

Audit Report

Waste and Abuse in the Hardest Hit Fund in Nevada



SIGTARP



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



OFFICE OF THE SPECIAL INSPECTOR GENERAL
FOR THE TROUBLED ASSET RELIEF PROGRAM
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September 9, 2016

MEMORANDUM FOR: Honorable Jacob J. Lew – Secretary of the Treasury

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

SUBJECT: Waste and Abuse in the Hardest Hit Fund Nevada
(SIGTARP 16-004)

We are providing this report for your information and use. It discusses waste and abuse of TARP funds identified in the Hardest Hit Fund program in Nevada.

The Office of the Special Inspector General for the Troubled Asset Relief Program conducted this audit (engagement code 033) under the authority of the Emergency Economic Stabilization Act of 2008 and Public Law 110-343, as amended, which also incorporates the duties and responsibilities of inspectors general under the Inspector General Act of 1978, as amended.

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 Ms. Jenniffer F. Wilson, Deputy Special Inspector General for Audit and Evaluation (Jenniffer.Wilson@treasury.gov /202-622-4633); or Mr. Chris Bosland, Assistant Deputy Special Inspector General for Audit and Evaluation (Christopher.Bosland@treasury.gov /202-927-9321).



Summary

Treasury's Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets (the "Hardest Hit Fund" or "HHF") program provides Troubled Asset Relief Program ("TARP") dollars to homeowners in 19 states to prevent foreclosures. This includes homeowners in Nevada. HHF is largely targeted at unemployment and underwater homes.

Rather than Treasury giving these rescue funds directly to homeowners, Treasury entered into a contract with each state's housing finance agency to make decisions on which homeowners are admitted into the program and be the conduit for these funds from Treasury to homeowners. Treasury contracted with Nevada's housing finance agency, the Nevada Housing Division ("NHD"), who outsourced HHF to what was its component entity at the time, the Nevada Affordable Housing Assistance Corporation ("NAHAC"). At the time, NHD officials comprised a majority of the Executive Committee of NAHAC's board. Given that NHD is the agency responsible under Treasury's contract, SIGTARP refers to both as the "state agency."

Treasury will pay only those expenses of the state agency necessary to provide the HHF services. In 2015, SIGTARP reported that homeowners in Nevada were not receiving HHF funds. This led SIGTARP to open a forensic audit of spending of Hardest Hit Fund dollars in Nevada.

What SIGTARP Found

SIGTARP found widespread waste and abuse in spending, and that the Nevada state agency abused the Hardest Hit Fund with, seemingly, a sense of entitlement and no appreciation for the fact that it was taking funds for itself from the homeowners the program intended to help.

The Nevada state agency took TARP dollars from Treasury for its expenses (\$16.6 million) while it significantly decreased performing its job to distribute these rescue funds to homeowners. This is waste—spending with no purpose. SIGTARP determined that \$8.2 million of the \$16.6 million in TARP funds the Nevada state agency received for its expenses constitute waste and should be repaid. Each dollar not repaid is one less dollar available to homeowners.

The Nevada state agency all but stopped letting people into the program to receive these funds, but it continued to take TARP money for itself. Already low numbers of Nevada homeowners admitted to HHF plummeted by 94% from 2013 to 2015. From the 2,111 Nevada homeowners it admitted to HHF in 2013, the Nevada state agency only admitted 541 homeowners to HHF in 2014, to just 117 homeowners in 2015. In 2015, the Nevada state agency kept nearly one TARP dollar for itself for every TARP dollar it provided to a homeowner. For six months in that year, it kept more in TARP money for itself than it distributed to homeowners. It was not necessary to spend more in administrative expenses per homeowner admitted to HHF in 2015 than in 2013. Therefore, Treasury should disallow and require the Nevada state agency to repay \$2,241,396 in wasted administrative expenses during 2015 that exceed the per homeowner administrative expense cost in 2013.

Given that the Nevada state agency was not spending the money on Nevada homeowners, SIGTARP conducted a forensic audit to see where the money went.

First, SIGTARP found that the Nevada state agency used TARP rescue funds to treat their employees — \$500 a month car allowance to the CEO who drove a Mercedes Benz, holiday parties at a casino and country club, holiday gifts, a company picnic, a massage gift certificate, a baby gift, gift certificates for movies and restaurants, Amazon gift cards, regular lunches and food, birthday cakes, a retirement cake, an expensive fruit basket, even a "manager outing" at an establishment dubbed the nation's best high volume cocktail bar, and moving to the gleaming \$130 million City Hall building in North Las Vegas, described as the "Taj Mahal" in the *New York Times*, nearly doubling the rent it paid for even more space than it needed, and a bonus and later a 2 month severance package for a non-performing CEO—all charged to the Hardest Hit Fund. All of these expenses were completely unnecessary to distribute foreclosure prevention funds to unemployed, underemployed, and underwater homeowners, and constitute waste and abuse.

Second, the Nevada state agency charged the Hardest Hit Funds for its violation of federal labor laws and lawsuits/claims of discrimination. Careless record keeping led to the accounting books being such a mess that accountants and auditors had to recreate them, with their fees charged to HHF.



Third, SIGTARP found that although the Nevada state agency was originally chosen to be a conduit of TARP funds from Treasury to Nevada homeowners, the state agency used those dollars to fund nearly its entire business —not just to pay for costs necessary to carry out HHF. TARP essentially funded the state agency, including rent on two offices and the salaries of employees, for an agency who did not perform under their contract with Treasury. The state agency dropped homeowner admissions to the program to only 6% of admissions at its peak year, but still sought 100% of their overhead from TARP. The agency should repay \$7.4 million in rent, utilities, and payroll.

This is not a case of mistake or negligence. SIGTARP found a deliberate attempt by the Nevada state agency to charge the Hardest Hit Fund for every expense it could, all while it denied Nevada homeowners admission to the program.

Sometime over the last three years, this state agency lost sight of the fact that it is only in this program to be the conduit through which Treasury provides TARP rescue funds to Nevada homeowners to help them stay in their homes. The Hardest Hit Fund was not intended to be a cash cow for participating state agencies. NAHAC stopped performing under Treasury's contract, and the Nevada State Housing Division allowed that to continue. Both state agencies seemingly had no regard for the squandered opportunity to help Nevada homeowners. As a result, Nevada homeowners have not had fair access to these Federal funds. They have been treated differently and unfairly than homeowners in other participating states, all because of a low-performing state agency that engaged in waste and abuse.

What SIGTARP Recommends

First and foremost, Treasury should prohibit this company who NHD outsourced the work to (NAHAC) from receiving HHF dollars and working on HHF. Because SIGTARP identified waste over a large timeframe during which multiple CEOs served, the termination of the most recent CEO is not sufficient protection. Given that Treasury recently extended the program an additional three years, it is worth it to Nevada homeowners to take the time to set up effective administration of HHF in Nevada. Second, SIGTARP recommends that Treasury seek repayment of \$8.2 million in abused and wasted TARP dollars including:

- **\$11,000.00 for the CEO's car allowance**
- **\$10,963.68 spent on employee bonuses, employee gifts, employee outings, staff lunches and other employee perks**
- **\$5,811.27 spent for holiday parties and gifts**
- **\$100,385.20 wasted on excessive rent, relocation and related costs**
- **\$184,319.21 spent on legal expenses to defend violations and alleged violations of the law**
- **\$26,395.70 to pay for forensic auditors to reconcile its books**
- **\$10,812.00 for the independent auditor to reconcile non-HHF bank accounts**
- **\$19,874.75 paid for the terminated CEO's severance package**
- **\$10,840.18 spent on non-HHF expenses identified by Treasury**
- **\$23,838.25 identified by Treasury for unsupported and non-HHF expenses**
- **\$2,241,396 in wasted excessive administrative expenses during 2015 which exceeded the per-homeowner-cost in 2013, and**
- **\$7,459,626.22 in overhead.¹**

In commenting on a draft of this report, Treasury stated that it will look at SIGTARP's recommendation at a later date.

¹ To the extent that an expense in one category could be put into two categories, SIGTARP only counted that expense one time for Treasury to seek reimbursement.



Table of Contents

Summary	ii
Table of Contents	iv
Introduction	1
Background	2
The Nevada State Agency Abused and Wasted \$11,000 in TARP Dollars by Charging the Hardest Hit Fund a Car Allowance of \$500 per Month for the CEO Who Drove a Mercedes, Rather Than Provide Those Funds to Homeowners	3
The Nevada State Agency Abused and Wasted TARP Funds By Improperly Charging the Hardest Hit Fund More Than \$10,000 for a Manager Outing at a Cocktail Bar, a Country Club Lunch, A Company Picnic, A Massage and a Baby Gift for Employees, Regular Staff Lunches and Perks and a Bonus for the CEO—All While the Number of Homeowners Admitted to the Program Plummeted	4
The Nevada State Agency Abused and Wasted Hardest Hit Funds by Paying for Employee Holiday Parties, at a Casino and a Country Club, Charging American Taxpayers for Meals, Party Favors, a Disc Jockey, and Gift Cards Given to Employees—All While the Number of Homeowners Admitted to the Program Plummeted	9
At the Same Time It All But Stopped Helping Homeowners and Reduced its Workforce, the Nevada State Agency Abused and Wasted Hardest Hit Funds by Moving to a Much Nicer & Bigger Office with One of the Highest Lease Rates Around, Doubling the Rent Charged to the Hardest Hit Fund.....	14
<i>Precipitous Drop in The Nevada State Agency’s Admission of Homeowners into HHF Prior to Office Move to Much Nicer Space</i>	<i>16</i>
<i>Decrease in Homeowners Admitted to HHF Nevada While the Nevada State Agency Maintained an Office in Much Nicer Space Than It Had For the Prior 4 Years.....</i>	<i>16</i>
During 6 Months in 2015, the Nevada State Agency Spent More TARP Funds on Itself than on Helping Homeowners Which Resulted in Waste of Federal Funds	19
For the Entire Year 2015, the Nevada State Agency Kept Nearly Half of All TARP Funds for Itself, While Admitting Only 117 Homeowners into the Program	21
In 2014 and 2015, the Number of Homeowners Helped by HHF Nevada Plummeted, Even as Nevada Homeowners Continued to Suffer from High Unemployment and the Worst Underemployment Problem in the Nation.....	23
<i>The Nevada State Agency Significantly Reduced the Percentage of Applying Homeowners Who Were Admitted into the Program</i>	<i>23</i>
<i>Treasury Approved HHF Nevada to Stop Accepting Applications for All of Its HHF Programs, Including the Two Largest Programs.....</i>	<i>24</i>



Treasury Allowed HHF Nevada to Divert Funds from the Two Largest Programs (Unemployment and Principal Reduction) to Two Programs that Never Helped a Single Homeowner..... 24

TARP Dollars Paid for Violations of the Law and Alleged Violations of the Law Which Amounts to Waste..... 25

The Nevada State Agency’s Careless Recordkeeping Resulted in Additional Waste of Over \$26,000 in TARP Dollars Paid to a Forensic Auditor to Reconstruct the Financial Books 27

The Nevada State Agency’s Careless Recordkeeping Resulted in Additional Waste of Nearly \$11,000 Paid to an Independent Auditor to Reconcile Bank Accounts Including Non-HHF Accounts..... 28

The Nevada State Agency Wasted TARP Dollars by Paying the Recently Terminated CEO a 2-Month Full Pay and Benefit Severance Package 29

The Nevada State Agency Has Committed Waste by Using Hardest Hit Funds to Pay for Non-Hardest Hit Fund Expenses..... 30

The Nevada State Agency’s Careless Recordkeeping Resulted in Additional Waste of Nearly \$25,000 in Travel, Entertainment, and Unsupported Credit Card Charges 32

The Nevada State Agency Committed Waste by Using Hardest Hit Funds to Pay 100% of its Overhead Costs Including Rent and Payroll Even Though It Works on Non-Hardest Hit Fund Activities..... 33

Conclusion..... 36

Recommendations 42

Management Comments and SIGTARP’s Response..... 46

Appendix A – Objectives, Scope, and Methodology 47

Limitations on Data 47

Use of Computer-Processed Data 48

Internal Controls:..... 48

Prior Coverage..... 48

Appendix B – Acronyms and Abbreviations..... 49

Appendix C – Audit Team Members 49

Appendix D – Management Comments 50



Introduction

SIGTARP's recent audits highlight ineffectiveness in TARP's Hardest Hit Fund by identifying obstacles to homeowners receiving Hardest Hit funds and making recommendations to improve the program. Because of the critical importance of this TARP program to unemployed and underemployed homeowners, SIGTARP has scrutinized low performing state housing finance agencies that make this program ineffective. These state agencies, chosen for their knowledge of local problems, are responsible for serving as conduits to flow TARP dollars from Treasury to homeowners.² Low performing state agencies stop the flow of TARP dollars to homeowners. State agencies should only facilitate the distribution of these rescue funds to homeowners, and never serve as obstacles to TARP funds reaching the homeowners this program intended to help.

One of the low performing state agencies in the Hardest Hit Fund is in Nevada. Nevada is an important state to the Hardest Hit Fund. It was one of the first five states deemed to be "hardest hit" by Treasury, and President Obama announced the creation of the Hardest Hit Fund from Las Vegas. The number of homeowners Nevada estimated it would help has already fallen 66% (from 23,556 homeowners to 8,026). SIGTARP became concerned when the number of Nevada homeowners being admitted to the program plummeted from the peak 1,015 in the first quarter of 2013 to 212 homeowners one year later. That dropped in 2015 even further to 117 homeowners for the entire year, raising serious concerns.

While focused on the huge drop in performance of the program in Nevada, SIGTARP became aware of certain spending of TARP funds by the state agency. This led SIGTARP to open a forensic audit of spending of Hardest Hit dollars in Nevada. The objective of this audit was to review Hardest Hit Fund ("HHF") Nevada's use of TARP funds for administrative and other costs. SIGTARP conducted this audit in accordance with generally accepted government auditing standards established by the U.S. Government Accountability Office. For a complete discussion of the audit scope and methodology, see Appendix A.

² The housing finance agencies of 18 states and the District of Columbia participate in the Hardest Hit Fund, and have signed contracts with Treasury governing their participation in the program.



