, Cash bonuses for CEO, Cash bonus
North Carolina	\$18,772 <sup>a</sup>	Cash bonuses, Gift cards, flowers, chocolates
South Carolina	\$16,040	Cash bonuses, State budgeted “proviso-budget”
Arizona	\$2,244	Cash incentive and cash retention bonus
Kentucky	\$654	Gift certificates and cash bonuses
<b>Total</b>	<b>\$332,022</b>	

<sup>a</sup> Amount discussed in an earlier section of this report.

<sup>b</sup> Includes \$35,000 identified and discussed in an earlier section of this report, and \$4,500 previously identified in SIGTARP’s Sept. 2016 audit.

Source: SIGTARP analysis of state agency provided data for the Hardest Hit Fund program.

TARP charges for bonuses/awards/gifts may be even higher if these states continued to pay these while charging them to TARP in subsequent fiscal years.

Although all bonuses/awards/gifts should have been disallowed under the Treasury contract, it was particularly egregious that underperforming state agencies charged TARP for employee bonuses/awards. For example, the Florida state agency charged employee bonuses/awards/gifts to TARP even though it has modified loans in HHF for only 21% of homeowners who applied. The Nevada state agency contractor NAHAC charged TARP for bonuses/awards/gifts despite having a 94% drop in the number of homeowners helped from 2013 to 2015, despite a great need in the state. The Arizona state agency charged TARP for bonuses even though it modified loans in HHF for only 25% of homeowners who applied.

In addition to bonuses/awards/gifts that state agencies in Florida and North Carolina charged TARP (discussed earlier in this report), the following state agencies charged TARP for employee bonuses/awards/gifts.

The **Illinois state agency** charged TARP nearly \$100,000 in a one-year period to pay awards to 41 employees. The Illinois state agency told employees by letter in December 2012 that they would each receive a \$500 bonus in their next paycheck, another \$1,000 7 months later, and another \$1,000 5 months later in December 2013, as long as they remained employed. This resulted in unnecessary charges of \$98,305 to TARP. This included charging TARP for 28 employees who received 3 retention bonuses



over a single year and 12 employees who received 2 retention bonuses over a single year. Additionally, the state agency charged TARP for a \$4,805 bonus paid to one employee on December 31, 2012.

The **Indiana state agency** charged TARP \$45,100, including charging TARP \$15,500 in additional bonuses paid to a senior official three times in a 2- year period from 2015-2017 in increasing amounts. The Indiana state agency also charged to TARP \$29,600 for 16 bonuses paid from June 2014 to November 2016— including almost every month in 2014 and 2016—to a contractor running an HHF subprogram, in addition to regularly scheduled monthly payments. This contractor received these bonuses for standard work such as filing required reports with Treasury. While the contract called these payments “bonuses,” after SIGTARP initiated this audit, the Indiana state agency amended the contract to remove the word “bonus.” Changing the name of a bonus does not make it any more necessary to modify loans or demolish blighted houses.



*Recovered Taxpayer Dollars: After SIGTARP questioned state officials about bonuses, the Indiana state agency found three payments charged to TARP for bonuses that were related to a non-HHF program, and told SIGTARP that it was reimbursing TARP \$2,000 for these payments. SIGTARP has not yet verified the reimbursement.*

The **South Carolina state agency** charged TARP \$16,040 in bonuses. In 2012, the state agency paid one employee a bonus of \$3,000 and in 2014 paid one employee a bonus of \$3,000. The state agency also paid 14 employees an \$800 bonus in October 2015, because the state’s budget required this “proviso-bonus” for all state employees making less than \$100,000. Given that this was required by the state budget, it should have been paid with state budgeted dollars, but the state agency charged it to TARP. As this is a state budget issue, it was not necessary to modify loans under HHF.

**Kentucky Housing Corporation** charged TARP \$654 in bonuses. This included \$100, which the state agency deemed TARP’s portion of an approximately \$4,000 program where employees could award another employee with a VIP gift certificate generally ranging from \$25 to \$250 (with one gift certificate of \$650). It also included \$554, which the state agency deemed TARP’s portion of more than \$27,000 in bonuses to 18 employees on November 15, 2015.



*Recovered Taxpayer Dollars: During this audit, the agency found \$9,752 in charges to TARP that were in error, which it reimbursed TARP. The Kentucky agency in May 2016 had reversed other payments for bonuses to employees charged to TARP, raising concerns over the state agency's controls for charges to TARP.*

SIGTARP found that the **Arizona state agency**, which has denied homeowners for the program at the highest rate of any other state (67%), charged TARP \$2,244 for a bonus to one employee in January 2014.

*State Agencies in Nevada, Oregon, and California Charged TARP \$230,692 in Settlements, Legal Fees, or Other Expenses for Claims by Former Employees and a Contractor, Which Are Not Necessary to Modify Loans in HHF*

SIGTARP already reported in September 2016 that the **Nevada state agency contractor NAHAC** charged to TARP for lawyer fees to defend allegations by several former employees against allegations of discrimination. SIGTARP questioned the entire lawyer's fees of \$123,217.96 because the charges on these discrimination cases were block billed with other activities. SIGTARP also reported that NAHAC charged TARP \$4,000 to settle one former employee's allegations.<sup>35</sup> SIGTARP also reported that NAHAC charged TARP \$12,845.25 to pay its lawyers, a private investigator, and a computer forensic expert to retrieve and recover equipment from a terminated employee who had alleged discrimination and ethics violations. In conducting this audit, SIGTARP found that NAHAC also charged TARP \$4,000 to settle another former employee's discrimination claim.

The **Oregon state agency** charged TARP \$29,592 to settle a former employee's wrongful termination litigation,<sup>36</sup> and \$54,664 in legal fees related to settlement of claims of this employee and two other terminated employees.<sup>37</sup>

The **California state agency** charged TARP \$2,373 to a contractor's laid-off employee to avoid the cost of litigation.

None of these payments were necessary for loan modifications as 16 other state agencies were able to conduct modifications under HHF without charging TARP for payouts, or other expenses, to former employees for their

<sup>35</sup> Treasury recovered the \$4,000 based on SIGTARP's recommendation.

<sup>36</sup> Treasury identified this expense and requested reimbursement from the state agency.

<sup>37</sup> The charges to TARP in Oregon could be higher as state officials told SIGTARP, "HHF dollars were used in this settlement to the extent OAHAC contributes to the pool through its indirect costs paid to Oregon Housing and Community Services."



claims against the state agency or its employees. Former employees do not modify loans. These payments were the choice of the state agency, and therefore should be charged to the state agency, not TARP. These charges also constitute waste. Treasury’s contract requires state agencies to comply with all Federal, state, and local laws.

*State Agencies in Nevada, Kentucky, and Rhode Island Charged TARP \$132,911 for Severance Payments to Former Employees, Which Are Not Necessary to Modify Loans*

Although 16 state agencies did not charge TARP for severance payments to former employees, proving that severance payments are not necessary for loan modifications under HHF, 3 state agencies charged TARP \$132,911 for severance payments, as shown in Table 11.

**Table 11: Severance Payments Charged to TARP Through March 2017**

State	Severance Payments Charged to TARP
<b>Nevada</b>	\$71,106*
<b>Kentucky</b>	\$46,811
<b>Rhode Island</b>	\$14,994
<b>Total</b>	<b>\$132,911</b>

\* Includes \$20,875 identified in SIGTARP’s Sept. 2016 audit.

Source: SIGTARP analysis of state agency provided data for Hardest Hit Fund program.

The **Nevada contractor NAHAC** charged TARP \$71,106 to pay severance to 32 employees. One-third of the total (\$20,875) was paid to NAHAC’s former CEO when the board terminated him in May 2016.<sup>38</sup> NAHAC had such poor recordkeeping that they identified \$39,904 in severance payments for 31 former employees charged to TARP, but could not identify specific amounts, and then missed other records. SIGTARP reviewed the agency’s payroll records and found an additional \$12,523 in severance payments to 13 employees. SIGTARP also found the Nevada state agency paid severance totaling \$2,140 to another employee that the agency had not reported to SIGTARP. NAHAC’s lack of recordkeeping and inability to provide detail for these payments to former employees bolsters SIGTARP’s prior recommendation that Treasury discontinue NAHAC’s involvement in the Hardest Hit Fund.

The **Kentucky state agency** charged TARP \$46,811 in severance to three former employees who left during a restructuring.

The **Rhode Island state agency** charged TARP \$14,994 in severance to three former employees in August 2013.

<sup>38</sup> Treasury has not yet required the Nevada state agency to repay this amount to HHF.



None of these payments were necessary to modify loans in HHF, as former employees do not modify loans. Any severance payments that the state agency decides to pay should be borne solely from state agency funds, not from TARP.

