



OFFICE OF THE SPECIAL INSPECTOR GENERAL
FOR THE TROUBLED ASSET RELIEF PROGRAM
1801 L STREET, NW, 4TH FLOOR
WASHINGTON, D.C. 20220

June 24, 2021

Ms. Danielle Christensen
Director, Office of Financial Stability
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, D.C. 20220

Dear Ms. Christensen:

I am writing you to recommend that Treasury take corrective action to require an important fraud and waste prevention control in Michigan, and other states, that will continue to spend taxpayers' dollars under the Hardest Hit Fund ("HHF") blight elimination program, through at least the end of 2021. We recommend:

To prevent fraud and waste under the Hardest Hit Fund blight elimination program, Treasury should require state agencies to substantiate the actual price contractors paid for any materials used in the demolition process before releasing any reimbursements with TARP funds. At a minimum, substantiating demolition-related costs should involve reviewing invoices that include the contractors' cost to purchase the materials. Treasury should also require state agencies to conduct reviews to determine if their blight partners reimbursed local contractors for invoices without substantiating the actual costs of the materials used, identify the cost of those materials, and recoup any excessive payments they identify.

Our recommendations are borne out of SIGTARP's review of reimbursement files for the HHF blight demolition program in Detroit from 2017 through 2019. Our review found that the invoices contractors submitted during this time for certain demolition-related materials did not include the price they paid for the materials. Specifically, SIGTARP determined that the Michigan state agency paid approximately \$13 million in backfill (i.e., dirt) costs to contractors without documentation to substantiate those costs. Although some portion of the \$13 million was likely spent on legitimate backfill costs, it is unclear how much due to the lack of sufficient documentation. Absent this important information, the Michigan and other state agencies cannot verify the accuracy of contractors' reimbursement claims, and taxpayers have no assurance that contractors are not inflating reimbursement requests for demolition materials to exceed their actual costs.



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Under the HHF blight elimination program, Treasury provided TARP funds to state agencies to administer the removal of blighted homes from hard hit neighborhoods throughout their states with the goal of increasing home values and preventing foreclosures. To perform the work, state agencies enlist local blight partners (e.g., land banks, municipalities, and nonprofits) that arrange blight removals in their areas of operation using local contractors. These blight partners generally pay the local contractors for their services out-of-pocket, then the partners submit a claim to their state agency requesting reimbursement for their out-of-pocket expenses.

In June 2016, SIGTARP raised concerns that the blight program was vulnerable to local contractors charging excessive fees for blight removal services.¹ Later, in December 2016, in response to SIGTARP's report, Treasury distributed instructions to state agencies to only reimburse blight partners for costs that are both "necessary and reasonable" for the completion of blight elimination activities.

In early 2017, Michigan's state agency alerted its blight partner in Detroit that the state agency believed local contractors had requested excessive payments, specifically relating to backfill fees for blighted properties.² As a result, the Detroit blight partner committed to "substantiate" its contractors' backfill payment requests and added the following language to its service contracts awarded starting in May 2017:

At the time of invoice, the Contractor will be required to substantiate all costs associated with backfill (dirt) and must provide any and all documentation related to backfill (dirt) costs. Documentation must include, but is not limited to, invoices and trip/load tickets.

From May 2017 through 2019, the Detroit blight partner paid local contractors approximately \$13 million in backfill costs for demolitions that occurred in Detroit. All the demolitions occurred under contracts containing the new requirement for contractors to provide documentation to substantiate backfill costs. SIGTARP reviewed 100 reimbursement files the local contractors submitted during this time and found that none of the submissions contain

¹ See SIGTARP, "Treasury's HHF Blight Elimination Program Lacks Important Federal Protections Against Fraud, Waste, and Abuse," June 16, 2016.

² The Michigan State Housing Development Authority is Michigan's state agency for HHF, and the Detroit Land Bank Authority is its blight partner in Detroit.



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invoices that show the actual amount the local contractors paid for this material.³ Absent this critical information, the Detroit blight partner could not properly substantiate that backfill payment requests were necessary and reasonable, and it raises questions about how thoroughly the partner reviewed the contractors' submissions. As a result, an indeterminate amount of the \$13 million the Detroit blight partner paid to its local contractors during this period may have been the result of inflated payment requests. Furthermore, by extension, taxpayers have no assurance that the Michigan state agency did not overpay contractors for blight demolition costs.

In addition to Michigan, as of April 2021, four other HHF states—Indiana, Mississippi, Ohio, and Tennessee—still had ongoing blight elimination programs, three of which are projected to continue through at least December 31, 2021.⁴ Requiring these state agencies to substantiate contractors' costs for backfill and other demolition materials before reimbursing them is critical to ensuring that TARP funds are spent on costs that are both reasonable and necessary to achieving the blight elimination program's goals. Furthermore, clawing back prior payments that exceed the contractors' actual costs makes more funding available to HHF to continue assisting homeowners in need, something even more critical during the ongoing pandemic.

SIGTARP's observations demonstrate the need for additional protections to protect taxpayer funds spent in HHF and prevent fraud and waste. I am happy to discuss this, or any of SIGTARP's work, further with you.

Sincerely,

Gabriele A. Tonsil
Assistant Deputy Special Inspector General
Audit and Evaluation

³ With respect to backfill costs, the submissions only included a "Contractor Backfill Details & Documentation" form and trip/load tickets, none of which showed the actual price the contractor paid for the backfill.

⁴ SIGTARP received the most recent data available on active HHF blight elimination programs in April 2021.