Background

Treasury pays certain administrative expenses of the state housing finance agencies out of Hardest Hit Fund dollars set aside to help homeowners. Treasury limits those expenses to those “necessary to carry out the services.” State agencies submit a budget of administrative expenses to Treasury for approval. Treasury approves all disbursements of HHF dollars for these administrative expenses and receives a quarterly report on spending. Treasury conducts on-site compliance reviews on a sample basis.

Treasury entered into a contract with the state housing finance agency in Nevada, which is called the Nevada Housing Division. Treasury requires that each state agency designate a financial institution to receive the funds, referred to as an “eligible entity.” The Nevada housing finance agency received Treasury permission to have one of its components called the Nevada Affordable Housing Assistance Corporation (“NAHAC”) serve as the eligible entity.

Information on HHF appears on the Nevada Housing Division’s website, but it outsourced the administration of the Hardest Hit Fund to its pre-existing component entity, NAHAC, which also provided other non-HHF services.³ This is rare in HHF, as most state housing agencies in the Hardest Hit Fund administer the program, either themselves or through a special-purpose eligible entity created specifically for HHF. Nevada’s proposal to Treasury said, “Program leadership will come from the NAHAC Executive Committee....The Nevada [state housing finance agency’s] Executive Director, Chief Financial Officer and Chief of Federal Programs constitute the Executive Committee....”⁴ Given that the Nevada Housing Division served as the agency responsible under Treasury’s HHF contract, SIGTARP will refer to both NHD and NAHAC as “the state agency” or “Nevada agency” or “state housing finance agency.”

Treasury has obligated \$202 million for the Hardest Hit fund in Nevada, 55% of which had been drawn down as of June 30, 2016. Treasury has paid \$16.6 million of these drawn down funds for administrative expenses.

NAHAC has experienced a high rate of executive-level and board turnover. NAHAC changed its CEO four times in the last three years, essentially terminating the most recent CEO in May 2016. A number of other senior executives have also left or been terminated during this period, including the Controller (several times) and the Senior Compliance Officer. By mid-2013, NAHAC’s executive committee was no longer comprised of NHD executives, as was proposed to Treasury at the start of the program.⁵

³ When it launched HHF in 2010, NHD officials comprised a majority of the Executive Committee of NAHAC’s board. In 2013, NHD approved changes to the make-up of NAHAC’s board that reduced its influence over NAHAC and spun off NAHAC as a component.

⁴ The proposal is published on Treasury’s website at <https://www.treasury.gov/initiatives/financial-stability/programs/housing-programs/hhf/Documents/NV.pdf>.

⁵ NAHAC’s Executive Committee was eliminated altogether in 2013, along with the Board seats reserved for NHD executives. In 2016, after Treasury directed NAHAC in December 2015 to increase the HHF assistance



The Nevada State Agency Abused and Wasted \$11,000 in TARP Dollars by Charging the Hardest Hit Fund a Car Allowance of \$500 per Month for the CEO Who Drove a Mercedes, Rather Than Provide Those Funds to Homeowners

SIGTARP found that from October 2014 to July, 2016, the Nevada state agency abused and wasted \$11,000 in TARP dollars by charging the Hardest Hit Fund \$500 per month for a car allowance for the former CEO who drove a Mercedes. This constitutes waste which the Government Accountability Office (“GAO”) defines 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.”⁶

This spending also constitutes abuse. GAO defines abuse as “behavior that is deficient or improper when compared with 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.” Both types of abuse are present here.

A private company or a state agency can choose to pay a state employee a car allowance but that does not mean those should be expensed to the Hardest Hit Fund. A car allowance is not necessary to administer HHF. Any official travel by car related to HHF can be reimbursed through a standard mileage reimbursement.

Treasury should disallow and require the Nevada state agency to repay \$11,000 for abuse and waste in charging the Hardest Hit Fund for the CEO’s \$500 per month car allowance. Treasury should determine whether HHF Nevada spent additional Hardest Hit Fund dollars on car allowances and seek repayment of those expenses. Treasury should also determine whether any other state agency is charging the Hardest Hit Fund for a car allowance and seek repayment of those expenses.

provided to homeowners, NAHAC’s board structure was changed again, restoring control of a majority of seats to NHD and its parent state organization (Nevada Department of Business and Industry).

⁶ Statement of David M. Walker, Testimony before the U.S. Senate Committee on Appropriations, “Stabilizing and Rebuilding Iraq: Actions Needed to Address Inadequate Accountability over U.S. Efforts and Investments,” GAO-08-568T, March 11, 2008, <http://www.gao.gov/new.items/d08568t.pdf> (accessed 07/13/2016).



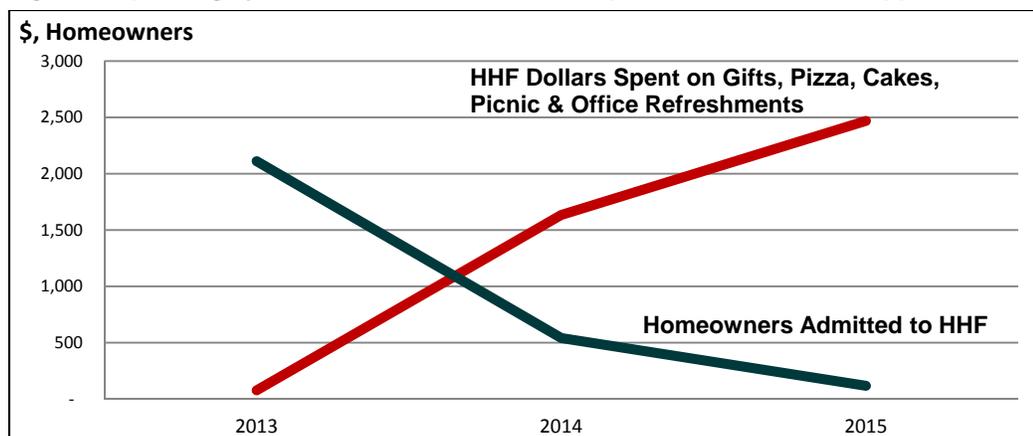
The Nevada State Agency Abused and Wasted TARP Funds By Improperly Charging the Hardest Hit Fund More Than \$10,000 for a Manager Outing at a Cocktail Bar, a Country Club Lunch, A Company Picnic, A Massage and a Baby Gift for Employees, Regular Staff Lunches and Perks and a Bonus for the CEO— All While the Number of Homeowners Admitted to the Program Plummeted

SIGTARP found that the Nevada state agency abused and wasted \$10,963.68 in Hardest Hit funds by charging taxpayers for gifts for employees, employee perks and office catering/refreshments, and a \$4,500 bonus for the CEO, rather than spending those funds on Nevada homeowners. Hardest Hit Fund dollars were spent on a massage and baby gift for employees, a company picnic, regular staff pizza days, staff lunches, coffee in the office, and birthday/retirement cakes.

These expenses were in addition to any meals and entertainment expenses associated with travel. These expenses are also in addition to holiday parties for employees held every December that were paid for with HHF dollars, which will be addressed in the next section.

These expenses were not necessary for the Hardest Hit Fund, as shown by the fact that the Nevada state agency provided HHF help to homeowners in past years without buying meals and drinks and gifts for employees. SIGTARP found that the Nevada state agency increased spending on wining and dining and freebies for employees, at the same time it decreased the number of homeowners admitted to the Hardest Hit Fund, as shown in the following figure:

Figure 1: Spending by Hardest Hit Fund Nevada Compared to Homeowners Approved for HHF



Source: SIGTARP analysis of HHF funds spent on perks in comparison to homeowners approved for HHF.



The precipitous drop in Nevada homeowners being admitted to the program also shows that the \$4,500 bonus to the CEO of the Nevada state agency paid in July 2015 amounts to waste. It had no purpose in HHF and was certainly not necessary to administer HHF.

The more than \$10,000 in Hardest Hit Fund dollars wasted on Nevada state agency employees could have helped some Nevada homeowners pay their mortgages—the people these funds were intended to reach. This state agency acted like a private company in providing perks and gifts to employees, but then charging those costs to Federal bailout funds. The American taxpayers are providing these Federal rescue funds to homeowners to stave off foreclosure, not to provide gifts, perks, and a bonus for state employees such as:

1. \$900 in Hardest Hit Funds wasted on a company picnic

The Nevada state agency charged \$903.84 to the Hardest Hit Fund to pay for the company’s picnic including supplies in June 2015.

2. More than \$200 Hardest Hit funds wasted on a “manager outing” at Herbs & Rye, named the nation’s best high volume cocktail bar

On July 23, 2015, the Nevada state agency expensed to the Hardest Hit Fund \$210 charged to the corporate credit card for a “manager outing” at Herbs & Rye. According to the local ABC affiliate, Herbs & Rye has been named the best high volume cocktail bar in the nation:
<http://www.ktnv.com/positivelylv/business/spirited-awards-honors-las-vegas-herbs-rye-as-best-high-volume-cocktail-bar>.

3. Nearly \$300 in Hardest Hit Funds wasted on a massage for an employee, Edible Arrangement for the accounting staff, and a baby blanket from FTD



The Nevada state agency used TARP funds to buy gifts for employees including a \$72 baby blanket from FTD.com, a \$99.98 gift from Massage Envy, and \$125 for an Edible Arrangement for the accounting staff.



4. *Hardest Hit Funds wasted on lunch for the CEO at a country club, employee lunches, cakes to celebrate staff birthdays/retirement, office donuts, pizza, sandwiches, and coffee*

SIGTARP found that, in 2014 and 2015, the Nevada state agency regularly treated its employees to breakfast, coffee, lunches, and celebratory birthday cakes, and then charged all of it to the Hardest Hit Fund. For example, on June 1, 2014, the Nevada state agency spent \$210 on pizza for the staff on the corporate credit card, and then paid the credit card with Hardest Hit Fund dollars without reimbursement. Cakes were frequently purchased for the staff to celebrate birthdays and charged to HHF. A retirement cake was charged to HHF. A \$105 lunch at a country club by the CEO, and other lunches, were all expensed to HHF. A \$20 tip to an employee at a casino was also charged to HHF. More than \$250 for Bring Your Children to Work day was charged to the Hardest Hit Fund. Sodas, coffee, bottled water, donuts, sandwiches, meat and cheese platters, were all charged to the Hardest Hit Fund.

Charging these costs to the Hardest Hit Fund constitutes abuse and waste. None of these costs were necessary to administer HHF. These costs have no purpose in HHF. Instead, the Nevada state agency abused HHF by spending these rescue dollars on its own employees like a private company, but making HHF foot the bill.

These costs were not mistakenly charged to HHF. The state agency had to take an action to have HHF pay these expenses. Employees filled out an expense form that was then drawn on the HHF bank account, or employees put the costs on a credit card and used HHF funds to pay off the credit card bill.

SIGTARP found that each month, the Nevada state agency paid its corporate credit card bill using a check drawn on the Hardest Hit Fund account without reimbursing for non-HHF expenses

The Nevada state agency paid its entire corporate credit card by using a check drawn from the Hardest Hit Fund, even if the bill contained expenses unrelated to HHF. The Nevada state agency had two bank accounts, the first through Nevada State Bank and the second with the Bank of New York Mellon account, in which Treasury deposited Hardest Hit funds. The corporate credit card was issued by the Nevada State Bank. Rather than allocate expenses and draw from both accounts to pay the credit card bill based on what the charge related to, the Nevada state agency each month paid the bill solely from the Treasury-funded bank account. The following example (see Figure 2) shows a corporate credit card bill that included the manager outing to the cocktail bar, and the check from the HHF account paying that bill. There was no reimbursement to HHF.



Figure 2: Nevada State Agency's Credit Card Statement Paid with Hardest Hit Fund Bank of New York Mellon Checking Account



NEVADA STATE BANK

CONTROL ACCOUNT
N A H A C
Account Number :
[REDACTED]



ACCOUNT SUMMARY

Account Number	[REDACTED]	Previous Balance	\$1,493.35
Credit Limit	\$20,000.00	Payments	\$1,493.35
Available Credit	\$18,543.00	Credits	\$111.20
Statement Closing Date	August 12, 2015	Purchases	\$1,568.09
Payment Due Date	September 01, 2015	Other Charges	\$0.00
Amount Past Due	\$0.00	Cash Advances	\$0.00
Min Payment Due	\$36.00	Finance Charges	\$0.00
Days in Billing Cycle	33	New Balance	\$1,456.89

TRANSACTIONS

Trans Date	Post Date	Reference Number	Transaction Description	Amount
08/11	08/11	[REDACTED]	PAYMENT - THANK YOU	-\$1,493.35
TOTAL		[REDACTED]	\$1,493.35-	

NEVADA AFFORDABLE HOUSING ASSISTANCE CORPORATION
2250 LAS VEGAS BLVD, NORTH, SUITE 300
NORTH LAS VEGAS, NEVADA 89090

THE BANK OF NEW YORK MELLON
PITTSBURGH, PA

8/14/2015

PAY TO THE ORDER OF Nevada State Bank

\$**1,456.89

One Thousand Four Hundred Fifty-Six and 89/100

BankCard Center
PO Box 30833
Salt Lake City, UT 84130-0833

VOID AFTER 90 DAYS

MEMO CC payment for statement closing date August 12, 2

5657

DOLLARS

Ck. No.5657
08-25
\$1,456.89

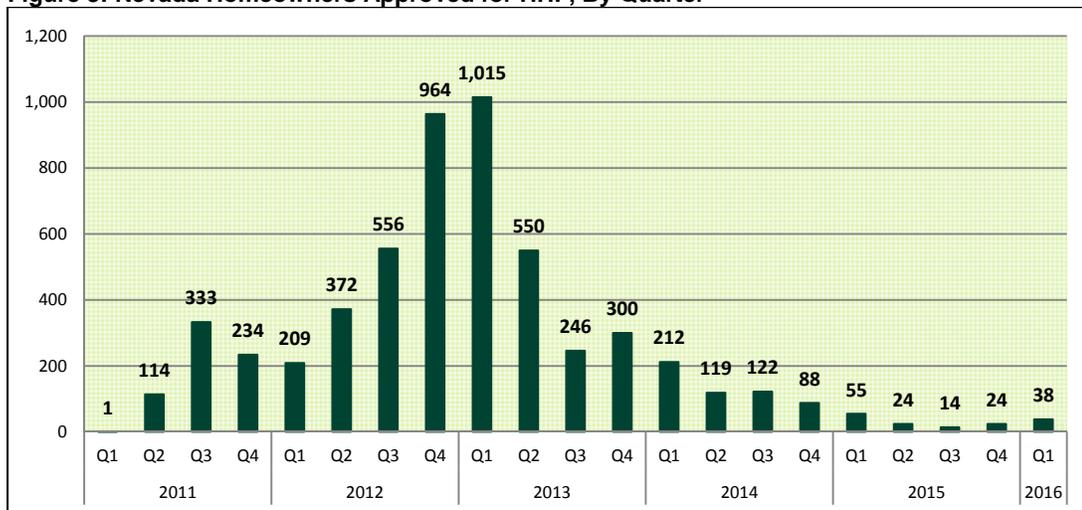
Source: SIGTARP analysis of Nevada state agency's credit card charges and payments from its Hardest Hit Fund bank account.