*State Agencies Charged TARP to Pay \$229,779 in Unemployment Payments to Former Employees, Which Are Not Necessary to Modify Loans in HHF*

While 14 state agencies did not charge TARP for unemployment payments to former employees, 5 state agencies charged TARP \$229,779, as set forth in Table 12.

**Table 12: State Agencies Charging TARP for Unemployment Payments to Former Employees**

State Agency	Unemployment Payments to Former Employees
Oregon	\$79,742
Rhode Island	\$75,703
Ohio	\$63,432
Mississippi	\$5,343
Tennessee	\$5,558
<b>Total</b>	<b>\$229,779*</b>

\* Dollars may not add due to rounding.

Source: SIGTARP analysis of the state agency provided data in Hardest Hit Fund program.

**Oregon Affordable Housing Assistance Corporation** charged TARP \$79,742 for unemployment benefits for 11 former employees.

**Rhode Island Housing** charged TARP \$75,703 for unemployment benefits for 8 former employees after the state agency closed the program.



*Recovered Taxpayer Dollars: In reviewing records for this audit, Rhode Island Housing found that it has mistakenly charged TARP \$455 for unemployment benefits for an employee who had not worked on HHF.*

The **Ohio Housing Finance Agency** charged TARP \$63,432 for unemployment benefits for 17 former employees.

The **Tennessee Housing Development Agency** charged TARP \$5,558 for unemployment benefits for three former employees.

The **Mississippi Home Corporation** charged TARP \$5,343 for unemployment benefits for three former employees.



Unemployment payments are not necessary to modify loans in HHF, as former employees do not modify loans. Paying unemployment to former employees is a state responsibility, not a TARP responsibility. These expenses are only going to grow as many of these expenses coincided with layoffs or other reduction in force related to closing or winding down HHF programs in the state, which will happen again in future years.



## SIGTARP Found Rhode Island Housing Charged TARP \$1,031,310 Including (1) “Rent” Backdated in 2015 for the Prior 3 Years When the Program Was Closed, as well as (2) a New Customer Center’s Build-Out Charges, Operating Expenses, and Online System Expenses that Include Non-HHF Use

In August 2012, Rhode Island Housing closed the Hardest Hit Fund office that TARP had paid to build out in 2010, sold the furniture TARP had paid for, and reduced staff to what one official referred to as “wind down staff.”

After Congress approved an additional \$2 billion in TARP for the Hardest Hit Fund on December 2015, Treasury began a new wave of funding resulting in an additional \$36 million in TARP dollars set aside for Rhode Island homeowners.

SIGTARP questions \$ \$1,031,310 it identified that Rhode Island Housing charged TARP, including for 1) “rent” backdated in 2015 for the prior 3 years when the program was closed, as well as 2) a new customer center’s build-out charges, operating expenses, and online system expenses that include non-HHF use. The Rhode Island agency should, at a minimum, reimburse TARP for any portion of these expenses not related to HHF. Even under a method used by the agency to allocate some of these expenses to HHF, TARP was overcharged by at least \$499,496. But the amount could be much greater. Therefore, SIGTARP questions the entire amount charged to TARP.<sup>39</sup>

*SIGTARP Questions a \$96,590 “Rent” Charge to TARP that Was Backdated in 2015 for Files and Wind-Down Staff in the Building Owned by the State Agency for the Prior 3 Years When the Hardest Hit Fund Closed, and the \$2,200 Per Month the Agency Has Continued to Pay for that Space*

SIGTARP found that although Rhode Island Housing did not initially charge TARP to store file cabinets or for rent for “wind-down” employees in the 3 years after it closed the HHF office. In June 2015, Rhode Island Housing backdated a charge of \$96,590 to TARP for this “rent,” which SIGTARP questions as not necessary to modify loans in HHF.

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<sup>39</sup> After SIGTARP questioned agency officials about these charges, SIGTARP discovered that the Rhode Island agency reimbursed TARP for some of these charges, totaling \$37,363.



SIGTARP found that Rhode Island Housing has continued to charge for these rental expenses, charging TARP an additional \$47,798 through March 2017, bringing the total amount the Rhode Island agency charged to TARP for file and employee space to \$144,388.<sup>40</sup>

Although required to retain records, Rhode Island Housing could have scanned and stored the records electronically, but chose not to do so until just before June 2015. In addition, the wind-down staff may have worked on matters other than the Hardest Hit Fund during those three years. It would be excessive to pay “rent” to itself for space for “wind-down” staff for three years. The backdated charges also constitute waste.<sup>41</sup>

*Rhode Island Housing Charged TARP 100% of \$351,958 in Build-Out and Start-Up Costs for Its New Customer Center, Despite the Fact that It Is Also Used for Non-Hardest Hit Fund Work*

SIGTARP found that Rhode Island Housing charged TARP 100% of \$351,958.13 in build-out and start-up costs for a new customer center, even though it uses and will use the center for both HHF and its non-HHF HelpCenter. From June 2016 to May 2017, the percentage of homeowners visiting the center for Hardest Hit Fund programs was only 29%, versus 71% for non-HHF programs.

This center is the second built-out by Rhode Island Housing using TARP dollars. When Rhode Island Housing first received TARP dollars in 2010, Treasury permitted \$274,253 in its contract for one-time, start-up expenses, which Rhode Island Housing used to build out a new location. Rhode Island Housing used the original center for only 2 years when the Hardest Hit Fund was opened in the state.

When Treasury allocated new TARP dollars to Rhode Island homeowners in 2016, Treasury’s amended contract listed zero in permitted one-time/start-up expenses. SIGTARP identified this major charge to TARP in Rhode Island Housing’s “Miscellaneous” category of expenses in reports to Treasury.

Rhode Island Housing charged TARP \$351,958 to renovate an existing building to build out the new customer center. For example, TARP was

<sup>40</sup> These monthly charges likely have continued after that and could continue through the end of the HHF program for an additional \$92,400 (an estimated \$92,400 or \$2,200 per month charge for 42 months beginning June 2017 through December 2020).

<sup>41</sup> The Government Accountability Office defines waste as, “the act of using or expending resources carelessly, extravagantly, or to no purpose,” in its *Standards for Internal Controls in the Federal Government* (the Green Book). GAO has also described waste as “...taxpayers do not receive reasonable value for their money in connection with any government-funded activity due to inappropriate acts or omissions by officials with control over or access to government resources.” Statement of David M. Walker, Testimony before the U.S. Senate Committee on Appropriations, March 11, 2008.





charged \$54,000 in building renovations, including demolishing a kitchen in the front of the building, and building a new kitchen in the back of the building complete with new cabinets, countertops, dishwasher, refrigerator, and microwave, and converting what had been racquetball courts into office space. TARP was charged more than \$42,000 to install cables and program a new fiber optic network, and more than \$35,000 to connect the servers. The agency charged TARP more than \$53,000 to purchase new computer equipment, and more than \$30,000 for a new copier/printer. Rhode Island Housing charged all of this to TARP even though non-HHF services were provided.

The agency also charged TARP to buy new furniture (\$99,096) including cubicles and 76 chairs, and hired a furniture “architect” to design the furniture in the space (\$2,337). SIGTARP questions the agency’s purchase of new furniture totaling \$104,156.50 when it could have used an existing \$114,442 vendor credit received in 2013 when it sold the prior furniture charged to TARP.<sup>42</sup> This reckless spending constitutes a waste and abuse of TARP.



*Recovered Taxpayer Dollars: After asking state officials about these charges, the Rhode Island agency decided to split costs for only \$16,902 of these charges for a lease expense (split 58% to TARP and 42% non-HHF) and reimbursed TARP only \$7,099. SIGTARP did not validate this allocation. However, Treasury should do so given that 71% of all homeowner walk-ins were seeking non-HHF services.*

Rhode Island Housing has charged TARP for all of the remaining \$335,056 in build-out and start-up costs. Rhode Island Housing should reimburse TARP at a minimum for 42% of these charges (\$140,724), representing the portion charged for non-TARP programs that are not necessary to modify loans under HHF, and therefore, violate Treasury’s contract.

### ***SIGTARP Questions the Rhode Island State Agency Charging TARP 100% of \$116,219 in Rent and Other Operating Costs for the New Customer Center When It Is Also Used for Non-Hardest Hit Fund Programs***

SIGTARP found that Rhode Island Housing charged TARP 100% of \$116,219 in rent and other operating expenses for the customer center, even though the center covers non-HHF programs.

<sup>42</sup> SIGTARP found that a credit balance still existed with the company in April 2016 for \$89,318.12, which raises the question of where the rest of the credit went and why TARP did not receive use of that credit.



