



Audit Report

Travel and Conference Charges to The Hardest Hit Fund That Violated Federal Regulations



SIGTARP



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

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FOR THE TROUBLED ASSET RELIEF PROGRAM
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March 7, 2019

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

FROM: **/signed/**
Honorable Christy Goldsmith Romero,
Special Inspector General for the Troubled Asset Relief Program

SUBJECT: Travel and Conference Charges to the Hardest Hit Fund that
Violated Federal Regulations (SIGTARP 19-001)

We are providing this audit report for your information and use. SIGTARP found, among other things, that state agencies wasted TARP dollars and used Hardest Hit Funds to pay for travel and conference costs prohibited by Federal cost regulations.

The Office of the Special Inspector General for the Troubled Asset Relief Program conducted this audit (engagement code 038) under the authority of the Emergency Economic Stabilization Act of 2008, 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

This is SIGTARP's third audit finding waste and other misuse of TARP dollars by state agencies on their administrative expenses—\$411,658 in travel and conference costs in this audit—in TARP's Hardest Hit Fund (HHF), an ongoing foreclosure prevention program. With more than a \$1 billion budget for state agency operating and other costs (called "administrative expenses") to administer HHF funds, it is critical that state agencies spend these taxpayer dollars only as Congress intended.

SIGTARP found that several state agencies treated the Hardest Hit Fund like a Federal government deep pocket to pay for travel and conference costs prohibited by Federal cost regulations. In several instances, the state agencies committed waste and abuse. For example, state agencies charged TARP for a motivational speaker who spoke on Motivation by Chocolate, high-rate luxury hotels, traveling to resort destinations to attend annual conferences of trade associations and other groups, extra nights beyond the conferences, social activities, trips to Las Vegas, and a baseball game. SIGTARP also found that some state agencies inappropriately shifted 100% of certain travel costs to the Hardest Hit Fund, rather than splitting them between HHF and other programs, as required by the regulations.

SIGTARP found that, although Treasury designed the program in 2010 to curb misuse of TARP dollars, subsequently Treasury lacked effective oversight. When Treasury created HHF in 2010, it took steps designed to ensure that HHF complied with TARP law and that funds reached their intended recipient. Treasury set a travel budget, and applied the Federal cost regulations that apply to grants. Treasury also set strict limits on TARP dollars for housing counselor expenses, not allowing broad foreclosure prevention or debt relief counseling, but only those related to triage for HHF and back end counseling.

Subsequently, Treasury did not effectively enforce the Federal cost regulations' general tests (*i.e.*, a cost must be necessary, reasonable, and allocable to HHF), specific requirements for travel or conferences, or the prohibition on social activity costs. SIGTARP found that many state agencies did not have, or enforce, internal controls necessary to ensure compliance with Federal cost regulations. Internal controls and effective oversight could have ensured that state agencies spent TARP dollars only as Congress intended, and prevented waste, abuse, and misuse of TARP dollars.

When charging TARP to host conferences (as state agencies in North Carolina and Ohio did), the Federal regulations require discretion and judgment in ensuring that conference costs are appropriate, necessary, and managed in a way that minimizes costs to the Federal award. The Ohio agency's decision in 2014—right before closing the program to new homeowners—to charge TARP more than \$7,000 to host housing counselor conferences at zoos, including animal presentations, zoo admissions, and a park ranger, violated the regulations. So did the Ohio agency's decision after the program closed to new homeowner applications in 2014 to increase significantly the number of officials traveling to training conferences. The North Carolina agency violated the regulations and Treasury's limitation on housing counselor costs by, in 2010, charging TARP to host an annual housing counselor



conference before any homeowner had received \$1—including an evening reception with a carved beef station and a uniformed chef, cake bites, strawberry shortcake martinis, mousse shooters of the season, and other prohibited costs. Between 2010 and 2013, and again in 2016 after Congress authorized additional TARP funds, the North Carolina agency spent nearly \$130,000 on annual housing counselor conferences, including, for example, \$2,500 related to a motivational speaker on Motivation by Chocolate. The charges violated Federal cost regulations.

SIGTARP also identified travel that lacked the documentation required to charge Federal funds under the applicable Federal cost regulations. A state agency cannot simply say that travel should be charged to HHF. The Federal regulations require documentation that justifies that the participation of the individual is necessary for HHF, and that the travel is reasonable, and consistent with the state agency's policies. SIGTARP found many instances where state agencies did not have the documentation required under the Federal regulations. For example:

- Two top officials at the Florida agency charged travel for more than a dozen conferences each, often at luxury hotels, beaches, and other resort destinations, without documentation justifying that each official's participation was necessary for HHF. SIGTARP reported in 2015 that the Florida agency was one of the most underperforming state agencies in HHF, providing HHF to only 20% of applicants, the lowest of any state agency.
- The Georgia agency charged TARP for its Deputy Executive Director to travel for non-HHF related events 10 times, including staying at the Tribeca Grand Hotel for a bond pricing conference in New York. SIGTARP found that the documentation did not justify that the individual's participation was necessary for HHF. In 2017, SIGTARP reported that the Georgia agency had mismanaged the Hardest Hit Fund, withholding funds from homeowners despite repeated warnings of overly strict criteria, unnecessary red tape, and a difficult and burdensome homeowner application process.
- SIGTARP found that the documentation did not justify how each Indiana agency official's participation was necessary for HHF on travel, including a Federal Reserve conference in New York, and a HUD meeting in Chicago.
- SIGTARP found that the documentation did not justify that the participation of California contractors was necessary for HHF at conferences in Las Vegas, the St. Regis Monarch Beach Resort, and in New York.

SIGTARP also found travel that violated the state agency's policies. For example, officials at agencies in Kentucky, Indiana, Ohio, and Arizona violated state agency policies by charging TARP for luxury hotels at high rates for meetings with Treasury in Washington, D.C. Officials from other state agencies found hotels at or near the GSA rate for the same Treasury meeting. Two senior Ohio agency officials stayed at the W Hotel paying \$423 and



\$315 per night, violating the agency's policy to use the U.S. per diem rate (\$224), while a junior Ohio official on the same trip stayed at a hotel with a rate of \$170 per night.

Treasury has begun changing its oversight process in response to previous SIGTARP reports. However, that does not relieve Treasury from its responsibility to recover costs that SIGTARP has identified as waste, abuse, misuse, and in violation of Federal cost regulations. In the course of this audit, after SIGTARP officials inquired about specific expenses, some state agencies repaid at least \$15,567 to Treasury. However, for TARP and taxpayers to be made whole, Treasury should require the state agencies to repay the costs that SIGTARP questioned. SIGTARP is making 18 recommendations to recover \$396,091 identified as waste, abuse, misuse, and in violation of Federal cost regulations that have not been recovered, and to strengthen Treasury's oversight of HHF and state agencies' internal controls. Treasury responded that it will implement one recommendation and that it will consider the others.

Taxpayers and the intended recipients of TARP dollars under this program should not shoulder the burden of dollars lost to misuse. There is no better way to deter the misuse of TARP dollars than for Treasury to require that misused TARP dollars be repaid. TARP dollars returned can be recycled back into the program or repaid to the Federal government.

There is still time for Treasury to make a difference: state agencies are budgeted to spend at least \$206 million in TARP dollars for administrative expenses over the next two years. It is critical that Treasury and state agencies ensure that these taxpayer dollars are spent only as Congress intended. Any dollar wasted, misused, or spent inappropriately is one less dollar for homeowners or taxpayer savings.

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Background

Federal taxpayers have paid \$859.6 million for state agency operating costs to administer TARP's Hardest Hit Fund (HHF), and will pay at least \$206 million more through December 2021.¹ The purpose of the program is foreclosure prevention. The state agencies' role under Treasury contracts is to distribute TARP dollars to homeowners (primarily those unemployed or underemployed), first time homebuyers, and to contractors, cities, and others involved in blight demolition. Of the \$9.6 billion total authorized for HHF, 73% is for homeowner mortgage assistance (\$7 billion), 8% for blight demolition (\$765 million), 8% for homebuyer down payment assistance (\$ 734 million), and 11% for state agency administrative expenses (\$1.066 billion) as of June 30, 2018.

With more than \$1 billion budgeted for state agency operating costs, it is critical that these taxpayer dollars are spent as Congress intended. Congress did not expressly authorize the Hardest Hit Fund program or any of its costs in TARP's authorizing law the Emergency Economic Stabilization Act (EESA). Instead, Treasury interpreted EESA's authorization for Treasury to purchase "troubled assets from any financial institution," and to use "loan guarantees and credit enhancements to facilitate loan modifications to prevent avoidable foreclosures" as authority for HHF.² Treasury views its contracts with state agencies as "financial instruments," and determined that some of the housing finance agencies qualified as "financial institutions," while others had affiliated entities that qualified.³ In 2010, Treasury's General Counsel wrote to Treasury Secretary Timothy Geithner that "government funds may be used only for their intended purpose," referring to Congress' intent.⁴ Treasury's General Counsel told Secretary Geithner that Treasury gave guidelines to the state agencies that their proposals must "meet the requirements of EESA."

Any dollar wasted or spent inappropriately is one less dollar for homeowners or in taxpayer savings. Beginning in 2016, SIGTARP issued a series of audits that identified \$11 million that state agencies wasted or squandered on their own expenses. SIGTARP identified parties, picnics, other celebrations, a Mercedes Benz car allowance, employee gifts, employee gym memberships, legal fees and settlements for discrimination and other potential violations of the law, cash bonuses, employee parking, the build out of a new customer center where most of the customers were not for HHF, a luxury office suite, unnecessary cloud storage for a shuttered program, other costs unrelated to HHF, and more. SIGTARP initiated this audit based on a request by Senator Charles Grassley.⁵

¹ Although the Hardest Hit Fund was scheduled to end in December 2017, Congress determined that there was continued need. In the December 2015 appropriation for Fiscal Year 2016, Congress added an additional \$2 billion and extended the program. Treasury amended its contracts to allow TARP spending through December 2021.

² See Memorandum for Secretary Geithner from George Madison, September 10, 2010, made public as an attachment to 2010 letter to Senator Brown and 2010 letter to Representative Kilroy.

³ See *Id.* This report refers to the state housing finance agencies and any affiliated nonprofit "financial institutions" engaged under Treasury's HHF contracts, collectively, as "state agencies."

⁴ See *Id.*

⁵ This audit was conducted in accordance with generally accepted government auditing standards established by the U.S. Government Accountability Office. See Appendix A for the audit objectives, scope, and methodology.



Treasury Lacked Effective Oversight Over State Agency Expenses, But Has Begun Taking Steps to Increase Oversight in Response to SIGTARP Reports Finding Waste

Treasury and state agencies treat the Hardest Hit Fund much like a grant and, therefore, the program should be afforded the same best practices that apply to Federal grants, including effective oversight and internal controls in managing them. On July 25, 2018, the Government Accountability Office's (GAO) Director of Strategic Issues testified before the House Committee on Oversight and Government Reform:

Our prior work has shown that when awarding and managing federal grants, effective oversight and internal control is important to provide reasonable assurance to federal managers and taxpayers that grants are awarded properly, recipients are eligible, and ***federal grant funds are used as intended and in accordance with applicable laws and regulations.*** Internal control comprises the plans, methods, and procedures agencies use to be reasonably assured that their missions, goals, and objectives can be met. In numerous reviews, we and agency inspectors general identified weaknesses in agencies' internal controls for managing and overseeing grants. ***Specifically, we found that when such controls are weak, federal grant-making agencies face challenges in achieving grant program goals and assuring the proper and effective use of federal funds to help avoid improper payments.***⁶

Treasury initially designed the Hardest Hit Fund to limit administrative expenses to ensure that the TARP funds were used as intended. Treasury analyzed expenses authorized by EESA, and entered into contracts limiting the amount and category of "Permitted Expenses." Treasury applied Federal cost regulations that are standard for Federal grants or awards, despite the fact that HHF is not a grant. At the time, Federal cost regulations were contained in OMB Circular A-87, which was later incorporated in substantially similar form into 2 CFR § 200, Subpart E.⁷

Over the years, Treasury conducted more than 100 in-person reviews with the state agencies to review their programs and administrative expenses.

SIGTARP has found that from 2011 to 2017 Treasury failed to follow up on these reviews to ensure that state agencies used the grant-like Hardest Hit Funds as intended and in

⁶ Emphasis added. Statement of Michelle Sager, Testimony before the U.S. House of Representatives Committee on Oversight and Government Reform "Grants Management Observations on Challenges and Opportunities for Reform" GAO-18-676T, July 25, 2018, <https://www.gao.gov/assets/700/693398.pdf> (accessed 12/10/2018). This testimony references GAO's findings in its report, "Grants to State and Local Governments: An Overview of Federal Funding Levels and Selected Challenges," <http://www.gao.gov/assets/650/648792.pdf> (accessed 12/11/2018).

⁷ Effective January 1, 2017, Treasury directed the state agencies to apply 2 CFR § 200, Subpart E to HHF administrative expenses.



accordance with Treasury’s limitations and requirements, and with Federal cost regulations, as follows:

1. Treasury did not hold state agencies accountable for filing quarterly financial reports timely.
2. Treasury did not ensure that state agencies accurately reported travel in the “Travel” category in their periodic reports.
3. Treasury reviewed only a small sample of administrative expenses.
4. Although the purpose of the Federal cost regulations is “greater uniformity in the costing procedures of nonfederal governments and in the reimbursement practices of Federal agencies,” Treasury did not issue any guidance on implementing Federal cost regulations as other Federal agencies have done. Treasury’s lack of guidance does not excuse state agencies for violating Federal cost regulations, but it would have resulted in consistency and cost savings. SIGTARP is aware of a single instance when Treasury issued guidance, limiting attendees at its annual HHF Summit to two per state, which led to cost savings and consistency.
5. Treasury did not enforce the Federal cost regulations’ 10 “basic guidelines” also called “general tests” for allowability. Federal cost regulations state, “To be allowable under Federal awards, costs must meet the following general criteria:
 - a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards.
 - b. Be allocable to Federal awards under the provisions of this Circular.
 - c. Be authorized or not prohibited under State or local laws or regulations.
 - d. Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.
 - e. Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.
 - f. Be accorded consistent treatment.
 - g. Be in accordance with generally accepted accounting principles.
 - h. Not be included as a cost to meet cost or used to meet cost sharing or matching requirements or any other Federal award.
 - i. Be the net of all applicable credits.
 - j. Be adequately documented.”
6. Treasury officials did not conduct reviews to determine whether an expense was “necessary,” or analyze the factors for reasonableness contained in the Federal cost regulations to determine “if in its nature and amount, it does not exceed that



which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost.”⁸

7. Treasury officials did not consistently apply the Federal cost regulations’ general test to determine whether costs were “allocable” to the Hardest Hit Fund. A cost is allocable if the goods or services are chargeable according to the relative benefits receive. Treasury officials also did not consistently ensure “cost allocation” were appropriate (splitting costs that benefitted HHF and another program or service in proportion to the benefits received).⁹ Documentation of Treasury’s reviews do not show Treasury’s determinations about the relevant benefits received.
8. Treasury officials did not consistently and appropriately apply the Federal cost regulation’s other general tests of allowability, including for example, that the cost be adequately documented.
9. Treasury officials did not enforce the Federal cost regulation’s specific requirement for travel costs that “documentation must justify that: (1) participation of the individual is necessary to the Federal award; and (2) the costs are reasonable and consistent with non-federal entity’s established travel policy.”¹⁰ SIGTARP found many examples where, for example: (1) a state agency had no documentation that the travel was necessary for HHF; (2) there was a general statement that the travel was related to HHF, but it was not clear how it related to HHF (for example, a conference); and (3) multiple officials charged TARP to attend the same conference or event, without any documentation as to how the participation of each individual was necessary, as is required by the Federal regulations.

After SIGTARP reports finding waste, Treasury has begun taking steps to increase its effective management of costs and, as a result, more than \$1 million has been returned to the Government. Treasury has not issued any guidance implementing the Federal cost regulations and, as detailed throughout this report, still does not consistently enforce the regulations’ general tests for allowability.

Treasury has not recovered \$10 million identified by SIGTARP as violating the regulations’ general tests that a cost be necessary, reasonable, and allocable to HHF, even if the category

⁸ OMB Circular A-87, which goes on to provide: “The question of reasonableness is particularly important when governmental units or components are predominately federally funded.” According to that Circular, the factors for reasonableness are: (a) Whether the cost is generally recognized as ordinary and necessary for the performance of HHF; (b) Sound business practices; arms’-length bargaining; Federal, State and other laws and regulations; and, terms and conditions of HHF; (c) Market prices for comparable goods or services; (d) Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the governmental unit, its employees, the public at large, and the Federal Government; and (e) Significant deviations from the established practices of the governmental unit which may unjustifiably increase the Federal award’s cost.

⁹ Implementation Guide for Office of Management and Budget Circular A-87, “A Guide for State, Local and Indian Tribal Governments,” 2-12.

¹⁰ 2 CFR § 200.474(b) (1)-(2). OMB Circular A-87, attachment B, 43b.



of expense was mentioned in Federal regulations. The Implementation Guide for OMB Circular A-87 provides:

Although Attachment B of Circular A-87 lists a number of selected items of cost, which frequently represent significant amounts in individual federal awards or are costs for which there is a specific Federal policy. Attachment A establishes general tests of allowability that apply irrespective of whether a particular item of cost is specifically mentioned in Attachment B. These general tests frequently involve judgment and an assessment of the facts and circumstances in which the specific cost is incurred. The tests are not only listed in the Circular itself, but are frequently restated in compliance audit guidance that Federal and nonfederal auditors use to carry out field work and reporting.

Treasury's practice does not conform with the Circular A-87 Implementation Guide, leading to inappropriate charges to TARP. Treasury's practice lacks effectiveness, leads to inconsistent reimbursement among the Federal government, and gives an imprimatur to violations of Federal regulations. For example, in September 2016, SIGTARP identified \$20,000 charged to TARP for a severance payment to the CEO of the Nevada contractor forced to resign after HHF Nevada all but stopped admitting homeowners to HHF—a CEO who charged TARP to drive a Mercedes Benz and for country club lunches and parties. Treasury did not recover the costs, finding that the Federal regulations allow for severance. However, the regulations only allow severance with normal turnover, requiring that any abnormal severance pay (as was the case) be approved by the Federal agency. Treasury did not recover the \$20,000 despite it violating the Federal regulations.

Treasury's failure to enforce the Federal cost regulations has resulted in inconsistency and spending of TARP not as Congress intended.¹¹ Members of Congress have already questioned the waste SIGTARP identified as contrary to Congress' intent.¹²

¹¹ See, for example, "Frequently Asked Questions to Assist U.S. Department of Education Grantees to Appropriately Use Federal Funds for Conferences and Meetings," <https://www2.ed.gov/policy/fund/guid/uniform-guidance/faqs-grantee-conferences.doc> (accessed 2/26/2019).

¹² See News release by Senator Charles Grassley, August 25, 2017 "Congress didn't intend this program for bureaucrats to live high on the hog, yet the bureaucrats in question did exactly that." See also *Ten Years of TARP: Examining the Hardest Hit Fund*: Hearing before the Subcommittees on Intergovernmental Affairs and Government Operations, Committee on Oversight and Government Reform, May 22, 2018, Statement of Chairman Palmer, ("It is the duty of federal and state partners to ensure that taxpayer dollars [from] federally funded state administered programs are used for their intended purpose. None of the payments identified by SIGTARP's report advanced the main purpose of the program, to prevent foreclosure and provide assistance to homeowners most affected by the housing crisis"); Statement of Chairman Meadows, ("As we look at all of this, this is all about being accountable for the hard-working American taxpayer dollar, and making sure that those priorities go and are invested in those areas that best help those that are in need").



State Agencies Have Spent at Least \$2 Million on Travel, But That Amount Could Be Higher Given the Lack of Transparency in State Agency Reporting

SIGTARP found inconsistency in the state agencies' reporting to Treasury on expenses, harming transparency and oversight. As a result, the total dollars charged to TARP for travel and conference costs cannot be determined with accuracy. Treasury budgeted \$3.4 million for state agency travel, with \$2.1 million reportedly spent as of June 30, 2018 (Table 1). However, in actuality, both amounts are higher. SIGTARP found that state agencies did not report all travel to Treasury as "Travel," but instead in some cases reported it as training, marketing, professional services, counseling, and servicing. Accuracy in determining the total dollars charged to TARP is also made difficult by the fact that state agencies do not report expenses as "Conferences." Treasury has not included "Conferences" as a "Permitted Expense."

Table 1. Treasury Budget For State Agency Travel, as of June 30, 2018

State Agency/Contractor Location	TARP \$ Reported to UST as Spent on "Travel" (Cumulative)	TARP \$ Available to Spend on Travel per UST Budget*	Percentage of UST Budget Spent on Travel (UST "Travel" Budget*)
Alabama	\$ 24,295	\$ 75,705	24% (\$ 100,000)
Arizona	\$ 41,703	\$ 14,947	74% (\$ 56,650)
California	\$ 754,651	\$ 382,677	66% (\$ 1,137,328)
Florida	\$ 342,813	\$ 39,187	90% (\$ 382,000)
District of Columbia	\$ 691	\$ 8,309	8% (\$ 9,000)
Georgia	\$ 62,032	\$ 51,316	55% (\$ 113,348)
Illinois	\$ 86,228	\$ 24,011	78% (\$ 110,239)
Indiana	\$ 52,522	\$ 17,478	75% (\$ 70,000)
Kentucky	\$ 31,025	\$ 13,680	69% (\$ 44,705)
Michigan	\$ 81,600	\$ (11,600)	117% (\$ 70,000)
Mississippi	\$ 41,184	\$ 6,816	86% (\$ 48,000)
Nevada	\$ 114,090	\$ 137,058	45% (\$ 251,148)
New Jersey	\$ 15,904	\$ 9,096	64% (\$ 25,000)
North Carolina	\$ 158,722	\$ 130,890	55% (\$ 289,612)
Ohio	\$ 71,519	\$ 63,238	53% (\$ 134,757)
Oregon	\$ 89,490	\$ 109,158	45% (\$ 198,648)
Rhode Island	\$ 1,639	\$ 23,361	7% (\$ 25,000)
South Carolina	\$ 49,748	\$ 123,460	29% (\$ 173,208)
Tennessee	\$ 50,470	\$ 83,717	38% (\$ 134,187)
Grand Total	\$ 2,070,327	\$ 1,302,503	61% (\$ 3,372,830)

* The amount of TARP dollars that remain available for each state agency to spend on travel could fluctuate as state agencies continually request Treasury to change their budgets. For example, although the Michigan agency exceeded its travel budget, Treasury did not hold Michigan to its budget, but allowed the state agency to increase its travel budget by shifting dollars from other administrative expense categories.