The Nevada state agency routinely charged non-HHF expenses on a corporate credit card, paid the credit card bill with a check drawn on the TARP-funded account, and failed to reimburse these funds to the HHF account.



Particularly troubling is the fact that the Nevada state agency had cut back the services they provided homeowners in HHF. This same agency kept decreasing the number of homeowners it admitted in the program, as shown in Figure 3 below, while it expensed these wasted costs to the program.

Figure 3: Nevada Homeowners Approved for HHF, By Quarter



Source: SIGTARP analysis of the Nevada state agency's Quarterly Performance Reports to Treasury.

SIGTARP found that the Nevada state agency increased spending on perks that only benefitted its own employees using Hardest Hit funds, while it was denying homeowners who applied for those funds, and while other homeowners were waiting to hear if they would receive the funds.

Treasury should disallow and require the Nevada state agency to repay \$10,963.68 for waste of Hardest Hit funds paid to the CEO for a bonus, gifts, employee perks, office refreshments and employee meals. Treasury should conduct an in-depth review of all administrative expenses incurred by the Nevada state agency and the other 18 state housing finance agencies participating in the Hardest Hit Fund to determine whether there are additional employee perks and gifts to employees paid for with Hardest Hit funds over the lifetime of the program and, if found, require that those funds be repaid to Treasury. Treasury should put a moratorium on all spending of Hardest Hit funds for employee bonuses, employee gifts, alcohol, and office refreshments at every participating state agency.



The Nevada State Agency Abused and Wasted Hardest Hit Funds by Paying for Employee Holiday Parties, at a Casino and a Country Club, Charging American Taxpayers for Meals, Party Favors, a Disc Jockey, and Gift Cards Given to Employees—All While the Number of Homeowners Admitted to the Program Plummeted

SIGTARP found that the Nevada state agency used \$5,811.27 in Hardest Hit funds in December 2013, 2014, and 2015, to pay for holiday parties and holiday gifts for employees. SIGTARP found that this spending amounts to waste and abuse. Under GAO's definition of waste as: *"...taxpayers do not receive reasonable value for money in connection with any government-funded activity due to inappropriate acts or omission by officials with control over or access to government resources,"* this spending had no purpose to HHF.

This spending also constitutes abuse, as it is both "behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary, and the misuse of authority or position for personal gain or for the benefit of another."

Additionally, this spending was not necessary for administering HHF, the standard under Treasury's contract. Although \$5,800 may not seem like a large sum of money, it could have helped some Nevada homeowners pay their mortgage—the people these funds intended to help. The question is not whether a state agency should have a holiday party, but instead who should pay for it. The American taxpayers are providing these Federal rescue funds to homeowners to stave off foreclosure, not to pay for holiday parties and provide gifts for state employees.

The worst part of this spending was that, while continuing to throw a party each December, this same agency kept decreasing the number of homeowners it admitted in the program.

SIGTARP found that the Nevada state agency expensed the following holiday costs to the American taxpayers by using Hardest Hit funds, while it was denying homeowners who applied for those funds, and while other homeowners were waiting to hear if they would receive the funds:



Table 1: Nevada Holiday Party Expenses Paid by the Hardest Hit Fund

	Event	Description	Expensed
2013	Employee Winter Social	Brentwood Café & Tavern, Las Vegas (Dinner for 45 employees, \$138 gratuity and \$150 for a DJ)	\$1,052.70
2013	Holiday Luncheon	Gift cards at PF Chang's for Reno Employees	\$140.00
2013	Amazon Gift Cards	6 gifts cards for \$20 each in lieu of spouses/significant others of Reno staff	\$120.00
2014	Deposit for NAHAC Holiday Party	Gold Coast Hotel & Casino, Las Vegas	\$500.00
2014	NAHAC Holiday Party	Gold Coast Hotel & Casino, Las Vegas (Dinner for 35 employees, \$220.50 gratuity, \$150 service fees)	\$1,095.50
2014	Employee Per Diems	Reno Employees Per Diem to Attend 2014 Holiday Party in Las Vegas	\$247.70
2014	Holiday Gift Bags	Gift Bags for Employees (\$391 in gift cards, \$90 in holiday craft bags & candy)	\$479.91
2015	Deposit for Employee Holiday Party Gathering	Dragon Ridge Country Club & Golf Course, Las Vegas	\$250.00
2015	Employee Holiday Party Gathering	Dragon Ridge Country Club & Golf Course, Las Vegas	\$1,430.00
2015	Holiday Gathering Expenses	Dragon Ridge Country Club & Golf Course, Las Vegas	\$119.99
2015	Reno Employee Holiday Party	Holiday Gifts and Reno Gift Card	\$284.79
2015	Holiday Department Lunch	Holiday Department Lunch	\$61.70
2015	Holiday Favors	Favors for the 2015 Holiday party	\$28.98
TOTAL Expensed to HHF			\$5,811.27

Source: SIGTARP analysis of the Nevada state agency's general ledgers, Board minutes and other bank records.

December 2013 Holiday Party at a Restaurant

In December 2013, as shown in Table 1, the Nevada state agency spent \$1,192.70 in Hardest Hit funds on a holiday party at Brentwood Café and Tavern for employees in Las Vegas and a holiday lunch at P.F. Chang's for employees in Reno. It also expensed \$120 for gift cards to employees' spouses/significant others to this TARP rescue program. This spending occurred during a quarter in which this state agency turned down 200 Nevada homeowners for the program, and 437 homeowners were "in process" waiting for Federal dollars.



December 2014 Holiday Party at a Casino

In December of the following year, 2014, the Nevada state agency spent more than \$1,095.50+ \$500 deposit in Hardest Hit funds on a holiday party for employees at the Gold Coast Hotel and Casino in Las Vegas.



Gold Coast Hotel and Casino, Las Vegas, Nevada.

Hardest Hit funds also paid \$247.70 for Reno employees' per diem costs to attend the party at the casino in Las Vegas. In connection with the party, the state agency expensed to the Hardest Hit Fund nearly \$400 in gift cards for employees, and almost \$100 in gift bags filled with candy. There were 15 gift cards valued at \$25 each (plus tax), including MasterCard, Visa, Outback Steakhouse, Regal Cinemas, Shell, Panda Express, and Starbucks.



This spending occurred in a quarter when this state agency was decreasing the number of people that received Hardest Hit funds. In the fourth quarter of 2014, the state agency admitted only 88 new homeowners to the program, far less than the 300 homeowners admitted in the same quarter the prior year. The state agency turned down 109 homeowners for the program and 69 homeowners were "in process" waiting for Federal dollars.

December 2015 Holiday Party at a Country Club

Again in November/December 2015, the Nevada state agency spent more than \$1,430 + \$250 deposit in Hardest Hit funds for its holiday party, this time at the Dragon Ridge Country Club and Golf Course, Las Vegas, pictured below and described on its website as follows:

⁷ <https://media-cdn.tripadvisor.com/media/photo-o/09/8e/2a/e8/gold-coast-hotel-and.jpg> (accessed 08/12/16).



**“Welcome to DragonRidge Country Club
Elevate Your Surroundings
Championship Golf, Luxurious Amenities and Elegant
Service Delivered at a Breathtaking Altitude”⁸**

The Nevada state agency used Hardest Hit funds to buy \$284.79 in gift cards for employees and \$28.98 in holiday favors, all expensed to the Hardest Hit Fund. This spending on employees occurred while the number of homeowners admitted to the program decreased to dismal levels. In the 4th quarter of 2015, this state agency admitted only 24 new homeowners to the program—only 8% of the number of homeowners admitted in the fourth quarter of 2013. That quarter, the state agency turned down 201 homeowners for the program and 84 homeowners were “in process” waiting for Federal dollars. Treasury sent the Nevada state agency an action memorandum in the same month of this holiday party, December 2015, requiring it to come up with a strategy to increase the number of homeowners in HHF.

Charging party costs and employee gift cards to a foreclosure rescue program, given the struggle of the homeowners who are the intended recipients of these rescue funds, constitutes waste and abuse. Treasury is responsible for ensuring that each TARP program is free from waste, including Hardest Hit Fund Nevada. Treasury certifies annually to GAO that its internal controls are designed to, among other things, ensure programs and resources are free from fraud, waste, and mismanagement. One of Treasury’s management objectives is to ensure that TARP programs and resources are free from waste, fraud and mismanagement.⁹

⁸https://www.google.com/search?q=dragon+ridge+country+club+las+vegas&biw=1152&bih=586&source=lms&tbn=isch&sa=X&ved=0ahUKEwjf08Ski8v0AhVJMjYKHOQl3BZ8Q_AUIBigB#imgrc=yxs9jnDvGRqeYM%3A (accessed 08/11/2016).

⁹ Treasury, “Agency Financial Report: Office of Financial Stability–Troubled Asset Relief Program,” Fiscal Year 2015.



Treasury should disallow and require the Nevada state agency to repay \$5,811.27 for waste and abuse in holiday parties and holiday gifts to employees. Treasury should conduct an in-depth review of all administrative expenses incurred by the Nevada state agency and the other 18 state agencies participating in the Hardest Hit Fund to determine whether there are additional employee parties or gifts to employees paid for with Hardest Hit funds over the lifetime of the program and, if found, require that those funds be repaid to Treasury. Treasury should put a moratorium on all spending of Hardest Hit funds for employee parties (or social gatherings) and employee gifts at every participating state agency.



At the Same Time It All But Stopped Helping Homeowners and Reduced its Workforce, the Nevada State Agency Abused and Wasted Hardest Hit Funds by Moving to a Much Nicer & Bigger Office with One of the Highest Lease Rates Around, Doubling the Rent Charged to the Hardest Hit Fund

SIGTARP found that at the same time the Nevada state agency all but stopped admitting new homeowners into the program and was reducing its workforce, it moved its office to what an agency official referred to as “...much nicer space...,” nearly doubling the rent, all charged to the Hardest Hit Fund. Despite being in the same office for four years, in July 2014, the Nevada state agency moved its Las Vegas office to the fairly new North Las Vegas City Hall. The state agency entered into a three-year lease, at one of the “...highest lease rate around...,” according to the former CEO of the state agency. With this move, the Nevada state agency nearly doubled its monthly rent (from approximately \$6,000 to approximately \$11,200), and increased its office space by 41%, charging it all to the Hardest Hit Fund. The Nevada state agency was leasing more space than was necessary to administer HHF, at the highest lease rate in the area (according to the former CEO), and for space that was not suited to its needs.

The New York Times ran a story on November 19, 2011, criticizing city officials for moving into this new building derided by residents still suffering from the economy as “a Taj Mahal,” <http://www.nytimes.com/2011/11/20/us/in-north-las-vegas-new-city-hall-is-a-reminder-of-flush-days.html? r=0>.¹⁰ The New York Times described the North Las Vegas City Hall building as having a view that stretches for miles, marble floors, granite tabletops, a parking lot covered with solar panels to keep cars cool in the Vegas heat, a wellness center including fitness equipment, and an outdoor concert plaza. Given that one-third of the homes in North Las Vegas were in foreclosure, and that houses that were occupied were worth less than half the value from two years prior, the New York Times reported one resident who lost his job as saying about the City Building, “It’s just disrespectful – like they have no idea of what people are going through.”

¹⁰ Jennifer Medina, “In Nevada, a City Hall Is a Reminder of Flush Days,” *The New York Times*, Nov. 19, 2011.



North Las Vegas City Hall Building¹¹

SIGTARP found that this created waste because it served no purpose for the program. According to internal communications of the Nevada state agency, the factors considered in making the move were: 1) to be in the location near the hardest hit; 2) a “much more professional office space;” (3) a “much nicer space;” 4) rebranding the state agency as a leader; and 5) employee morale. The Nevada state agency’s affiliate moved to the same building, signing a lease at the same time.

Only one of those factors (location) relates to the Hardest Hit Fund, and that appears to be window dressing because the Nevada state agency had been on a decline in admitting homeowners into the Hardest Hit Fund, a decline that would come just short of grinding to a complete halt while it occupied this much nicer space. In addition, the building was not open to the public on Fridays and had no mail delivery on Fridays, which according to the CEO of the Nevada state agency created problems with homeowner’s getting access to Nevada state agency employees and with payments and documents arriving.

In the year before the office move, the number of new homeowners admitted to the program had dropped precipitously each quarter and, as shown in Table 2, the Nevada state agency had stopped accepting new homeowners into four of its five programs. In May 2013, the state agency decided to reduce staff from 56 to 35 people and further reduce staff as necessary going forward.

¹¹ Associated Press Photo, <http://lasvegas.cbslocal.com/2016/07/26/house-members-discuss-red-tape-on-vegas-area-federal-lands/> (accessed 8/11/16).