*Recovered Taxpayer Dollars: After questioning Rhode Island state officials about these charges, Rhode Island Housing reimbursed TARP \$30,264.30, representing 42% of only a portion (\$72,059) of the operating expenses. This represents an immediate cost savings from SIGTARP's oversight and this audit. However, it is not 42% of the full operating costs charged to TARP. Even using that allocation, Rhode Island Housing should also reimburse TARP at least an additional \$18,548 for the remaining costs, including \$14,175 for 42% of the salary paid to an Administrative Assistant who provides "administrative support to the Help Center and Hardest Hit program offices," but whose salary was fully charged to TARP.*

In addition to the operating costs SIGTARP questions above, SIGTARP also questions the Rhode Island Housing charge to TARP of \$81,086 for advertising and 11 months of monthly \$4,500 retainer fees to DK Communications. This included paying \$6,160 for "we've moved" brochures, which would not make sense to charge to TARP because HHF had been closed in the state for 3 years. The monthly retainer is in addition to other design, advertising, and printing services also provided by DK Communications. Some of these expenses are listed in the "Miscellaneous" category in reporting to Treasury, making it hard to find. Paying a \$4,500 monthly retainer is not necessary to modify loans in HHF. Even under a method used by the agency to allocate other expenses to HHF, TARP was overcharged by at least \$34,056 for these costs.

### *The Rhode Island State Agency Overcharged TARP \$124,416.67 for a New Homeowner Application System That Is Also Used for Non-Hardest Hit Fund Programs*

SIGTARP questions \$247,659 for a new online homeowner application system that Rhode Island Housing purchased in 2016 and charged 100% to TARP. Even under a method used by the agency to allocate other expenses to HHF, TARP was overcharged by at least \$104,017 (42% of the total), which Rhode Island Housing should reimburse.

SIGTARP also questions \$90,000 Rhode Island Housing charged to TARP for the second year of maintenance on the system, which had a total cost of \$120,000. Rhode Island Housing charged 75% (or \$90,000) of this cost to TARP, rather than the 58% allocation it used for other expenses. Under the latter allocation, the agency would have paid 42% of the total cost (\$50,400) using non-HHF funds, instead of \$30,000. Rhode Island Housing should reimburse at least the \$20,400 it overcharged to TARP.



## In Late 2015, 2 Years After the Washington, D.C., Agency Shut Down HHF to New Homeowners, It Charged TARP a Quarter of a Million Dollars Paid to a Contractor for “Storage and Data Access” of the Shuttered Homeowner Application System, Rather Than Mitigate Storage Costs

SIGTARP questions \$258,333 charged to TARP by the Washington, D.C., agency in October 2015 to Counselor Direct, an online homeowner application system, to pre-pay 5 years of “Storage space and data access” after the HHF site shut down in 2013 because the program was closed to new homeowners.

The D.C. agency paid Counselor Direct \$44,000 each year for an annual license fee for “Storage space and data access.” This included recordkeeping for the 748 homeowners assisted, and reporting on open cases. Treasury requires agencies to keep HHF records for 3 years (2020 before HHF was extended in 2016). In October 2015, when Counselor Direct was raising fees, the D.C. agency charged TARP more than a quarter of a million dollars for 5 years of pre-paid fees to Counselor Direct. Most concerning is the D.C. official’s explanation to SIGTARP that the agency’s budget was “very limited,” as it had already committed 75% of its available HHF funds but had to make them last. The agency was not trying to make TARP funds last for homeowners, but for a contractor.

SIGTARP questions these charges because they were not necessary to modify loans. In addition, they constitute waste. Rhode Island Housing stored HHF records for free in a file room for several years after it closed its site to new homeowners, eventually scanning and storing them electronically. The D.C. agency could have been converting data to a different electronic format (e.g., pdfs), presumably at very little cost. TARP should not be paying exorbitant fees to Counselor Direct of \$50,000 a year to store data and access records.

TARP is at risk of waste and significant overcharging if state agencies do not mitigate costs to TARP for storage and data access once they close the program to new homeowner applications. Many of the state agencies use Counselor Direct as their online application system. Multiplied by 10 or more state agencies, TARP could be paying Counselor Direct \$500,000 or higher each year for data storage. HHF should not be a windfall for Counselor Direct or any contractor. Treasury should require state agencies to mitigate costly data storage and access, especially as state agencies look toward closing their HHF programs in coming years.



## State Agencies in South Carolina, Nevada, Michigan, Rhode Island, Ohio, and California Charged TARP \$609,374 for Cars for Two Executives, “Free Parking” Paid by TARP, or a Monthly Payment to Employees and Contractors for Parking and Bus Passes

SIGTARP found that state agencies in South Carolina, Nevada, Michigan, Rhode Island, Ohio, and California charged TARP \$609,374 for a car for two executives, “free parking,” or payments to cover transportation costs (Table 13).

**Table 13: Charges to TARP for Cars or Other Transportation Perquisite**

State Agency	Charge to TARP	Transportation Perquisite Charged to TARP
Nevada (NAHAC)	\$11,000 <sup>a</sup>	\$500 Monthly car allowance for CEO to drive Mercedes Benz
<b>South Carolina</b>	<b>\$16,241</b>	Executive’s exclusive use of leased “TARP” car for 4 years + payment for mileage with missing logs
South Carolina	\$13,250 car lease + \$2,991 mileage	
South Carolina	\$4,386 <sup>b</sup>	“TARP” car no longer used after executive left, missing mileage logs, non-HHF use, and errors
Ohio	\$14,079	Portion of vehicle fleet charged to TARP based on number of hours worked on HHF
Michigan	\$330,575	“Free parking”
Rhode Island	\$114,596	\$105 per month benefit given to all employees to defray parking and transportation costs
Ohio	\$113,853	Bus pass or parking for all employees (\$90-\$110 per month)
California	\$4,644	Parking for contractors
<b>Total</b>	<b>\$609,374*</b>	

<sup>a</sup> Charge identified in SIGTARP’s September 9, 2016, audit. The Nevada agency repaid Treasury \$8,000 of the \$11,000.

<sup>b</sup> Includes \$3,067 subsequently reimbursed during SIGTARP’s onsite visit.

\* Dollar amounts may not add up due to rounding.

Source: SIGTARP analysis of state agency-provided data in the Hardest Hit Fund.

### TARP Cars

As SIGTARP previously reported, **the Nevada state agency NAHAC** charged TARP \$11,000 (\$500 a month) to its CEO, who was later terminated, to drive his Mercedes Benz. SIGTARP identified this as waste, particularly in light of the fact that the agency had all but stopped helping homeowners in HHF, despite continued need in the state and availability of TARP dollars.



**The South Carolina state agency** charged TARP \$13,250 for an executive's exclusive use of a "TARP" car for more than 4 years (50 months), plus payments for mileage costs that would sometimes equal just as much as the monthly lease. SIGTARP found that the South Carolina state agency lacked effective controls to mitigate the risk of overcharging TARP, with no policy, no management review of fleet expenses charged to TARP, and 18 months of missing mileage records.

SIGTARP also found several instances where the South Carolina agency charged TARP for the use of cars for non-HHF purposes, including at least \$445.37 in lease and mileage charges. Due to the agency's lack of controls and missing mileage records, there is a risk that TARP may have been charged even more. The South Carolina agency also overcharged TARP \$30 due to a mileage calculation error.

TARP continued to pay the lease on the TARP car for 4 months after the executive left. Mileage logs were missing on this and another car, leading to additional questioned costs of \$3,835.

**The Ohio state agency** charged TARP \$14,079 for partial use of state cars. The state agency's methodology does not show that this charge was necessary to modify loans in HHF. The state agency allocated a percentage of its vehicle fleet expense to TARP based on the number of timesheet hours that employees worked on HHF. While the percentage was often very small, this methodology was not based on the mileage of state cars for HHF specific work.

There should be no "TARP cars," or even "Partial TARP cars." These charges violated Treasury's contract because they were not necessary to modify loans in HHF. Other states did not charge TARP to provide a car or car allowance to an executive. TARP charges should be limited. Any official travel by an employee's personal car should be reimbursed through standard mileage reimbursement, but only with internal controls, such as supporting documentation to prove the travel was necessary to modify loans in HHF and with management review. Any official travel by a state car should be calculated by mileage on a state vehicle for driving that was necessary to modify loans in HHF, with supporting documentation and management review.



*Recovered Taxpayer Dollars: After questioning South Carolina officials about these charges, the state agency said it would reimburse \$3,067 to TARP. This is an immediate savings to taxpayers as a result of this audit.*



### *Cash for Parking and "Free Parking"*

**The Rhode Island state agency** charged TARP \$114,596 to pay all employees an additional \$105 per month (\$1,260 per year) that can, but does not have to, be used to defray parking and transportation costs. This is the equivalent of cash.