Source: Treasury reporting of state agency Quarterly Financial Reports, as of June 30, 2018.



Treasury established low travel budgets in comparison to the total administrative expenses for each state. For example, Treasury only budgeted for the 11 years of the program \$9,000 for travel for the Washington, D.C. agency, and \$25,000 for state agencies in New Jersey and Rhode Island. The Rhode Island state agency reported to Treasury spending only \$1,639 TARP dollars on travel since 2010. However, it charged more than that for travel, but lumped it under the “Marketing/PR” and the “Misc. Note Servicing” category of expenses. Lumping travel into non-travel categories obscures the true amount of travel from the public and oversight.



SIGTARP Identified Weak Internal Controls at Several State Agencies Which Resulted in Some Violations of Federal Regulations for Travel and Conference Charges

SIGTARP found many instances where state agencies followed the Federal cost regulations' requirements for travel and to attend conferences, as well as many instances of violations of Federal regulations for travel to attend conferences, meetings or other events. SIGTARP also identified weak internal controls at state agencies that likely contributed to the inappropriate charges to TARP (Table 2).

Table 2. Examples of Internal Control Weaknesses Identified by SIGTARP

Internal Control Weakness Leading to Overcharging TARP for Travel and Conference Costs	State agency
No documentation of travel costs showing individual's participation was necessary for HHF as required by Federal regulations	AZ, FL, IN, NC, GA
Lacking explanation of purpose of the expenditure necessary for HHF	FL, NC, GA, TN, AZ, KY, NV, SC, IL
Missing conference agendas or other documentation on purpose of trip and topics discussed	FL, IN, NC
Multiple travelers charged for same conference or meeting with no justification regarding the participation of each individual	FL, NC, OH
Travel did not comply with state travel policy on hotel rates	AZ, GA, IN, KY, NV, OH
Not adequately documented: Missing receipts or other documentation, illegible receipts	NV, GA, NC, TN, IN, IL
Travelers stayed longer than allowed by Federal cost regulations without documentation justifying how it was necessary for TARP versus non-HHF matters	AZ, GA, FL, IL, MS, NC, OH, SC
Misclassification of expenses	RI
Travel did not comply with Federal/state requirements on airline travel	NV, CA
Traveler failed to attend meeting (no show) that has been paid for using HHF dollars	NV
Improper cost allocation: Travel costs allocated based on the percentage of time the employee worked on HHF rather than the benefit to HHF as required by Federal regulations	FL
Improper cost allocation: Disproportionate cost allocated to TARP	AL, AZ

Source: SIGTARP review of agency provided data.



In many instances, these weak internal controls resulted in the state agency overcharging TARP for travel and conference costs in violation of Federal cost regulations and Treasury's contract. For example:

- *The Nevada contractor, the Nevada Affordable Housing Assistance Corporation (NAHAC), did not have effective internal controls to ensure compliance with its travel policy that upgrades are not allowable travel expenses, and with the Federal cost regulations' requirement that they use the least expensive airfare in the absence of a specific exception.¹³ SIGTARP found that NAHAC charged TARP \$560 for the prior CEO to upgrade to business class on three trips, \$402 roundtrip for another official to fly to Reno business class when others on the same trip flew economy for \$152 a roundtrip ticket, and two officials to fly business class to fly roundtrip between Reno and Las Vegas for \$426 and \$446 each. NAHAC also charged TARP \$315 for two "no show" non-refundable hotel reservations, and \$436 for unused airfare.*
- *The Florida agency did not appropriately allocate costs between TARP and other sources of funding based on the benefit to HHF, as required by Federal cost regulations. For example, the Florida Auditor General, in a November 2012 audit found:*

[W]e reviewed the Corporation's allocation of administrative costs and noted that the methodology in some instances did not ensure compliance with OMB Circular A-87. Specifically: During the period January 2011 through June 2012, the Corporation included unallowable costs totaling \$2,516 in its cost allocation... for items such as gift cards, flowers, and food and decorations for employee parties. OMB Circular A-87 specifically prohibits the use of Federal funds for costs related to entertainment and items for the personal use of employees. → The Corporation included excess travel costs in the allocation. As noted in finding No. 14, contrary to State law, the Corporation's travel policy permitted travel cost reimbursement rates in excess of the rates authorized by State law.... As a result of these cost allocation methodology issues, some costs allocated to Federal awards programs may not be allowable.

¹³ Exceptions include travel that requires circuitous routing or travel during unreasonable hours, excessively prolonged travel, or is not reasonably adequate for traveler's medical needs. 2 CFR § 200.474(d). OMB Circular A-87, attachment B, 43c (1).



Some State Agencies Overcharged TARP for Luxury Hotels at High Rates Resulting in \$17,008 in Waste and Violations of Federal Regulations

Luxury hotels at high rates to attend Treasury's annual HHF Summit

SIGTARP identified violations of Federal regulations for travel to Treasury's annual Hardest Hit Fund Summit by some state agencies that charged TARP for officials to stay in luxury hotels at high rates.¹⁴ Data analytics showed that hotel costs to attend Treasury's HHF Summits almost quadrupled from \$10,300 in 2013 to almost \$40,000 in 2014.

SIGTARP identified that the quadrupling of hotel costs from 2013 to 2014 was caused by some state agencies overcharging TARP for luxury hotels at high rates, and by some agencies increasing the number of officials traveling. In 2013, Treasury took steps to mitigate violations of Federal cost regulations by negotiating a GSA hotel rate, but Treasury did not do that in 2014, instead sending state agencies a hotel list that included luxury hotels. Some state officials chose hotels on the list with the GSA rate of \$224, while others took advantage, choosing high-rate luxury hotels.¹⁵ While the Federal cost regulations do not require state agencies to use the GSA rate, costs cannot exceed charges normally allowed by the state agency and/or that were not reasonable and consistent with the agency's travel policy.¹⁶ For example:

(1) The Kentucky agency charged TARP for two officials to stay at the Sofitel hotel at the rate of \$510 the first night and \$450 the second night, violating the Kentucky agency's travel policy requiring the GSA rate, which was \$224. One of the official's expense reports stated, "Treasury did not obtain a group rate at a single hotel like it usually does. States were on our own to secure accommodations –with a lack of availability. This was one of the only hotels available in the vicinity [sic] of our meetings and certainly one of the least expensive of those with availability." However, other state agencies found hotels at the GSA rate;

(2) The Indiana agency charged TARP for one official to stay at the W Hotel for \$540 per night, one at the Mayflower at \$499 per night and two at the Sofitel for \$476 per night, violating the Indiana agency's policy on travel that requires "the lowest reasonable business travel expenses possible." The Indiana agency told SIGTARP, "Hardest Hit Fund dollars have been utilized to pay for hotel accommodations that exceeded the Federal per diem limits prescribed by the U.S. General Services Administration. Instances in which this has occurred have primarily been the

¹⁴ SIGTARP determined a hotel to be luxury if it was listed as a 4-Diamond or 5-Diamond Hotel in the AAA Diamond Rating listings, or listed as a luxury hotel based on brand categories established by Marriott, Hyatt, and other brand hotels.

¹⁵ Some state agencies charged at or near the GSA rate of \$224. The North Carolina agency charged around \$200 per night at the State Plaza Hotel, the Tennessee agency charged \$224 a night at the Hamilton Crown Plaza, and the South Carolina agency charged \$80 for the Residence Inn Marriott and then \$224 a night at Four Points by Sheraton and Courtyard Marriott.

¹⁶ 2 CFR § 200.474(b). OMB Circular A-87, attachment B, 43b.



result of Treasury's identifying the hotel at which Treasury HHF Summit participants may stay...." Treasury's list did not excuse violations of Federal cost regulations;

(3) The Ohio agency charged TARP \$423 and \$315 per night for two senior officials to stay at the W Hotel, violating the agency's policy to use the U.S. per diem rate (\$224), while on the same trip a junior Ohio official stayed at the Hotel Harrington for \$170 per night. The 2014 Summit took place after the Ohio agency announced that it was closing the Hardest Hit Fund program to applications;¹⁷

(4) The Arizona agency charged TARP for three officials to stay at the W Hotel for \$428, \$388, and \$315 per night, for three nights. This violated the Arizona agency's policy that requires "the least expensive single room rate published in the conference brochure for the conference designated lodging." The W was not the least expensive hotel on Treasury's list.¹⁸

These charges violate Federal cost regulations. They exceed the normal hotel cost under state policies. They do not pass the test for reasonableness under the Federal cost regulations: (1) They are not ordinary and necessary for the proper and efficient performance of HHF; (2) there were lower market prices for comparable services; and (3) the individuals did not act "with prudence in the circumstances considering their responsibilities to the governmental unit, its employees, the public at large, and the Federal Government."¹⁹ SIGTARP questions \$10,346, including these examples and all hotel costs over per diem for the 2014 Summit in violation of each state agency's written travel policy.

Additionally, in 2014, certain state agencies increased the number of officials traveling to Treasury's Summit, sending three or four officials per state agency, which unjustifiably increased the cost to TARP.²⁰ SIGTARP found that these agencies did not comply with Federal cost regulations as there was no documentation that justified that the participation of each individual was necessary to the Federal award.²¹ Additionally, each of these agencies significantly deviated from their established practice of the number of officials'

¹⁷ See Cleveland.com, "Save the Dream Ohio to stop receiving applications," February 21, 2014, https://www.cleveland.com/open/index.ssf/2014/02/save_the_dream_ohio_to_stop_re.html, accessed 2/8/2019; Cincinnati Enquirer, "Save the Dream Ohio Winding Down," April 14, 2014, <https://www.cincinnati.com/story/money/2014/04/14/save-dream-ohio-ending/7711897>, accessed 2/8/2019.

¹⁸ Arizona agency officials told SIGTARP that they chose a hotel that was walkable to avoid local transportation expense. This violated another Arizona agency policy, "sometimes there is a range of costs for similar appropriate facilities within a fairly close proximity of each other. When booking lodging, one should look for the most economical comparable combination of lodging and local transportation (including, when reasonable, walking)." Washington, D.C. has a metro system and cabs that would have provided the most economical combination.

¹⁹ 2 CFR § 200.404. OMB Circular A-87, attachment A, C.2.

²⁰ In 2014, state agencies in Georgia and Indiana charged TARP for four officials to travel to the Summit and increased the number from the prior year. In 2014, state agencies in Arizona, Florida, Mississippi, and Ohio charged TARP to send three officials to the Summit, an increase from the prior year. These increases unjustifiably increased the cost to TARP.

²¹ 2 CFR § 200.474(b) (1)-(2). OMB Circular A-87, attachment B, 43b.



travel charged to TARP, which unjustifiably increased the cost, violating the reasonableness requirement of the Federal cost regulations.²²

SIGTARP also finds that these charges for luxury hotels and the increase in number of officials traveling charged to TARP constitute waste. GAO defines waste as “the act of using or expending resources carelessly, extravagantly, or to no purpose,” in its *Standards for Internal Control in the Federal Government* (the Green Book). GAO has also described waste as: “...taxpayers do not receive reasonable value for money in connection with any government-funded activity due to inappropriate acts or omissions by officials with control over or access to government resources.” Taxpayers received no additional value for officials staying in a hotel with extravagant rates when GSA-rate hotels were available.

SIGTARP questions hotel costs over per diem that violated Federal cost regulations for the 2016 and 2017 Summits. Despite the fact that Treasury’s 2015 limitation of two participants per state mitigated costs, in 2016, the hotel costs for the state agencies to attend the Summit nearly tripled to \$22,695 from nearly \$8,700 in 2015, and nearly doubled to almost \$16,000 in 2017. Unlike 2013, Treasury did not prearrange a hotel at the GSA rate, which could have been available, instead arranging a higher rate.²³

Some states used Treasury’s actions as justification to exceed their normal travel costs under state travel policies, which violated Federal cost regulations. Other state agencies complied with Federal cost regulations. For example, New Jersey officials stayed at another hotel at the GSA rate. Mississippi officials stayed at the JW Marriott, but only charged TARP the GSA rate, paying the excess from state funding. For some state agencies, Treasury’s choice may have allowed them to stay within their state policy. SIGTARP questions \$6,662 (all state agency travel that violated the state policy, and thereby the Federal cost regulations).²⁴

The Indiana agency charged TARP \$5,113, for two officials to stay four nights at the Terranea Resorts hotel in Los Angeles at rates that were not reasonable

In August 2014, the Indiana state agency charged TARP \$5,113 for two officials’ travel to stay four nights at a luxury hotel the Terranea Resort in Los Angeles while training a contractor to conduct underwriting for the Hardest Hit Fund. The travel charges violated Federal cost regulations that provide that lodging costs, other subsistence and incidental expenses must be considered reasonable and otherwise allowable only to the extent such costs do not exceed charges normally allowed by the non-Federal entity in its regular operation as the result of the non-Federal entity’s written travel policy, and “documentation must justify that: (1) Participation of the individual is necessary to the Federal award; and (2) The costs are reasonable and consistent with non-Federal entity’s

²² 2 CFR § 200.404(e). OMB Circular A-87, attachment A, C.2.e.

²³ Treasury prearranged a rate of \$309 per night at the JW Marriott in 2016, which was \$83 more than the \$226 GSA rate. In 2017, Treasury prearranged a rate of \$302 per night at the Westin City Center, which was \$60 more than the \$242 GSA rate.

²⁴ The total hotel costs that violated the state travel policies was \$354 (2011), \$1,309 (2012), \$88 (2013), \$3,237 (2016), and \$1,674 (2017).



established travel policy.” This travel violated the Indiana agency’s policy on travel that requires “the lowest reasonable business travel expenses possible.”



TAXPAYER DOLLARS RECOVERED and COST SAVINGS:
After SIGTARP asked for documentation, the Indiana state agency determined that there were five far less expensive hotels available and repaid Treasury \$5,113. This represents immediate cost recoveries from SIGTARP’s oversight and this audit.



Several State Agencies Violated Federal Regulations by Charging TARP for Travel for State Officials to Attend Conferences, Meetings or Events with Other Federal Agencies or on Non-Hardest Hit Fund Topics

SIGTARP did not question “travel expenses incurred specifically to carry out the award,” meaning the Hardest Hit Fund, as allowed by Federal regulations, but found travel costs that fell far short of that standard. In order to determine that travel expenses were incurred specifically to carry out the award, SIGTARP reviewed the Federal cost regulations’ specific requirement for travel costs that “documentation must justify that: (1) participation of the individual is necessary to the Federal award; and (2) the costs are reasonable and consistent with non-federal entity’s established travel policy.”²⁵

Federal cost regulations define reasonableness “if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost.” The Federal cost regulations provide five factors for determining reasonableness:

- (1) Whether the cost is generally recognized as ordinary and necessary for the operation of the non-Federal entity or the proper and efficient performance of the Federal award;
- (2) The restraints or requirements imposed by such factors as sound business practices; arms-length bargaining; Federal, state and other laws and regulations, and, terms and conditions of the Federal award;
- (3) Market prices for comparable goods or services for the geographic area;
- (4) Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the non-Federal entity, its employees, where applicable its students or membership, the public at large, and the federal government; and
- (5) Whether the non-Federal entity significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the Federal award’s cost.

SIGTARP questions the cost of the following travel for officials to attend conferences, meetings or other events that were not on Hardest Hit Fund topics. In each of these examples, there was no documentation required by the Federal regulations that the individual’s participation was necessary for HHHF:

- The Georgia agency charged TARP \$4,877 for its Deputy Executive Director to travel 10 times for non-HHF related travel, as well as for the non-HHF related travel of two other officials. This included charging TARP for a 14A Bond Pricing conference in New York staying at the Tribeca Grand Hotel (\$1,281), a “Melville Meeting” on tenant selection policies in Washington, D.C. (\$866), a panel on the low income housing tax credit in

²⁵ 2 CFR § 200.474(b) (1)-(2). OMB Circular A-87, attachment B, 43b.



Florida (\$685), and an American Bar Association Affordable Housing event in Washington, D.C. (\$94).²⁶ In 2017, SIGTARP reported that the Georgia agency mismanaged the Hardest Hit Fund, withholding funds from homeowners despite repeated warnings of overly strict criteria, unnecessary red tape, and a difficult and burdensome homeowner application process.²⁷

- The Indiana agency charged TARP \$2,230 for officials to travel to a HUD Meeting in Chicago and to a Federal Reserve conference on general foreclosure issues in New York in 2012, and \$153 to travel to a job fair in 2014.
- The California contractor administering HHF charged TARP \$3,573 to attend the same Federal Reserve conference in New York in 2012 that the Indiana agency charged, which included a dinner with staff from the New York Federal Reserve Bank and Citibank. The agenda does not discuss HHF. The California contractor also charged TARP \$2,882 for three officials to attend the three-day California Mortgage Banker Association conference in Las Vegas. There was no agenda attached. Officials described the purpose of the trip in the request form as, "To meet with other Loan Servicers to discuss and share information about compliance, regulations, new federal bankruptcy rules, REOs, and servicing technology in this uncertain market." The contractor also charged \$2,763 for officials to travel to the CoreLogic Risk Summit conference in 2016 at the St. Regis Monarch Beach Resort. The agenda did not discuss HHF. The contractor charged \$1,939 for two officials to travel to the CA Credit Union League Conference in Las Vegas.
- In July 2016, after Congress approved new Hardest Hit Funds, the Tennessee agency charged TARP \$184 for officials to travel and attend a baseball game with land banks where they gave out gifts to promote the blight program. Travel to a baseball game violates Federal cost regulation 2 CFR § 200.438: "Costs of entertainment, including amusement, diversion, and social activities, any associated costs are unallowable...."²⁸ Other travel charged to TARP of \$2,666 included a Leadership Academy in 2016, the Chattanooga Summit in 2016, and an "Executive Management function" in 2017, a ribbon cutting ceremony in 2011, a Southeastern Directors conference in Nashville in 2014, and meetings with Veterans Affairs and Goodyear employees in 2011. The agency had no agendas or other documentation justifying that individual's participation was necessary for HHF. The agency did include an agenda supporting a \$201 charge for an official to travel to a Federation of Appalachian Housing Enterprises conference in 2017, but the agenda did not discuss HHF. The agency also charged TARP \$399 for "Workplace Environment" training. Although training is allowed under the Federal cost

²⁶ The charges also violated Federal cost regulations because they violated the Georgia agency's travel policy on required documentation that was missing. This state policy provides, "The overall, specific business purpose of the trip clearly be stated on expense submission." "Business purpose should include people involved, business topics covered, brief explanation of duties performed." "Receipts must contain appropriate detail, including starting and ending destinations, hotel charges, and detailed item charges." "A specific business purpose for the expenditure must be noted on every expense submitted."

²⁷ SIGTARP, *Mismanagement of the Hardest Hit Fund in Georgia*, October 3, 2017.

²⁸ There are certain limited exceptions, not applicable here.



regulations, it still must pass the general tests for allowability and, in this case, the agency had no documentation that the training was necessary for HHF.

- In 2013, the Kentucky agency charged TARP \$1,749 for travel (\$299) and a booth (\$1,450) at the Kentucky Society for Human Resources Management annual conference for the Kentucky Homeownership Protection Center, which serves other state programs, and \$1,063 for travel (\$563) and a booth (\$500) at the Kentucky Sheriff's conference, without documentation to support the charges.
- The Arizona agency charged TARP \$287 for an official in 2014 to travel to the Home Preservation Exchange conference in Washington, D.C., where the primary topic was an FHA program, \$874 for an official in 2011 to attend the Annual Mortgage Servicing conference in Dallas, \$96 for an official to attend the 2010 Governor's Housing Forum, \$286 for an official in 2014 to attend the Arizona agency's housing forum, and \$86 for travel to a job fair in 2012. The documentation for these trips showed no discussion of HHF.
- The Alabama agency charged TARP \$4,681 from 2014 to 2017 for travel for two officials and a booth at Mortgage Bankers Association of Alabama. The conference agendas do not discuss HHF.
- The South Carolina agency charged TARP \$5,392 for an official to travel "To attend the September 2013 Board of Commissioners Meeting & Annual Retreat in Charleston, S.C.," for officials to travel to the Emphasys Software Conference in 2015 and 2016, for officials to travel to the Mortgage Bankers Association of the Carolinas Conference on Hilton Head Island in 2013 and 2015, for officials to attend the Government Finance Officers Association conference, and for two officials to attend state supervisory practice training.
- The Illinois agency charged TARP \$1,675 for an official to attend the Annual Hispanic Employees Training Conference in 2014, the Municipal League Conference in 2016, and the Housing Action Conference in 2012. The agendas to these conferences do not discuss HHF.



Some State Agencies Charged TARP More Than \$100,000 to Attend the Four-Day Annual Conference of a Trade Association and the Trade Association’s Weeklong Annual Training, Without Documenting Why Each Individual’s Participation Was Necessary for HHF, as Required by Federal Cost Regulations

Several Agencies Did Not Charge TARP—A Michigan Official Explained that the Conferences Were Geared to Housing Finance Agency Business, With 99% of the Sessions Non-HHF

The National Council of State Housing Agencies (NCSHA) is a trade association that like other trade associations, hosts an annual conference at premier U.S. destinations. The four-day calendar included general business topics, general housing topics, networking events, motivational speakers, and social events like dinners, happy hours, and receptions. On the first day of each conference, NCSHA scheduled a 1.5-hour meeting on HHF, which a Treasury official described as “roundtable discussions rather than formal presentations,” that Treasury officials attended. A Treasury official told SIGTARP that Treasury did not sponsor the NCSHA conference and did not advertise for it.