Precipitous Drop in The Nevada State Agency's Admission of Homeowners into HHF Prior to Office Move to Much Nicer Space

Table 2: HHF Nevada Program-by-Program Activity by Quarter, Q1 2013—Q2 2014

<i>HHF Nevada</i>	Q1-2013	Q2-2013	Q3-2013	Q4-2013	Q1-2014	Q2-2014
Principal Reduction Program	417	274	80	31	5	0
Second Mortgage Reduction Program	38	11	50	12	2	0
Short Sale Acceleration Program	1	0	0	0	0	0
Mortgage Assistance Program	520	244	114	256	205	113
Mortgage Assistance Program Alternative	54	21	2	1	0	0
TOTAL Homeowners per Program	1,030	550	246	300	212	113
Total Unique Homeowners	1,015	550	246	300	212	119

Source: SIGTARP analysis of the Nevada state agency's Quarterly Performance Reports to Treasury.

This decrease in help to homeowners only got worse. During the time that the Nevada state agency was in this new office building (July 2014 through June 2015), as shown in Table 3 no new homeowners were admitted into the main principal reduction program, the second-lien program, the short sale program, or an alternative unemployment program.

Decrease in Homeowners Admitted to HHF Nevada While the Nevada State Agency Maintained an Office in Much Nicer Space Than It Had For the Prior 4 Years

Table 3: HHF Nevada Program-by-Program Activity by Quarter, Q3 2014—Q2 2015

	Q3-2014	Q4-2014	Q1-2015	Q2-2015
Principal Reduction Program	0	0	0	0
Second Mortgage Reduction Program	0	0	0	0
Short Sale Acceleration Program	0	0	0	0
Mortgage Assistance Program	122	88	67	24
Mortgage Assistance Program Alternative	0	0	0	0
TOTAL Homeowners per Program	122	88	67	24
Total Unique Homeowners	122	88	55	24

Source: SIGTARP analysis of the Nevada state agency's Quarterly Performance Reports to Treasury.



During the time the state agency charged the Hardest Hit Fund for this “much nicer space,” it all but stopped admitting new homeowners into the program, despite being in a building in a location amongst hardest hit homeowners.

After a year, the Nevada state agency determined that new office was not necessary, the rent was too high, and the space too large. The then-CEO of the state agency said that the agency needed to reduce rent, and that the state agency only needed 75% of the space it was leasing. The CEO said, “The building was running \$11,200 per month for a little over 6000 square feet when only about 4500 square feet is needed”—approximately what the Nevada state agency had previously rented. The Nevada state agency broke the lease after making the June 2015 payment, and entered into a significantly lower lease in June 2015 costing \$6,658.40 per month, but did not reimburse HHF for the prior excessive rent spent the last year.

Nevada State Agency Used Hardest Hit Funds to Pay Rent on Two Office Buildings in Las Vegas in June 2015

For the month of June 2015, the Nevada state agency charged the Hardest Hit Fund for rent on two offices—the new office it moved to and the office where it broke the lease. Double rent served no purpose to the Hardest Hit Fund and constitutes waste.

Nevada State Agency Used Hardest Hit Funds to Pay Moving Costs to the New, More Affordable Office Building & For New Furniture in June 2015

The Nevada state agency charged the Hardest Hit Fund approximately \$20,000 for moving costs to move out of the “much nicer space” into a more affordable, smaller office and to buy new office furniture.

Nevada State Agency Used Hardest Hit Funds to Pay \$19,140 for Lawyer's Fees Related to Moving

The state agency incurred legal fees of \$19,140 in both moves related to entering into and terminating leases. Lawyers’ fees related to moving were block-billed (the combination of different types of activities in one entry on the invoice).

As result, for one year while the Nevada state agency stopped taking homeowner applications in 4 of 5 HHF programs and did very little to admit new homeowners into the one open program, it used Hardest Hit funds to pay rent for a “much nicer space” at the “highest lease rate around” and double rent for June 2015, when they moved out—a total of \$61,245.20, as shown in Table 4. The Nevada state agency also used Hardest Hit funds to pay \$39,140 in related moving costs and lawyers’ fees.



Table 4: Excessive Rent – Las Vegas Office

Old Monthly Rent (July 2014-June 2015)	\$11,207.30
New Monthly Rent for “Much Nicer Space” in Excess of What was Needed (June-December 2015)	\$6,658.40
Excessive Rent per Month	\$4,548.90
Wasted Rent (\$4,548.9 x 11 months—July 2014-May 2015)	\$50,037.90
Rent for Old Space While Also Paying Rent for New Office Space (June 2015)	\$11,207.30
Wasted Excess Rent	\$61,245.20

Source: SIGTARP’s analysis of the Nevada state agency’s Las Vegas office lease agreements and general ledgers through December 31, 2015.

SIGTARP also found that these charges constitute abuse as it is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary. It is also abuse because it is a misuse of authority or position for the benefit of the state agency, not for the benefit of homeowners in HHF.

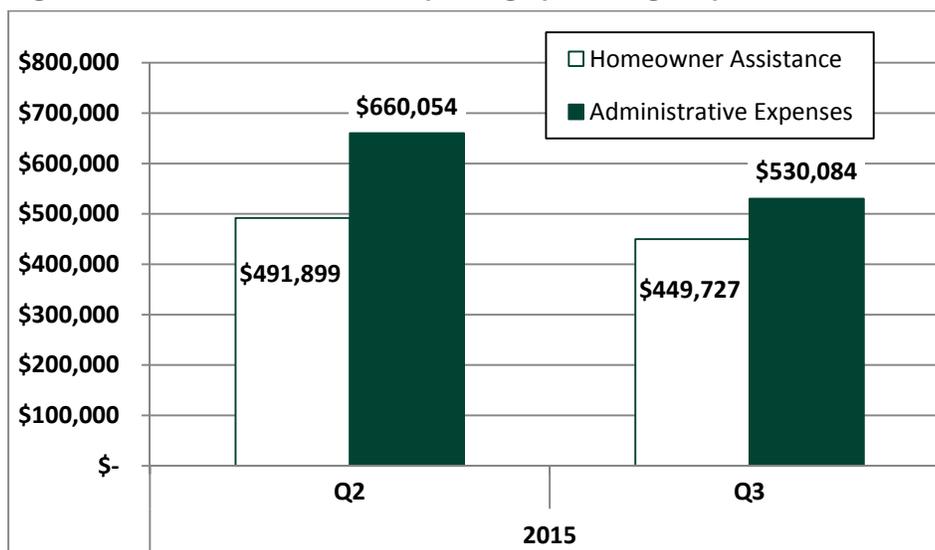
Treasury should disallow and require the Nevada state agency to repay \$100,385.20 for abuse and wasted rent for its Las Vegas office space, and related expenses.



During 6 Months in 2015, the Nevada State Agency Spent More TARP Funds on Itself than on Helping Homeowners Which Resulted in Waste of Federal Funds

SIGTARP found that for six months last year, the Nevada state agency spent more on its own administrative expenses than on helping homeowners. Between April and September 2015, the Nevada state agency spent \$1.2 million in Federal TARP funds to pay for its own administrative expenses—almost \$250,000 more than it provided to struggling Nevada homeowners seeking help from HHF (Figure 4). In each of those two quarters, the Nevada state agency spent more Hardest Hit funds on its own overhead such as salaries, rent and equipment and to pay lawyers and accountants, than it provided to homeowners.

Figure 4: Hardest Hit Fund Nevada Spending April through September 2015



Source: SIGTARP analysis of the Nevada state agency's Quarterly Performance Reports reported to Treasury.

During these six months, the Nevada state agency admitted only 38 Nevada homeowners into the program as shown in Figure 5.



Figure 5: Nevada Homeowners Approved for HHF By Quarter



Source: SIGTARP analysis of the Nevada state agency's Quarterly Performance Reports reported to Treasury.

Spending more on administrative expenses than is spent fulfilling the purpose of the program to help homeowners amounts to waste.

Under Treasury's contract with the Nevada state agency, administrative expenses are allowed if they are "necessary to carry out the services" under the Hardest Hit Fund.¹² According to Treasury's website, Hardest Hit Fund Nevada's purpose is to provide "assistance that will help prevent avoidable foreclosures and keep Nevada homeowners in their homes."¹³ Therefore, there should be a corresponding relationship between TARP assistance provided to homeowners and the support services necessary to provide that assistance. Otherwise, the spending is careless, extravagant, or with no purpose.

Treasury is aware of the Nevada state agency's spending and the low number of homeowners admitted to the Nevada state agency in 2015. Treasury requires that state agencies provide a detailed budget to Treasury of administrative expenses for HHF for Treasury's approval. Treasury approves the administrative cost budget and all disbursements of Hardest Hit funds to state agencies. Treasury also conducts on-site reviews of state agency administrative expenses. State housing finance agencies also report to Treasury on the numbers of homeowners admitted to the program each quarter. SIGTARP will address the calculation of waste for these six months within a larger calculation of waste during 2015 in the next section.

¹² In addition, according to Treasury's contract with the Nevada state agency, "all administrative expenses paid with HHF Program funds shall be accounted for and are subject to OMB Circular A-87 (revised 5/10/2004), which can be found at <http://www.whitehouse.gov/omb/rewrite/circulars/a087/a087-all.html>.

¹³ Nevada Hardest Hit Fund Brochure, no date, https://www.treasury.gov/initiatives/financial-stability/TARP-Programs/housing/Documents/NHHF%20Brochure_9x12.pdf (accessed 07/06/2016).



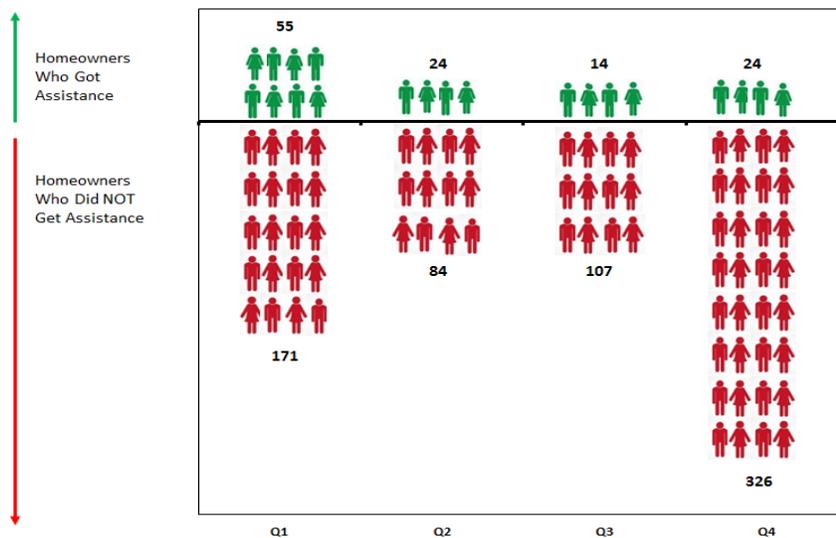
For the Entire Year 2015, the Nevada State Agency Kept Nearly Half of All TARP Funds for Itself, While Admitting Only 117 Homeowners into the Program

SIGTARP found that during 2015 the Nevada state agency kept nearly half of every TARP dollar for itself (\$2.4 million out of approximately \$5 million). The Nevada state agency admitted only 117 Nevada homeowners into the program in 2015, a nearly 95% decrease from 2012 and 2013.¹⁴ Despite this dramatic decrease in the number of homeowners admitted into the program, the Nevada state agency continued to spend approximately the same amount on administrative expenses as in the prior year.

Of the \$2.4 million in TARP funds that the Nevada state agency kept for itself in 2015, it spent more than \$1.4 million on its own salaries. The Nevada agency paid more than \$280,000 to law firms, and nearly \$200,000 to auditors.

The Nevada state agency still had almost \$100 million (\$94.6 million) in unspent TARP funds available for struggling homeowners at the start of 2015, but provided less than 3 percent of that to Nevada homeowners. Nevada homeowners continue to need assistance from the Hardest Hit Fund, but the Nevada state agency is not addressing that need. In 2015, 85% of the 805 homeowners who applied for HHF assistance did not receive assistance.

Figure 6: Homeowners Applying to HHF Nevada in 2015



Source: SIGTARP analysis of the Nevada state agency's Quarterly Performance Reports reported to Treasury in 2015.

¹⁴ According to HHF Nevada's Quarterly Performance Reports to Treasury, there were 2,101 homeowners admitted to HHF Nevada in 2012, and 2,111 homeowners admitted in 2013. Only 541 homeowners were admitted in 2014.



As shown in Figure 6, in the third quarter of 2015, the Nevada state agency admitted only 14 new homeowners; in the second and fourth quarters of 2015, the Nevada state agency admitted only 24 new homeowners. In the fourth quarter of 2015, less than 7% of homeowners who applied were admitted (24 of 350 Nevada homeowners).

The Nevada state agency's spending on its own administrative costs at essentially the same rate as in prior years while dramatically decreasing the number of homeowners admitted to the program results in waste that Treasury should disallow and seek repayment. The fact that only 117 homeowners received TARP funds from the Nevada state agency in 2015, while the state agency kept nearly half of TARP funds, is known to Treasury. Treasury reviews and approves the administrative budget and expenses for each state agency in the Hardest Hit Fund. Treasury receives quarterly updates on the numbers of homeowners helped. The Nevada state agency's continuing to incur administrative costs nearly dollar-for-dollar with its program assistance over a whole year raises serious red flags. Treasury issued a directive to the Nevada state agency in December 2015 to increase the number of homeowners helped, but continued to approve the Nevada state agency's administrative costs. Two months later, Treasury announced an allocation of an additional \$8.9 million in TARP funds to the Nevada state agency.

SIGTARP has determined that solely based on the dollar amount of expenses and the number of homeowners admitted into the program, in 2015 the Nevada state agency spent \$20,527 in administrative costs per new homeowner admitted—nearly 15 times the \$1,370 per homeowner it spent on administrative costs in the first quarter of 2013 (the year the Nevada state agency admitted the peak number of homeowners), amounting to wasted expense of \$2,241,396.

Because it was not necessary to administer the Hardest Hit Fund for the Nevada state agency to spend more in administrative expenses per homeowner admitted to the Hardest Hit Fund in 2015 (when it accepted only 117 homeowners into the program) than at its peak in 2013 (when it accepted 2,111 homeowners into the program), Treasury should disallow and require the Nevada state agency to repay \$2,241,396 in wasted administrative expenses during 2015 that exceed the per homeowner administrative expense cost in 2013.