**The Ohio state agency** charged TARP \$113,853 to buy parking or a bus pass for all employees. The Ohio state agency charges TARP \$90-\$110 per month for parking or a bus pass for every employee, full or part-time.

**The Michigan state agency** charged TARP \$330,575 to give all employees the perk of free parking. The Michigan state agency decided at a Board of Directors meeting in February 2011 to provide "free parking" for employees working on the Hardest Hit Fund. The parking would not be "free" to taxpayers funding HHF as the board voted to use TARP dollars to pay this employee perk.

**The California state agency**, who did not charge TARP for employee "free parking," charged TARP \$4,644 for parking for contractors.

When a state agency decides to provide a perquisite such as cash for parking, free parking, or a bus pass, it should be paid out of state dollars, not TARP dollars. SIGTARP questions these charges as violating Treasury's contract because they are not necessary to modify loans in HHF. Other state agencies do not charge TARP for these perquisites. Parking and bus passes are not listed as "Permitted Expenses" in Treasury's contract. These charges could have been provided to homeowners for assistance, rather than state employees, or to reduce the cost of this program on taxpayers.



## Conclusion

State agencies will spend \$1.1 billion in administrative expenses to distribute \$8.5 billion in TARP's Hardest Hit Fund. Every dollar spent on administrative expenses is one dollar less for homeowner assistance or one dollar saved for taxpayers. At the beginning of the program, then-Treasury Secretary Timothy Geithner determined that Treasury's authority under the Emergency Economic Stabilization Act did not allow TARP to pay for unnecessary state agency expenses, including legal aid or counseling programs. In Treasury's contracts with state agencies, TARP dollars spent on expenses must be "necessary" to modify homeowner loans through HHF, which is the authority in EESA for HHF. To give state agencies notice as to which expenses Treasury considered "necessary," Treasury included in each contract a list of "Permitted Expenses."

SIGTARP is conducting a series of audits on state agency expenses in HHF, initially prompted by poor performance and rising costs in HHF in Nevada, and, subsequently, by a request from Chairman Charles Grassley. In SIGTARP's first audit in this series released in September 2016, SIGTARP identified \$8.2 million in wasted TARP dollars in HHF in Nevada on expenses like parties, gifts, excessive rent, and legal costs to defend against Federal investigations and lawsuits. The chief executive officer of the Nevada agency was given a monthly allowance of \$500 to drive a Mercedes, and was paid \$20,000 in severance after he was fired— all charged to TARP.

In this second report in the series, SIGTARP identifies nearly \$3 million in state agency expenses that violate Treasury's contract, including TARP dollars spent on barbeques, parties and celebrations, food and beverages, employee bonuses and gifts, payments to former employees, employee gifts, employee gym memberships, and employee transportation perquisites. This also includes \$258,333 for avoidable data storage costs, and a 2016 build-out of a state customer center that was charged 100% to TARP despite most people using the center for non-TARP programs. This is the second center TARP paid for in that state. SIGTARP found no consistency in charging TARP for expenses. Some state agencies were far more egregious than others. In addition to violating Treasury's contract, the most egregious wasted TARP dollars.

The North Carolina Housing Finance Agency was particularly egregious in charging TARP for unnecessary expenses, including:

- \$10,000 for employee parties, celebrations, and outings, for example:
  - 4 barbeques with Treasury employees with 50, 60 or 90 people in attendance: \$2,587



- Steak and seafood dinner for 18 employees when HHF opened in 2010 (ribeye, prime rib, grilled tuna, salmon, shrimp and grits, and a gratuity): \$734
- Barbeque for employees working on Treasury audit: \$660
- Barbeque after reaching a milestone on the number of people helped: \$290
- Holiday lunches, holiday breakfasts, employee farewell ice cream party, birthday cake
- Family picnic with piñatas and candy: \$348
- Valentine’s Day celebration with red velvet cake, flowers, and a “V-day Mailbox”:\$277
- Employee gifts including:
  - Land’s End shirts with the agency logo: \$1,113
  - Visa gift cards, other gift cards, flowers, balloons, chocolates: \$715
- Gym memberships for six employees at \$30 per month each: \$8,880
- \$30,00 in food and beverages for employees, and sometimes as hospitality with others
  - Employees regularly charged TARP for restaurant meals, and to deliver food to (or carry food into) the office, for example:
    - Seafood lunches at restaurants were regularly charged as “working lunches”
    - One employee charged TARP for a “working breakfast” at IHOP and a “working lunch,” ordering seared tuna and crab cakes on the same day
    - Two employees even charged \$4.72 for Dunkin Donuts coffee as a “working breakfast”
    - Even a single water bottle bought at CVS for \$1.81 was charged to TARP
  - In a \$5,590 dinner to celebrate housing counselors, agency employees and counselors ate tilapia, chicken, and pork chops drank virgin cocktails at a cost of \$400; finished it off with mini cupcakes at a cost of \$200; and paid a \$770 gratuity, all charged to TARP





- \$35,000 in costs for an annual housing counselor conference and other counselor events
- \$18,000 in employee cash bonuses

The North Carolina agency had a culture of treating TARP as a windfall. TARP dollars were 38 times the total grants the agency previously received. Calling TARP a “game changer,” the agency regularly charged TARP for unnecessary expenses that other state agencies were not charging. Many of these charges also constitute waste.

Some of these charges by agencies in North Carolina and other states were low in dollar amount. However, every taxpayer dollar matters. Spending decisions on small purchases set the tone for spending decisions on larger ticket items. In addition to state agencies in Nevada and North Carolina, other state agencies charged TARP for parties (an employee retirement party in Illinois), picnics (a picnic with food trucks in Kentucky), and employee celebrations (employee appreciation day in Michigan). This is not what Congress intended in authorizing TARP or Treasury intended in its contracts. These charges constitute waste.

In 2016, after Congress approved an additional \$2 billion for HHF, employees at two state agencies became the first recipients of these TARP dollars in celebrations. The North Carolina agency charged TARP for a \$50 gift card for an employee in recognition of getting new HHF funding. The Illinois Housing Development Authority charged TARP \$549 at a pizza restaurant to celebrate getting new HHF funds and an employee’s upcoming wedding.

The Alabama agency also threw a barbeque for Treasury employees and state agency employees, charging hundreds to TARP for the barbeque and catered lunches with Treasury employees. The Kentucky and Oregon agencies also charged TARP for catered lunches with Treasury employees.

In conducting this review, SIGTARP applied Treasury’s contracts and Treasury’s public interpretation of what is “necessary,” each of which state agencies have had notice of since 2010. Treasury’s contract limited expenses to only those expenses “necessary to carry out the services.” The “services” were the specific HHF programs defined in “service schedules” attached to the contract. Treasury even included a list of “Permitted Expenses” in the contract that could be necessary to carry out the services. State agencies also knew that, in 2010, then-Treasury Secretary Geithner turned down multiple state requests to spend TARP on legal aid or counseling programs because it



was not authorized by EESA.<sup>43</sup> Treasury's contracts applied a strict test, as explained by Treasury's then-general counsel, that all expenses must be necessary to "facilitate loan modifications to prevent avoidable foreclosures," the EESA authority for HHF. Treasury applied two criteria: (1) that legal aid services frequently would result in outcomes other than loan modifications, and accordingly, they are not-by-definition necessary or essential to loan modifications in HHF; and (2) that if borrowers can obtain loan modifications without the legal services, they were not necessary expenses. Applying this test to each of the expenses that SIGTARP questions in this report leads to the conclusion that these are unnecessary expenses.

It is critically important to limit spending to what Congress intended when it authorized TARP. In 2010, Treasury's then-general counsel George Madison stated in a memorandum that became public:

*Here, one could argue that a general statutory purpose of EESA is to prevent foreclosures and that any expenditure reasonably related to that purpose are permissible. We believe that such an interpretation sweeps too broadly. It would authorize an almost unlimited number and variety of government expenditures – i.e. anything that is reasonably related to preventing foreclosures. It also would render meaningless the express provisions in EESA that together provide authority for the Hardest Hit Fund: Section 101 authorizes the Secretary to purchase "troubled assets from any financial institution," and 109(a) authorizes the Secretary to use "loan guarantees and credit enhancements to facilitate loan modifications to prevent avoidable foreclosures. Lastly, such an interpretation would be contrary to how Treasury implemented EESA.*

SIGTARP identified a number of state agency expenses that may be reasonably related to foreclosure prevention, but violate Treasury's contract because they are not necessary to modify loans in HHF. Each of these expenses is not listed in Treasury's list of Permitted Expenses. Each of these expenses frequently could have successful outcomes other than in HHF, and for each there were state agencies that modified loans in HHF without charging TARP for the expense.