Treasury may have been trying to save costs. According to a Treasury official, NCSHA conferences “allowed Treasury to leverage existing meetings and increase the frequency with which we engage face-to-face with our HFA partners in HHF.” It did save costs, as many state agencies did not charge TARP for travel that the agency had already planned. As shown in Table 3 below, seven state agencies (Alabama, California, Kentucky, Michigan, Nevada, New Jersey, and Washington, D.C.) did not charge TARP for the annual conference. Three state agencies (Indiana, Mississippi, and Oregon) charged TARP for one official in a single trip.



Table 3. State Agency Charges to TARP for NCSHA Annual Conferences

State Agency	Charged to TARP
Alabama	\$0
California	\$0
Kentucky	\$0
Michigan	\$0
Nevada	\$0
New Jersey	\$0
Washington, D.C.	\$0
Rhode Island	*\$16
Mississippi	\$854
Oregon	\$885
Georgia	\$1,272
Indiana	**\$1,325
Arizona	\$3,299
North Carolina	\$3,615
Tennessee	\$5,128
South Carolina	\$7,270
Illinois	10,685
Ohio	\$13,615
Florida	\$17,895
Total	\$65,859

*Rhode Island only charged TARP \$15.50 for the train fare for one official to attend the 2010 NCSHA annual conference.

**SIGTARP does not question the \$1,325 that Indiana charged to TARP as this did not violate the Federal cost regulations.

Source: Documentation provided by state agencies.

Treasury did not issue guidance to the state agencies on whether they could charge TARP for travel to the conference for the \$500 per person conference fee. When asked by SIGTARP, Treasury officials would not tell SIGTARP whether it intended for state agencies to charge TARP for these conferences, instead telling SIGTARP, “Treasury expects that all reimbursable costs incurred by the [Housing Finance Agencies] HFAs will adhere to the Federal cost principles in support of the HHH program.” The Treasury official explained to SIGTARP, “Treasury does not approve the attendance of HFA or eligible entity staff at conferences, or any costs associated with attendance at such conferences. The HFA is responsible for determining whether the use of HHH funds is allowable and allocable under federal cost principles.”

SIGTARP understands Treasury’s desire to meet face-to-face with state agencies. However, the travel and related costs cannot be unlimited and must pass the Federal cost regulations. In addition to the 10 general tests for allowability of a cost, the Federal cost regulations have an additional specific requirement for travel costs. For a travel cost to be allowable, “documentation must justify that: (1) participation of the individual is necessary to the



Federal award; and (2) the costs are reasonable and consistent with non-federal entity's established travel policy."

It would be difficult for any state agency charging a four-day conference to TARP to meet these requirements of the Federal cost regulations. A Michigan agency official explained its decision not to charge the Hardest Hit Fund even though they attend, telling SIGTARP, "Ninety-nine percent of the sessions are non-HHF and geared more toward HFA business." The conference agendas confirm this fact. A Kentucky agency official told SIGTARP, "Treasury did have a session at each conference but I did not charge any of my time to HHF. It was all charged to our operational budget and paid internally from KHC funds." The California contractor administering HHF told SIGTARP, "CalHFA used CalHFA funds to pay for expenses related to CalHFA staff attendance of NCSHA events...no CalHHF funds were used to pay for any expenses related to attendance of NCSHA events." The Nevada agency told SIGTARP, "Various NHD staff have attended NCSHA sponsored events...however all expenses were paid by NHD."

Several state agencies charged TARP all or some of the travel and conference costs for one or more officials to attend the full four-day annual conference, without complying with the Federal cost regulations' requirements for documentation that justifies that participation of the individual is necessary to the Federal award and reasonable and consistent with state policy. SIGTARP only found one instance that the state agency had documentation required by Federal cost regulations and for which the costs were reasonable and consistent. The Indiana state agency sent its Director of Asset Preservation to travel just for the Treasury meeting. The documentation for the Treasury meeting was Treasury's agenda and discussion topics of the Treasury meeting, not just the NCSHA larger conference agenda that included one line about an HHF meeting. These costs were also reasonable and consistent with the state agency's travel policy. The Director flew the morning of the conference session with Treasury, stayed in a less expensive hotel than the conference hotel that night to comply with the state travel policy, and flew back the next day. Therefore, SIGTARP does not questions this cost.

The eleven state agencies did not comply with the Federal cost regulations' documentation requirements. For example, the Florida agency charged TARP the most— more than \$17,000—for all or a portion of costs for officials to travel and attend the four-day conference each year.²⁹ The Florida agency charged TARP for all or a portion of costs for two officials to attend the four-day 2011 conference in San Diego, four officials to travel and attend the four-day conference in 2012 in Orlando, three officials in 2013 in New Orleans, one official in 2014 in Boston, two officials in 2015 in Nashville, and two officials in 2016 in Miami. The only substantive documentation provided in most cases was the larger NCSHA conference agenda, which only showed one line of 1.5 hours out of four days stating HHF, without any further discussion of topics or as to why the participation of each of the multiple officials was necessary to HHF. SIGTARP questions these costs as violating Federal cost regulations.

²⁹ For one of these trips, one traveler charged TARP for in-room movie fees totaling \$24 and noted this as a deduction on the reimbursement claim. The Florida agency deducted the fees from the traveler's per diem.



The Ohio agency also violated Federal cost regulations by charging TARP the second highest amount of any state agency—more than \$13,000—without having documentation to justify that participation of the individual is necessary to the Federal award, as required by the regulations. There was no substantive documentation provided for one official to attend the four-day conference in 2013 in New Orleans, or for one official to attend the four-day conference in 2017. The only substantive documentation for one official to travel for six nights to attend the full conference in 2011 in San Diego, and for two officials to attend the four-day conference in 2012 in Orlando, was a one-page conference schedule and, for one other official the larger conference agenda that contained no information on the substance of the conference. The only documentation for one official to attend the 2015 conference was a three-page agenda with no information on HHF. SIGTARP questions these costs as violating Federal cost regulations.

Treasury compliance officials who regularly reviewed charges to TARP should have been able to see significant inconsistencies in what the state agencies did, or did not, charge to TARP from these conferences, but still did not provide guidance that could have saved taxpayer dollars. SIGTARP found similar charges for NCSHA's weeklong training institute in Washington, D.C. Even though Treasury issued guidance in 2015 limiting TARP charges for the HHF Summits to two officials from each state, it did not similarly limit the number of officials that could charge TARP for the trade association conferences. Treasury compliance officials did not enforce the Federal cost regulations in reviewing these charges.

During 2017, agency officials in Florida, Ohio, and Tennessee charged TARP \$1,903 to attend the NCSHA Annual Conference that included a 1.5 hour Treasury session. The documentation did not justify that participation of each individual was necessary to HHF. State agencies charged multiple days and only provided the larger conference agenda. Also during 2017, agency officials in Florida, Georgia, Ohio, South Carolina, and Tennessee charged TARP \$5,184 to attend sessions during the NCSHA weeklong training institute and other NCSHA events, such as an Executive Development training, and all of these had a Treasury session or HHF meeting except the Executive Development training.

Treasury told SIGTARP that it did not hold a session at the 2018 NCSHA annual conference, but state agency officials in Florida and Tennessee charged TARP \$3,340 to attend the 2018 Annual Conference. There was no documentation to justify that participation of each individual who attended the 2018 annual conference was necessary to HHF. Also during 2018, Florida, Georgia, and Tennessee state agency officials charged TARP \$2,557 to attend sessions during the weeklong training institute, which included a Treasury session or HHF meeting.

SIGTARP questions \$113,355 in travel costs and conference registration fees associated with the NCSHA annual conference (\$64,533) and NCSHA annual training institute or other NCSHA events (\$48,822) as violating the Federal cost regulations' requirement for travel costs.³⁰

³⁰ In March or April of each year, NCSHA held a Legislative Conference in Washington, D.C. that did not involve TARP. Two state agencies charged TARP \$3,653 for the cost to travel and attend, which violated Federal cost regulations by failing to document how the individual's participation was necessary for HHF.



TAXPAYER DOLLARS RECOVERED and COST SAVINGS: After SIGTARP's August 2017 Hardest Hit Fund audit finding waste by state agencies for administrative expenses, the state agencies significantly decreased charges to TARP for these annual conferences, saving taxpayer dollars and deterring future waste. The Tennessee agency still charged TARP 44% of expenses for the four-day 2016 conference staying at the Fontainebleau Miami Beach at a charge to TARP of \$637.24, and for the October 2017 NCSHA annual conference in Denver, the Ohio agency charged one official's travel charges over days. The Florida agency charged \$997 for the September 2016 conference (\$1,169 in savings from the prior year).



Fourteen State Agency Officials Extended the Trade Association Conference Trips an Extra Night, Without Documentation Justifying How the Extra Night Was Necessary for HHF as Required by Federal Cost Regulations

SIGTARP also found that fourteen state agency officials charged TARP for personal travel when they extended the trip an extra day before or after the trade association NCSHA conferences without required documentation, which must “justify that: (1) participation of the individual is necessary to the federal award; and (2) the costs are reasonable and consistent with non-federal entity’s established travel policy.” This included: three Arizona officials extending conferences in Boston, Nashville, and Washington, D.C.; three Florida officials who extended a total of 19 trips; two officials in each of Ohio and South Carolina extending their conference trips; and one official in each of Georgia, Illinois, Mississippi, and North Carolina.. In each instance, there was no documentation justifying how the individual’s participation in an extra travel day was necessary for HHF.

Florida officials routinely charged TARP to extend work trips around annual conferences in New Orleans, Nashville, Miami, which was unnecessary given the conference schedule

On multiple occasions, three Florida officials extended trips to arrive one day prior or after the trade association NCSHA annual conferences or training, charging it to TARP. This included trips to New Orleans, Nashville, Orlando, Miami, and Washington, D.C. For example, the three officials rented a car and drove to New Orleans on October 18, 2013. The conference had not started yet. The Treasury HHF session of the conference was the next day October 19, 2013 at 3 pm. The officials could have flown from Florida to New Orleans the morning of October 19, as was the case with other state officials who attended the same conference. The officials each charged TARP an extra night in the conference hotel the Marriott, New Orleans, and an extra day of per diem. There was no documentation to show how the participation of each of these individuals for this extra day was necessary for TARP, as required by Federal cost regulations. Two Florida officials also charged TARP to extend the trip to arrive one day prior to the 2015 annual conference in Nashville, when the conference had not started yet, and the Treasury session on the Hardest Hit Fund was not until 3 pm the following day. There was no documentation to justify why it was necessary to incur additional costs for the Florida officials to fly from Florida to Nashville the day before the conference started. However, they flew into Nashville a day early on Friday, charging TARP an extra night in the hotel the Omni Nashville and an extra day of per diem. There was no documentation to show how the participation of each of these individuals for this extra day was necessary for TARP, as required by Federal cost regulations.³¹

³¹ Costs associated with the extra day are included in another finding in this report.



The Florida Agency Charged TARP \$20,068 for Two Senior Officials to Travel to 15 and 17 Conferences, Some of Which Had No Hardest Hit Fund Sessions and Others had Just 1.5 Hours Related to HHF in a Four-Day Conference, and More Than \$19,000 for Other Travel That Violated Federal Regulations

In October 2015, SIGTARP issued an audit identifying the Florida agency as one of the most underperforming state agencies in the Hardest Hit Fund. The Florida agency had only provided HHF assistance to 20% of those who applied, the lowest of any state agency. SIGTARP's 2017 audit identified that right after SIGTARP's report, in December 2015, the Florida agency doubled and tripled executive cash bonuses.

In December 2016, the Florida Governor requested the resignation of the head of the Florida agency after the agency reportedly spent \$52,000 with state dollars on a lender appreciation dinner of filet mignon and lobster, and hundreds of thousands of dollars on employee bonuses.³² At that time, Florida homeowners were waiting for help from the Hardest Hit Fund program.

SIGTARP identified in the 2017 audit and in this audit that the Florida agency had a culture of inappropriate spending of TARP dollars. The Florida agency regularly charged TARP for its senior officials to travel to conferences, often treating Federal taxpayer dollars as a deep pocket. The Florida agency continued charging these conferences to TARP despite being warned in a 2012 State of Florida Auditor General report that the Florida agency's allocation of administrative costs to each of its Federal award programs, including the HHF program, did not ensure compliance with OMB Circular A-87, "...some costs allocated to Federal award programs may not be allowable," specifically referencing excess travel costs.³³

In 2012, the Florida agency policy required, "The destination and purpose of each trip must be specified, and should be stated in clear, concise, and descriptive language in order to indicate that the travel is necessary and will be performed on official FHFC business," and required a copy of the course agenda to be attached. But SIGTARP found that Florida officials did not enforce those requirements, and did not require the traveler to document how the conference or training was necessary for HHF, as required by Federal cost regulations. In one case, no agenda was attached and, even where agendas were attached, some did not discuss HHF. There was travel for a state official to speak or make

³² Florida Housing Finance Corporation, Report No. 2017-047, November 2016, State of Florida Auditor General.

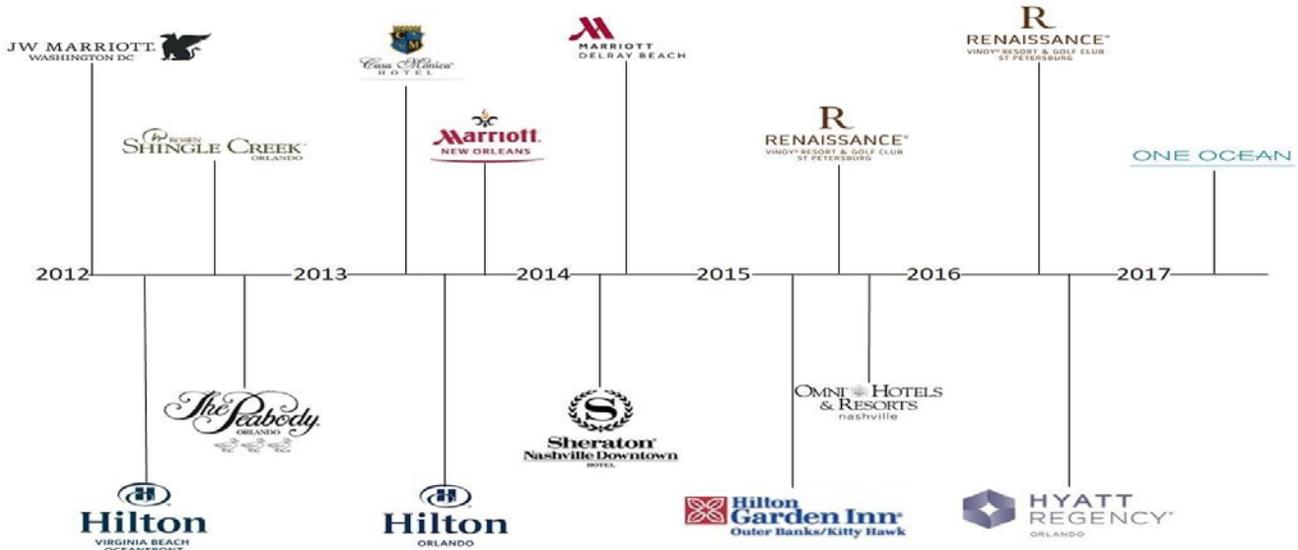
³³ Florida Housing Finance Corporation, Report No. 2013-047, November 2012, State of Florida Auditor General.



presentations with no information on what was presented or whether it related to HHF. As a result, the Florida agency charged TARP one of the highest costs for its officials to travel.

Figure 1 reflects that Florida’s Director of Homeownership Programs charged TARP \$7,106 for all or a portion of travel to 15 conferences:³⁴

Figure 1. A Florida Agency Top Official Charged TARP to Travel to and Attend 15 Conferences, Some of Which Had No Sessions on the Hardest Hit Fund



Source: Agency-provided data.

³⁴ Of these costs, \$2,922 (four conferences) is included in another finding in this report.



Figure 2 reflects that a second senior Florida agency official charged TARP \$12,962 for 17 conferences:³⁵

Figure 2. A Senior Florida Agency Official Charged TARP to Travel to and Attend 17 Conferences, Some of Which Had No Sessions on the Hardest Hit Fund



Source: Agency-provided data.

Additionally, the Florida agency charged TARP \$975 for travel costs in 2016 and 2017 for two officials to conduct “realtor training,” with no documentation of what the training was about or whether it related to HHF, staying at three luxury hotels lodgings: the Vinoy, Renaissance St. Petersburg Resort & Golf Club; the Epicurean Autograph Collection Hotel; and the Castle Hotel.

SIGTARP questions these travel costs as violating Treasury’s contract and Federal cost regulations. There was not sufficient documentation that was required showing that participation of each individual was necessary to HHF and that the costs were reasonable and consistent with the state agency policy. Most of the conferences were unrelated to the Hardest Hit Fund.

SIGTARP found that charging TARP for these conferences were not reasonable under factors set out in Federal cost regulations. These were not considered ordinary and necessary because some other state agencies did not charge for these conferences or similar conferences. The individuals did not act with prudence in the circumstances considering their responsibilities to the public and the Federal Government, in violation of Federal cost regulations. As of October 2015, the time of SIGTARP’s audit, the Florida agency was the most underperforming state agency in the program. However, their officials were traveling to a significant number of conferences at luxury hotels, at the beach or other

³⁵ Of these costs, \$10,119 (12 conferences) is included in another finding in this report.



destinations, while they had one of the highest rates of denying homeowners assistance, and the lowest rate of providing HHF assistance.

SIGTARP found that the Florida agency did not have adequate internal controls to prevent these charges to TARP. A Florida agency official told SIGTARP that it had an undocumented policy that allowed the traveler to determine the percent of costs to allocate to HHF. The Circular A-87 Implementation Guide 2.14 states that in determining whether benefit is received for common costs, consideration should be given to the following issues: Would the activity still exist, and thereby result in the same costs being incurred, if one program were terminated. These were general conferences that the Florida agency is likely to continue to attend even though it has announced closing its homeowner assistance HHF program, while it continues with its homebuyer down payment assistance HHF program.

In addition to SIGTARP questioning the NCSHA-related travel as violating Federal regulations, SIGTARP questions the non-NCSHA conferences as waste. The Florida agency was extravagant, and officials acted inappropriately, charging TARP some or all of the conferences costs despite knowing that the conferences were not necessary for HHF.

For example, at the 2012 conference in Orlando, where there was only a 1.5 hour session on HHF on the first day, the Florida agency charged TARP for four officials to attend the four-day conference. There was not adequate documentation of how the participation of each individual was necessary for HHF, violating Federal regulations on travel costs. The percentage of cost allocated for each individual was not based on the benefit to HHF as required by Federal cost regulations. The state agency charged to TARP 34% of costs for the Director of Homeownership Programs to attend. The documentation submitted was the conference agenda with certain sessions circled. Of those circled, only the 1.5 hours the first day related to HHF, with most relating to general business issues such as information technology, human resources, communications, websites and social media. The state agency charged 100% of \$1,607 for two officials to attend the four-day conference, with no documentation justifying the benefit to HHF, what sessions were attended, or why these individuals' participation benefitted HHF (as Federal cost regulations require) when the Director of Homeownership programs attended the Treasury meeting.³⁶

A few weeks after these charges, in November 2012, the State of Florida Auditor General issued an audit that included, "Finding No. 8: The Corporation's cost allocation methodology was not adequate to ensure that costs were allocated to Federal awards programs in an appropriate and equitable manner." Report that the Florida agency's cost allocation of administrative costs to each of its Federal award programs, including the HHF program, did not ensure compliance with OMB Circular A-87, "...some costs allocated to Federal award programs may not be allowable."³⁷

³⁶ The Assistant Director of Homeownership programs also charged TARP to stay an extra night at the hotel to participate in a conference by Counselor Direct related to HHF on October 24. However, the agenda for that conference lists the year as 2011, not 2012, which is not adequate documentation to support the charge, and should have been caught by internal controls.

³⁷ Florida Housing Finance Corporation, Report No. 2013-047, November 2012, State of Florida Auditor General.



After the 2012 Auditor General report, the Florida state agency continued charging TARP disproportionate amounts to attend the 2013 conference in New Orleans, where there was only a 1.5 hour session on HHF. The Florida agency charged TARP for three officials to attend for four days, charging 100% of the costs for one official, 50% of the cost for another official, and 30% for the Director of Homeownership Programs. There was no justification of how these percentages benefitted HHF given the conference agenda. Given these warnings, SIGTARP finds that the Florida agency's charges to TARP for these conferences constituted waste and abuse.³⁸

The Florida agency charged TARP for its officials to travel to the agency's monthly board meetings, an annual Florida housing conference, and other conferences and travel where there was no documentation that the travel was necessary for HHF, violating Federal cost regulations

SIGTARP also questions travel and conferences charged to TARP that violated Federal cost regulations' requirement that travel cost "documentation must justify that: (1) participation of the individual is necessary to the Federal award [the Hardest Hit Fund]; and (2) the costs are reasonable and consistent with non-federal entity's established travel policy." In many instances, it also violated the Federal regulations' requirement that the cost "be adequately documented:"

Annual Florida Housing Coalition Conference: \$7,469

The Florida agency charged TARP almost \$8,000³⁹ for all or part of the cost for its officials to travel to and attend the three-day annual Florida Housing Coalition Conference every year. The fact that those officials may have worked on HHF is insufficient under the Federal regulations to justify the charge to TARP. The agency lacked documentation that justified that the participation of the individual was necessary for HHF, as required by Federal cost regulations. The agendas attached to the 2012, 2013, 2014, 2015 and 2016 conference did not discuss HHF. Additionally, after Congress authorized an additional \$2 billion for HHF in the 2016 appropriations law, the Florida agency significantly deviated from its prior practice, doubling the number of officials attending this conference charged to TARP, unjustifiably increasing the cost nearly three times the prior year.