In 2014 and 2015, the Number of Homeowners Helped by HHF Nevada Plummeted, Even as Nevada Homeowners Continued to Suffer from High Unemployment and the Worst Underemployment Problem in the Nation

The problems facing Nevada homeowners at the start of HHF still persist today. Nevada homeowners have suffered, and continue to suffer from high unemployment, high underemployment, and high numbers of underwater mortgages. Although Nevada's unemployment rate has improved, it remains high at 6.4% according to the Bureau of Labor Statistics. In Clark County alone, the home of Las Vegas, 73,399 people remained unemployed as of June 2016. Underemployment continues to plague Nevada homeowners at 13.1%, the highest rate in the nation.¹⁵ There were more than 100,000 homes in Nevada underwater at the end of 2015, according to CoreLogic.

Despite the fact that demand for Hardest Hit Fund programs is, and has been, high, Nevada homeowners are having a very hard time getting into the program. The Nevada state agency's largest programs are a mortgage payment assistance program for unemployed and underemployed homeowners, and a principal reduction program for underwater homeowners.

After 2013, despite continuing high unemployment, high underemployment, and large numbers of underwater homes, the number of Nevada homeowners who successfully got into HHF plummeted. Compared to 2,111 homeowners admitted into the program in 2013 (the peak), the Nevada state agency admitted only 541 homeowners in 2014, and only 117 homeowners in 2015.

SIGTARP found that several factors led to the dramatic fall-off in the number of homeowners helped by HHF Nevada:

The Nevada State Agency Significantly Reduced the Percentage of Applying Homeowners Who Were Admitted into the Program

The homeowner admission rate into the Hardest Hit Fund Nevada was far lower in 2015 than in prior years. Some 26% of homeowners who applied got into HHF Nevada in 2012, and 30% of homeowners who applied in each of 2013 and 2014, were admitted into the program. In 2015, more than 85% of homeowners who sought HHF assistance did not get into the program—a 14.5% homeowner admission rate.

¹⁵ The Bureau of Labor Statistics calculates the underemployment rate (the "U-6" labor underutilization rate) as including unemployed workers, part-time workers who want to work full time but their hours were cut back or they were unable to find a full-time job, marginally attached workers who want to work but are not looking for work, and discouraged workers, a who believe there are no jobs available to them and have given up looking as a result. <http://www.bls.gov/lau/stalt.htm> (accessed 08/18/2016).



Treasury Approved HHF Nevada to Stop Accepting Applications for All of Its HHF Programs, Including the Two Largest Programs

In late 2012, Treasury approved HHF Nevada to close all of its HHF programs to new homeowners, including the two largest programs. For approximately eight months (until August 2013), the Nevada state agency did not accept any new applications from homeowners seeking help from its largest HHF program, the Mortgage Assistance Program (unemployment). Although they continued to approve previously-received applications, HHF Nevada's other programs remained closed to new homeowners. For more than an entire year (second quarter 2014 through second quarter 2015), no new homeowners were admitted into the main principal reduction program, the second-lien program, the short sale program, or an alternative unemployment program.

Treasury Allowed HHF Nevada to Divert Funds from the Two Largest Programs (Unemployment and Principal Reduction) to Two Programs that Never Helped a Single Homeowner

Unemployed and underwater homeowners who desperately needed HHF Nevada saw resources taken away. In August 2013 and in 2014, Treasury allowed the Nevada state agency to divert \$75 million from all of its existing HHF programs, including the two largest programs (unemployment and principal reduction), to launch new programs. These new programs (a mortgage modification program and a second principal reduction program) never got off the ground. No one applied. Neither program would ever help a single homeowner. Both were closed and defunded in 2015. Even though the two largest programs stopped accepting applications, and with fewer and fewer homeowners provided assistance, the Nevada state agency continued to increase its administrative expenses.

First Part of 2016:

In December 2015, Treasury followed SIGTARP's recommendation by assessing the Nevada state agency's performance and sending the Nevada state agency an action memorandum with a requirement that it come up with a strategy to increase the number of homeowners in HHF.¹⁶ In the first quarter 2016, an additional 38 homeowners have been admitted into the program out of 201 applying homeowners—a 19% homeowner admission rate. According to the Nevada state agency's latest financials, in 2016 (April 2016 latest data available), the Nevada state agency has spent 35 cents of every TARP dollar on administrative expenses (\$1.9 million out of \$5.3 million) through April.¹⁷ While

¹⁶ See SIGTARP, "Factors Impacting the Effectiveness of Hardest Hit Fund Florida," October 6, 2015; SIGTARP, "Factors Affecting Implementation of the Hardest Hit Fund Program," April 12, 2012.

¹⁷ Nevada Affordable Housing Assistance Corporation, April 2016 Financials, provided for the June 6, 2016 Board Meeting, http://www.nevadahardesthitfund.nv.gov/uploads/April_2016_Financials.pdf (accessed 06/22/2016).



this is a trend in the right direction, it is still high in costs and low in homeowner admissions, and does not remove the need to repay the waste spent on administrative expenses.

TARP Dollars Paid for Violations of the Law and Alleged Violations of the Law Which Amounts to Waste

Over the past three years, the Nevada state agency used Hardest Hit Fund dollars that would otherwise have been available to help Nevada homeowners to instead pay lawyers related to violations of the law and alleged violations of the law. Treasury's contract requires the Nevada state agency to perform all services in compliance with all Federal, state, and local laws. Treasury has therefore recognized that violations of the law serve no purpose in the Hardest Hit Fund. There is no valid purpose to the Hardest Hit Fund program to pay expenses to defend a violation or alleged violation of the law. These expenses constitute waste.¹⁸

- *In 2013, the U.S. Department of Labor found that the Nevada state agency violated Federal labor laws.*
 - SIGTARP found that the Nevada state agency used TARP funds to pay \$26,096 to its lawyers to defend against the Department of Labor's investigation into the Nevada state agency's violation of Federal labor laws (these amounts were "block billed," combining different types of activities in one entry on the invoice).
 - SIGTARP found that the Nevada state agency used TARP funds to pay the entire amount of \$149,031.12 in back wages arising from the Department of Labor's finding of a violation of the law.
- *SIGTARP found that the Nevada state agency used TARP dollars to pay lawyers to defend allegations by several former employees against allegations of employment discrimination laws. The lawyers' bills show charges related to defending against these discrimination allegations that are "block billed" (the combination of different types of activities in one entry on the invoice) totaling \$123,217.96.*
- *The Nevada state agency used approximately \$4,000 in TARP funds to settle one of the former employee's allegations.*

¹⁸ According to GAO's *Standards for Internal Control in the Federal Government* issued September 2014, "waste" is using or expending resources carelessly, extravagantly, or to no purpose.



- *SIGTARP found that the Nevada state agency used TARP dollars to pay lawyers to defend an investigation by the Nevada Commission on Ethics into whether an officer violated certain state rules on conflicts and spending. The lawyers' bills show charges related to defending this investigation that are "block billed" (the combination of different types of activities in one entry on the invoice) totaling \$18,160.*
- *The Nevada state agency used \$12,845.25 in TARP dollars to pay its lawyers, a private investigator and computer forensic expert to retrieve and recover equipment and information from a terminated employee who had previously alleged discrimination and ethics violations.*

A state agency can certainly incur lawyer's fees, but that does not mean they all should be paid with Hardest Hit funds. Lawyers' fees should not be paid with Hardest Hit funds where they are incurred to defend against allegations of violations of the law. This wastes TARP funds specifically set aside to support homeowners. These funds should have come from non-Hardest Hit Fund sources.

Table 5: Identified Wasteful Use of TARP Dollars Related to Violations and Alleged Violations of the Law

Legal fees related to defending U.S. Department of Labor investigation	\$26,096.00
Legal fees related to defending former employees' employment discrimination challenges	\$123,217.96
Settlement cost for one employment discrimination case	\$4,000.00
Legal fees related to defending state Commission on Ethics investigation	\$18,160.00
Legal, private investigator and computer forensic expert charges	\$12,845.25
Total	\$184,319.21

Source: SIGTARP's analysis of invoices for legal services rendered for violations and alleged violations.

Treasury should disallow and require the Nevada state agency to repay all of these wasted expenses defending its violations of the law and alleged violations of the law totaling \$184,319.21, as shown in Table 5.¹⁹

¹⁹ Because many of the time entries on the legal invoices were "block billed," some portion of this total may include charges for legitimate, non-wasteful HHH spending that SIGTARP could not separate based on the information provided. As a result, SIGTARP questioned the entire amount where any questionable activities were included.



The Nevada State Agency's Careless Recordkeeping Resulted in Additional Waste of Over \$26,000 in TARP Dollars Paid to a Forensic Auditor to Reconstruct the Financial Books

The Nevada state agency's own internal compliance auditors found numerous and persistent carelessness, including problems with improper recordkeeping and accounting in quarterly audits from 2013 through 2015, including:

- Lack of documented accounting procedures for classifying the Nevada state agency expenses for direct and indirect costs to HHF Nevada, including salaries and benefits;
- Lack of documentation and supervisory approvals to support transactions;
- Incorrect postings to the general ledger and insufficient detail to explain adjusting journal entries;
- Insufficient retention of supporting Internal Revenue Service tax documentation;
- Failure to reconcile customer data files with the Nevada state agency's accounting systems;
- Failure to perform monthly monitoring of cash flows compared to budgeted amounts;
- Lack of separation of duties and review of internal controls;
- Payments sent to the wrong mortgage servicers;
- Understatement of liabilities;
- Failure to properly create and document journal entries;
- Failure to properly control travel, training, and credit card expenses;
- Lack of evidence that remedial actions had been taken to address previously identified deficiencies.

SIGTARP found that the Nevada state agency's careless recordkeeping resulted in additional waste of \$26,395.70 in TARP funds paid to a forensic accountant to reconstruct the financial books, which were riddled with serious problems as to the integrity of the financial data. These funds are not allowed under Treasury's contract with the state agency, which provides that the Nevada state agency will perform the services "in accordance with the practices, high professional standards of care, and degree of attention used in a well-managed operation." The Nevada state agency's internal auditors in 2014 found that "...serious problems exist in the integrity [of the state agency's] financial data."



This auditor finding shows that the Nevada state agency did not perform services under Treasury's contract with high professional standards of care used in a well-managed operation. According to the internal auditor, Treasury told it to hire a forensic accountant to reconstruct the state agency's books back to 2010.²⁰

Just because Treasury directed the hiring of a forensic accountant does not mean that TARP funds should pay for it. No forensic accountant would be needed if not for the carelessness of the Nevada state agency. TARP funds should not be used to pay for expenses to fix careless recordkeeping. These funds should have come from non-Hardest Hit Fund sources.

Treasury should disallow \$26,395.70 HHF paid for Nevada's forensic accountant and require the Nevada state agency to repay this wasted expense.

The Nevada State Agency's Careless Recordkeeping Resulted in Additional Waste of Nearly \$11,000 Paid to an Independent Auditor to Reconcile Bank Accounts Including Non-HHF Accounts

SIGTARP found that the Nevada state agency wasted \$10,812 in TARP funds to pay an independent auditor for additional services outside the normal scope to reconcile the state agency's bank accounts including accounts unrelated to HHF. This work, and the related cost, would not have been necessary had the agency not been careless in its accounting. Therefore, it constitutes waste. These funds should have come from non-Hardest Hit Fund sources.

Treasury should disallow \$10,812 HHF paid for these additional services and require the Nevada state agency to repay this wasted expense.

²⁰ The forensic auditor had limited access to records and conducted the review according to procedures agreed upon by the Nevada state agency.



The Nevada State Agency Wasted TARP Dollars by Paying the Recently Terminated CEO a 2-Month Full Pay and Benefit Severance Package

After essentially terminating the most recent CEO in May 2016, the Nevada state agency's Board agreed to pay the CEO a two-month full compensation severance package of \$20,874.75 including full salary, expenses (including a fixed expense and automobile allowance of \$618 per month), and benefits through July 31, 2016. SIGTARP found that his salary and fixed expenses are being paid out of the HHF bank account.

The CEO's employment agreement has no provision for severance but, even if it had, severance should not be paid from Hardest Hit funds. The CEO told SIGTARP that his last day was June 3, 2016.

In addition, minutes of a board meeting show that the Nevada state agency's severance agreement with the CEO includes that the state agency will not object to the CEO's request for unemployment. Any unemployment benefits should not be paid using HHF dollars. Those board minutes also show that a lawyer would prepare the Severance and Release Agreement. No lawyer's fees should be charged to HHF as they are not necessary to provide HHF services. Rather, these expenses relate to the Board's essentially terminating the CEO who oversaw carelessness and waste.

Treasury should disallow the former CEO's severance package of \$19,874.75, and any unemployment benefits paid through HHF or associated lawyer's fees, as waste and seek repayment from the Nevada state agency. ²¹

²¹ Two months (June and July 2016) of the automobile allowance, or \$1,000, is included in a previous finding in this report related to the CEO's car allowance. Therefore, we reduced the total severance of \$20,874.75 by \$1,000, which would need to be added back if Treasury does not seek repayment of the car allowance.



The Nevada State Agency Has Committed Waste by Using Hardest Hit Funds to Pay for Non-Hardest Hit Fund Expenses

SIGTARP found that the Nevada state agency has been using HHF funds to pay for non-HHF expenses. No state agency is entitled to Hardest Hit funds for expenses unrelated to the Hardest Hit Fund program.

- In December 2014, Treasury found that the Nevada state agency had used TARP funds to pay 18 specific non-HHF costs, including:
 - to pay for a ***laptop*** shipped to an employee's personal address;
 - to pay for ***travel expenses*** that were "non-HHF related;" and
 - to pay for ***credit card charges*** that were "non-HHF related."