- Food and beverages of more than \$100,000 (including in North Carolina), sometimes for their own employees, other times as hospitality for others were charged to TARP. The California state

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<sup>43</sup> Secretary Geithner wrote public letters to 35 Members of Congress explaining Treasury's analysis of appropriations law and Treasury's interpretation of the authority provided to Treasury under EESA. Subsequently, some of these Members introduced bills in the House and Senate to allow this TARP spending. The bills did not receive the votes necessary to become law. In its contracts, Treasury limited TARP dollars for counseling to file intake, decision costs, successful file, and key business partners ongoing.



agency, which is allocated the most TARP dollars in HHF, and the Arizona state agency, each modified loans in HHF without charging TARP for food and beverages.

- Unlike other state agencies, three state agencies charged TARP for employee transportation perquisites. These perks included \$330,000 in “free parking” for Michigan state employees charged to TARP, \$114,000 charged to TARP for Rhode Island agency employees to each receive an extra \$105 each month in their paycheck to defray parking costs, and \$113,000 to buy every Ohio agency employee a \$90-110 monthly bus pass or parking.
- Unlike other state agencies, the South Carolina agency charged TARP for a senior official to have exclusive use of a state leased car for more than 4 years.
- Nearly \$1 million in cash bonuses or employee gifts by eight state agencies, settlements or litigation with former employees who had wrongful termination or discrimination complaints by three state agencies, severance payments to resigning or former employees by three state agencies, and unemployment payments to former employees by five state agencies, were all charged to TARP. To the extent that these state agencies are either required or choose to pay these expenses, they should do so using state funds as they are not necessary to modify loans in HHF. Other state agencies modified loans in HHF without charging TARP for these payments.

Particularly egregious was the Nevada state agency that paid more than \$43,000 in bonuses (including severance) to the CEO who was fired by the board, despite the fact that homeowner admissions to HHF had dropped 94%. Also egregious was more than \$100,000 in bonuses to Florida agency employees, including bonuses to senior Florida officials that doubled and tripled after SIGTARP issued an audit in December 2015 on the state agency’s severe underperformance in HHF. The executive director of the Florida agency was asked to resign by the governor in December 2016 for state-funded bonuses and a lavish dinner, while Floridians were waiting for foreclosure prevention assistance. Bonuses at both agencies constitute waste.

SIGTARP also questioned two large state expenses. Lumped into the “Miscellaneous” category of Permitted Expenses, SIGTARP found that the Rhode Island agency had charged TARP \$351,958 in 2016 to build out and start up a new customer center, including building a new kitchen and new furniture. TARP had already paid for the build-out of an office in 2010.<sup>44</sup> In

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<sup>44</sup> In its 2010 contract, Treasury included “permitted expenses” of \$274,253 for one-time, start-up expenses, which Rhode Island Housing used to build out a new location. Rhode Island Housing used the location for only 2 years when HHF was open in the state.



2016, when Treasury allocated new TARP dollars to the Rhode Island agency, Treasury did not provide for any further permitted expenses for “one-time/start-up” expenses such as “building,” “equipment,” and “technology.” The agency charged 100% of build-out/start-up costs, and then \$116,219 in operating expenses to TARP despite the center also being used for non-HHF services. From June 2016 to May 2017, the percentage of homeowners visiting the center for HHF programs was only 29% versus 71% for non-HHF programs. Additionally, even though the Rhode Island agency had not charged TARP for any space for files and staff in their own building for 3 years when the program was closed, in 2015 the agency back-dated a “rent” charge of \$96,590.

Additionally, in 2015, the Washington, D.C. agency charged TARP \$258,333 in avoidable storage costs. The Washington, D.C. agency paid this amount to Counselor Direct, an online application system contractor, for 5 years of data storage when the program was closed to homeowner applications. With many of the agencies contracting with Counselor Direct, taxpayers could end up paying \$50,000 per month or more for each state agency for years of data storage. These costs should be mitigated, as TARP was not meant to be a windfall for one IT contractor.

Taxpayers have paid more than they needed to for state agency expenses in HHF and state agencies have spent TARP dollars not as Congress and Treasury intended. SIGTARP found an elevated risk of fraud, waste, abuse, and overpayment because state agencies are lumping unnecessary expenses into “Permitted Expense” categories, limiting transparency, and shielding these expenses from oversight.

Treasury did not hold state agencies accountable to the requirement in Treasury’s contract that expenses must be necessary for the specific services in HHF. In 2012, GAO reported on rising administrative expenses in HHF, warning, “Treasury’s rigorous oversight of spending decisions throughout the life of the program will be critical to helping ensure that funds are spent as intended.”<sup>45</sup> Treasury regularly reviewed state agency expenses, but only on a small sample basis with minimum dollar thresholds. These reviews appear to be focused on compliance with Federal cost principles (OMB A-87). Cost principles do not authorize Federal spending, but instead, as Treasury’s contract states, serve as an additional limitation.<sup>46</sup> For example, after SIGTARP’s 2016 audit identified waste in HHF including a \$20,000 severance payment to the fired CEO in Nevada, Treasury officials did not recover this payment, despite that it was not necessary to modify loans in HHF. Treasury

<sup>45</sup> See GAO, “Further Actions Needed to Enhance Assessments and Transparency of Housing Programs,” July 2012, <http://www.gao.gov/assets/600/592707.pdf>.

<sup>46</sup> Treasury’s contract states, “...the administrative expenses necessary to carry out the services (the “Permitted Expenses.”)...Additionally, all administrative expenses paid with HHF program funds shall be accounted for and are subject to OMB Circular A-87.”



officials appear to not even be applying Treasury's own test under the contracts—whether the expense was necessary to modify loans.

Responsible stewardship by state agencies and rigorous oversight are needed to protect taxpayers. With more than \$1 billion in taxpayer dollars on the line, state agencies must limit their expenses to only those necessary to modify loans in HHF. That has always been what Treasury's contracts require. The expenses SIGTARP questions in this report are out of \$733 million already spent, and SIGTARP will conduct future audits of spent TARP dollars. Treasury should recover every dollar in unnecessary charges to TARP identified by SIGTARP in this report.

This report should deter future unnecessary spending when state agencies can see that other state agencies modify loans in HHF without charging TARP for these same expenses. However, the responsibility to stop TARP spending on unnecessary expenses rests with Treasury. SIGTARP can only make recommendations to Treasury and cannot recover TARP dollars spent in violation of the contract or force Treasury to right the ship. To ensure that TARP dollars are used only as Congress and Treasury intended, and that taxpayers do not spend more than is necessary, Treasury should enforce the terms of its contracts for the \$373 million that Treasury has allocated for future state expenses in HHF.



## Recommendations

1. To prevent further unnecessary spending and waste in the Hardest Hit Fund, Treasury should enforce its contracts with the 19 state agencies, including the schedule of “Permitted Expenses,” so that TARP dollars for Hardest Hit Fund administrative expenses are only used for expenditures necessary to facilitate a loan modification or demolish a blighted house, as authorized under EESA and Treasury’s contracts.
2. To prevent further unnecessary expenditures in the Hardest Hit Fund and bring transparency and improved oversight, Treasury should perform more rigorous oversight of the 19 state agencies “Permitted Expenses” by applying its own test and criteria to determine whether an expense is necessary to modify a loan or demolish a blighted house, as authorized under EESA and Treasury’s contracts.
3. To enforce its contract with the Nevada Affordable Housing Assistance Corporation (the Nevada state agency’s contractor) Treasury should apply its own test and criteria to recover the remaining \$8.1 million of waste and abuse that SIGTARP identified previously that NAHAC has not yet repaid.
4. To prevent further unnecessary expenditures in the Hardest Hit Fund and bring transparency and improved oversight, Treasury should prohibit the 19 state agencies from lumping unnecessary expenses in the “Permitted Expenses” category and require the state agencies to disclose details of any expenses in the “Miscellaneous” category in their quarterly financial reports to Treasury.
5. To enforce its contract with the 19 state agencies and prevent further waste and abuse of Hardest Hit funds Treasury should determine the amount of unnecessary expenditures charged to TARP for: **meals and catered barbeques with Treasury, parties, barbeques, restaurant outings, gifts, gym memberships, meals and refreshments, and cash bonuses.**
6. To enforce its contract with state agencies and prevent further waste and abuse of Hardest Hit Funds, Treasury should recover the \$4,179 of questioned costs that eight state agencies *North Carolina (\$2,587), Oregon (\$430), Mississippi (\$369), Alabama (\$341), Washington D.C. (\$202), Kentucky (\$159), Michigan (\$77), and Illinois (\$14)* charged TARP **for meals and catered barbeques with Treasury employees**, as none of these expenses



are necessary to modify a loan or demolish a blighted house and, therefore, violate Treasury's contract.