Florida Agency Board Meetings: \$7,808

The Florida agency charged TARP \$7,808 for its officials to attend the agency's monthly board meetings in different Florida cities in late 2013 through 2015. TARP should not pay travel for the agency's regular board meetings, as that violates the Federal cost regulations' cost allocation requirements. Travelers either charged 100% or a portion to TARP whether HHF was discussed or not. The Circular A-87 Implementation Guide 2.14 states that, in

³⁸ GAO defines waste as "the act of using or expending resources carelessly, extravagantly, or to no purpose," in its *Standards for Internal Control in the Federal Government* (the Green Book). GAO has also described waste as: "...taxpayers do not receive reasonable value for money in connection with any government-funded activity due to inappropriate acts or omissions by officials with control over or access to government resources."

³⁹ Of these costs, \$3,307 is included in the costs questioned in another finding in this report.



determining whether benefit is received for common costs, consideration should be given to whether the activity would still exist, and thereby result in the same costs being incurred, if one program were terminated. The state agency would still have regular board meetings absent HHF. Additionally, these charges violated Federal regulations' requirement that the cost be reasonable under the relevant factors. These include that it was not ordinary and necessary, as other state agencies did not charge TARP for travel to their regular board meetings. The agency also significantly deviated from past practice as it did not charge TARP for these meetings in prior years. The charge also violated the Federal regulations' requirement that the cost be "adequately documented," as often the board meeting minutes that reflected each person present did not include the name of the traveler. The officials often traveled three days prior to the board meeting with statements that the three days related to HHF meetings or the officials' participation in trainings, but there was no documentation about these meetings, who attended them, or the subject of the training.⁴⁰

SIGTARP also finds that these charges constitute waste. GAO defines waste as "the act of using or expending resources carelessly, extravagantly, or to no purpose," in its *Standards for Internal Control 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."

Other Florida agency travel and conference charges violated Federal regulations:

- \$951 for its communications specialist to travel to Miami for three nights in March 2016 for "HHF event participation." There was no agenda or other documentation of the event or why the participation of this individual was necessary for HHF.
- \$442 for an official to travel to train the National Foundation for Debt Management in February 2016. There was no agenda or other documentation of the event or why the participation of this individual was necessary for HHF.
- \$558 for its chief information officer to travel to Atlanta to meet with HUD. There was no documentation to show that the CIO's participation was necessary for HHF.
- \$325 for an official to attend the Association of Government Accountants conference in 2012 and 2015.
- \$840 for two officials to travel on three trips in 2016 and 2017 to conduct "realtor training," with no documentation of what the training was about or whether it related to HHF. Even if this related to the HHF down payment assistance program, the Florida agency also runs a state-funded DPA program. The Florida agency split the cost for two of these trips charging TARP 50% and 75%, but charged 100% of the cost for the other trip.

⁴⁰ The travelers to the board meetings included the two senior officials referenced earlier in the report and the communications specialist, the graphics designer, and other officials.



After the Ohio Agency Decided to Close the HHF Program to Homeowner Applications in 2014, it Significantly Deviated from Past Practices By Charging TARP More Than \$7,000 to Hold Conferences for Housing Counselors at Zoos, and More Than \$28,000 for Travel of 13 Officials to Conferences When it Previously Charged for 1-3 Officials

The Ohio agency was one of the state agencies that was more effective than others at distributing HHF assistance to homeowners and, as a result, it closed the program to new homeowner applications earlier than most state agencies. According to a news story, on February 14, 2014, the Ohio agency reportedly announced on a call with housing counselors that it would cease accepting applications to the Hardest Hit Fund's homeowner program Save the Dream Ohio by April 30, 2014.⁴¹ The Ohio agency did close the programs to new homeowner applications on April 30, 2014.

SIGTARP found that in 2014 and 2015 (prior to re-opening the program in 2016 after Congress authorized additional funding), the Ohio agency significantly deviated from established practices, which led to unjustifiable increases in charges to TARP for conference and travel. Under the Federal regulations, significant deviations from established practices is a factor in determining that an expense is not reasonable, and therefore unallowable. First, on February 10, 12, and 13, 2014, the Ohio agency charged TARP \$7,229 to host housing counselor conferences at three zoos. SIGTARP previously questioned the food costs associated with these events, but now includes other costs including an "Animal Presentation." The Ohio agency reportedly made the call announcing it would cease accepting applications one day after the last zoo conference. One of the agendas for the zoo conference shows that the HHF program was in wind-down. Second, on May 19, 2014, 19 days after the program closed to new applications, the Ohio agency charged TARP for 9 officials to travel to the NeighborWorks Institute conference, and subsequently four more officials, when in the past the agency had charged TARP for one, two, or three officials to attend.

Zoo Conferences

The Ohio agency significantly deviated from established practices when it hosted conferences at zoos, which unjustifiably increased the costs to TARP. The zoo costs totaled

⁴¹ See Cleveland.com, "Save the Dream Ohio to stop receiving applications," February 21, 2014, https://www.cleveland.com/open/index.ssf/2014/02/save_the_dream_ohio_to_stop_re.html, accessed 2/8/2019; Cincinnati Enquirer, "Save the Dream Ohio Winding Down," April 14, 2014, <https://www.cincinnati.com/story/money/2014/04/14/save-dream-ohio-ending/7711897>, accessed 2/8/2019.



\$7,229,⁴² which more than tripled the costs charged to TARP compared to the 2nd quarter 2013 housing counselor conference total of \$2,223. For the 2nd quarter 2013 conferences, the Ohio agency kept costs low by use of a free room in each town and going to the grocery store.⁴³ This included: (1) a free room in Cincinnati at the Community Action Agency and \$370 for bagels, donuts and coffee from Dunkin Donuts, ice, and sandwiches; (2) a free room in Reynoldsburg from the Ohio Department of Commerce and \$930 for grocery store soda and water, delivered sandwiches, and candy from Target; and (3) a free room in Canton and \$922 on supplies from Target and delivered sandwiches.

The Ohio agency had never charged TARP to hold a conference at an entertainment venue until it did so with the zoos, which violated a number of Federal regulations. First, SIGTARP questions the costs as “costs of entertainment, including amusement, diversion, and social activities,” which violates Federal cost regulations. The Ohio agency’s written justification was that the zoos offered “a unique experience to our subgrantees.” For example, there were costs for zoo admissions, and an Animal Presentation at all three of the conferences, which are entertainment costs. The Columbus Zoo receipt itemizes zoo admissions (\$53) and an “Animal Presentation” (\$350). The Ohio agency similarly charged TARP \$262 for admission and parking at the Cincinnati Zoo, and the cost of the Animal Encounter was not itemized from the \$600 facility rental. The Cleveland Zoo venue charge of \$600 included the Animal Presentation, which was not itemized, and to pay \$30 an hour for a Cleveland Metroparks Ranger who was required to be present at all events.

The Federal cost regulations also provide that any costs directly associated with entertainment/social costs “(such as tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities) are unallowable,” and therefore SIGTARP questions the costs associated with holding the conferences at the zoos. For example, the Ohio agency charged TARP: (1) \$359 for an “All day beverage,” \$420 for breakfast and \$900 for lunch at the Columbus Zoo; (2) \$313 for breakfast, \$488 for lunch, \$103 for a 4-hour afternoon “Cold beverage service,” and a \$172 service charge at the Cincinnati Zoo; and (3) at the Cleveland Zoo, \$716 for breakfast, \$700 for lunch, and a \$269 service charge.

SIGTARP also questions the costs as violating the Federal regulations’ requirements that “conference hosts must exercise discretion and judgment in ensuring that conference costs are appropriate, necessary, and managed in a manner that minimizes costs to the Federal award.”⁴⁴ The choices made by agency officials did not minimize costs to TARP, and agency officials did not exercise discretion and judgment to ensure appropriate costs.

SIGTARP also questions the costs as violating the Federal cost regulations’ requirement that the cost be reasonable under the factors stated in the regulations. It was not generally recognized as ordinary and necessary to hold conferences at zoos, there was no documentation that the agency looked at market prices for comparable services, the

⁴² Of the \$7,229 that SIGTARP questions as violating Federal cost regulations, SIGTARP previously questioned \$5,691 of these charges in its 2017 audit, *Unnecessary Expenses Charged to the Hardest Hit Fund*. These charges have not been repaid.

⁴³ In December 2013, three months before it announced the program in wind down, the Ohio agency held one conference at the Quest Conference Center in Columbus, tripling the charge to TARP to \$6,927.

⁴⁴ 2 CFR 200.432.



officials did not act with prudence, and the agency significantly deviated from established practices.

SIGTARP also questions the costs as violating the Federal regulations' requirement that costs must be allocable to HHF. The Circular A-87 Implementation Guide provides, "that where a cost or activity benefits multiple activities or programs, those costs must be allocated in accordance with the relative benefits received for each activity or program." The Ohio agency charged 100% of the costs to TARP, when the conference would have benefitted their non-HHF programs, as conferences involve networking and non-HHF discussions. At the next conference in June 2014, the Ohio agency split the cost 50/50 between TARP and a state program, but charged 100% of the costs of these zoo conferences to HHF.

SIGTARP also questions these and other costs totaling \$7,229 as waste.⁴⁵ Federal taxpayers did not receive reasonable value for money, as there was no additional value to Federal taxpayers as to whether the conference was held in a free room with grocery store drinks and delivered sandwiches versus a fully catered zoo experience with facility rental charges, all-day beverages, and on-site service staff. This lack of reasonable value to taxpayers was due to the inappropriate acts of these officials that had access to TARP dollars. The choice of zoos as a location was also extravagant, and taxpayers unjustifiably had to pay more than was necessary due to the inappropriate actions of the Ohio agency officials in approving these charges to TARP after closing the program to applications and declaring it in wind-down.

Travel for NeighborWorks Institute Training Conferences

After April 30, 2014, when the Ohio agency stopped taking homeowner applications for the Hardest Hit Fund homeowner program, with the program in wind down, the Ohio agency significantly deviated from its established practice by charging TARP travel for a large number of officials to attend NeighborWorks Training conferences.

The Ohio agency had an established practice for these conferences:

- In December 2010, the Ohio agency charged TARP \$2,924 for travel and conference registration fees for one official (the Assistant Grant Manager) to attend a five-day NeighborWorks Training conference session on homeowner counseling for program managers, at the National Harbor.⁴⁶

⁴⁵ GAO defines waste as "the act of using or expending resources carelessly, extravagantly, or to no purpose," in its *Standards for Internal Control in the Federal Government* (the Green Book). GAO has also described waste as: "...taxpayers do not receive reasonable value for money in connection with any government-funded activity due to inappropriate acts or omissions by officials with control over or access to government resources."

⁴⁶ Conference materials describe the session as leaving managers better equipped to manage the day-to-day operations of a housing counseling program, including diversified funding sources, recruit, manage and retain counseling staff, perform contract reviews and programmatic assessments, and efficiently manage case files.



- In 2011, the Ohio agency charged TARP \$5,301 for travel and conference registration fees for two different officials (the Underwriting Coordinator and the Counseling Coordinator) to attend the same five-day NeighborWorks Training conference session on homeowner counseling for program managers in Los Angeles.
- The Ohio agency did not charge TARP for any official to attend the conference in 2012.
- In 2013, the Ohio agency charged TARP \$7,491 for travel and conference registration fees for three different officials (the Grants Coordinator, the Assistant Housing Counseling Manager, and the HHF Counseling Coordinator), to attend the same five-day NeighborWorks Training conference session on homeowner counseling for program managers in Kansas City.

Technically, all of these NeighborWorks Institute training conferences violated Federal cost regulations. As then-Treasury Secretary Geithner stated in 2010, “Broad foreclosure counseling services cannot be funded through programs such as the HFA Hardest Hit Fund that are authorized under the Emergency Economic Stabilization Act.”⁴⁷ What is most concerning are the charges after the Ohio agency closed the program.

The Ohio agency subsequently significantly deviated from its established practice:

1. Weeks after closing the program to new homeowner applications, the Ohio agency charged TARP \$17,807 for travel and conference fees for 9 officials in May 2014 for the five-day NeighborWorks Training conference in Louisville, Kentucky. The training costs were around \$1,300 per person. The documentation did not include information on the individual’s title or how that individual’s participation was necessary for HHF. The documents stated that the conference was relevant to the work the attendees do under HHF and non-HHF programs, but the agency charged 100% to TARP. The conference sessions were also different. For example, officials attended sessions on “Advanced Foreclosure,” and “Default Counseling.”
2. The Ohio agency also charged TARP \$7,763 for travel and conference fees for three officials for the December 2014 NeighborWorks Training in Washington, D.C. The agenda had broad housing topics on how housing relates to health. One official attended conference sessions on “Financial Coaching.” Another official attended conference session on Connecting Health, Housing and Community.” There was no documentation for the conference session attended by the third official. There was no documentation that justified how each individual’s participation was necessary for HHF.
3. The Ohio agency charged TARP \$3,114 for travel and conference fees for one official for the February 2015 NeighborWorks Training in Los Angeles to attend sessions on “Financial Education” and “Financial Coaching.”

⁴⁷ Other states charged TARP for the NeighborWorks Institute training conferences. We question all of these costs. Treasury should analyze the Federal regulations and recover the unallowable charges.



SIGTARP questions the \$28,684 in charges after Ohio closed its program as violating Federal cost regulations, including \$14,484 in travel costs and \$14,200 in training costs. For the travel costs, there was no documentation as required by Federal regulations. Those regulations require “documentation must justify that: (1) participation of the individual is necessary to the Federal award; and (2) the costs are reasonable and consistent with non-federal entity’s established travel policy.” At the height of the HHF program in Ohio in 2013, the Ohio agency only determined that the participation for three officials was necessary for HHF. There was no documentation justifying the expansion to 9 officials and subsequently four more, after Ohio HHF was in wind down and closed to applications. There was also no documentation justifying the expansion to financial education or coaching. The costs were not reasonable according to the reasonableness factors in the Federal regulations. The Ohio agency significantly deviated from past practices, there was no documentation that the agency looked at market prices for comparable services particularly because many or perhaps all of the conference sessions were online, and the officials did not act with prudence.

SIGTARP also questions the training and travel costs as violating the Federal regulations’ general test that a charge be allocable to HHF. The Ohio agency should not have charged 100% of the costs of conferences on general housing matters to TARP when the agency’s own documents stated that would benefit the state agency’s other non-HHF programs.

SIGTARP also finds that these charges constitute waste. Federal taxpayers did not receive reasonable value as there was no additional value to HHF for these 13 officials to travel to the conferences and the conference fees for a program in wind down. There was also no purpose to HHF for the expansion of the number of officials and different conference sessions than previously attended. Taxpayers unjustifiably had to pay more than was necessary due to the inappropriate actions of the Ohio agency officials in expanding from three officials to nine officials, and then four more, after closing the program to applications.



The Nevada Contractor NAHAC Alleged in Court Filings that an Official Charged TARP for a Personal Weekend Trip to a Las Vegas Casino, But Did Not Reimburse Treasury \$543 for the Travel and then Charged TARP For \$37,298 in Investigation and Litigation Costs Related to Termination of the Official

NAHAC filed pleadings in a state court wrongful termination proceeding that it terminated an official after a third-party investigation verified that the official had engaged in improper conduct. The private investigator report included statements that the official, based outside of Las Vegas, extended a work trip to the Las Vegas office over a weekend in December 2014 to see the official's daughter perform in a cheerleading competition at the Mirage Casino & Resort. NAHAC had previously charged the entire week's travel costs to TARP, including Saturday and Sunday even though the official did not work those days.

SIGTARP questions \$543 in travel costs as violating the Federal regulations.⁴⁸ Federal regulations only allow travel costs "incurred by employees who are in travel status on official business of the non-Federal entity."⁴⁹ NAHAC took the position in state court that the weekend was personal travel not official business, but did not repay TARP. The Federal regulations require that travel costs result in "charges consistent with those normally allowed in like circumstances in the non-Federal entity's non-federally-funded activities and in accordance with non-Federal entity's written travel reimbursement policies." NAHAC took the litigation position that the travel violated its policy against organization funds used for personal expenses.

Flowing from the unallowable travel costs, NAHAC charged TARP at least \$37,298 for:

- \$12,845 for a private investigator, computer forensics expert, and lawyer;⁵⁰
- At least \$22,569 in legal fees and costs related to: (1) NAHAC terminating the official in February 2015, in part based on its allegation that the official charged TARP for personal travel unrelated to HHF; and (2) to defend a wrongful termination suit by the official;⁵¹

⁴⁸ The weekend travel costs were \$543 (2/7 of the cost of a weeklong package at the casino). The traveler paid out-of-pocket for the \$101 rental car upgrade.

⁴⁹ 2 CFR § 200.474. OMB Circular A-87 attachment B, 43a.

⁵⁰ SIGTARP previously questioned these charges in its report, *Waste and Abuse in the Hardest Hit Fund Nevada*, September 9, 2016. However, NAHAC has not repaid Treasury for these charges.

⁵¹ There may be additional legal fees, as the relevant legal invoices did not separately itemize the legal fees pertaining to this official. The failure to itemize the legal fees violates the "adequate documentation" requirement of Federal cost regulations.



- \$1,884 in travel for NAHAC's CEO and one lawyer to travel for depositions in the litigation.⁵²

SIGTARP questions these investigation and litigation charges as violating the Federal regulations' tests that the cost be "necessary and reasonable for proper and efficient performance and administration of Federal awards." GAO has described the "necessary expense" doctrine of appropriations law in its Redbook as, "The expenditure must bear a logical relationship to the appropriation sought to be charged. In other words, it must make a direct contribution to carrying out either a specific appropriation or an authorized agency function for which more general appropriations are available." These costs were not necessary for HHF because NAHAC took the position that it terminated the official for inappropriate conduct found in an investigation, and the investigation report included the statements that the weekend casino travel was personal travel. The subsequent investigation and litigation costs that flow from that are not necessary for proper and efficient performance and administration of Federal awards. These costs bear no logical relationship to Congress's intent or EESA.

The investigation and litigation charges to TARP were also not reasonable, as these charges were for general operations, not HHF. OMB has warned that, "The question of reasonableness is particularly important when governmental units or components are predominantly federally-funded," which is the case with NAHAC.

These costs do not pass the reasonableness factors set forth in the Federal regulations. First, the nature and amount of the investigation and litigation costs for matters flowing from the employee's alleged inappropriate conduct "exceed[s] that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the costs." The investigation report was dated January 2015, and the subsequent termination and litigation took place from 2015 to 2018. As SIGTARP previously reported, SIGTARP found that during 2015 NAHAC "took homeowner rescue dollars for itself, at the same time it all but stopped helping homeowners."⁵³ NAHAC admitted only 117 Nevada homeowners into the program in 2015, a nearly 95% decrease from 2012 and 2013. In 2015, 85% of the 805 homeowners who applied for HHF did not receive HHF assistance, despite the fact that it had almost \$100 million available for homeowners at the start of 2015. In 2015, NAHAC kept one TARP dollar for every TARP dollar it gave to a homeowner. NAHAC kept for itself more than \$1.4 million of the \$2.4 million in TARP dollars spent in administrative expenses in Nevada that year. For half of 2015, NAHAC spent more on its expenses than it provided to homeowners. NAHAC spent \$1.2 million on its expenses, almost \$250,000 more than it provided to homeowners.

Second, the charges were not reasonable under the factors in the Federal regulations because NAHAC officials did not act prudently in the circumstances considering their responsibilities to the governmental unit, its employees, the public at large, and the Federal Government. Rather than distribute TARP dollars to Nevada homeowners for foreclosure

⁵² This violates the Federal regulations' requirements for travel. There was no documentation that justified how the CEO testifying on an official's termination in part based on personal travel charged to TARP was necessary for the successful performance of HHF.

⁵³ See SIGTARP, *Waste and Abuse in the Hardest Hit Fund Nevada*, September 9, 2016.



prevention as Congress intended, NAHAC charged TARP to investigate and litigate with a former employee, while denying homeowners for those same funds. Those TARP dollars could have assisted a number of homeowners avoid foreclosure.

SIGTARP also questions the charges as violating the Federal regulation's requirement that a cost be allocable to the Federal award: "Circular A-87 requires that where a cost or activity benefits multiple activities or programs, those costs must be allocated in accordance with the relative benefits received by each activity or program." The HHF program was harmed, not benefitted, from distributing TARP dollars to lawyers and private investigators rather than homeowners. NAHAC engaged in inappropriate cost shifting.⁵⁴ The investigation and litigation costs were NAHAC business costs that provided no benefit to HHF. Because NAHAC is restricted from state funds as it is not a state agency, it passed these costs onto Federal taxpayers inappropriately.

Finally, SIGTARP questions these investigation and litigation costs as waste. Federal taxpayers did not receive reasonable value for money from this investigation and litigation as NAHAC all but stopped admitting homeowners into HHF. NAHAC officials with access to TARP dollars engaged in inappropriate acts to gain access to TARP dollars for these costs.

⁵⁴ Circular A-87 Implementation Guide 2.8.2 states, "any cost allocable to a particular Federal award or cost objective under the principles in A-87 may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the Federal awards, or for other reasons. Such a practice constitutes unallowable cost shifting."