- Although the initial dollar amounts Treasury found were small (\$3,143.67), on March 26, 2015, under a limited review with restricted access, the outside forensic auditor identified other expenses unrelated to the Hardest Hit Fund charged to HHF. These non-HHF expenses incurred between January 1, 2013 and December 31, 2014, included:
 - ***Lawyers' fees for work unrelated to HHF*** of \$205;²²
 - ***Fees paid to the former controller for consulting services*** in the amount of \$2,955;
 - ***Conference expenses*** of \$550 for former CEO to attend a Clean Energy Summit and a Women's Leadership Conference at the MGM Resort.²³

- The forensic auditor also found costs paid with Hardest Hit funds where it was unable to determine if allowable under Treasury's contract because of the careless recordkeeping, including:
 - ***Meals and entertainment expenses*** of \$666.47;
 - ***Auto reimbursement and parking fees*** of \$695.52;
 - ***Unsupported travel costs of \$1,979.19 for its then-CEO; and***
 - ***\$1,400.30 in costs over per diem for an employee to attend a CoreLogic risk*** summit at the St. Regis hotel for its then CEO.

²² The Nevada state agency eventually reimbursed HHF Nevada the \$205 in lawyers' fees, but not until August 18, 2015.

²³ This non-HHF expense was also included in the amount identified by Treasury.



Table 6: Wasteful and Questionable Uses of TARP Dollars to Pay Non-HHF Expenses

Non-HHF expenses for computer, travel expenses, and credit card charges	\$3,143.70
Improper consulting fees not allowed under HHF policy	\$2,955.00
Questionable expenses for meals and entertainment	\$666.47
Questionable auto and parking reimbursement charges	\$695.52
Unsupported travel costs	\$1,979.19
Excess costs over per diem rates	\$1,400.30
Total	\$10,840.18

Source: SIGTARP's analysis of Treasury's December 2014 compliance report and March 2015 outside forensic auditor's report.

SIGTARP found that Treasury has not ensured that all of these non-HHF expenses paid with TARP funds were recovered for HHF.

Treasury should disallow and require the Nevada state agency to repay all of these expenses totaling \$10,840.18, as shown in Table 6. Treasury should conduct an in-depth review of all administrative expenses incurred by the Nevada state agency to determine whether there are additional non-HHF expenses that have been paid for with Hardest Hit funds.



The Nevada State Agency's Careless Recordkeeping Resulted in Additional Waste of Nearly \$25,000 in Travel, Entertainment, and Unsupported Credit Card Charges

Treasury found that the Nevada state agency used nearly \$25,000 in TARP funds for unsupported credit card charges and inappropriate travel and entertainment expenses. In 2014, Treasury found that between April 1, 2013 and September 30, 2014, the Nevada state agency had paid \$21,278.56 in credit card charges where there was missing or inadequate support. This carelessness amounts to waste.

Treasury also found \$1,760.42 in hotel, lodging, flights, and meals paid for with Hardest Hit funds that were not in compliance with the travel policy. Treasury found \$1,899.36 in entertainment and per diem improperly paid to Nevada state agency employees. A portion (\$1,100.09) of these costs was also identified by the forensic auditor.

SIGTARP found that Treasury has not ensured that all of these non-HHF expenses paid with TARP funds were recovered for HHF.

Treasury should disallow and require the Nevada state agency to repay \$23,838.25²⁴ for this waste. Treasury should conduct an in-depth review of all administrative expenses incurred by the Nevada state agency to determine whether there is additional travel, entertainment, and unsupported credit card charges that should be disallowed and repaid.

²⁴ Both Treasury and the outside forensic auditor identified \$1,100.09 of non-HHF related costs. Because SIGTARP already included these costs in the previous finding, we subtracted the \$1,100.09 from the \$24,938.34.



The Nevada State Agency Committed Waste by Using Hardest Hit Funds to Pay 100% of its Overhead Costs Including Rent and Payroll Even Though It Works on Non-Hardest Hit Fund Activities

HHF is not a program to fund all of a state agency's overhead. Treasury's contract only allows those administrative costs necessary to provide the HHF services, not other expenses necessary to run a state agency. The Nevada state agency does not solely work on HHF matters.

When a state agency administers the Federally-funded Hardest Hit Fund program as well as state programs and activities, administrative costs should be tracked separately, and shared costs (such as overhead) should be apportioned between the Federal and other funding sources. The Nevada state agency's internal auditor and outside forensic auditor found no evidence of a cost-sharing methodology, and told the state agency that payroll costs had to be allocated between the Hardest Hit Fund and non-HHF funding sources according to a cost-sharing methodology.

SIGTARP found the Nevada state agency initially shared overhead costs such as rent and payroll to both the Hardest Hit Fund and non-HHF funding, but then stopped that practice, instead ***using TARP funds to pay 100% of overhead items such as rent and payroll even though the agency conducted other business completely unrelated to HHF.***

Small and inconsistent reimbursements to Treasury for rent in the Reno office in 2012 of a total of \$2,739, which decreased to \$1,943 in 2013, evidence that the state agency knew that the Hardest Hit Fund should not pay 100% of these costs and that those costs should be shared.²⁵ However, the state agency charged 100% of the Las Vegas office rent to the Hardest Hit Fund for 2012 to 2015. In 2014 and 2015, it ceased reimbursements for the Reno rent. The state agency reimbursed Treasury nearly \$100,000 for partial payroll in 2012, and about half that amount in 2013. It did not reimburse Treasury for any payroll in 2014 and, in 2015, SIGTARP identified a single small reimbursement of \$706.30, but there were no subsequent reimbursements.²⁶

²⁵ SIGTARP identified that the Nevada state agency reimbursed HHF 6 times in 2012 (4 @ \$391.95 each, \$200.00, and \$971.54) and 4 times in 2013 (4 @ \$485.77) totaling \$4,682.42 for rent at the Reno office. In the absence of a formalized cost-sharing methodology, there is no way to determine whether this amount represents all amounts that should be reimbursed to HHF.

²⁶ SIGTARP also identified \$154,684.96 in non-HHF salaries reimbursed to Treasury before 2014. However, this reimbursement is inconsistent, and does not happen on a regular basis: 10 times in 2012 (\$3,904.00, \$3,638.31, \$6,240.23, \$7,794.49, \$14,630.98, 3 @ \$7,829.11 each, \$9,327.11, and \$30,281.76), and 4 times in 2013 (\$12,687.28, 2 times @ \$12,997.98, and \$15,991.21). In the absence of a formalized cost-sharing methodology, there is no way to determine whether this amount represents all amounts that should be reimbursed to HHF.



The agency's internal compliance auditor found repeated noncompliance with requirements that semi-annual certifications be signed by employees and supervisors that the employees solely worked on a Federal program in accordance with Federal guidelines. This serves as a check to ensure that Federal funding is not being used for non-Federal matters.

- *SIGTARP found that the Nevada state agency paid 100% of the Las Vegas office **rent** from 2012 to 2015 with HHF, and 100% of the Reno office rent in 2014 and 2015.* Given these findings and the lack of a formal cost-sharing methodology, Treasury should reject the entire unreimbursed rent expense between 2012 and 2015 in the amount of \$467,899.99, and make the Nevada state agency prove what portion was necessary to provide the HHF services. This is particularly critical as the Nevada state agency provided very little service under HHF during 2014 and 2015, as the number of homeowners admitted to the program plummeted in those years.
- *SIGTARP found that the Nevada state agency paid 100% of the **utilities** with HHF, amounting to \$350,207.87.²⁷* HHF should not pay the cost of utilities for programs and activities unrelated to HHF. Treasury should reject all of these costs and make the Nevada state agency prove what portion is necessary to provide the HHF services.
- *SIGTARP has also uncovered that the Nevada state agency is using Hardest Hit Funds to pay 100% of its payroll since 2014 even though employees also work on matters unrelated to HHF.* Because the Hardest Hit Fund is not responsible for funding an entire state agency, the Hardest Hit Fund should not pay 100% of the wages for employees who work on matters unrelated to the Hardest Hit Fund. Given this finding and the lack of a formal cost-sharing methodology, Treasury should reject the entire unreimbursed payroll expense between 2012 and 2015 in the amount of \$6,641,518.36, and make the Nevada state agency prove what portion was necessary to provide the HHF services.
- SIGTARP found that some of these employees to whom the Nevada state agency paid back wages for its violation of Federal employment law also worked on matters unrelated to the Hardest Hit Fund. The Nevada state agency did not apportion the costs. Treasury should determine which of the 47 employees worked on matters unrelated to the Hardest Hit Fund, and determine the percentage of wages to be clawed back.

²⁷ SIGTARP identified a single, small reimbursement of \$40.00 in 2015, after the outside forensic auditor found it had been improperly paid with HHF. SIGTARP's analysis of invoices identified no other reimbursements. In the absence of a formalized cost-sharing methodology, there is no way to determine whether this amount represents all amounts that should be reimbursed to HHF.



As TARP funds paid 100% of overhead costs during periods in which the Nevada state agency also performed non-HHF services that were not necessary to provide HHF services to homeowners, in the absence of a formal cost-sharing methodology Treasury should disallow the entire rent expense of \$467,899.99, the entire utilities expense of \$350,207.87, and the entire payroll expense of \$6,641,518.36,²⁸ and require the Nevada state agency to deliver support on what share of overhead under 100% is necessary to provide Hardest Hit Fund services only, as required by Treasury's contract. Once it receives the Nevada state agency's justification in support of its claims, Treasury should determine the proper cost sharing allocation methodology, both retrospectively and prospectively, for the Nevada state agency, and only allow HHF funds to be used to pay for administrative costs in support of HHF and not waste. Treasury should ensure that employee certifications are completed as required by Federal guidelines.

²⁸ Some portion of these identified rent, utilities and payroll expense amounts may overlap with other amounts SIGTARP identified as waste elsewhere in this report (e.g., as wasted administrative expense in 2015, or as excessive rental expense for the Las Vegas office). To the extent that Treasury recovers those other amounts, Treasury should determine the amount of any such overlap and adjust the disallowed amounts identified in this paragraph as appropriate.



Conclusion

The Nevada Housing Division allowed abuse and waste of \$8.2 million in Hardest Hit Fund dollars instead of helping homeowners at risk of foreclosure.²⁹ The Nevada Housing Division, the state housing finance agency, outsourced administration of the Hardest Hit Fund to one of its pre-existing components called the Nevada Affordable Housing Assistance Corporation (“NAHAC”).³⁰ Its proposal to Treasury said, “Program leadership will come from the NAHAC Executive Committee....The Nevada state agency’s Executive Director, Chief Financial Officer and Chief of Federal Programs constitute the Executive Committee....”³¹ Given that the Nevada Housing Division served as the agency responsible under Treasury’s HHF contract, SIGTARP will refer to both NHD and NAHAC as “the state agency” or “Nevada state agency.”

Hardest Hit Fund programs are targeted to address these significant problems that place Nevada homeowners at risk of foreclosure, but the Hardest Hit Fund cannot be effective in tackling these problems if the TARP funds are kept for administrative expenses and do not get out to homeowners.

SIGTARP found that the state agency took homeowner rescue dollars for itself, at the same time it all but stopped helping homeowners.

- *In 2015, the Nevada state agency kept one TARP dollar for every TARP dollar it gave to a homeowner. It 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, it spent more on itself than it provided to homeowners. The Nevada agency spent \$1.2 million on itself, almost \$250,000 more than it provided to homeowners.*

²⁹ For purposes of this calculation, SIGTARP reduced the \$2,241,396 wasted administrative expenses in 2015 by the specific 2015 expenses identified in this report to avoid potential double counting. The specific 2015 expenses totaled \$1,915,465.49.

³⁰ The state HFA is in contract with Treasury, and information on HHF appears on the state HFA’s website. Treasury required that each state HFA use a financial institution to serve as an “eligible entity.” NAHAC is the eligible entity. When it launched HHF in 2010, NHD officials comprised a majority of the Executive Committee of NAHAC’s board. In 2013, NHD approved changes to the make-up of NAHAC’s board that reduced its influence over NAHAC and spun off NAHAC as a component. This is rare in HHF, as most state housing agencies in the Hardest Hit Fund administer the program, either themselves or through a special-purpose eligible entity created specifically for HHF.

³¹ By mid-2013, NAHAC’s executive committee was no longer comprised of NHD executives. The proposal is published on Treasury’s website at <https://www.treasury.gov/initiatives/financial-stability/programs/housing-programs/hhf/Documents/NV.pdf>.



- *In 2015, it only admitted 117 new Nevada homeowners into the Hardest Hit Fund, a 95% decrease from 2012 and 2013. Although many homeowners in the nation have seen some recovery, many Nevada homeowners remain hard hit by unemployment and underwater mortgages—precisely the problems HHF was designed to address. Demand for the program continued, but in 2015, the state agency only admitted 14.5% of homeowners who applied.*

SIGTARP found that the Nevada state agency abused the Hardest Hit Fund with seemingly, a sense of entitlement and no appreciation for the fact that they were taking funds for themselves that were intended to help struggling Nevada homeowners stave off foreclosure.