7. To enforce its contract with the North Carolina agency and prevent further waste and abuse of Hardest Hit Funds, Treasury should recover at least the amount of \$104,991 that the **North Carolina** agency charged to TARP for:
  - (a) \$8,219 in employee parties, celebrations and outings;
  - (b) \$1,965 for gift certificates and other gifts, including \$681 for employee recognition awards;
  - (c) \$8,880 in gym memberships;
  - (d) \$18,091 for employee cash bonuses;
  - (e) \$14,124 for local employee breakfasts, lunches, and dinners unrelated to travel, and sometimes with external parties;
  - (f) \$53,712 in costs at events with housing counselors, including \$18,262 in food and beverages.
8. To enforce its contract with state agencies and prevent further waste and abuse of Hardest Hit Funds, Treasury should recover the \$106,774 of questioned costs that the Florida state agency charged TARP in **bonuses**, as well as the \$636 in **gift certificates** to employees and the \$454 in a **barbeques and lunches with employees and external parties**, as none of these expenses are necessary to modify a loan or demolish a blighted house and, therefore, violate Treasury's contract.
9. To enforce its contract with state agencies and prevent further waste and abuse of Hardest Hit Funds, Treasury should recover the \$35,000 of questioned costs that the Nevada contractor charged TARP for **employee bonuses** paid to an ousted Nevada Chief Executive Officer, and a remaining \$19 **deposit to reserve a location** for a 2016 picnic not yet reimbursed, as none of these expenses are necessary to modify a loan or demolish a blighted house and, therefore, violate Treasury's contract.
10. To enforce its contract with state agencies and prevent further waste and abuse of Hardest Hit Funds, Treasury should recover \$3,287 in unreimbursed charges by the following state agencies to TARP for **barbeques, parties, picnics, celebrations, and outings**, as none of these expenses are necessary to modify a loan or demolish a blighted house and, therefore, violate Treasury's contract: *Illinois (\$792), New Jersey (\$749), Michigan (\$701), Rhode Island (\$573), Nevada (\$225), Oregon (\$150), and Kentucky (\$97).*



11. To enforce its contract with state agencies and prevent further waste and abuse of Hardest Hit Funds, Treasury should recover the \$7,412 charged by the following state agencies to TARP for **food and beverages for employees unrelated to travel**, as none of these expenses are necessary to modify a loan or demolish a blighted house and, therefore, violate Treasury's contract: *Illinois (\$4,779), Nevada (\$1,604), Oregon (\$608), Alabama (\$157), Michigan (\$144), and Kentucky (\$120).*
12. To enforce its contract with state agencies and prevent further waste and abuse of Hardest Hit Funds, Treasury should recover the \$26,101 charged by the following state agencies to TARP for **employee water, coffee, and an ice machine**, as none of these expenses are necessary to modify a loan or demolish a blighted house and, therefore, violate Treasury's contract: *Illinois (\$10,042), Georgia (\$6,813), Michigan (\$5,321), Indiana (\$1,558), Kentucky (\$1,309), and Nevada (\$1,058).*
13. To enforce its contract with state agencies and prevent further waste and abuse of Hardest Hit Funds, Treasury should recover the \$32,619 charged by the following state agencies to TARP for **food and beverages for meetings with lenders, counselors, legislative staff or others, or for training**, as none of these expenses are necessary to modify a loan or demolish a blighted house and, therefore, violate Treasury's contract: *Ohio (\$13,158), South Carolina (\$12,735), Mississippi (\$2,399), New Jersey (\$836), Oregon (\$809), Rhode Island (\$780), Washington D.C. (\$482), Illinois (\$476), Michigan (\$476), Tennessee (\$427), and Alabama (\$41).*
14. To enforce its contract with state agencies and prevent further waste and abuse of Hardest Hit Funds, Treasury should recover the \$166,340 of questioned costs that the following state agencies charged to TARP for **employee bonuses/awards/gifts**, as none of these expenses are necessary to modify a loan or demolish a blighted house and, therefore, violate Treasury's contract: *Illinois (\$98,305), Indiana (\$45,100), South Carolina (\$16,040), Nevada (\$3,997), Arizona (\$2,244), and Kentucky (\$654).*
15. To enforce its contract with state agencies and prevent further waste and abuse of Hardest Hit Funds, Treasury should recover the \$166 of questioned costs that the Alabama agency charged TARP for a **gift card and fruit baskets** and another \$55 that the Michigan agency charged TARP for **gifts** to the state agency employees.





16. To enforce its contract with state agencies and prevent further waste and abuse of Hardest Hit Funds, Treasury should recover the \$90,629 of questioned costs that the following state agencies charged TARP for **settlement payments/legal fees/other expenses for claims/disputes by former employees**, as none of these expenses are necessary to modify a loan or demolish a blighted house and, therefore, violate Treasury's contract: *Oregon (\$84,256), Nevada (\$4,000), and California (\$2,373)*.
17. To enforce its contract with state agencies and prevent further waste and abuse of Hardest Hit Funds, Treasury should recover the \$112,036 of questioned costs that the following state agencies charged to TARP for **severance payments to former/resigning/terminated employees**, as none of these expenses are necessary to modify a loan or demolish a blighted house and, therefore, violate Treasury's contract: *Nevada (\$50,231), Kentucky (\$46,811), and Rhode Island (\$14,994)*.
18. To enforce its contract with state agencies and prevent further waste and abuse of Hardest Hit Funds, Treasury should recover the \$229,779 of questioned costs that the following state agencies charged to TARP for **unemployment payments to former employees**, as none of these expenses are necessary to modify a loan or demolish a blighted house and, therefore, violate Treasury's contract: *Oregon (\$79,742), Rhode Island (\$75,703), Ohio (\$63,432), Mississippi (\$5,343), and Tennessee (\$5,558)*.
19. To prevent further waste and abuse of Hardest Hit Funds, Treasury should recover the \$96,590 of questioned costs that the Rhode Island state agency charged TARP as a **backdated rent payment in the building that it owned** for storing files and for wind-down staff 3 years after it closed the Hardest Hit Fund office, since paying rent to "itself" for space is excessive and constitutes waste.
20. To prevent further waste and abuse of Hardest Hit Funds, Treasury should recover the additional \$47,798 of wasteful spending that the Rhode Island state agency charged TARP through March 2017 for **rent to "itself"** in the amount of \$2,200 **monthly plus any additional payments** since that time and going forward and put an estimated \$92,400 of funds to better use (an estimated \$92,400 or \$2,200 per month charge for 42 months beginning June 2017 through December 2020).



21. Treasury should determine the total **non-HHF portion of the new customer center start-up expense** that the Rhode Island state agency charged to TARP and recover at least the \$140,724 (42% of \$351,958, less a reimbursement of \$7,099) identified by SIGTARP, as these expenses exceed the portion that should be allocated to the Hardest Hit Fund according to the Rhode Island agency's allocation methodology.
22. Treasury should determine the total **non-HHF portion of the new customer center operating expense** that the Rhode Island state agency charged to TARP and recover at least the \$18,548 (42% of \$116,219, less a reimbursement of \$30,264) identified by SIGTARP, as these expenses exceed the portion that should be allocated to the Hardest Hit Fund according to the Rhode Island agency's allocation methodology.
23. Treasury should determine the total **non-HHF portion of the new customer center marketing and advertising expense** that the Rhode Island state agency charged to TARP and recover at least the \$34,056 (42% of \$81,086) identified by SIGTARP, as these expenses exceed the portion that should be allocated to the Hardest Hit Fund according to the Rhode Island agency's allocation methodology.
24. Treasury should determine the total **non-HHF portion of the new homeowner application system expense for year 1** that the Rhode Island state agency charged to TARP and recover at least the \$104,017 (42% of \$247,659) identified by SIGTARP, as these expenses exceed the portion that should be allocated to the Hardest Hit Fund according to the Rhode Island agency's allocation methodology.
25. Treasury should determine the total **non-HHF portion of the new homeowner application system expense for year 2** that the Rhode Island state agency charged to TARP and recover at least the \$20,400 (42% of the total \$120,000 paid, representing the non-HHF portion less \$30,000 paid directly with non-HHF funds) identified by SIGTARP, as these expenses exceed the portion that should be allocated to the Hardest Hit Fund according to the Rhode Island agency's allocation methodology.
26. To prevent waste, SIGTARP reiterates its previous recommendation that Treasury should prohibit all state agencies from charging the Hardest Hit Fund 100% of overhead costs, including but not limited to, rent, utilities, and payroll, given that these agencies also work on matters unrelated to the Hardest Hit



Fund. Treasury should require that each state agency has a cost-sharing methodology approved by Treasury that accurately reflects the sharing of overhead of Hardest Hit Fund and non-HHF sources of payment. Treasury should require that the cost-sharing methodology is kept current given the state agency's activities.