The North Carolina Agency Violated Treasury's Contract and Federal Regulations When It Charged TARP Nearly \$130,000 to Host Annual Housing Counselor Conferences that Included Social Activities and Other Broad Housing Conferences

In the 2017 audit, SIGTARP found \$107,578 in waste, abuse, and squandered TARP dollars costs by the North Carolina Housing Finance Agency in violation of Treasury's contract and Federal cost regulations. As SIGTARP reported in that audit:

SIGTARP found that the North Carolina agency's culture involves regularly charging for expenses that other state agencies were not charging. According to the North Carolina Housing Finance Agency, "the game changer" was being selected by Treasury to receive \$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 barbecues, parties, celebrations, restaurant outings, gifts, gym memberships, regular employee meals, and employee cash bonuses.⁵⁵

In this audit, SIGTARP found that same culture included violating Federal regulations to spend TARP dollars to host conferences and for travel. SIGTARP questions \$127,101.⁵⁶

The North Carolina agency was one of two states that charged TARP to host annual housing counselor conferences. The state agency also charged TARP for housing counselors to travel to these conferences. This shifted agency operating costs onto TARP in violation of Treasury's strict prohibition against using TARP dollars for broad housing counselor expenses. Treasury's contract with the North Carolina agency explicitly limited "Permitted Expenses" under the category of "Counseling" to "File intake, decision costs, successful file, key business partners on-going." The agency also violated Federal cost regulations.

SIGTARP also found waste. There were extravagant dinners and receptions charged to TARP. Gifts, awards, and decorations were charged to TARP. In 2011, 2012, and 2016, housing counselors and agency officials got a new custom Lands' End shirt in different colors and styles. There were 66 shirts charged to TARP in 2011, another 44 shirts charged

⁵⁵ For example, although the regulations allow limited occasions for food costs, the regulations do not allow a steak and seafood lunches, or catered barbecues for 60 or 90 people with décor and other charges. These were not necessary or reasonable expenses.

⁵⁶ Of the \$127,101 that SIGTARP questions as violating Federal cost regulations, SIGTARP previously questioned approximately \$26,000 in its 2017 audit report, *Unnecessary Expenses Charged to the Hardest Hit Fund*. North Carolina has only repaid approximately \$10,000 of those costs.



in 2012, and 44 shirts in 2016. These perks of the conferences were neither necessary for HHF nor reasonable. These charges violated the Federal cost regulations.

SIGTARP found that the North Carolina agency treated TARP as a deep pocket. North Carolina homeowners could have benefitted from the wasted dollars. SIGTARP questions:

- \$3,130 in prohibited entertainment/social activities costs in 2010 before any homeowner had received HHF, for an evening reception for housing counselors. Costs included \$855 for a carving station with beef, \$153 for a uniformed chef to carve the beef, a “Display of Mousse Shooters of the Season, Cake Bites, and Strawberry Shortcake Martinis,” Imported and Domestic Cheese Display, fruit, and a “Bruschetta and Flat Bread Station.”
- \$41,626, which was 100% of the costs to host the North Carolina agency’s 2013 annual housing counselor conference, including a Thank You dinner for 160 people, a speaker on Motivation by Chocolate, decorations, housing counselor awards, and other items, and travel for housing counselors to attend. The agenda largely included non-HHF matters, with HHF only a small part of the second day of the two-day conference.
- \$32,090, which was 100% of the 2011 and 2012 travel costs and conference registration fees for 102 housing counselors to attend the NC Affordable Housing Conference that the North Carolina agency co-hosted, where HHF was not on the agenda.
- \$15,537 in prohibited entertainment/social activities costs at annual HHF conferences in 2011 and 2012, including costs associated with an ice cream/dessert social activities, custom Lands’ End shirts, awards, flowers, and toys like light-up yoyos and novelty rings.
- \$1,511 for lunch at the 2011 HHF conference when the agenda said that lunch for attendees was “on-their-own.”
- \$13,852, which was 100% of the costs to host the North Carolina agency’s 2016 annual housing counselor conference after Congress authorized new TARP dollars, including gifts, housing counselor awards, and travel for housing counselors to attend. The agenda included non-HHF matters.
- \$14,777 for the North Carolina agency to pay for the Town of Garner’s Job Search Boot camp in 2014, including a motivational speaker and to buy 120 copies of his book. At that time, Treasury had not approved TARP to be used for job search efforts, and had declined another state agency’s request for TARP to fund general job search efforts.
- \$2,820 in costs for housing counselors to attend conferences on general housing issues for continuing education credits for their housing counselor certification.



- \$1,758 in costs for North Carolina agency officials to attend conferences on general housing issues without adequate documentation justifying that the participation of each individual was necessary for HHF.

In 2010, before any homeowners had received a dollar from HHF, the North Carolina agency violated Federal regulations by charging TARP \$3,130 for an evening reception for housing counselors, including a uniformed chef at a carving station, and gourmet desserts including “Strawberry Shortcake Martinis, Cake Bites, and Mousse Shooters of the Season”

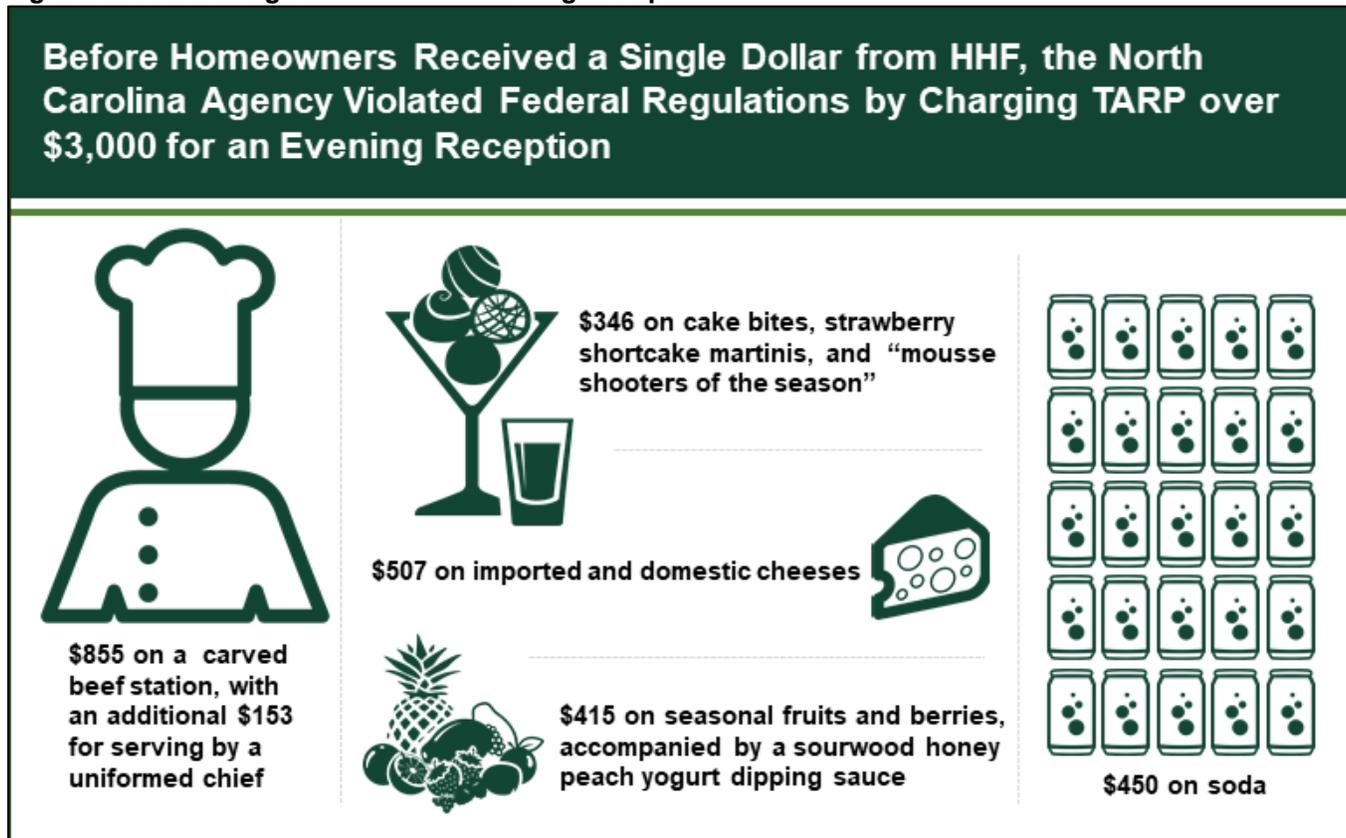
SIGTARP questions as prohibited entertainment/social activities costs the North Carolina agency’s charge to TARP of \$3,130 for an evening reception for 100 people on September 15, 2010, before the agency had provided a dollar to any North Carolina homeowner. The North Carolina agency reported to Treasury launching an HHF pilot program October 18, 2010, with a statewide launch on December 1, 2010.⁵⁷ As of September 30, 2010, the state agency reported no applicants to the program. This is because the HHF program had not yet opened. The HHF program provided mortgage assistance to unemployed homeowners. In 2010, North Carolina’s unemployment rate was 10.6%, which was above the national average of 9.6%. The reception was held at a convention center in the evening after a conference on HHF hosted by the agency ended at 5:00 pm. Following the conference, the North Carolina agency hosted a “Reception” in a separate room from 5:00 pm to 6:30 pm.

Federal cost regulations provide that the costs of entertainment, including amusement, diversion, and social activities, and any costs directly associated with social activities (such as tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities) are unallowable. The North Carolina agency charged the food and service charges of the “Reception” to TARP, including a \$250 charge for the room rental. Costs charged to TARP are shown in Figure 3:

⁵⁷ See Quarterly Performance Report submitted to Treasury for fourth quarter 2010.



Figure 3. Costs Charged to TARP for Evening Reception



Note: Sodas were provided throughout the entire conference, including the reception. Documentation provided by the North Carolina agency did not separately identify the number of sodas consumed during the conference and at the reception. Therefore, SIGTARP questions the entire amount. Note: Costs charged to TARP include 22% service fee plus 1% food and beverage tax.

Source: North Carolina agency documentation.

SIGTARP questions the reception charges as violating a number of Federal cost regulations:

- The reception was a social activity, and therefore all associated costs are unallowable under the Federal cost regulation.
- The reception charges also violated the Federal regulations' limit on costs for conferences to "a meeting, retreat, seminar, symposium, workshop or event whose primary purpose is the dissemination of technical information beyond the non-Federal entity and is necessary and reasonable for successful performance under the Federal award. The primary purpose of the reception was not the dissemination of technical information for HHF. The reception was not necessary for HHF.
- The reception costs also were not reasonable because the individuals did not act with prudence in the circumstances considering their responsibilities to the public and the Federal Government. OMB has warned that, "The question of reasonableness is particularly important when governmental units or components are predominantly federally funded." The Executive Director of the North Carolina



agency testified to the Joint Appropriations Subcommittee on General Government in 2013, “...no state appropriations [are] used for staff or operating expenses.” On its website, the agency refers to itself as “A Self-Supporting Public Agency.” The agency’s Executive Director testified in 2013 that the agency’s operating expenditures grew from \$13 million in 2011, to more than \$17 million in 2012, to nearly \$21 million in 2013, with the Hardest Hit Fund as the primary source of its operating budget.

Federal cost regulations require conference hosts/sponsors to exercise discretion and judgment in ensuring that conference costs are appropriate, necessary, and managed in a manner that minimizes costs to the Federal award. The reception was not necessary or reasonable for HHF. State agency officials did not exercise discretion and judgment to ensure costs were appropriate, necessary and managed to minimize the cost to TARP.

- The reception charges violate the Federal cost regulations’ requirement that costs conform with limitations on the Federal award. Treasury’s contract explicitly limited “Permitted Expenses” under the category of “Counseling” to “File intake, decision costs, successful file, and key business partners on-going.” Treasury did not permit receptions for counselors.
- The reception charges also violated the North Carolina state agency’s policy that all meal expenses must be able to withstand public scrutiny. Distributing TARP dollars in a foreclosure prevention program to a convention center to pay for a uniformed chef at a carving station, a bruschetta bar, and for gourmet desserts, rather than distribute those funds to North Carolina homeowners does not withstand public scrutiny. The fact that the convention center received TARP dollars before any homeowners received TARP dollars is particularly concerning.

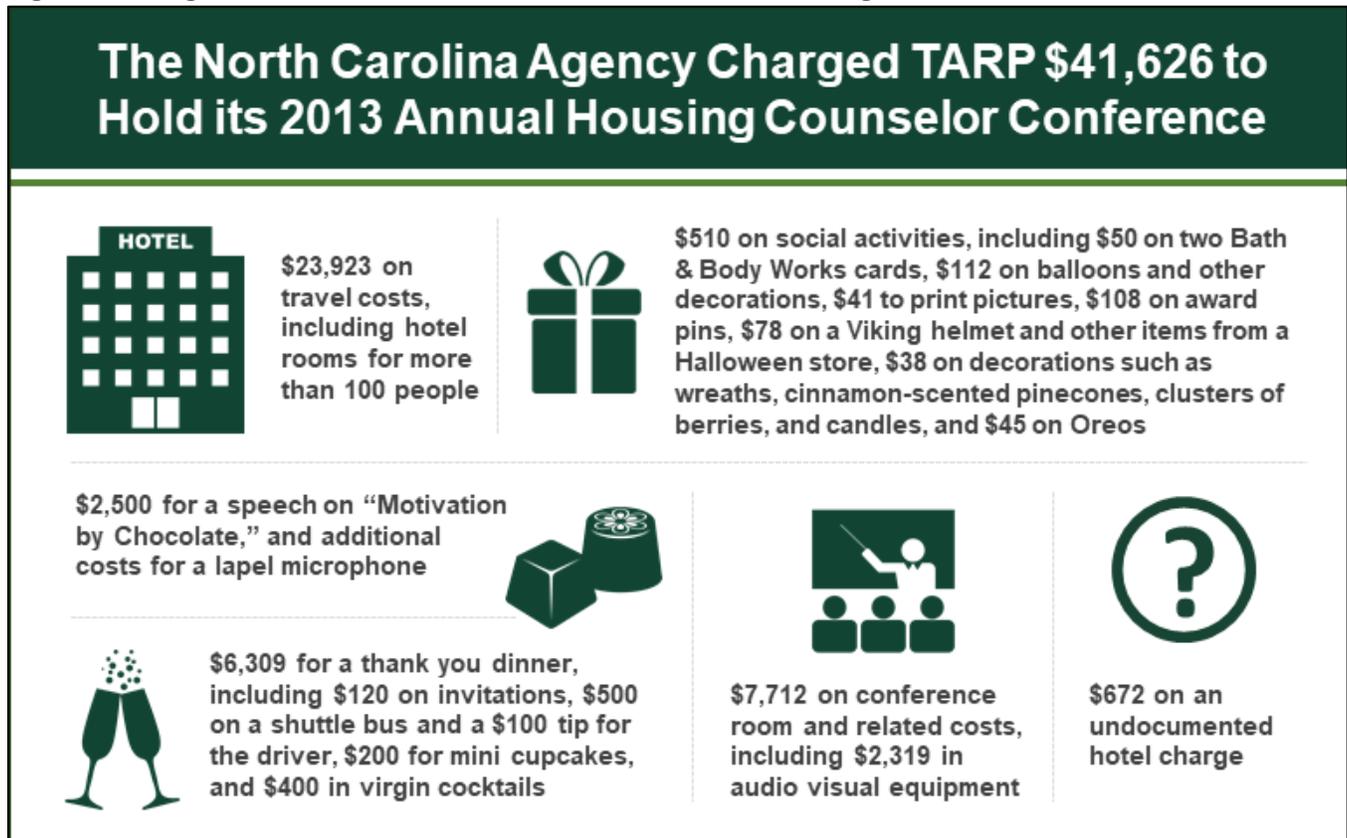
SIGTARP finds that the Reception charges also constitute waste and abuse. GAO defines waste as “the act of using or expending resources carelessly, extravagantly, or to no purpose,” in its Standards for Internal Control in the Federal Government (the Green Book). GAO has also described waste as: “...taxpayers do not receive reasonable value for money in connection with any government-funded activity due to inappropriate acts or omissions by officials with control over or access to government resources.” The reception was extravagant, had no purpose for TARP, and taxpayers did not receive reasonable value for these costs due to the inappropriate acts by state officials. According to GAO, abuse involves behavior that is deficient or improper when compared to behavior that a prudent person would consider reasonable and necessary. This includes the misuse of authority or position for personal gain or for the benefit of another. State officials misused their authority to benefit housing counselors with the reception. Their behavior was deficient and improper, particularly given that they had not distributed one dollar of HHF to homeowners.



The North Carolina agency violated Treasury’s contract and Federal regulations by charging TARP \$41,626 to hold its 2013 annual conference with housing counselors, charging TARP for a professional speaker who spoke on “Motivation by Chocolate,” hotel rooms for more than 100 people, and a Thank You dinner for 160 people

The North Carolina agency charged TARP 100% of costs (\$41,626) to host its 2013 annual housing counselor conference, travel costs for more than 100 people, and a Thank You dinner for 160 people (Figure 4). In a report to Treasury, the North Carolina agency referred to the conference as a celebration, stating, “We celebrated counselors for their work preventing foreclosures. We also provided new marketing materials for distribution to homeowners.”

Figure 4. Charges to TARP for North Carolina’s 2013 Annual Housing Counselor Conference



Note: Some conference costs charged to TARP include 22% in service and administrative fees plus 6.75% sales tax.

Source: North Carolina agency documentation.

SIGTARP questions these costs as violating Treasury’s contract and several Federal cost regulations. The Hardest Hit Fund was a program that began in 2010 to help unemployed homeowners avoid foreclosure in states that were the hardest hit by the financial crisis. North Carolina was one of those states, and North Carolina homeowners were still at risk of foreclosure in 2013. In 2013, North Carolina’s unemployment rate was 8%, above the national average.



The conference costs do not conform to the limitations of the Federal award set by Treasury, as required by Federal regulations.

The Federal regulations require that costs “conform to any limitations or exclusions” for HHF as determined by Treasury. At the start of the program in 2010, Treasury determined that “certain limited intake and follow-up services” provided by housing counseling agencies are eligible for TARP (EESA) funding, but that broader-based foreclosure counseling services cannot be funded.⁵⁸ In 2010, then-Treasury Secretary Geithner determined that, “broad foreclosure counseling services cannot be funded through programs such as the HFA Hardest Hit Fund that are authorized under the Emergency Economic Stabilization Act.”⁵⁹ Treasury stated, “Such counseling services are not expressly authorized by EESA; Congress has otherwise provided federal funding for these services; and they are not necessary to the implementation of HFA Hardest Hit Fund programs.”⁶⁰ In 2010, Treasury narrowly tailored what was necessary for HHF as: (i) making prequalification assessments of eligibility and submitting the qualified applications to the HFAs; (ii) obtaining supporting documentation from borrowers; (iii) ensuring that borrowers execute the necessary documents for HHF programs; (iv) conducting post-closing meetings with borrowers receiving assistance to ensure that they are complying with the HHF programs; and/or (v) verifying the steps that the borrower has taken to find a job.”⁶¹

Treasury also gave guidance to the state agencies for compliance with EESA:

- Counseling – TARP funds cannot be used to fund counseling programs. However, where TARP is funding a mortgage modification program, the TARP funds for that program may cover the cost of counseling services that are necessary and incidental to the implementation of such program. This means that, to be eligible for TARP funding, the counseling must be limited to (i) “triage” counseling for borrowers covering eligibility for TARP funded modification programs and/or the application process for TARP funded modification programs or (ii) “back end” counseling for borrowers covering complaints about or denials from TARP funded modification programs. The counseling may not cover other services and the HFAs must develop procedures to ensure TARP funds are not used to pay for other types of counseling.⁶²

Treasury’s contract with the North Carolina agency explicitly limited “Permitted Expenses” under the category of “counseling” to “File intake, decision costs, successful file, key business partners on-going.” The North Carolina agency charged TARP for frequent training of these same housing counselors on the program, often in-person. Documentation for the annual conference, including the Save the Date (Figure 5) and the conference

⁵⁸ See Memorandum for Secretary Geithner from George Madison, September 10, 2010, made public as an attachment to 2010 letter to Senator Brown and 2010 letter to Representative Kilroy.

⁵⁹ See *Id.* at page 6 and footnote 25.

⁶⁰ See *Id.* at page 6 and footnote 25.

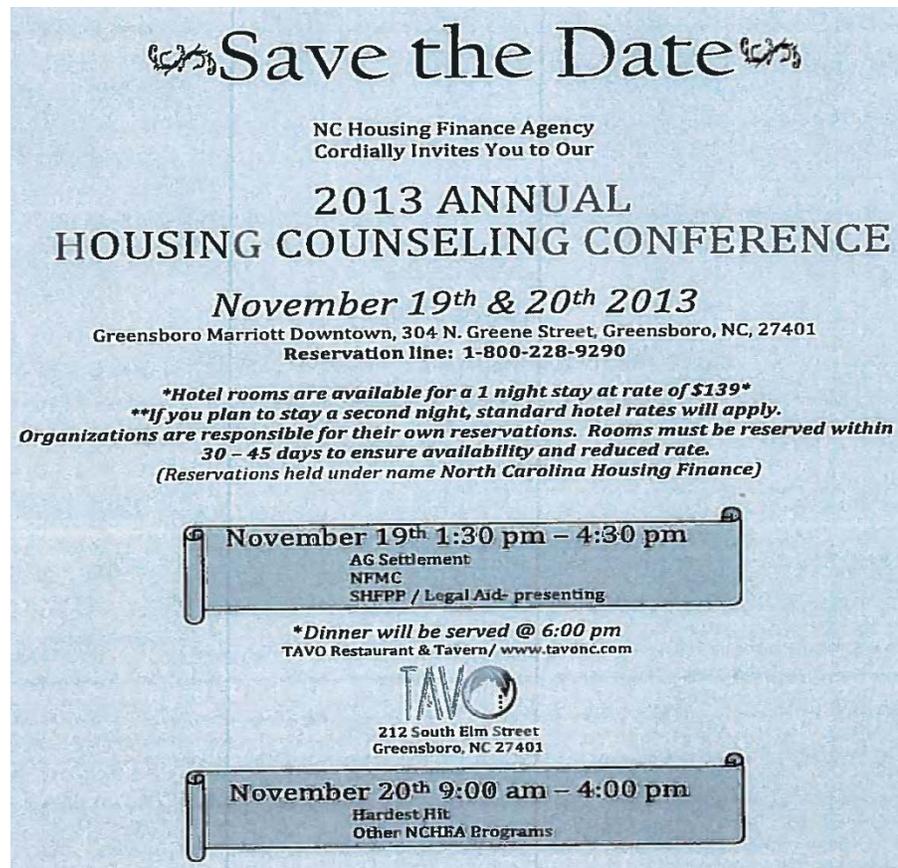
⁶¹ See *Id.* at page 7.