- *A car allowance of \$500 per month for the CEO who drove a Mercedes was charged to the Hardest Hit Fund. The Nevada state agency expensed \$11,000 to the Hardest Hit Fund beginning in October 2014, an expense that was not necessary to the administration of HHF, particularly because it was not charged in the past and official travel by car can be reimbursed by mileage.*
- *More than \$10,000 charged to the Hardest Hit Fund for a manager outing at the nation's best high volume cocktail bar Herbs & Rye, a \$105 country club lunch, a \$900 company picnic, a \$100 massage for an employee, a \$124 Edible Arrangement for the accounting staff, a baby gift for an employee, regular staff breakfasts, lunches and perks and a \$4,500 bonus for the CEO, all while the number of homeowners admitted to the program plummeted. These expenses were not necessary for the Hardest Hit Fund as shown by the fact that the Nevada state agency provided HHF help to homeowners in past years without buying meals and drinks and gifts for employees. SIGTARP found the Nevada state agency increased spending on wining and dining and freebies for employees, at the same time it decreased the number of homeowners admitted to the Hardest Hit Fund. The Nevada state agency abused HHF by spending these rescue dollars on its own employees like a private company, but making HHF foot the bill.*
- *December holiday parties for employees complete with holiday gift cards were charged to the Hardest Hit Fund. While not a large sum of money (\$5,811), it was money that could have helped some homeowners pay their mortgage. These parties started in December 2013 at a local restaurant, escalated to a casino in December 2014, and then a country club in December 2015, all while the agency's HHF help to homeowners plummeted. In the 4th quarter of 2015, while holding their holiday party at a country club, the state agency only admitted 24 new homeowners into the program—a meager 8% of the homeowners admitted two years prior.*



- *In July 2014, the state agency moved offices to the gleaming \$130 million City Hall building in North Las Vegas, built three years earlier, without concern that their rent would nearly double, because they charged the full rent to the Hardest Hit Fund. At the same time, the state agency cut their staff, and severely cut homeowner admissions to the program. The New York Times ran a story on November 19, 2011, criticizing city officials from moving into this new building derided by residents still suffering from the economy as “a Taj Mahal,” <http://www.nytimes.com/2011/11/20/us/in-north-las-vegas-new-city-hall-is-a-reminder-of-flush-days.html? r=0>.³² The New York Times described the North Las Vegas City Hall building as having a view that stretched for miles, marble floors, granite tabletops, a parking lot covered with solar panels to keep cars cool in the Vegas heat, a wellness center including fitness equipment, and an outdoor concert plaza. Given that one third of the homes in North Las Vegas were in foreclosure, and that houses that were occupied were worth less than half the value from two years prior, the New York Times reported one resident who lost his job as saying about the City Building, “It’s just disrespectful – like they have no idea of what people are going through.”*

In internal correspondence in 2014, the Nevada state agency discussed that City Hall was “much nicer space” and that it would help with employee morale, but showed no concern for the high rent. City Hall rent was \$11,200 per month, “one of the highest lease rates around,” as described by the former CEO, and nearly double the prior rent of approximately \$6,000. After the board changed in 2015, a new CEO broke the lease, but the state agency never reimbursed the Hardest Hit Fund for the excessive rent, instead continuing to charge the Hardest Hit Fund for costs to move the agency to a smaller more affordable office, lawyers’ fees related to moving, and rent at two offices during their office move in the month of June 2015, for a combined waste total of more than \$100,000.

Violations of Federal labor laws, employee suits for discrimination, and careless accounting, all served to drive up costs, costs that the Nevada state agency expensed to Treasury.

Lawyers to settle a Federal investigation by the Department of Labor who found that the state agency violated Federal law, employee discrimination lawsuits (block-billed at \$123,217), and for an ethics investigation (block-billed at \$18,160), a forensic auditor to reconstruct the financial books (at \$26,395), an independent auditor to reconcile bank accounts (at \$10,812), and a lawyer and private investigator (at \$12,845), all worked to clean up situations that never should have happened in the first place, and certainly should not have been charged to the Hardest Hit Fund.

³² Jennifer Medina, “In Nevada, a City Hall Is a Reminder of Flush Days,” *The New York Times*, Nov. 19, 2011.



This is not a case of mistake or negligence. SIGTARP found a deliberate attempt by the Nevada state agency to charge the Hardest Hit Fund for every expense it could.

- 1. Chosen to be the conduit of TARP rescue funds from Treasury to Nevada homeowners, the state agency used those same funds to run nearly its entire business. They ran all expenses (HHF and non-HHF) first through the Hardest Hit Fund bank account, and then determined whether to reimburse any items back to that account, often not reimbursing.*
- 2. The Nevada state agency routinely paid their corporate credit card using a check drawn on the Hardest Hit Fund bank account and failed to reimburse the HHF account for non-HHF expenses.*
- 3. Treasury told the state agency in 2014 that it had caught, on a sample basis, charges unrelated to HHF. The state agency reimbursed Treasury for some of those charges. The state agency did not show Treasury other charges that were also not related to HHF. And the state agency continued to charge new non-HHF expenses to the Hardest Hit Fund.*
- 4. An external forensic auditor told the state agency in 2015 that non-HHF expenses were not allowed under Treasury's contract. The state agency continued to use HHF dollars for non-HHF expenses.*
- 5. The internal auditor and the external forensic auditor told the state agency that payroll costs had to be allocated between the Hardest Hit Fund and non-HHF funding sources according to a cost-sharing methodology, which the state agency ignored.*
- 6. The state agency had inappropriate travel and entertainment expenses and unsupported credit card charges caught by Treasury and the forensic auditor of \$23,838. However, the state agency continued to charge entertainment expenses to HHF.*
- 7. The state agency initially shared overhead costs such as rent and payroll between both the Hardest Hit Fund and non-HHF funding, but then stopped that practice, instead charging all to the Hardest Hit Fund. Small and inconsistent reimbursements to Treasury for rent in the Reno office in 2012 of a total of \$2,739, which decreased to \$1,943 in 2013, evidence that the state agency knew that the Hardest Hit Fund should not pay 100% of these costs. However, the state agency charged 100% of the Las Vegas office rent to the Hardest Hit Fund and, in 2014 and 2015, ceased reimbursements for the Reno rent. The state agency reimbursed Treasury nearly \$100,000 for partial payroll in 2012, and about half that amount in 2013. It did not reimburse Treasury for any payroll in 2014, and in 2015 reimbursed a single payment of \$706.*



Warnings about inappropriate spending were met with a temporary fix to reverse those charges caught, while continuing the behavior. SIGTARP recently learned that although the state agency essentially terminated the latest CEO in May, who left on June 3, 2016, a two-month severance package of \$20,875 in full pay and benefits (including a fixed expense and automobile allowance of more than \$600 per month) is being paid out of the HHF bank account. This has no purpose in HHF. SIGTARP finds that all of the deliberate behavior constitutes waste and abuse.³³

The Hardest Hit Fund was not intended to be a cash cow for participating state agencies, and the state agency must pay these wasted expenses back. Treasury's HHF contract limits administrative expenses to only those "necessary to carry out the services." SIGTARP will report in the future on additional amounts this state agency must pay back. As President Obama has said in an Executive Order, the American people must be able to trust that the Government is doing everything in its power to stop wasteful practices and earn a high return on every dollar that is spent. The role of SIGTARP, like other Offices of Inspector General, includes reporting on wasteful spending and abuse so that Federal agencies can act to stop the waste and abuse, and seek repayment. SIGTARP is an independent watchdog protecting taxpayer dollars. Every dollar wasted translates to one less dollar to help the homeowners Congress intended TARP to assist. A failure to seek and obtain repayment of these wasted federal dollars would only harm those people who HHF intended to serve.

Sometime over the last three years, this state agency lost sight of the fact that they are only in this program to be the conduit through which Treasury provides TARP rescue funds to Nevada homeowners to help them stay in their homes. NAHAC stopped performing under Treasury's contract, and the Nevada Housing Division allowed that to continue. Both state agencies seemingly had no regard for the squandered opportunity to help Nevada homeowners this program intended to assist, at a time when those homeowners needed it most. As a result, Nevada homeowners have not had fair access to these Federal funds. They have been treated differently and unfairly than homeowners in other participating states, all because of a low-performing state agency that engaged in waste and abuse.

The Nevada Housing Division allowed the waste and abuse to occur unchecked. That arrangement is rare as typically state housing finance agencies themselves administer the Hardest Hit Fund in their state. The most recent termination of NAHAC's CEO and greater involvement now by the Nevada Housing Division over NAHAC is not enough to protect this program against continued waste and abuse. Management and the board have changed many times over—four CEOs in the span of three years—and this pattern of waste and abuse continued under the Nevada Housing Division's nose.

³³ According to GAO, waste is defined as the act of using or expending resources carelessly, extravagantly, or to no purpose. 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.



With an above-average 6.4% unemployment rate, and the highest underemployment rate (13.1%) in the nation, Nevadans need help. HHF still has an opportunity to help them, but only if there is drastic change. It is too late for incremental improvement by NAHAC. SIGTARP recommends that Treasury require that the Nevada Housing Division remove NAHAC from work on the Hardest Hit Fund and that the Nevada Housing Division administer the program with controls implemented to prevent the type of wasteful and abusive spending identified by SIGTARP and any further waste. If NAHAC continues to receive TARP dollars and work on the Hardest Hit Fund, SIGTARP warns that Nevada homeowners and American taxpayers will suffer even further.



Recommendations

1. *To prevent further abuse and waste that takes away Hardest Hit Fund dollars from homeowners, the Nevada Housing Division should stop outsourcing its administration of HHF Nevada, and remove the Nevada Affordable Housing Assistance Corporation ("NAHAC") from all dealings related to HHF. Treasury should prohibit NAHAC from receiving HHF dollars or working on the HHF program.*
2. *Treasury should disallow and require the Nevada state agency to repay \$11,000 for abuse and waste in charging the Hardest Hit Fund for a car allowance of \$500 per month for the CEO who drove a Mercedes, and any additional car allowance paid by HHF.*
3. *To prevent further waste and abuse, Treasury should prohibit the use of Hardest Hit Fund dollars for car allowances for employees of state agencies when official travel by car necessary for HHF can be reimbursed through standard mileage rates.*
4. *Treasury should determine whether any of the 19 state agencies committed waste and abuse by charging the Hardest Hit Fund for car allowances for employees, and if found, seek repayment of those wasted expenses, and notify SIGTARP.*
5. *Treasury should disallow and require the Nevada state agency to repay \$10,963.68 for abuse and waste in charging the Hardest Hit Fund for a bonus to the CEO while HHF performance plummeted, a manager outing at a cocktail bar, a country club lunch, company picnic, massage, baby gift, birthday cakes, regular staff lunches, office refreshments and other employee perks.*
6. *To prevent waste and abuse, Treasury should prohibit the spending of Hardest Hit Fund dollars for each category of expenses: employee bonuses, employee gifts, employee outings, birthday cakes, regular staff lunches, office refreshments, and other employee perks.*
7. *Treasury should determine whether any of the 19 state agencies committed waste and abuse by charging the Hardest Hit Fund for employee bonuses, employee gifts, employee outings, birthday cakes, regular staff lunches, office refreshments, and other employee perks, and if found, require that those wasted expenses be repaid to Treasury, and notify SIGTARP.*
8. *To prevent waste and ensure that TARP funds are not used to pay for non-HHF expenses, Treasury should prohibit the Nevada state agency and other housing finance agencies participating in HHF from paying their credit card bills directly from their Hardest Hit Fund bank accounts. Treasury should require the Nevada state agency and other state housing finance agencies either to allocate expenses based on what the individual charges relate to and draw from both HHF and non-HHF bank accounts as appropriate, or to pay their credit card bills from non-HHF bank accounts and only use HHF funds to reimburse those expenses proven necessary to provide HHF services.*
9. *Treasury should disallow and require the Nevada state agency to repay \$5,811.27 for abuse and waste in charging the Hardest Hit Fund for employee holiday parties and holiday gifts to employees.*
10. *To prevent waste and abuse, Treasury should prohibit the spending of Hardest Hit Funds on employee parties.*



11. *Treasury should determine whether any of the 19 state agencies has committed waste and abuse by charging the Hardest Hit Fund for employee parties, if found, require that those wasted expenses be repaid to Treasury, and notify SIGTARP.*
12. *Treasury should disallow and require the Nevada state agency to repay \$100,385.20 for abuse and waste in charging the Hardest Hit Fund rent, lawyer's fees, moving costs, and other related expenses for its move to new office space in Las Vegas that was much nicer, larger than what was necessary for HHF, and at one of the highest lease rates around, while the state agency had all but stopped helping homeowners with HHF and reduced its workforce.*
13. *To prevent waste, Treasury should prohibit state agencies from significantly increasing office rent charged to the Hardest Hit Fund absent a corresponding surge in the number of homeowners being admitted to HHF in that state during the most recent 6 months.*
14. *To prevent waste, Treasury should prohibit state agencies from spending Hardest Hit funds to pay themselves more in administrative expenses than they provide to homeowners in any one quarter, as SIGTARP found in HHF Nevada. Should that happen, Treasury should suspend all administrative expense payments to the state agency, notify SIGTARP, conduct an in-depth review of spending, and seek repayment of wasted spending.*
15. *To prevent waste, Treasury should prohibit state agencies from spending Hardest Hit funds to pay themselves one dollar in administrative expenses for every dollar they provide to homeowners in any one quarter, as SIGTARP found in HHF Nevada. Should that happen, Treasury should suspend all administrative expense payments to the state agency, notify SIGTARP, conduct an in-depth review of spending, and seek repayment of wasted spending.*
16. *To prevent waste of Hardest Hit Fund dollars spent more on administrative expenses than is necessary for HHF, Treasury should develop metrics for each of the 19 states to assess administrative expenses relative to the current level of assistance provided to homeowners and recipients, and monitor performance and spending against those metrics each quarter. Treasury should disallow administrative expenses that are disproportionate to the services provided to homeowners and other recipients in HHF.*
17. *Because it was not necessary to administer the Hardest Hit Fund for the Nevada state agency to spend more in administrative expenses per homeowner admitted to the Hardest Hit Fund in 2015 (when it accepted only 117 homeowners into the program) than at its peak in 2013 (when it accepted 2,111 homeowners into the program), Treasury should disallow and require the Nevada state agency to repay \$2,241,396 in wasted administrative expenses during 2015 that exceed the per homeowner administrative expense cost in 2013.*
18. *Treasury should disallow and require the Nevada state agency to repay \$184,319.21 for waste in charging the Hardest Hit Fund for its violations of the law and alleged violations of the law.*
19. *Treasury should determine whether the Nevada state agency charged the Hardest Hit Fund for back wages (pursuant to the U.S. Department of Labor's finding that the Nevada state agency violated labor laws) for employees that worked on matters unrelated to the Hardest Hit Fund. If found, Treasury should determine the percentage of time each employee worked on non-HHF matters, and require that percentage of those employee's wages and benefits be repaid.*