27. To improve the efficiency and effectiveness of TARP and prevent further unnecessary expenditures in the Hardest Hit Fund, including for data storage and access when programs have wound down, Treasury should hold state agencies accountable for implementing risk management practices that identify, assess, mitigate and report on risks to avoid overpaying exorbitant fees, including to contractors.
28. Treasury should recover \$258,333 that the Washington, D.C. agency charged TARP for its multi-year, pre-paid 2015 contract with Counselor Direct for Hardest Hit Fund data storage and access.
29. To prevent further waste and abuse, Treasury should conduct oversight beyond the limited reviews being conducted by Treasury Compliance staff of all state HFA expenses charged to HHF to determine whether the charges are necessary for loan modifications or to demolish a blighted house, and if so, whether an expense fell with the cost principles under OMB Circular A-87 and take appropriate corrective action within 60 days of the completion of the oversight review to obtain reimbursement of all non HHF expenses, non-supported expenses, and expenses not necessary to provide loan modifications.
30. To enforce its contract with state agencies and prevent further waste and abuse of Hardest Hit Funds, Treasury should recover the unreimbursed amount of \$595,307 charged by the following state agencies to TARP for cars for two executives, "free parking", or a monthly payment to employees and contractors for parking and other transportation costs, including for non-HHF use: *South Carolina (\$17,560), Ohio (\$127,932), Michigan (\$330,575), Rhode Island (\$114,596), and California (\$4,644).*



## Management Comments and SIGTARP's Response

Treasury responded by saying they appreciate SIGTARP's oversight and thorough review of the administrative expenses charged to TARP and agree that Treasury should recover the amounts expended in violation of program requirements.



## Appendix A – Objective, Scope, and Methodology

SIGTARP performed this performance audit under authority of Public Law 110-343, as amended, which also incorporates the duties and responsibilities of inspectors general under the Inspector General Act of 1978, as amended.

After SIGTARP identified wasteful spending by a Nevada contractor in the Hardest Hit Fund,<sup>47</sup> Senator Charles Grassley asked SIGTARP to audit spending on administrative expenses in the program. Because the expenses spanned 19 state agencies over 7 years, SIGTARP sent a survey to each agency on categories of expenses not likely to be allowed under Treasury's contract, requesting that responses be certified under penalty of perjury. SIGTARP's request for a certification under perjury resulted in state agencies catching expenses that had been charged to TARP, and reimbursing TARP for those expenses—a positive savings for taxpayers.

The audit's objective was to review the use of TARP funds for administrative expenses, operating expenses, or other spending by the 19 state housing finance agencies (and/or their contractors or partners) who receive Hardest Hit Fund dollars. The scope of this audit covered a review of certain administrative expenses charged to TARP in the Hardest Hit Fund since its inception in 2010 to identify questioned costs or costs constituting waste or abuse.<sup>48</sup>

To accomplish the objective of the audit, SIGTARP applied GAO standards to determine waste and abuse. A questioned cost means a cost that is questioned because of an audit finding: (a) Which resulted from a violation or possible violation of a statute, regulation, or the terms and conditions of a Federal award, including for funds used to match Federal funds; (b) Where the costs, at the time of the audit, are not supported by adequate documentation; or (c) Where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.<sup>49</sup>

As part of its analysis of administrative expenditures, SIGTARP examined whether each charge violated Treasury's contract as unnecessary to modify loans (or demolish blighted houses) in the Hardest Hit Fund. In

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<sup>47</sup> See SIGTARP Audit Report: "Waste and Abuse in the Hardest Hit Fund in Nevada," 9/9/2016, [https://www.sig tarp.gov/Audit%20Reports/HHF%20Nevada\\_090916.pdf](https://www.sig tarp.gov/Audit%20Reports/HHF%20Nevada_090916.pdf), accessed 1/13/2017.

<sup>48</sup> For this report, SIGTARP is not including other expenses such as travel, conferences, professional expenses, marketing, IT, salaries, or counseling (except for a limited number of items identified in the course of the audit). SIGTARP is continuing to review these expenses.

<sup>49</sup> 2 CFR § 200.84 – "Questioned Cost."



that determination, SIGTARP considered: (1) criteria articulated by Treasury’s Office of General Counsel; (2) Treasury’s list of “Permitted Expenses” in its HHF contracts with state agencies; and (3) Treasury’s and state agencies reporting on their performance in modifying loans.

SIGTARP obtained, reviewed and analyzed data from the housing finance agencies in 18 states and the District of Columbia participating in the Hardest Hit Fund program, to include the agencies’ certified survey responses, Hardest Hit Fund general ledgers, certain invoices and receipts for selected administrative expenses based on a risk assessment of expenditures, quarterly performance and financial reports submitted to Treasury, Treasury’s compliance reviews, and other relevant correspondence and memoranda. SIGTARP also, as appropriate, conducted on-site and telephonic interviews with state agency officials and analyzed state agency policies and procedures and certain administrative contracts or agreements.

SIGTARP conducted this performance audit from October 2016 through August 2017 in Washington, D.C., and also performed on-site visits at selected housing finance agencies, including those in Nevada, North Carolina, Rhode Island, South Carolina, and Washington, D.C. The audit was conducted in accordance with generally accepted government auditing standards established by the U.S. Government Accountability Office. Those standards require that SIGTARP plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. SIGTARP believes that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

### *Limitations on Data*

SIGTARP generally relied on Treasury and state agencies to provide relevant documentation, including certified responses to SIGTARP’s survey, general ledgers, and supporting documentation. To the extent that the documentation provided to SIGTARP by these entities did not reflect a comprehensive response to SIGTARP’s documentation requests, SIGTARP’s review may have been limited. SIGTARP’s audit program was based on an assessment of risks in the Hardest Hit Fund and, although it identified some questioned costs and expenditures constituting waste or abuse, our work was not designed to identify all occurrences of such transactions.



### *Use of Computer-Processed Data*

To perform this audit, SIGTARP relied on general ledger data provided by state agencies, and on quarterly performance and financial data provided by those agencies and by Treasury. SIGTARP did not validate the accuracy of the data.

### *Internal Controls*

To address the reporting objective in this audit, SIGTARP performed a limited review of internal controls by interviewing state agency officials and reviewing Treasury compliance reports and state agency policies and procedures.

### *Prior Coverage*

SIGTARP has covered the HHF program in six previous reports:

- On April 12, 2012, SIGTARP released an audit report titled, “Factors Affecting Implementation of the Hardest Hit Fund Program.”
- On April 21, 2015, SIGTARP released an audit report titled, “Treasury Should Do Much More to Increase the Effectiveness of the TARP Hardest Hit Fund Blight Elimination Program.”
- On October 6, 2015, SIGTARP released an evaluation report titled, “Factors Impacting the Effectiveness of Hardest Hit Fund Florida.”
- On June 16, 2016, SIGTARP released an audit report titled, “Treasury’s HHF Blight Elimination Program Lacks Important Federal Protections Against Fraud, Waste, and Abuse.”
- On September 9, 2016, SIGTARP released an audit report titled, “Waste and Abuse in the Hardest Hit Fund in Nevada.”
- On January 11, 2017, SIGTARP released an evaluation report titled, “Improving TARP’s Investment in American Workers.”

SIGTARP also issued an alert letter on December 14, 2015, that addressed a risk related to diverting TARP funds to demolish lived-in properties, which could undermine the success of HHF’s Blight Elimination Program.



## Appendix B – Acronyms and Abbreviations

CEO	Chief Executive Officer
EESA	Emergency Economic Stabilization Act
GAO	Government Accountability Office
HFA	Housing finance agency
HHF	Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets (also “Hardest Hit Fund”)
NAHAC	Nevada Affordable Housing Assistance Corporation
OMB	Office of Management and Budget
SIGTARP	Office of the Special Inspector General for the Troubled Asset Relief Program
State agency	Housing finance agency of any of the 18 states and the District of Columbia participating in the Hardest Hit Fund
TARP	Troubled Asset Relief Program
Treasury	U.S. Department of the Treasury





## Appendix C – Audit Team Members

This audit was conducted and the report was prepared under the direction of Jenniffer F. Wilson, Deputy Special Inspector General for Audit and Evaluation, and Christopher Bosland, Assistant Deputy Special Inspector General for Audit and Evaluation, Office of the Special Inspector General for the Troubled Asset Relief Program.

In addition to the contacts named above, Caroline Ashe, Vonda Batts, Leslye Burgess, Craig Meklir, Dennis Lee, Amber Lyons, Yvonne Monyei, Andrew Sinclair, Tracy Davis-Ross, Corrin King, Rodney Purnell, William Saunders, and Kamruz Zaman made significant contributions to all aspects of this report.