⁶² Email from Squire, Sanders & Dempsey L.L.P. (Treasury’s outside legal counsel) to Ohio HFA officials, on May 18, 2010.



agenda, shows that it went beyond Treasury's permitted expenses to broad foreclosure counseling services, which is prohibited.

Figure 5. Save the Date Notice that North Carolina Sent to Attendees



Source: North Carolina agency documentation.

The conference costs were not “necessary, reasonable, appropriate or managed in a manner that minimized conference costs” for HHF, violating the Federal regulation requirement for conference costs, and the regulations’ general test that all costs be necessary and reasonable.⁶³

SIGTARP questions the full costs of the conference as violating the Federal cost regulations limitations on conferences. The Federal regulations limit costs for conferences to “a meeting, retreat, seminar, symposium, workshop or event whose primary purpose is the dissemination of technical information beyond the non-Federal entity and is necessary and reasonable for successful performance under the Federal award.”⁶⁴

Federal cost regulations require conference hosts/sponsors to exercise discretion and judgment in ensuring that conference costs are appropriate, necessary, and managed in a

⁶³ 2 CFR § 200.403. OMB Circular A-87, attachment A, C.1.a.

⁶⁴ 2 CFR § 200.432, Emphasis added. OMB Circular A-87, attachment B, 27 contained similar language.



manner that minimizes costs to the Federal award. The North Carolina agency told Treasury that this conference was a celebration.

Additionally, the fact that most other state agencies in HHF did not charge annual housing counselor conferences to TARP evidences that the annual conferences were not necessary for HHF. The North Carolina agency had already charged TARP to train the housing counselors on triage and back-end counseling. Homeowners could receive assistance without the conference. Treasury's then-General Counsel George Madison previously cited these factors as determining that a cost was not necessary for HHF and therefore could not be charged to TARP.⁶⁵

The officials also did not exercise discretion in ensuring that conference costs were appropriate, necessary and managed in a manner than minimizes costs to the Federal award, as required by Federal cost regulations. Charging TARP for a motivational speaker on chocolate, a Thank You dinner for 160 people, invitations to the dinner, a shuttle bus to the dinner, a \$100 tip for the bus driver, decorations, and awards, was not appropriate, necessary or managed in a manner that minimizes costs.

The costs were not reasonable as required by Federal cost regulations. Those regulations define reasonable as ordinary and necessary for the performance of the award. Most other state agencies did not charge TARP to host their annual housing counselor conferences or to "celebrate" housing counselors. Additionally, certain costs such as décor, the celebratory dinner, and costs associated with a Motivation by Chocolate speaker were not reasonable. The costs also were not reasonable because the individuals did not act with prudence in the circumstances considering their responsibilities to the public and the Federal Government.

\$8,809 in costs for the Thank You dinner and the Motivation by Chocolate speaker are Entertainment/Social Activities Costs prohibited by Federal cost regulations.

Federal cost regulations provide that the costs of entertainment, including amusement, diversion, and social activities, and any costs directly associated with entertainment/social activities (such as tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities) are unallowable. The Thank You dinner for 160 people and all associated costs were prohibited social activity costs. This includes \$5,589 to the restaurant (which included dinner at \$23 per person, \$200 in mini cupcakes, \$400 in virgin cocktails, and a \$770 gratuity), \$120 in invitations for the dinner, \$500 for a shuttle bus for the dinner plus a \$100 tip to the driver.⁶⁶ The Thank You dinner was also not cost-justified to be charged to TARP and does not withstand public scrutiny, as required by the North Carolina agency's policies. Costs associated with the Motivation by Chocolate speaker, including the speaker fee and audio visual equipment she required, were also prohibited entertainment costs.

⁶⁵ See SIGTARP, *Unnecessary Expenses Charged to Hardest Hit Fund*, August 25, 2017.

⁶⁶ SIGTARP previously identified the dinner in SIGTARP's 2017 report, *Unnecessary Expenses Charged to the Hardest Hit Fund*, August 25, 2017. The North Carolina agency reimbursed Treasury for some of these costs. After that report, SIGTARP identified the conference costs, which similarly should be repaid to Treasury.



The speaker's website describes "Motivation by Chocolate" as including "a chocolate tasting to demonstrate not only how to appreciate chocolate, but also life itself."

\$2,369 in costs were not "adequately documented" violating the Federal cost regulations' requirements that costs be adequately documented.

The receipt for \$3,490.62 for the conference site did not match the \$5,000 charge to TARP, leaving \$1,509 without a receipt.⁶⁷ The North Carolina agency charged TARP \$672 paid to the Marriott hotel without a receipt. Receipts for \$78 (Spirit of Halloween) and \$110 (Staples) are illegible.

\$23,923 in hotel and other travel costs for more than 100 people violated the Federal regulation's requirements for travel costs.

The North Carolina agency charged TARP for hotel rooms and meals for 94 housing counselors, in addition to \$1,620 for hotel rooms for 14 state agency employees and \$90 for lunch for 12 state agency employees. The Federal regulations require "documentation must justify that: (1) participation of the individual is necessary to the Federal award; and (2) the costs are reasonable and consistent with non-federal entity's established travel policy." The North Carolina agency had no documentation justifying how the participation of 94 people with overnight travel at a celebratory annual conference that did not discuss TARP until the second day was necessary for HHF. It was not necessary for the Hardest Hit Fund to pay for an overnight stay for anyone because the Hardest Hit Fund was not on the agenda until the second day.

There was also no documentation justifying how the participation of state officials staying overnight was necessary for HHF. The conference was within driving distance from the agency's office (1.5 hours), so state agency employees could have driven to the conference that morning. It appears that the hotel stay allowed these state employees to attend the first day of the conference where HHF was not on the agenda and to attend the Thank You dinner. Similarly, the state agency employees should have paid for their lunch just as they would have on a normal workday. The conference agenda stated that lunch was "on your own" and the HHF presentation took place after lunch. These costs also violated North Carolina state policy because it does not withstand public scrutiny to have TARP pay for a regular annual conference including overnight stays and a dinner when TARP was a small part of the second day of the conference agenda.

SIGTARP found that the North Carolina agency engaged in unallowable cost-shifting, violating the Federal cost regulation's general test that costs must be "allocable" to the Federal award.

A cost is allocable to the Federal award if the goods or services are chargeable according to the relative benefits received. The North Carolina agency did not allocate the costs, and

⁶⁷ The receipt had handwriting, "This amount does not equal the charge of \$5,000. Breakfast was increased day of event. Updated receipt is missing." The \$3,490.62 receipt includes \$1,550 for room rental, \$560 for audio visual equipment, and \$570.25 for a continental breakfast, which was served during the registration prior to the start of the conference, as well as other fees and charges.



instead inappropriately shifted these conference costs to the Federal government through TARP.⁶⁸ It appears that they may have been trying to overcome limitations on state funds. The Executive Director of the North Carolina agency testified to the Joint Appropriations Subcommittee on General Government in 2013, “No state appropriations [are] used for staff or operating expenses.” On its website, the agency refers to itself as “A Self-Supporting Public Agency.”

SIGTARP finds that the conference charges constitute waste.

The dinner was extravagant. The speaker had no purpose related to TARP. Taxpayers paying for the Hardest Hit Fund did not receive reasonable value for that program due to North Carolina officials’ inappropriate acts of using HHF as cover to pay for their annual housing counselor conference.

In 2011 and 2012, the North Carolina agency violated Federal regulations by inappropriately shifting to TARP \$32,090 in travel for housing counselors to attend an annual Affordable Housing Conference that did not discuss HHF where counselors received continuing education credits

Housing Counselor Travel and Registration Fees for the Affordable Housing Conference

In 2011 and 2012, the North Carolina agency inappropriately shifted to TARP 100% of the \$32,090 in travel and related costs for housing counselors to attend the annual NC Affordable Housing Conference, a conference hosted by the North Carolina agency that did not discuss HHF. At these conferences, housing counselors receive continuing education credits toward their housing counselor recertification, the Association of Housing Counselors holds its annual membership meeting, and there is the Housing North Carolina Awards Luncheon. The North Carolina agency justified shifting the costs to TARP by adding a one-day HHF conference on the day after or before the broader conference, stating its reasoning as “to allow counselors to attend both to minimize travel time.” The agency then inappropriately charged TARP 100% of the \$26,530 travel costs (\$11,457 in 2011 and \$15,073 in 2012) for the housing counselors’ mileage and/or rental car to drive to *the* conference, and to spend two nights in a hotel so that they could attend the other broader conference.

SIGTARP questions these costs as inappropriate cost shifting that violates the specific Federal cost regulation on travel as well as the general tests that costs be necessary and allocable to the Federal award and conform to the limitations of the Federal award. There was no documentation as required for travel costs justifying that participation of each individual at the broader Affordable Housing Conference is necessary to HHF. There was

⁶⁸ Circular A-87 Implementation Guide 2.8.2 states, “any cost allocable to a particular federal award or cost objective under the principles in A-87 may not be charged to other federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the federal awards, or for other reasons. Such a practice constitutes unallowable cost shifting.” In this case, the North Carolina agency shifted costs to TARP that were not chargeable to TARP.



no substantive documentation about the Affordable Housing Conference. The broader conference did not have sessions on HHF.⁶⁹ Treasury prohibited broad housing counselor expenses. TARP does not pay for housing counselor continuing education credits and counselor certifications.

In explanations to SIGTARP, the North Carolina agency officials referred to the one-day HHF conference as a separate conference from the Affordable Housing Conference. State officials explained to SIGTARP that the Affordable Housing Conference required registration fees, but, “The HHF one-day conference was free for housing counselors.” Additionally, SIGTARP questions the North Carolina agency’s charge to TARP for \$5,560 registration fees for housing counselors to attend the Affordable Housing Conference as violating Federal cost regulations. These fees were not necessary for HHF, as the HHF session did not have a fee. They were not allocable to TARP. These charges also did not conform to Treasury’s limitation against charging TARP for broad housing counselor costs.

SIGTARP also concludes that the North Carolina agency committed waste and abuse. These actions fit the definition of waste. Taxpayers did not receive reasonable value for these charges due to the inappropriate actions of state officials. In 2011 and 2012, North Carolina’s unemployment rate was 10.3% and 9.3%, respectively, above the national average. The TARP dollars were targeted to unemployed North Carolina homeowners, not to fund a state agency’s operation cost beyond what was necessary. These actions also fit the definition of abuse. According to GAO, abuse involves behavior that is deficient or improper when compared to behavior that a prudent person would consider reasonable and necessary. This includes the misuse of authority or position for personal gain or for the benefit of another. State officials misused their authority to benefit housing counselors who wanted to get their continuing education credits. The state officials used TARP as a deep pocket to pay for travel to a conference the agency was co-hosting, which is deficient and improper behavior. Given the specific guidance from Treasury and its attorneys to each state agency, the North Carolina agency was on notice about Treasury’s limitations against charging TARP for broad housing counselor costs such as continuing *education* credits and housing counselor certifications.

In 2011 and 2012, the North Carolina agency violated Federal regulations by charging TARP \$15,537 for Entertainment/Social Activities Costs at the annual HHF conference, and \$1,511 for lunch at the 2011 conference when the agenda said lunch was “on-their-own”

SIGTARP questions \$10,456 in prohibited entertainment/social activities costs for the 2012 conference. This includes \$112 for a cocktail table during the ice cream and dessert social activities. Given that there was no receipt for the \$7,599 food bill for the ice cream,

⁶⁹ An agenda for the 2012 conference shows sessions were not related to HHF. The sessions were on other Government programs, the Attorney General settlement, legislative issues, housing for people with disabilities, tax credits, mold and mildew, green construction, down payment assistance, property tax valuation, Habitat for Humanity, Medicare and Medicaid. HHF does not involve these issues. An announcement of the 2011 conference highlights sessions on neighborhood stabilization, tax credits, NIMBY, energy efficiency, greening of developments, health, and legislative issues.



desserts or other food, that violates the Federal cost regulations' general test of adequate documentation, and SIGTARP questions the entire bill. In 2012, the North Carolina agency also charged \$788 in award certificate holders charged to TARP, \$180 in pins, \$21 in flowers, \$500 in toys like light-up yoyos and rings, and \$1,256 for 44 Lands' End custom shirts in different colors and styles with a logo. This violates the general tests that costs be necessary, reasonable, and allocable to HHF. It also violates the tests for conferences as the costs were not necessary, appropriate or managed in a way to minimize the cost to the Federal award.

SIGTARP also questions \$5,081 in prohibited social activities costs for the 2011 conference that violates Federal cost regulations. This includes food charges of \$3,025 during the networking reception, \$1,761 for 66 custom Lands' End shirts with a logo, \$56 for awards (including a \$25 Exxon gift card), and \$5 for a poinsettia.⁷⁰ These charges also violate the Federal cost regulation's tests that the cost be necessary, reasonable, and allocable to HHF. There was also a charge of \$234 paid to Oriental Trading Co. that was missing a receipt, violating the Federal cost regulation's general test of adequate documentation. Additionally, SIGTARP questions \$1,132 for boxed lunches plus service charges of \$249 and tax of \$105, and \$25 in lunch supplies for the 2011 conference because the agenda said that attendees were on their own for lunch.⁷¹

After Congress authorized additional TARP dollars for HHF in 2016, the North Carolina agency violated Treasury's contract and Federal regulations by charging TARP 100% of the costs (\$13,852) to hold its 2016 annual conference with housing counselors

In 2014 and 2015, as TARP dollars were diminishing, the North Carolina agency did not charge TARP for an annual conference, only to ramp up spending in 2016. In the 2016 appropriation law, Congress authorized additional HHF dollars. In April 2016, Treasury allocated an additional \$224 million to North Carolina. In applying for these new TARP dollars in March 2016, the North Carolina agency told Treasury that it had just begun to wind-down HHF when new funding was announced. The North Carolina agency wrote to Treasury, "The BLS [Bureau of Labor Statistics] data clearly shows that NC has one of the largest problems with unemployment and underemployment in the nation..." The agency officials told Treasury in requesting these TARP dollars, "NC's foreclosure problems remains more serious than the nation's." The North Carolina agency told Treasury, "To be a careful steward of HHF resources, NCHFA ensured homeowners were responsible prior to their hardship event and that they demonstrated a need for assistance."

State officials did not ensure that they were responsible in spending these new TARP dollars. Months later, in June 2016, the North Carolina agency began spending the money on itself and housing counselors, likely the first recipients in North Carolina of the new

⁷⁰ The charges include \$2,305 for "afternoon break," including a 22% service charge of \$507 and tax of \$213.

⁷¹ The conference agenda noted the box lunch with North Carolina agency management was for housing counselor managers/directors without documenting the number of officials for whom the lunch was purchased.



funds that Congress approved. For example, in June 2016, the North Carolina agency charged TARP \$189 for “HHF Picnic Bday Celebration expenses,” a “Bday lunch,” “Thank you flowers,” and a microwave for the lunch room, all of which SIGTARP questions.⁷²

Also in June 2016, the North Carolina agency charged TARP \$13,852 to host another annual housing counselor conference and to pay for travel for housing counselors. The conference was not solely on HHF. HHF was on the agenda for two hours and 45 minutes.

Despite the fact that the conference covered non-HHF matters, the North Carolina agency charged TARP for 100% of the convention center costs, and breakfast and lunch for all attendees. This totaled \$5,425.

The North Carolina charged TARP \$3,267 for gifts, awards, and balloons. For example, the agency charged TARP \$857 for 150 “Tumbler Hot & Cold Gift Sets” given to state officials and housing counselors, \$170 for 150 microfiber cleaning clothes with a pouch, and \$100 for tote bags. The agency charged TARP \$1,854 for 44 custom Lands’ End shirts with a logo in different colors and styles. The agency charged TARP \$273 for six “Large Curved Jade Crystal Prisma Awards.” The North Carolina agency also charged \$5,064 for travel (hotel and mileage) and meals for 27 housing counselors in addition to state officials.

SIGTARP questions these costs as violating Treasury’s contract and several Federal cost regulations.

The conference costs do not conform to the limitations of the Federal award set by Treasury, as required by Federal regulations.

The Federal regulations require that costs “conform to any limitations or exclusions” for HHF as determined by Treasury. At the start of the program in 2010, Treasury determined that “certain limited intake and follow-up services” provided by housing counseling agencies are eligible for TARP (EESA) funding, but that broader-based foreclosure counseling services cannot be funded.

The conference costs were not “necessary, reasonable, appropriate or managed in a manner that minimized conference costs” for HHF, violating the Federal regulation requirement for conference costs, and the regulations’ general test that all costs be necessary and reasonable.⁷³

SIGTARP questions the full costs of the conference as violating the Federal cost regulations limitations on conferences. The Federal regulations limit costs for conferences to “a meeting, retreat, seminar, symposium, workshop or event whose *primary purpose* is the dissemination of *technical information* beyond the non-Federal entity and *is necessary and reasonable* for successful performance under the Federal award.” Federal cost regulations require conference hosts/sponsors “...to exercise discretion and judgment in ensuring that

⁷² These charges violate the Federal cost regulation’s prohibition against entertainment/social activities, and the requirement that costs be necessary, reasonable, and allocable to the Federal award.

⁷³ 2 CFR § 200.403. OMB Circular A-87, attachment A, C.1.a.



conference costs are appropriate, necessary, and managed in a manner that minimizes costs to the federal award.”

Because there were no changes to HHF, it was not necessary to HHF to hold an expensive housing counselor conference. These housing counselors were already trained in the HHF programs and had been working in the program. According to the North Carolina agency’s application to Treasury for the additional TARP dollars, the North Carolina agency “plans to use this funding to support three of the existing foreclosure prevention programs and the DPA [down payment assistance] program... These programs have proven track records, and no term sheet changes are necessary.

The conference costs and travel costs were also not reasonable. It was not considered ordinary and necessary as only one other state agency charged TARP to host an annual housing counselor conference in 2016 with the new TARP dollars, even the state agencies that issued new HHF programs in 2016. It was also not reasonable because the North Carolina agency significantly deviated from established practice. The North Carolina agency did not charge TARP to host conferences after 2013. The North Carolina agency told Treasury in its 2016 application that after its “frequent trainings” of housing counselors, many of which were in person, the agency started conducting periodic webinars and trainings, conducting 17 webinars. The agency described this conference as a “refresher.” Refresher information could have taken place in a webinar just as before. In-person conferences were significantly more money given travel and the North Carolina agency’s culture of waste.

The costs were also not reasonable because the officials did not act with prudence in the circumstances considering their responsibilities and the Federal government. During a time when the state officials were telling Treasury that the state had one of the largest problems with unemployment and underemployment in the nation, and that North Carolina’s foreclosure problems remains more serious than the nation’s, these officials spent thousands of TARP dollars on gifts, crystal awards, new custom shirts, and balloons.

SIGTARP found that the North Carolina agency engaged in unallowable cost-shifting violating the Federal cost regulation’s general test that costs must be “allocable” to the Federal award.

A cost is allocable to the Federal award if the goods or services are chargeable according to the relative benefits received. The cost allocation requirement of the Federal cost regulations require an agency to split costs if they benefit more than one program. North Carolina officials charged 100% of the conference costs to TARP, despite the fact that the conference covered non-HHF matters.

SIGTARP found that the North Carolina agency engaged in waste and abuse.

State officials spent the new TARP dollars carelessly, extravagantly and to no purpose on themselves and housing counselors, rather than homeowners, which constitutes waste. The fact that they likely received the new TARP dollars authorized by Congress before any homeowner did, shows that taxpayers did not receive reasonable value for the money due to the inappropriate acts by state officials. Their actions were deficient and improper when



compared to behavior that a prudent person would consider reasonable and necessary. There were state officials in the 16 other states that received the new 2016 TARP dollars that did not spend those dollars to host conferences.

The North Carolina agency violated Federal cost regulations by charging TARP \$2,820 for travel and other costs for housing counselors to attend broad housing counselor conferences to obtain continuing education credits

The North Carolina agency charged TARP \$2,820 for housing counselors to travel to and attend conferences on broad housing counselor issues for continuing education credits.

- In 2012 and 2013, the North Carolina agency charged TARP \$1,536 in travel costs for four housing counselors to attend a non-HHF “A Time to Build” conference,⁷⁴ entitled “Back to Basics” in 2012, and “Igniting the Passion” in 2013.⁷⁵ The conference provider described the conference as to “provide housing counselors with a low cost, high quality way to gain continuing education credits for the Association of Housing Counselors.”
- In 2012, the North Carolina agency charged TARP \$1,046 for a housing counselor to attend a conference in Washington, D.C. The documentation stated that the conference was on “various foreclosure counseling procedures and time management for counselors along with various HUD program requirements.”
- In 2012, the North Carolina agency also charged TARP \$238 for housing counselors to attend training on fair lending laws.

SIGTARP questions the costs as violating the Federal regulations’ requirement that the cost conform to any limitations or exclusions set forth in the cost principles, Federal laws, terms and conditions of HHF or other governing regulations as to types or amounts of cost items. These conference and travel costs constitute broad housing counselor expenses prohibited by Treasury. They were not necessary for HHF. They did not address Treasury’s limitations of triage and back-end counseling for HHF—the only areas determined by Treasury to be “necessary” for HHF.

⁷⁴ The South Carolina agency also charged TARP for Time to Build Trainings so that housing counselors could earn continuing education credits. The agenda shows no sessions on HHF. SIGTARP questions these charges.