20. *Treasury should disallow and require the Nevada state agency to repay \$26,395.70 for waste charged to the Hardest Hit Fund for a forensic auditor to reconstruct the financial books due to the state agency's careless recordkeeping.*
21. *Treasury should disallow and require the Nevada state agency to repay \$10,812 for waste charged to the Hardest Hit Fund for an independent auditor to reconcile bank accounts due to the state agency's careless recordkeeping.*
22. *Treasury should disallow and require the Nevada state agency to repay \$19,874.75 for waste charged to the Hardest Hit Fund for the former CEO's severance package of two months full pay and benefits, as well as any unemployment benefits paid through HHF to the former CEO and any related lawyer's fees.*
23. *To prevent waste, Treasury should prohibit the use of TARP funds for any fees to attorneys, accountants and other contractors, contained in invoices where services related to the Hardest Hit Fund are combined in a single entry with services unrelated to HHF ("block-billed").*
24. *Treasury should disallow and require the Nevada state agency to repay \$10,840.18 for waste charged to the Hardest Hit Fund for expenses unrelated to the Hardest Hit Fund, for example: a laptop shipped to an employee's home, non-HHF travel expenses, non-HHF credit card charges, non-HHF lawyer's fees, and non-HHF conference expenses.*
25. *Treasury should determine whether the Nevada state agency committed additional waste by charging the Hardest Hit Fund for additional non-Hardest Hit Fund expenses and, if found, require that those wasted expenses be repaid to Treasury, and notify SIGTARP.*
26. *Treasury should disallow and require the Nevada state agency to repay \$23,838.25 for waste in charging the Hardest Hit Fund for credit card charges, travel and entertainment that due to the state agency's carelessness are unsupported or violate its own policies.*
27. *Treasury should determine whether the Nevada state agency committed additional waste and abuse by charging the Hardest Hit Fund dollars for travel, entertainment, and credit card charges that due to the state agency's carelessness are unsupported, violate its own policies, or violate federal regulations (OMB A-87) and if found, require that those wasted expenses be repaid to Treasury, and notify SIGTARP.*
28. *To prevent waste, Treasury should prohibit all state agencies from charging the Hardest Hit Fund for 100% of overhead costs, including but not limited to, rent, utilities, and payroll, given that these agencies also work on matters unrelated to the Hardest Hit Fund. Treasury should require within 60 days that each state agency has a cost-sharing methodology approved by Treasury that accurately reflects the sharing of each overhead cost between the Hardest Hit Fund and non-HHF sources of payment. Treasury should require that the cost-sharing methodology is kept current given the state agency's activities. If any state agency submits a cost-sharing methodology that the Hardest Hit Fund should be charged 100% of that state agency's payroll expense in any period of time, Treasury should require the state agency to submit timely to Treasury the semi-annual certifications required to be signed by employees and supervisors in accordance with Federal guidelines (OMB A-87) that the employees solely worked on a Federal program.*



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29. *Treasury should disallow and require the Nevada state agency to repay \$7,459,626.22 for waste in charging the Hardest Hit Fund 100% of overhead costs in 2014 and 2015, including the entire rent expense of \$467,899.99, the entire utilities expense of \$350,207.87, and the entire payroll expense of \$6,641,518.36.*
- *To the extent that the Nevada state agency seeks to prove that Treasury allow any of those funds, it should be required to: (1) submit its current cost-sharing methodology for rent, utilities, and payroll as certified by its board and the Nevada Housing Division under penalty of perjury; (2) receive Treasury approval of that methodology; (3) provide to Treasury a cost-sharing methodology for 2014 and 2015 certified by the board of NAHAC and the Nevada Housing Division under penalty of perjury; and (4) correlate that spending to the purpose of HHF by proving the results achieved in HHF by spending those funds. If the state agency submits a cost-sharing methodology to charge the Hardest Hit Fund for 100% of payroll for any period of time, Treasury should not allow those expenses until the state agency submits certifications by employees and supervisors required under federal regulation (OMB A-87) that the employees solely worked on a Federal program.*
30. *To prevent further waste and abuse, Treasury should require the Nevada state agency to take appropriate corrective action within 60 days on all recommendations made by internal and external auditors and Treasury, report that corrective action to Treasury and SIGTARP, and require staff training.*
31. *To prevent waste and abuse, Treasury should require that all administrative expenses incurred by a state agency and charged to the Hardest Hit Fund that Treasury identifies as non-Hardest Hit Fund expenses, unsupported expenses, or expenses violating federal regulation (OMB A-87) are repaid to TARP within 30 days, and should suspend further drawdowns of HHF dollars for any administrative expenses until those expenses are repaid.*



Management Comments and SIGTARP's Response

Treasury responded by thanking SIGTARP for its review and said it takes very seriously its responsibility to monitor housing finance agencies. Treasury discussed that at Treasury's direction, NAHAC recently restructured its board, changed its CEO and that the Nevada Housing Division now has a greater role in program administration. As discussed in the audit, SIGTARP is aware of these recent changes, and does not believe them to be sufficient to protect this program given the waste and abuse that SIGTARP identified in this report. As an Office of Inspector General with a responsibility to prevent fraud, a responsibility that rests with Treasury as well, SIGTARP strongly recommends that in light of this new information found by SIGTARP, Treasury not maintain its current turnaround strategy developed without knowledge of waste and abuse, but instead remove NAHAC from the Hardest Hit Fund entirely. Any organization that has engaged in deliberate acts of waste and abuse cannot be trusted with additional Federal dollars.



Appendix A – Objectives, Scope, and Methodology

SIGTARP performed this audit under authority of Public Law 110-343, as amended, which also incorporates the duties and responsibilities of Inspectors General under the Inspector General Act of 1978, as amended. SIGTARP initiated this audit as part of our continuing oversight of TARP. The objective of this audit was to review Hardest Hit Fund (“HHF”) Nevada’s use of TARP funds for administrative and other costs.

The scope of this audit covered administrative and other costs incurred by the Nevada state agency from January 2012 to July 2016.

SIGTARP conducted interviews with and obtained program and financial documentation from officials at the Nevada Affordable Housing Assistance Corporation (“NAHAC”) and the Nevada Housing Division (“NHD”)—referred to herein collectively and individually as the “Nevada state agency” or “state agency”—and other state and Federal government agencies, including Treasury.

SIGTARP reviewed and analyzed data from the Nevada state agency, to include all available Nevada state agency quarterly performance reports and quarterly financial reports, the state agency HHF contract and all subsequent amendments, the Nevada state agency’s policies and procedures, and internal and external compliance (including Treasury compliance) and audit reports. SIGTARP also reviewed and analyzed Nevada state agency Board meeting minutes, general ledgers, legal invoices through December 31, 2015, and other relevant correspondence and memoranda. Additionally, we obtained relevant bank records from the Bank of New York Mellon and the Nevada State Bank.

SIGTARP conducted this audit from February 2016 through August 2016 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, the Nevada state agency and bank records to provide relevant documentation, including other files related to the Nevada state agency’s programs and activities. To the extent that the documentation provided by these entities did not reflect a comprehensive response to SIGTARP’s documentation requests, SIGTARP’s review may have been limited.



Use of Computer-Processed Data

SIGTARP generally relied on computer-processed data for this audit. Specifically, SIGTARP relied on the Nevada state agency's and Treasury's quarterly performance reports to determine homeowner admission rates and the number of homeowners denied for all of the Nevada state agency's programs. SIGTARP utilized the quarterly financial reports to determine the status of HHF funding in HHF Nevada, as well as the administrative expenses spent. SIGTARP did not validate the accuracy of the data.

Internal Controls:

To assess internal controls pertaining to the Nevada state agency's administrative expenses, SIGTARP interviewed Nevada state agency officials; reviewed the Nevada state agency's internal and external audit and compliance reports; reviewed Treasury's compliance reports; and reviewed policies and procedures from Treasury and the Nevada state agency to determine the extent to which internal controls were reasonable and effective.

Prior Coverage

SIGTARP has covered the HHF program in its quarterly reports since 2010, and in two prior audit reports and one evaluation report:

- April 12, 2012, "Factors Affecting Implementation of the Hardest Hit Fund Program."
- April 21, 2015, "Treasury Should Do Much More to Increase the Effectiveness of the TARP Hardest Hit Fund Blight Elimination Program."
- October 6, 2015, "Factors Impacting the Effectiveness of Hardest Hit Fund Florida."
- June 16, 2016, "Treasury's HHF Blight Elimination Program Lacks Important Federal Protections Against Fraud, Waste, and Abuse."

In addition, SIGTARP reviewed two prior audit reports that it conducted related to legal fees paid under TARP:

- April 2011, "Treasury's Process for Contracting for Professional Services under TARP."
- September 26, 2011, "Legal Fees Paid Under the Troubled Asset Relief Program: An Expanded Report."



Appendix B – Acronyms and Abbreviations

CEO	Chief Executive Officer
EESA	Emergency Economic Stabilization Act
GAO	Government Accountability Office
HHF	Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets (also “Hardest Hit Fund”)
NAHAC	Nevada Affordable Housing Assistance Corporation
NHD	Nevada Housing Division
OMB	Office of Management and Budget
State agency	Nevada’s state housing finance agency (Nevada HFA/NHD and/or NAHAC)
TARP	Troubled Asset Relief Program
Treasury	U.S. Department of the Treasury

Appendix C – Audit Team Members

This audit was conducted and the report was prepared under the direction of Jennifer F. Wilson, Deputy Special Inspector General for Audit and Evaluation, and Christopher Bosland, Assistant Deputy Special Inspector General for Audit and Evaluation, Office of the Special Inspector General for the Troubled Asset Relief Program. The following staff conducted this audit: Crystal Reese, Andy Sinclair, Clark Beecken, and Christina Harris. Others who made key contributions to this report are Caroline Ashe and Joshua Alexander.



Appendix D – Management Comments



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

September 8, 2016

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

Dear Ms. Romero:

I write in response to the Special Inspector General for the Troubled Asset Relief Program's (SIGTARP) draft report of August 24, 2016 (Draft). The Office of Financial Stability (OFS) thanks you for conducting this review. As you are aware, OFS issued a memorandum in December 2015 expressing concern about the performance of the Nevada Hardest Hit Fund (HHF) program. We look forward to working with SIGTARP as we continue to support the programs under the Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets. This letter provides OFS's official response to the Draft. Pursuant to our customary protocol, we will review all of SIGTARP's recommendations and respond to each one under separate cover at a later date.

I. HHF Background

HHF is one of the housing programs created under the Troubled Asset Relief Program (TARP) pursuant to the Emergency Economic Stabilization Act of 2008 (EESA). It was created in February 2010 to provide assistance to the District of Columbia and 18 states designated "hardest hit" because they had experienced the nation's steepest home price declines and most severe unemployment. HHF provides the greatest possible flexibility to eligible Housing Finance Agencies (HFAs) in designing programs that are responsive to the needs of their specific states. Individual HFAs design, administer, and monitor their own HHF programs, subject to requirements set forth in the contracts they signed with Treasury. The HFAs have designed and currently operate more than 80 distinct programs under HHF, each with their own unique objectives, processes, and requirements. As of June 30, 2016, HHF programs have assisted more than 263,000 homeowners and disbursed more than \$5.2 billion dollars for HHF program activities.

OFS takes very seriously its responsibility to monitor HFAs, and requires that HFAs implement internal controls designed to minimize the risk of fraud, waste, and abuse, mitigate conflicts of interest, and maximize operational effectiveness. OFS works with each HFA to develop programs to prevent avoidable foreclosures and stabilize local housing markets. OFS approves, at a high level, program design, funding allocations for individual programs, and an overall budget for administrative expenses. Each HFA is responsible for documenting and approving individual expenses within the limits of the HFA's OFS-approved budget. Administrative expenses must meet the requirements of the Office of Management and Budget (OMB) Circular



A-87, which sets forth principles and standards for determining costs of Federal awards carried out under agreements with state and local governments.

OFS assesses the HFAs' compliance with Treasury's requirements through regular on-site compliance reviews, which test the effectiveness of internal controls—including the review of administrative expenses on a sample basis. In addition, HFAs are required to provide OFS with an independent verification of the effectiveness of their internal control program on an annual basis.

II. The Nevada HHF Program

The Nevada Affordable Homeowner Assistance Corporation (NAHAC) and the Nevada Housing Division (NHD) are two separate entities. NAHAC is a corporation formed under the laws of the State of Nevada, and it is not a state agency. NHD is a division of the Nevada Department of Business and Industry, which is a state agency. NAHAC is the entity that operates the Nevada Hardest Hit Fund program, and it has not operated any other Nevada state programs since 2013. NHD neither receives nor disburses HHF program or administrative funds; those functions are performed by NAHAC. However, as with all state HFAs in HHF, NHD is required to play an oversight role.

As SIGTARP has identified in the report, NAHAC has experienced significant staffing and leadership changes since 2012. We believe those changes have adversely affected the administration and performance of the Nevada HHF program. In the aforementioned memorandum that was sent to NAHAC and NHD, OFS noted, among other things, that NAHAC's administrative expenses had exceeded HHF program funds expended during the prior two quarters. OFS requested that NAHAC take immediate action to improve its performance. OFS also requested that NHD increase its oversight of NAHAC and the Nevada HHF program. In response to OFS's requests, NAHAC restructured its board in May 2016 to allow NHD a greater role in program administration, and NAHAC began to implement a number of fundamental changes with respect to the Nevada HHF program. Since receipt of OFS's memorandum, NAHAC has appointed a new CEO and made additional staffing changes to better meet its program goals.

OFS is working closely with NHD and the new management at NAHAC to identify key operational concerns, and to modify programs accordingly. OFS is closely monitoring Nevada's efforts to improve its operational capacity and performance, and will continue to work with the Nevada HHF program and other relevant stakeholders to reach homeowners struggling in the wake of the housing crisis.

* * *



OFS appreciates SIGTARP's analysis, and is closely examining its recommendations. We strongly believe that preventing fraud, waste, and abuse is critical to the success of any government program. We will respond to each recommendation under separate cover after careful consideration. We will take appropriate actions to obtain better program performance and to protect the interests of taxpayers.

Sincerely,

A handwritten signature in black ink, appearing to read "Mark McArdle".

Mark McArdle
Deputy Assistant Secretary for Financial
Stability



SIGTARP Hotline

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

By *Online Form*: www.SIGTARP.gov

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

By *Fax*: (202) 622-4559

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

Press Inquiries

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

Robert Sholars
Director of Communications
Robert.Sholars@treasury.gov
202-927-8940

Legislative Affairs

For Congressional inquiries, please contact our Legislative Affairs Office:

Joseph Cwiklinski
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Joseph.Cwiklinski@treasury.gov
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.