Luis Sustache-Davila, Yusuf House, Sylvester Tang, and Lisa Rose-Pressley provided additional technical assistance.



## Appendix D – Management Comments



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

August 24, 2017

The Honorable Christy Goldsmith Romero  
Special Inspector General  
for the Troubled Asset Relief Program  
1801 L Street, NW, 4th Floor  
Washington, DC 20036

Dear Ms. Romero:

I write in response to the Special Inspector General for the Troubled Asset Relief Program's (SIGTARP) draft report of August 10, 2017 (the Draft), regarding certain administrative expenses funded through Treasury's Housing Finance Agency Innovation Fund for Hardest Hit Housing Markets (the Hardest Hit Fund, or HHF). Treasury takes very seriously its responsibility as a steward of taxpayer funds, and we appreciate SIGTARP's oversight as we continue to wind down the Troubled Asset Relief Program (TARP).

HHF is a \$9.6 billion program created in February 2010 to help struggling homeowners avoid foreclosure and stabilize housing markets in areas hit hardest by the housing crisis. Funding is used by housing finance agencies (together with certain affiliates, HFAs) in 18 states and the District of Columbia, to design and implement HHF programs tailored to the specific needs and conditions of local communities. To date, HFAs have established 88 programs under HHF, which have collectively assisted more than 305,000 homeowners and helped to remove more than 17,000 blighted properties.

Treasury is committed to preventing waste and abuse in HHF and ensuring that taxpayer funds are used responsibly. We appreciate SIGTARP's thorough review of administrative expenses incurred by the HFAs and funded through HHF over the last seven years. In the Draft, SIGTARP recommends that Treasury recover certain of those expenditures and implement a series of controls to prevent unnecessary spending in the future. We agree that Treasury should recover amounts expended in violation of program requirements and take other actions to control administrative spending. With this letter, we describe the steps Treasury has taken to limit administrative expenses based on standards established by the Federal government and enforce those limitations through periodic compliance reviews. We will carefully consider the information and recommendations contained in the Draft and respond to each of SIGTARP's recommendations in a subsequent letter, once we have completed that review.

**I. Treasury Requires that HHF Administrative Expenses Comply with Federal Cost Principles.**

As SIGTARP's Draft acknowledges, Treasury "set significant limits in its HHF contracts with [HFAs]" in an effort to "ensure that the HHF follows TARP law and funds reach their intended



recipients....”<sup>1</sup> These contracts impose a number of requirements with respect to administrative expenses in particular, including that such expenses must comply with standards and principles prescribed by the Office of Management and Budget (OMB Cost Principles). Initially, these cost principles were set forth in OMB Circular A-87 (Cost Principles for State, Local, and Indian Tribal Governments).<sup>2</sup> In December 2016, Treasury updated its contracts to instead adopt OMB’s uniform cost principles for Federal awards, the most up-to-date requirements applicable to state and local governments, non-profit organizations, and other non-Federal recipients of Federal funds.<sup>3</sup>

As a basic condition of allowability, the OMB Cost Principles have always required that administrative expenses be necessary for the performance of the HHF contract. Other basic conditions include being reasonable (in nature and amount), allocable to the HHF contract, and adequately documented. The OMB Cost Principles also provide detailed requirements governing the allowability of specific types of expenses. For example, the cost principles recognize that many forms of employee compensation may be allowable—*e.g.*, salaries, wages, health insurance and other benefits, incentive compensation, and severance pay—but only under certain circumstances. These principles also prohibit certain types of expenses which are clearly inappropriate for the Federal government to bear—*e.g.*, tickets to shows, sporting events, or other forms of personal entertainment.

## II. Treasury Monitors HFAs’ Compliance With HHF Program Requirements.

Treasury evaluates compliance with HHF program requirements—including, but not limited to, the OMB Cost Principles—through regular, on-site compliance reviews. These include reviews of administrative expenses and other program activity on a sample basis. For each sampled administrative expense, Treasury evaluates whether the expense is consistent with the approved budget, supported by an invoice or other documentation, and allocable to HHF, among other things. Last year, Treasury enhanced its testing of administrative expenses in two ways. First, we increased the sample size—*i.e.*, the number of transactions selected for testing—for types of expenses that present a higher risk of non-compliance. Second, we increased our sampling of small-dollar transactions.

States are required to implement internal controls to help ensure that HHF programs are run effectively, efficiently, and in compliance with Treasury’s contract. Examples of controls related to administrative expenses include (i) maintaining written policies that describe requirements applicable to administrative expenses, (ii) increased scrutiny of high-dollar transactions or types of expenses which present elevated risks of non-compliance, and (iii) routine reviews of administrative expense payments by internal auditors or quality assurance teams. States’ internal controls are evaluated by Treasury during its on-site reviews and independently verified on an annual basis. Treasury has observed that, with these controls in place, states have identified improper expenditures and obtained repayment as needed.

<sup>1</sup> P. 1

<sup>2</sup> These principles were set forth in 2 C.F.R. Part 225 and can be viewed at: <https://www.gpo.gov/fdsys/pkg/CFR-2012-title2-vol1/pdf/CFR-2012-title2-vol1-part225.pdf>.

<sup>3</sup> 2 C.F.R. §§ 200.400-475.



### III. Treasury Recovers Funds Where Appropriate and Takes Other Actions to Enforce the Terms of its Contracts with HFAs.

Treasury requires HFAs to repay HHH when Treasury identifies improper expenditures. This has included, for example: bonuses and other compensation which did not meet applicable requirements; non-business related travel and entertainment; food, beverages, gifts, and other items for employees' personal use; legal expenses not required for the proper administration of HHH; charges not related to HHH; and charges not supported by documentation. Earlier this year, Treasury required states to repay \$33,592 to HHH for improper expenditures that SIGTARP later identified in the Draft.

Treasury also requires that HFAs take other corrective actions. For example, where Treasury identifies a potentially systemic error, Treasury requires the HFA to conduct a look-back analysis to ascertain the full impact of the error, and revise its procedures as needed to ensure that the error does not reoccur in the future. In addition, Treasury requires states to establish or improve internal controls around key functions when Treasury identifies a deficiency.

Furthermore, Treasury has worked diligently to analyze expenditures questioned by SIGTARP in the past, and recover funds that we determined were improperly spent. For example, when Treasury received SIGTARP's recommendations regarding its 2016 audit of administrative expenses in the Nevada HHH program, we undertook a thorough analysis that led to HHH recovering more than \$80,000. For the reasons set forth in our letter to you on January 19, 2017, Treasury determined that recovery of certain other expenditures was not warranted.<sup>4</sup> We will undertake a similarly thorough analysis with respect to the recommendations in the Draft.

\* \* \*

To facilitate our analysis, we have requested under separate cover that SIGTARP provide us with more specific information for certain of the expenses questioned in the Draft. We note that the Draft provides transaction-level detail for some expenses (e.g., the purchase of a water bottle for \$1.81) but describes other expenses on an aggregate basis only (e.g., \$330,575 in parking subsidies for employees at one HFA). The expenses referred to in the Draft also span all 19 HFAs, and appear to date back to the outset of the program. We look forward to receiving these important details from you, so that we can move quickly to review the remaining expenses and recover any taxpayer funds that have been improperly spent.

Even as the TARP program nears its end, we remain committed to taking appropriate actions to improve program performance and protect the interests of taxpayers. We look forward to continuing to work with you as we wind down TARP.

Sincerely,

Lorenzo Rasetti  
Chief Financial Officer  
Office of Financial Stability

<sup>4</sup> <https://www.treasury.gov/initiatives/financial-stability/about-tarp/Pages/Oversight-and-Accountability.aspx>.

## SIGTARP Hotline

If you are aware of fraud, waste, abuse, mismanagement, or misrepresentations associated with the Troubled Asset Relief Program, please contact SIGTARP.

*By Online\_Form:* [www.SIGTARP.gov](http://www.SIGTARP.gov)

*By Phone:* Call toll free: (877) SIG-2009

*By Fax:* (202) 622-4559

*By Mail:* **Office of the Special Inspector General  
for the Troubled Asset Relief Program**  
1801 L Street., NW, 3<sup>rd</sup> Floor  
Washington, DC 20220

## Press Inquiries

If you have any inquiries, please contact our Press Office:

Robert Sholars  
Director of Communications  
[Robert.Sholars@treasury.gov](mailto:Robert.Sholars@treasury.gov)  
202-927-8940

## Legislative Affairs

For Congressional inquiries, please contact our Legislative Affairs Office:

Joseph Cwiklinski  
Director of Legislative Affairs  
[Joseph.Cwiklinski@treasury.gov](mailto:Joseph.Cwiklinski@treasury.gov)  
202-927-9159

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To obtain copies of testimony and website at [www.SIGTARP.gov](http://www.SIGTARP.gov).

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