⁷⁵ The second day of the July 2012 conference agenda was a three-hour speaker who is an author and podcaster who spoke on “Managing the Mind” – time management, stress management and effective communication, and then a lunch during a presentation by the Association of Housing Counselors and the North Carolina agency. The first day sessions were: a banker talking about securing a credit card to build a credit score, a self-titled “Social Activities-Entrepreneur” speaker on effective networking, marketing and management, a banker speaking on relationships and revenue, an official from the North Carolina agency speaking on mortgage underwriting, and a Habitat for Humanity official speaking on fundraising. The 2013 conference agenda had sessions on student loans, financial literacy, the AG settlement, attorney presentations, bankers talking about successful lending partnerships and overcoming the challenges of the mortgage market, and the North Carolina agency officials speaking with a banker about applying for a loan.



Other travel and conference costs questioned due to lack of the documentation required by Federal regulations

The North Carolina agency charged for travel costs and/or registration fees of agency officials to travel to see other agency officials speak at the “Time to Build” non-HHF conferences in 2012 and 2013.⁷⁶ These officials traveling in 2012 were the CFO and the manager of mortgage servicing. The officials in 2013 were an outreach official, and the Manager of Mortgage Servicing. SIGTARP questions \$998 charged to TARP as violating the Federal cost regulation’s specific requirements because there was no documentation justifying that each’s individuals participation was necessary for HHF, as required by Federal cost regulations.⁷⁷

The North Carolina agency charged \$760 for travel and other costs for officials to the Women Empowerment Conference in 2013, 2014 and 2015. This conference features celebrities including actors and singers, television personalities, pastors and authors. Agency officials listed it as an HHF Outreach event. There was no substantive documentation. Therefore, the North Carolina agency did not meet the Federal regulation requirement that documentation must justify the participation of the individual is necessary for the Federal award.

The North Carolina agency charged TARP \$14,777 to co-host a town’s Job Search Boot Camp, including paying the speaker fee and buying 120 copies of the speaker’s book on job searches

The North Carolina agency charged TARP 100% of the costs to co-host a Job Search Boot Camp spearheaded by the Town of Garner in February 2014 that was also co-hosted by another non-profit organization. SIGTARP questions these costs as violating Treasury’s contract. The conference was not even limited to those who would have been eligible for the Hardest Hit Fund program, as only 69% of the 148 attendees were homeowners, and only about half of the attendees were unemployed. At the boot camp, there was an informational session about the Hardest Hit Fund and housing counselors were available to talk to homeowners. A press release states that counselors were also available to talk about credit counseling, debt consolidation, and first-time homebuyer programs, which were not Hardest Hit Fund programs.

The North Carolina agency charged TARP \$6,000 for the speaking fee for the job search expert, \$1,243 to buy 120 copies of the speaker’s book, \$461 for the speaker’s hotel and meals, \$250 for a radio ad for the job search boot camp, \$1,382 for lunch and lunch

⁷⁶ Conference registration fees were charged to HHF in 2013 only.

⁷⁷ The agendas for the training include non-HHF matters. The 2012 agenda sessions included credit cards and scores, reading a credit report, IT technology, networking, revenue, fundraising, and time management. The 2013 agenda was entitled “Yesterday, Today & Tomorrow: Igniting the Professional Passion.” Sessions included student loans, the mortgage market from a banker, tips for applying for a loan, financial literacy and the AG settlement.



supplies, \$50 for balloons, and \$31 for a parking sign.⁷⁸ These costs violated Treasury's contract and Federal cost regulations:

- Although the counselors were attending in part for triage counseling, which was allowed under Treasury's contract, this could not be used to justify unrelated charges, such as a job search speaker and his book, a radio ad, and balloons.⁷⁹
- The costs fail the first general test of allowability that the cost be necessary and reasonable to Federal awards. Conferences and job search programs are not permitted uses of TARP in Treasury's contracts. Treasury had turned down state agency proposals to use HHF dollars for job training for homeowners. For example, a South Carolina senior official working on the Hardest Hit Fund told SIGTARP in a 2011 interview, "Before submitting our proposal we had discussions with Treasury to determine what would not comply with EESA requirements so we had to eliminate our job training/creation and legal aid activities for borrowers facing foreclosure—Treasury shot these down." SIGTARP's review revealed that charging TARP to host conferences was not ordinary among the 19 state agencies, and therefore was not reasonable. The costs also were not reasonable because the individuals did not act with prudence in the circumstances considering their responsibilities to the public and the Federal Government, in violation of Federal cost regulations.

The conference costs and speaker fees failed the second general test of allowability, that the cost be allocable to Federal awards, as these costs related to job searches, not triage counseling.

SIGTARP is not questioning that the North Carolina agency would charge TARP a portion of travel for housing counselors to perform HHF triage counseling. But not 100%, as they were there for non-Hardest Hit Fund counseling services, including related to debt counseling. Treasury stated in 2010 that debt counseling could not be funded under EESA.⁸⁰ Federal cost regulations require that the cost be allocated among HHF, credit counseling, debt consolidation, and the non-HHF first time homebuyer program.⁸¹ Treasury should determine the portion of these travel costs allocated to triage counseling for the Hardest Hit Fund, and seek repayment of the remainder.

SIGTARP finds that these charges also constitute waste. Taxpayers did not receive reasonable value to pay for a job search speaker, his book, balloons, and other items unrelated to HHF and official inappropriately ignored Treasury's limitations.

⁷⁸ North Carolina also charged TARP \$5,359 for postcards, postage, and other items.

⁷⁹ The conference did not "Conform to any limitations or exclusions set forth in these [cost] principles, Federal laws, terms and conditions of the Federal award or other governing regulations as to types or amounts of cost items." 2 CFR § 200.403 (b). OMB Circular A-87, attachment A, C.1.d.

⁸⁰ See Memorandum for Secretary Geithner from George Madison, September 10, 2010, made public as an attachment to 2010 letter to Senator Brown and 2010 letter to Representative Kilroy.

⁸¹ Implementation Guide 2-12 for OMB Circular A-87 states, "Circular A-87 requires that where a cost or activity benefits multiple activities or programs, those costs must be allocated in accordance with the relative benefits received by each activity or program. This requirement is an underlying principle of cost allocation."



State Agencies Charged Disproportionate Amounts of Travel and Conference Costs to the Hardest Hit Fund in Violation of Federal Cost Regulations

Federal cost regulations require that, for costs for a conference or travel that benefits the state agency's activity as well as the Hardest Hit Fund, the state agency allocate the costs between TARP and its other activities. The Circular A-87 Implementation Guide provides, "Circular A-87 requires that where a cost or activity benefits multiple activities or programs, those costs must be allocated in accordance with the relative benefits receive for each activity or program. This requirement is an underlying principle of cost allocation."

Implementation guidance on OMB Circular A-87 provides, "In determining whether benefit is received from these common costs, consideration should be given to the following issues: Would the activity still exist, and thereby result in the same costs being incurred, if one program were terminated?"

The Alabama agency charged TARP 100% of nearly \$2,000 for two officials to travel to and attend a 4-day conference where they gave a one hour presentation on HHF and two non-HHF programs. The Alabama agency charged TARP 100% of \$1,222 for two officials to travel to and attend another conference where they gave a one hour presentation on HHF and two non-HHF programs.

In June 2013, the Alabama agency charged TARP 100% of \$1,956 in charges for two officials to travel to and attend the four-day Alabama Association of Realtors Summer Conference at the Perdido Beach Resort, Orange Beach, Alabama. The conference agenda did not discuss HHF. The agenda stated that the officials gave a presentation on a non-HHF program called Step-Up on homebuyer down payment assistance (DPA). At that time, Treasury had rejected the use of TARP funds for DPA. The powerpoint presented discusses DPA, a non-HHF tax credit program, and HHF. The cost allocation requirements of Federal cost regulations require allocating costs as the relevant benefit to the different programs. Two-thirds of the presentation did not benefit HHF and, therefore, TARP should not pay more than one-third of the cost, not 100% of the costs. Additionally, TARP should not have paid for more than the day of the presentation, as the remaining three days were unrelated to HHF, violating the Federal cost regulations' requirement that documentation must justify that participation of the individual is necessary to the Federal award (here, the Hardest Hit Fund). The participation of the officials on three of four of the conference days was not necessary for the Hardest Hit Fund.

In May 2013, the Alabama agency charged TARP 100% of \$1,222 in charges for these same two officials to travel to speak and present at a booth at the Alabama Mortgage Bankers Association conference. Although the agency did not include a presentation in support of the charge, the agenda shows that the two officials spoke about the same things as at the Realtors conference: the DPA program, the tax credit program, and HHF. The cost allocation requirements of Federal cost regulations require allocating costs as the relevant benefit to the different programs. Speaking and having a booth on two non-HHF programs did not



benefit HHF and, therefore, TARP should not pay more than one-third of the cost. SIGTARP questions two-thirds of the cost, which is \$807.

The Arizona agency charged TARP 100% of the costs for an official to attend two conferences in New York and Washington with other Federal agencies and attorney general offices to discuss HHF and non-HHF programs

In 2012, the Arizona agency charged TARP \$1,102, 100% of the costs for a senior official to travel to the Opportunity Funding Corp.'s conference in New York to meet with a Treasury official over HAMP, the Federal Reserve, FHFA, Fannie Mae, Freddie Mac, and two attorney general offices. The agenda discussed four topics: HHF, private investors financing foreclosure mitigation, the attorneys general settlement, and other foreclosure mitigation strategies. The Arizona agency should have allocated no more than 25% of the costs to HHF. SIGTARP questions the remaining \$827 in costs not allocable to TARP.

In 2010, the Arizona agency charged TARP \$980, 100% of costs for the same senior official to travel to a strategic planning session for HOPE LoanPort, which, according to its website, developed a web portal where nonprofit credit counseling agencies, attorneys and homeowners could apply for a loan modification or other solution, and that became a one-stop technology solution to help homeowners nationwide ensure that critical documents from distressed homeowners reached mortgage companies. The session documentation is not clear that the entire purpose was HHF. While the documentation shows that Treasury discussed HHF, also in attendance were Fannie Mae, Freddie Mac, servicers, mortgage insurers and counselor pilot partners. The official said that the travel would contribute to joint efforts with Hope LoanPort to promote the broad acceptance of this tool. SIGTARP questions this cost as having insufficient documentation to show that 100% of the cost for this individual's participation was necessary for HHF as required by Federal cost regulations.



Other Travel Costs Not Supported by Documentation Justifying that the Traveler's Participation Was Necessary for the Hardest Hit Fund, as Required by Federal Regulations

SIGTARP questions travel charged to TARP that violated Federal cost regulations' requirement that travel cost "documentation must justify that: (1) participation of the individual is necessary to the Federal award [the Hardest Hit Fund]; and (2) the costs are reasonable and consistent with non-federal entity's established travel policy." SIGTARP questions \$8,870 in costs as violating Federal cost regulations because there is no documentation justifying how the cost was necessary to HHF:

- The Illinois agency charged costs to HHF stating that it was related to HHF, but the documentation provides no detail. For example, \$1,089 for the "Carbondale Event," "Edwardsville Event," "Peru Presentation," "Springfield Workforce Meeting," "Marion Sponsor Training," with no discussions about what these events were, who attended, what was presented or discussed, or how it was necessary for HHF. One, the "Peru Presentation," appears to have charged TARP for a car wash.
- \$2,422 charged by the Indiana agency for the Black Expo conference in Indianapolis, Indiana in 2014 and 2015. The state agency only provided hotel bills and invoices from the City of Gary that provided no information on substance. The 2015 invoice from the City of Gary stated "Foreclosure Marketing Campaign." The Indiana agency's Neighborhood Christian Legal Clinic charged TARP \$2,350 in 2012 to travel to conferences and provided no documentation to support the charges.
- In Nevada, NAHAC charged \$4,115 for a NAHAC board member and a NAHAC official to travel to and attend a CoreLogic conference in July 2014, staying at the St. Regis Resort, Dana Point, California. There was no documentation that described why the conference was necessary for HHF or how each individuals' participation was necessary for HHF.⁸²
- NAHAC also charged \$295 in 2014 for its officials to attend various local events, including a luncheon of the Urban Chamber of Commerce, two Business Power Luncheons, a "higher education panel," and a Women of Distinction luncheon. There was no substantive documentation that described the event, why it was necessary for HHF, or how each individuals' participation was necessary for HHF.

⁸² SIGTARP previously questioned \$1,400 of these charges in its audit report, *Waste and Abuse in the Hardest Hit Fund in Nevada*, September 9, 2016. However, NAHAC did not repay these TARP funds.



Conclusion

This is SIGTARP's third audit finding waste and violations of Federal regulations by state agencies administering TARP's \$9.6 billion Hardest Hit Fund (HHF), an emergency TARP rescue program intended to prevent foreclosures of homeowners in states hit hard by the financial crisis. In 2016 and 2017, SIGTARP identified \$11 million in waste and other misuse of TARP dollars that Treasury should recover, and in this audit SIGTARP identifies another \$411,658 in travel and conference costs that constitutes waste or violations of Federal cost regulations.

Federal dollars should only be used for the purpose Congress intended, which in the case of HHF is for Treasury to purchase troubled assets and to use tools to prevent foreclosures. The state agencies' role under Treasury contracts is to distribute TARP dollars to homeowners (primarily those unemployed or underemployed), first time homebuyers, and to contractors, cities, and others involved in blight demolition. Treasury has allocated more than \$1 billion in HHF for state agency administrative expenses—more than the TARP dollars for the blight subprogram and for the homebuyer program. Of this, around \$200 million is still available for expenses, and all 19 state agencies are currently charging expenses.

State agencies have spent at least \$2 million on travel, but that number could be significantly higher given the lack of transparency in state agency reporting. Key examples of SIGTARP's findings of waste and/or violation of Federal cost regulations for travel and conference costs include:

- *The North Carolina charged TARP nearly \$130,000 to host its annual housing counselor conference in 2011, 2012, 2013, and 2016, committing waste and violating Federal regulations. The agency charged TARP \$41,626 to host its 2013 annual conference, including prohibited entertainment/social activity costs such as \$2,500 in costs for a motivational speaker who spoke on "Motivation by Chocolate," \$6,309 for a Thank You dinner for 160 people including \$120 on invitations, \$500 for shuttle bus driver, a \$100 tip for the driver, \$200 in mini cupcakes, \$400 in virgin cocktails, \$510 on social activities including \$50 for two Bath and Body Works gift cards, \$112 on balloons and other decorations, \$41 to print pictures, \$108 on award pins, \$78 on a Viking helmet and other items from a Halloween store, \$38 on decorations such as wreaths, cinnamon-scented pinecones, berries and candles, and \$45 on Oreos.*
- *In 2010, before any homeowner had received \$1 from HHF, the North Carolina agency charged TARP \$3,130 in prohibited entertainment/social activity costs for an evening reception that included \$855 for a carved beef station with an additional \$153 for serving by a uniformed chef, \$346 on cake bites, strawberry shortcake martinis, and "mousse shooters of the season," \$507 on imported and domestic cheese, and \$415 on fruits and berries with a dipping sauce.*
- *The North Carolina agency charged TARP \$32,090 to host the annual 2011 and 2012 Affordable Housing Conferences, which was 100% of housing counselor*



travel and registration fees, despite the fact that TARP was not on the agenda and counselors received continuing education credits, justifying it by holding a separate one-day conference on HHF. The agency inappropriately shifted to TARP 100% of the counselors' travel (driving and two nights in a hotel) so they could attend the non-HHF annual conference. Those same years, the agency charged TARP \$15,537 in prohibited entertainment/social activity cost for an ice cream/dessert social, custom Lands' Ends shirts, awards, flowers, and toys like light-up yoyos and novelty rings.⁸³

- *After Congress authorized additional Federal dollars for HHF, in 2016, the North Carolina agency charged to TARP 100% of the \$13,852 cost of its annual conference, despite that the agenda included non-HHF matters.*
- *The North Carolina agency charged \$14,777 for the Town of Garner's Job Search Boot camp in 2014, including a motivational speaker and to buy 120 copies of his book, at a time when Treasury had declined a request to use TARP for job searches at that time.*
- *Two top officials at the Florida agency charged TARP for conference fees and travel to 15 and 17 conferences each at top luxury hotels, beaches, and other premier destinations. Some had no Hardest Hit Fund sessions and others had only a 1.5-hour HHF session in a four-day conference. The Florida agency was one of the most underperforming state agencies in HHF and, by 2015, provided HHF to only 20% of applicants, the lowest of any state agency. The Florida agency charged TARP for its officials to travel to its monthly board meetings, an annual Florida housing conference, and other conferences and travel where there was no documentation justifying why it was necessary for TARP as required by the Federal regulations. For example, \$558 for its CIO to travel to meet with HUD.*
- *Some state agency officials committed waste, and violated their state agency policies (thereby violating Federal regulations) by charging TARP to stay at luxury hotels with high rates like the W Hotel, the Sofitel, and the Mayflower when meeting with Treasury in Washington, D.C., while officials from other state agencies stayed at hotels with the GSA rate for the same Treasury meetings. For example, in 2014:*
 - *The Kentucky agency charged TARP for two officials to stay at the Sofitel hotel for \$510 and \$450 per night, when the state policy required the GSA rate (\$224).*
 - *The Indiana agency charged for \$540 per night at the W, \$499 per night at the Mayflower, and \$476 for two officials at the Sofitel when the state policy was to use the lowest reasonable business travel expense possible.*

⁸³ For example, in three years, housing counselors and agency officials received a custom Lands' End shirt in different colors and styles (ranging from 44 shirts to 66 shirts), all paid with TARP.



- *Two senior Ohio agency officials stayed at the W hotel paying \$423 and \$315 per night, violating the agency's policy to use the U.S. per diem rate (\$224), while a junior Ohio official on the same trip stayed in a hotel at a rate of \$170 per night.*
- *Three Arizona officials stayed at the W for \$428, \$388, and \$315 per night for three nights violating the Arizona agency's policy that requires the least expensive single room rate published in the conference brochure, given the W was not the least expensive hotel on Treasury's list.*
- *The Nevada contractor NAHAC alleged in court filings that, in 2015, it terminated an official in part over NAHAC's allegation that the official charged TARP for a weekend stay at the Mirage Casino and Resort to see a family member perform in a cheerleading competition. NAHAC did not repay TARP the \$543 in travel costs, and subsequently charged TARP \$37,298 for legal fees and litigation costs to terminate the official and defend a wrongful termination lawsuit.*
- *After the Ohio agency decided to close the HHF program to new homeowner applications in 2014, the Ohio agency significantly deviated from past practices by charging TARP more than \$7,000 to hold housing counselor conferences at zoos that included animal presentations, zoo admissions, and for a park ranger to be on site. In that same timeframe, the Ohio agency charged more than \$28,000 for travel of 13 officials to weeklong NeighborWorks training conferences that covered broad housing counselor topics and financial coaching, when it previously charged TARP for 1-3 officials to attend.*
- *Officials in eleven state agencies charged TARP more than \$64,000 to attend a four-day annual conference of a trade association held at premier destinations where Treasury held a 1.5 hour meeting on the first day, without documentation justifying why each individual's participation was necessary as required by regulation. Some state agencies charged TARP for the full four days, often with multiple officials, with some officials even extending the trip by an extra night. The Florida agency charged TARP the most, followed closely by the Ohio agency. Some states also charged more than \$48,000 to attend sessions of the association's weeklong training institute and other events without documentation justifying why each individual's participation was necessary as required by regulation.*
- *Several state agencies violated Federal regulations by charging TARP for travel for state officials to attend conferences, meetings or other events with other Federal agencies or on non-Hardest Hit Fund topics. There are many examples, including the following:*
 - *The Georgia agency charged TARP \$4,877 for its Deputy Executive Director to travel 10 times and for two other officials' non-Hardest Hit Fund travel, including a 14A Bond pricing conference in New York staying at the Tribeca Grand Hotel. In 2017, SIGTARP reported that the Georgia agency mismanaged the Hardest Hit Fund, withholding funds from homeowners*



despite repeated warnings of overly strict criteria, unnecessary red tape, and a difficult and burdensome homeowner application process.

- *The California agency charged TARP \$2,882 for three officials to attend a three-day Mortgage Bankers Association conference in Las Vegas.*
 - *The Tennessee agency charged TARP for officials to travel and attend a baseball game.*
 - *The Alabama agency charged TARP in three years for travel of two officials to the Mortgage Bankers Association of Alabama where they presented non-HHF programs.*
 - *The South Carolina agency charged TARP for officials to travel to the Mortgage Bankers Association of the Carolinas conference on Hilton Head Island in two separate years.*
- *Some state agencies charged TARP disproportionate amounts (often 100%) for travel and conferences without allocating costs among HHF and non-HHF programs according to the benefits received as regulations require.*

SIGTARP found that through these examples and others described in the audit, several state agencies treated Hardest Hit Funds as a deep pocket. SIGTARP also found that many state agencies did not have, or enforce, internal controls necessary to ensure compliance with Federal cost regulations. Federal cost regulations ensure that Federal dollars are used as Congress intended because they limit costs to 10 general tests for allowability (*i.e.*, only those that are necessary, reasonable, allocable to the program, conform with the Federal agency's limitations, and are adequately documented). Additionally, there are specific prohibitions against expenses such as entertainment/social activity costs, and specific requirements for travel and conferences. Travel expenses require documentation sufficient to "justify that: (1) participation of the individual is necessary to the Federal award; and (2) the costs are reasonable and consistent with the non-federal entity's established travel policy." The regulations state that "conference hosts must exercise discretion and judgment in ensuring that conference costs are appropriate, necessary, and managed in a way that minimizes costs to the Federal award."

For many of the questioned travel or conference costs, SIGTARP found multiple violations of Federal cost regulations. These included that SIGTARP found that the state agency did not have the documentation required by the Federal cost regulations to justify that the participation of the individual was necessary for HHF. A single word "HHF," a statement that there was a "HHF meeting," a statement that travel was to meet with a named group with no further discussion or a conference agenda that did not discuss HHF and was unclear why it was necessary for HHF is not sufficient documentation. In other instances, the state agencies violated their own travel policies or significantly deviated from past practices (factors cutting against reasonableness, as articulated in the regulations). SIGTARP found other costs that did not meet other specific requirements for travel and conferences set out in the Federal cost regulations, or were prohibited social activity costs.



SIGTARP found that although Treasury designed the program in 2010 to curb misuse of TARP dollars, subsequently, Treasury lacked effective oversight in nine areas. For example, even though Treasury conducted more than 100 reviews of state agency expenses, Treasury did not enforce Federal cost regulations. For example, Treasury did not analyze whether an expense was necessary or reasonable using the factors in the regulations. Treasury did not enforce the regulations' requirement that a cost not exceed Treasury's own limitations, such as Treasury's strict 2010 limits on costs related to housing counselors. Treasury determined in 2010 that it could only allow TARP for HHF triage and back end counseling, and told state agencies that TARP funds could not be used to pay for any other counseling (for example, broad foreclosure prevention or debt relief). SIGTARP found instances where state agencies violated this limitation—for example for annual housing counselor conferences or broad foreclosure prevention training conferences where counselors obtained continuing education credits. Additionally, Treasury did not enforce the Federal cost regulations' specific requirement for travel or for conferences or prohibition on social activity costs.

Since SIGTARP began publishing these audits finding waste, Treasury has made some improvement in its oversight, but should do more to increase its effectiveness. As SIGTARP has been conducting and publishing these audits, certain state agencies have repaid some of the questioned costs, and SIGTARP's audits have deterred some future waste. After SIGTARP asked questions about certain travel, another state repaid the cost before this audit was published. These recoveries highlight the benefit of effective oversight.

Treasury has allowed state agencies to keep more than \$10 million of the \$11 million identified by SIGTARP as waste and/or violating Federal regulations, leaving taxpayers and the intended recipients of TARP dollars under this program to shoulder the burden of dollars lost to misuse. Treasury's application of the Federal cost regulations is not consistent with OMB's Circular A-87 Implementation Guidance for those regulations. For example, Treasury did not recover a \$20,000 severance payment to the Nevada contractor CEO who NAHAC's board forced to resign, on the alleged basis that the Federal cost regulations allow for severance payments. However, those regulations only allow severance payments for normal turnover, not forced resignation. Abnormal turnover requires approval by Treasury. Treasury did not recover the \$20,000 despite it violating the Federal regulations. Treasury allowed other expenses that fell into specific categories articulated in the regulations without determining whether the cost passed the regulation's 10 general tests of allowability, such as that expenses are necessary and reasonable. For example, although the regulations allow limited occasions for food costs, the regulations do not allow a steak and seafood lunches, or catered barbeques for 60 or 90 people with décor and other charges. These were not necessary or reasonable expenses.

There is no better way to deter the misuse of TARP dollars than for Treasury to require repayment of TARP dollars misused in the past. When Treasury analyzes SIGTARP's recommendations in this audit, it should revisit SIGTARP's 2016 and 2017 recommendations for the remaining \$10 million, after reviewing the A-87 Implementation Guide and with further analysis of the Federal regulations, with the mindset of limiting Federal dollars to what Congress intended in TARP. In addition, Treasury should analyze



GAO's definitions of waste and abuse. TARP dollars returned can be recycled back into the program or repaid to the Federal Government.

It is critical that Treasury ensure that state agencies spend the remaining approximate \$200 million available for administrative expenses only to achieve the purpose Congress intended. Treasury should improve its oversight, by enforcing the Federal cost regulations and recovering past costs that constitute waste, abuse, or violations of the Federal regulations. The stakes are high. Every dollar wasted or squandered is one less dollar for homeowners or taxpayers.



Recommendations

1. In order to meet Treasury's strategic goals of winding down sun setting programs responsibly and funding the Government at the least cost, Treasury should in the Hardest Hit Fund: (1) issue guidance on applicable Federal cost regulations to state housing finance agencies; (2) include all travel costs in the "Travel" category of its budget and require state agencies to report all travel in the "Travel" category of its Quarterly Financial Reporting; (3) enforce all applicable provisions of the Federal cost regulations to state agency administrative expenses, including, for example, the 10 basic guidelines/general tests (that costs are necessary, reasonable and allocable to the Federal award etc.) as well as regulations that apply to travel, conferences, and social activities; (4) report publicly on the amount of TARP dollars spent on travel and conferences, make public each state agency's Quarterly Financial Reports in the Hardest Hit Fund, and ensure that each state agency files its report timely.
2. In order to fulfill its strategic goals to wind down sun setting programs responsibly and to fund the Government at the least cost, and to prevent waste, abuse, and violations of Federal cost regulations, Treasury should: (1) no longer hold in-person Hardest Hit Fund summits or conferences with state agencies, or hold a session at the National Council of State Housing Agencies (NCSHA) annual conference, but instead hold teleconferences; (2) should recover \$17,008 in TARP dollars spent in violation of the Federal cost regulations for luxury hotels at high rates to the HHF Summit; (3) should not allow state agencies in the Hardest Hit Fund to charge TARP for travel or registration fees for the annual NCSHA trade association conference, or any other NCSHA conference, training, or event; and (4) should recover \$113,355, representing the TARP dollars spent in violation of the Federal cost regulations and/or constituting waste in the Hardest Hit Fund for NCSHA conferences and events, including extra nights from state agencies.
3. In order to fulfill Treasury's strategic goals of winding down sun setting programs responsibly and to fund the Government at the least cost, and to prevent waste, abuse, and violations of Federal cost regulations, Treasury should require pre-approval by Treasury for all costs of a state agency in the Hardest Hit Fund to host a conference.
4. In order to fulfill Treasury's strategic goals of winding down sun setting programs responsibly and to fund the Government at the least cost, and to prevent waste, abuse, and violations of Federal cost regulations, Treasury should assess the internal controls of all 19 state housing finance agencies in the Hardest Hit Fund for controls to ensure compliance with all applicable Federal cost regulations.
5. In order to fulfill Treasury's strategic goals of winding down sun setting programs responsibly and to fund the Government at the least cost, Treasury should recover TARP dollars spent in violation of the Federal cost regulations and/or constituting waste in the Hardest Hit Fund by the National Affordable Housing Assistance Corporation (NAHAC) consisting of: (1) \$543 for an official's travel to the Mirage Casino where a family member performed in a cheerleading competition, \$1,884 for



travel for the depositions, and \$22,569 in legal expenses, and \$12,845 for a private investigator, computer forensics expert, and lawyer; (2) \$4,115 for travel to the CoreLogic conference at the St. Regis Monarch Beach Resort, California; and (3) \$295 for the Urban Chamber of Commerce luncheon, Business Power Luncheons, a “higher education panel,” and a Women of Distinction luncheon.

6. In order to fulfill Treasury’s strategic goals of winding down sun setting programs responsibly and to fund the Government at the least cost, Treasury should recover TARP dollars spent in violation of the Federal cost regulations and/or constituting waste in the Hardest Hit Fund by the Florida agency consisting of: (1) \$7,028 in travel and registration fees for the 11 and 5 conferences other than the NCSHA conferences traveled to and attended by two top officials while the Florida agency was one of the worst underperforming agencies in the program in admitting homeowners; and (2) \$16,060 in travel related to the Florida agency’s board meetings, annual Florida Housing Coalition conferences, for a communications specialist’ travel lacking documentation, the National Foundation for Debt Management training, for the CIO to travel to Atlanta to meet with HUD, the Association of Government Accountants conference, and “realtor training;”
7. In order to fulfill Treasury’s strategic goals of winding down sun setting programs responsibly and to fund the Government at the least cost, Treasury should recover TARP dollars spent in violation of the Federal cost regulations and/or constituting waste in the Hardest Hit Fund by the North Carolina agency consisting of: (1) \$101,869 of the \$112,324 in conference and travel costs related to annual housing counselor conferences and other travel that have not yet been repaid to Treasury, including costs for a Thank You dinner, a carving station reception with a uniformed chef and other social events such as costs associated with the Motivation by Chocolate motivational speaker (costs not previously included in a SIGTARP recommendation); and (2) \$14,777 to co-host the Town of Garner’s Job Search Boot camp, including paying a professional speaker and 120 copies of his book;
8. In order to fulfill Treasury’s strategic goals of winding down sun setting programs responsibly and to fund the Government at the least cost, Treasury should recover TARP dollars spent in violation of the Federal cost regulations and/or constituting waste in the Hardest Hit Fund by the Ohio agency, including: (1) \$7,229 related to conferences at zoos just before the program announcement to close the program to homeowner applicants (including costs previously questioned by SIGTARP but that have not yet been repaid); and (2) \$28,684 in NeighborWorks training conferences, including conferences after the program closing announcement.
9. Treasury should review and analyze the Federal cost regulations to identify charges to TARP by other state agencies associated with NeighborWorks training conferences and recover unallowable charges.
10. In order to fulfill Treasury’s strategic goals of winding down sun setting programs responsibly and to fund the Government at the least cost, Treasury should recover TARP dollars spent in violation of the Federal cost regulations and/or constituting waste in the Hardest Hit Fund by the Georgia agency consisting of \$4,877 for non-



HHF travel including for example a Bond pricing conference in New York, Melville meeting on tenant selection policies in Washington, D.C., a low income housing tax credit conference in Florida, and an American Bar Association event in Washington, D.C.

11. In order to fulfill Treasury's strategic goals of winding down sun setting programs responsibly and to fund the Government at the least cost, Treasury should recover TARP dollars spent in violation of the Federal cost regulations and/or constituting waste in the Hardest Hit Fund by the Indiana agency consisting of: (1) \$2,383 for travel including for a HUD meeting in Chicago, a Federal Reserve conference in New York, and travel to a job fair; and (2) \$4,772 in travels and conference costs lacking documentation required by Federal regulation justifying that participation was necessary for the Hardest Hit Fund.
12. In order to fulfill Treasury's strategic goals of winding down sun setting programs responsibly and to fund the Government at the least cost, Treasury should recover TARP dollars spent in violation of the Federal cost regulations and/or constituting waste in the Hardest Hit Fund by the California agency consisting of \$11,155 for travel including for a Federal Reserve conference in New York, a Mortgage Bankers Association conference in Las Vegas, the CoreLogic Risk Summit conference at the St. Regis Monarch Beach Resort, and the CA Credit Union League Conference in Las Vegas.
13. In order to fulfill Treasury's strategic goals of winding down sun setting programs responsibly and to fund the Government at the least cost, Treasury should recover TARP dollars spent in violation of the Federal cost regulations and/or constituting waste in the Hardest Hit Fund by the Tennessee agency consisting of \$3,449 for travel including for a baseball game, a Leadership Academy, the Chattanooga Summit, an "executive management function," a ribbon cutting ceremony, a Southeastern Directors conference, meetings with Veterans Affairs and Goodyear employees, and Workplace Environment training.
14. In order to fulfill Treasury's strategic goals of winding down sun setting programs responsibly and to fund the Government at the least cost, Treasury should recover TARP dollars spent in violation of the Federal cost regulations and/or constituting waste in the Hardest Hit Fund by the Kentucky agency consisting of \$2,812 for travel and other costs at the Kentucky Society for Human Resources Management annual conference and the Kentucky Sheriff's conference.
15. In order to fulfill Treasury's strategic goals of winding down sun setting programs responsibly and to fund the Government at the least cost, Treasury should recover TARP dollars spent in violation of the Federal cost regulations and/or constituting waste in the Hardest Hit Fund by the Arizona agency consisting of: (1) \$1,628 for travel and other costs for the Home Preservation Exchange conference in Washington, D.C., the Annual Mortgage Servicing conference in Dallas, the Governor's Housing Forum, its own housing forum, and a job fair; (2) \$827 of the \$1,102 in travel costs for the Opportunity Funding Corp. conference in New York to meet with Treasury to discuss HAMP, and meet with the Federal Reserve, FHFA,



Fannie Mae, Freddie Mac, and two Attorney general offices to discuss, which were disproportionately charged to the Hardest Hit Fund; and (3) 100% of the \$980 in the travel costs for the strategic planning session for HOPE LoanPort, which were disproportionately charged to the Hardest Hit Fund. Treasury should review and analyze the Federal cost regulations to identify the disproportionate charges.

16. In order to fulfill Treasury's strategic goals of winding down sun setting programs responsibly and to fund the Government at the least cost, Treasury should recover TARP dollars spent in violation of the Federal cost regulations and/or constituting waste in the Hardest Hit Fund by the Alabama agency consisting of: (1) \$5,488 for travel and other costs for the Mortgage Bankers Association conference, including \$807 of the presentation was unrelated to HHF but that were charged to HHF; and (2) \$1,304 of the \$1,956 charged to TARP for travel to the Alabama Association of Realtors Summer Conference.
17. In order to fulfill Treasury's strategic goals of winding down sun setting programs responsibly and to fund the Government at the least cost, Treasury should recover TARP dollars spent in violation of the Federal cost regulations and/or constituting waste in the Hardest Hit Fund by the South Carolina agency consisting of \$5,392 for travel to the Board of Commissioners Meeting and Annual Retreat, the Mortgage Bankers Association conference on Hilton Head Island, the Government Finance Officers Conference, and state supervisory practice training.
18. In order to fulfill Treasury's strategic goals of winding down sun setting programs responsibly and to fund the Government at the least cost, Treasury should recover TARP dollars spent in violation of the Federal cost regulations and/or constituting waste in the Hardest Hit Fund by the Illinois agency consisting of: (1) \$1,675 for the Annual Hispanics Employees Training Conference, the Municipal League Conference, and the Housing Action Conference; (2) \$1,089 in travels costs lacking documentation required by Federal regulation justifying that participation was necessary for the Hardest Hit Fund.



Management Comments and SIGTARP's Response

Treasury responded that it will no longer host the annual Hardest Hit Fund summits or hold HHF discussions at trade group conferences. Treasury also stated that it will review and evaluate SIGTARP's other recommendations. Treasury agreed that, it would "take remedial actions as appropriate, including the recovery of any taxpayer funds" in response to expenses that violate program requirements. Treasury also provided technical comments to the draft report, which SIGTARP addressed where applicable.



Appendix A – Objective, Scope, and Methodology

SIGTARP performed this audit under the authority of the Emergency Economic Stabilization Act of 2008, which also incorporates certain duties and responsibilities of inspectors general under the Inspector General Act of 1978, as amended. This is SIGTARP's third audit finding waste and violations of Federal regulations by state agencies administering TARP's \$9.6 billion Hardest Hit Fund (HHF).

After identifying \$8.2 million in wasteful spending by a Nevada contractor in the Hardest Hit Fund, Senator Charles Grassley asked SIGTARP to audit spending on administrative expense in the program.⁸⁴ SIGTARP's second audit resulted in a report, dated August 25, 2017, finding nearly \$3 million wasted or unnecessary spending of TARP dollars by state agencies participating in the Hardest Hit Fund in certain expense categories.⁸⁵ SIGTARP continued its review of administrative expenses spent by the Hardest Hit Fund state agencies.⁸⁶

This audit focused on travel, conferences, and other TARP charges by the housing finance agencies (and/or their contractors or partners) in 18 states and the District of Columbia participating in the Hardest Hit Fund program ("19 state agencies") who receive Hardest Hit Fund dollars. The scope of this audit generally covered travel and conference expenses charged to TARP in the Hardest Hit Fund since the program's inception in 2010 through October 31, 2018.

To meet the audit objective, SIGTARP applied OMB Circular A-87 and 2 CFR Part 200, Subpart E, uniform administrative requirements and cost principles to identify questioned costs or costs constituting waste or abuse, as defined by GAO standards. 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.

As part of its analysis of administrative expenditures, SIGTARP examined whether travel and conference charges violated Treasury's contract or applicable Federal cost regulations. In that determination, SIGTARP considered: (1) criteria articulated by Treasury; (2) Treasury's list of "permitted expenses" in its HHF contracts with state agencies; (3) Treasury's and state agencies' reporting on their spending and performance in modifying loans; and (4) state agency policies.

SIGTARP obtained, reviewed, and analyzed data and documentation from the 19 state agencies, as it pertains to any employee in contract or partnership with the state agency related to the Hardest Hit Fund, to include travel authorizations and reimbursement claims,

⁸⁴ See SIGTARP Audit Report, *Waste and Abuse in the Hardest Hit Fund in Nevada*, September 9, 2016.

⁸⁵ See SIGTARP Audit Report, *Unnecessary Expenses Charged to the Hardest Hit Fund*, August 25, 2017.

⁸⁶ Senator Grassley had been the Chairman of the Senate Judiciary Committee. As of January 2019, Senator Grassley became the Chairman of the Senate Committee on Finance.



invoices and receipts, conference materials, expense reports for agency hosted-conferences, credit card statements, agencies' certified survey responses on HHF administrative expenses, certain administrative contracts or agreements, quarterly financial reports submitted to Treasury, Treasury's compliance reviews, and other relevant correspondence and memoranda. SIGTARP also obtained, reviewed, and analyzed documentation from Treasury as it pertains to its annual Hardest Hit Fund Summits. SIGTARP also, as appropriate, conducted telephonic interviews with state agency officials.

SIGTARP conducted this performance audit from October 2017 through February 2019 in 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 complete and relevant supporting documentation. Several states took over 2 months to provide the documentation SIGTARP requested. To the extent that the documentation provided to SIGTARP by these entities did not reflect a comprehensive response to SIGTARP's requests or questions, SIGTARP's review may have been limited.

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 nine 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.”
- On August 25, 2017, SIGTARP released an audit report titled, “Unnecessary Expenses Charged to the Hardest Hit Fund.”
- On October 13, 2017, SIGTARP released an audit report titled, “Mismanagement of the Hardest Hit Fund in Georgia.”
- On March 8, 2018, SIGTARP released an interim audit report titled, “The Hardest Hit Fund Lacks Standard Federal Requirements for Competition.”

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 – Management Comments



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

February 22, 2019

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 February 8, 2019 (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. In total, HFAs have established more than 90 unique programs under HHF, which have collectively assisted more than 375,000 homeowners and helped to remove nearly 30,000 blighted properties to date.

As the Draft acknowledges, Treasury has "designed the [HHF] program to limit administrative expenses," "applied federal cost regulations that are standard for Federal grants or awards," and "conducted more than 100 in-person reviews with the state agencies to review their program and administrative expenses."¹ The federal cost principles that apply to the HHF program limit expenses to those that are necessary, reasonable, and allocable to the Hardest Hit Fund. These limitations apply to all administrative expenses incurred by the HFAs, including travel and conference expenses.

Since HHF's inception, Treasury has regularly conducted testing of administrative expenses during its on-site compliance reviews to determine whether those expenses were properly charged to the program. Treasury has also regularly reviewed the state HFAs' internal controls environment; travel, conference, and training policies; and internal audit reports and findings regarding the application of certain expenditures to the programs. Throughout, Treasury has worked with its state HFA partners to strengthen their internal controls surrounding

¹ Draft at 2.



administrative expense transactions. Whenever Treasury has discovered that such expenses have been incorrectly charged to HHF, it has required and confirmed the state HFAs' repayment of funds.

The HHF program is nearly concluded. Of the \$9.6 billion allocated to the program, the states have drawn approximately \$9.2 billion (96 percent) to date, and as of September 30, 2018, they have disbursed approximately \$7.7 billion of the program funds on behalf of eligible homeowners and blighted properties (92 percent). Thirteen states will have closed their largest programs by the end of 2019, including one state who is anticipating full closure of its \$1.1 billion program, with final repayment and closeout to Treasury within the calendar year. Accordingly, the orderly wind-down of the HHF program is an important focus of both Treasury and the states.

SIGTARP offers 18 recommendations, including that Treasury cease hosting conferences for the HHF states.² Treasury agrees, and announced in 2018 that it will no longer host the annual HHF summit or hold HHF discussions at trade group conferences. SIGTARP also recommends that Treasury recover approximately \$406,000 in questioned expenses from at least 15 different HFAs. Treasury will carefully review and evaluate SIGTARP's recommendations. Treasury has worked diligently to analyze expenditures questioned by SIGTARP in the past, and we have recovered funds that we determined were improperly spent. When Treasury received SIGTARP's recommendations regarding its prior two audits of HHF administrative expenses, Treasury undertook thorough analyses that led to HHF's recovery of more than \$738,313. For the reasons set forth in our letters to you on January 19, 2017, and April 6, 2018, Treasury determined that recovery of certain other expenditures, some of which appear again in the current Draft, was not warranted based on the evidence and the standards articulated in the federal cost principles.

Treasury will carefully consider SIGTARP's recommendations and respond under separate cover after we have completed our review. Based on our initial review of the Draft, Treasury has similar questions about the standards that SIGTARP has applied and the evidence on which it has based some of its findings. We have highlighted those questions in comments to the Draft that we have provided under separate cover. In addition, to facilitate our review of the expenses SIGTARP has identified in this Draft, we have requested that SIGTARP provide us with more specific information. The expenses referred to in the Draft span at least 15 HFAs, and they appear to date back to the outset of the program. We look forward to receiving these important details from you, so that we can more quickly review the questioned expenses. Treasury will continue to monitor the HFAs' compliance with HHF program requirements and, if violations are found, take remedial action as appropriate, including the recovery of any taxpayer funds where warranted.

* * *

² SIGTARP had previously recommended that annual HHF summits were too infrequent, and that Treasury should host such summits biannually.



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,

A handwritten signature in black ink, appearing to read "Kipp Kranbuhl".

Kipp Kranbuhl
Acting Assistant Secretary for Financial
Institutions



SIGTARP Hotline

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

By Online Form: www.SIGTARP.gov/hotline

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

By Mail: **Office of the Special Inspector General
for the Troubled Asset Relief Program**
1801 L Street., NW, 4th Floor
Washington, DC 20220

Press Inquiries

If you have any inquiries, please contact our Press Office: 202-927-8940

Legislative Affairs

For Congressional inquiries, please contact our Legislative Affairs Office: 202-927-9159

Obtaining Copies of Testimony and Reports

To obtain copies of testimony and reports, please log on to our website at www.SIGTARP.gov.

