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SIGTARP: Congressional Justification for Appropriations and Annual Performance Report and Plan – FY 2018

United States: Office of the Special Inspector General for the TARP

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Office of the Special Inspector
General for TARP
(SIGTARP)

Congressional Justification
for Appropriations and
Annual Performance
Report and Plan

FY 2018

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Section I – Budget Request

A – Mission Statement:

The Office of the Special Inspector General for the Troubled Asset Relief Program (SIGTARP) is a federal law enforcement agency and is an independent watchdog protecting taxpayer dollars that fund TARP.

B – Summary of the Request

The FY 2018 Budget proposes \$20,297,000, which is 50 percent below the FY 2017 Annualized CR level.¹ Treasury has committed \$38 billion for TARP housing programs, of which more than \$8 billion remains outstanding for payments scheduled to occur through FY 2023.² Currently, TARP spending is approximately \$1 billion per quarter. Of the amount proposed, 81 percent is for investigations and 19 percent is for audits.

SIGTARP's criminal investigations of TARP recipients counter threats to public safety and Government interests, including public corruption, antitrust (unfair competition), contract fraud, financial institution fraud, and mortgage fraud. SIGTARP's audits identify costly waste, abuse, risk of fraud, and inefficiency. SIGTARP has ongoing criminal investigations into TARP recipients, and ongoing audits requested by members of Congress. Under TARP's Hardest Hit Fund, which was scheduled to end in FY 2018, but was extended and expanded by \$2 billion in the Consolidated Appropriations Act, 2016 (P.L. 114-113), recipients of TARP dollars include 19 state housing finance agencies, 38 cities/counties, 147 individuals, eight for-profit companies, 158 non-profits, 39 land banks, hundreds of demolition contractors, homebuyers, and homeowners. Separately, recipients of TARP dollars through the Making Home Affordable Program include Ocwen Loan Servicing, Wells Fargo Bank, JPMorgan Chase Bank, Bank of America, Nationstar Mortgage, Select Portfolio Servicing, CitiMortgage, and more than 130 other mortgage servicers.

SIGTARP's investigations have recovered \$10 billion, which translates to a 40-times return on investment from its annual appropriations through FY 2016.³ This is in addition to \$2 billion in cost-saving audit recommendations, including \$161 million in savings that will be realized from implemented recommendations this year. For the last three fiscal years, recoveries to the Government exceeded SIGTARP's budget proposal and offset taxpayer losses. SIGTARP has developed a deep expertise in identifying crime in TARP, with 394 defendants criminally charged, nearly 100 of which were charged in FY 2016-2017. SIGTARP investigations have also resulted in significant Department of Justice enforcement actions against TARP recipients Bank of America, JPMorgan Chase Bank, Goldman Sachs, Morgan Stanley, Ally Financial, SunTrust Bank, Fifth Third Bank, and General Motors. SIGTARP audits in FY 2016-2017 identified costly waste, abuse, and risk of criminal behavior in ongoing TARP programs.

¹ Including \$200,000 for training and \$40,000 to the Council of the Inspectors General on Integrity and Efficiency.

² Of this amount, \$7.01 billion is obligated to be paid and \$3.93 billion committed in the Making Home Affordable Program and \$3.2 billion is obligated to be paid in the Hardest Hit Fund program.

³ Includes fines, restitution, forfeiture, and full homeowner relief by a large financial institution.

1.1 – Appropriations Detail Table

Dollars in Thousands

Special Inspector General for TARP Appropriated Resources	FY 2016		FY 2017		FY 2018		FY 2017 to FY 2018			
	Enacted		Annualized CR		Request		Change		% Change	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources										
Investigations	101	31,801	136	32,069	73	16,441	(63)	(15,628)	-46.32%	-48.73%
Audit	34	8,870	48	8,525	19	3,856	(29)	(4,669)	-60.42%	-54.77%
Subtotal New Appropriated Resources	135	\$40,671	184	\$40,594	92	\$20,297	(92)	\$(20,297)	-50.00%	-50.00%
Other Resources										
Unobligated Balances from Prior Years	0	0	0	4,000	0	11,090	0	7,090	N/A	177.25%
Resources from Other Accounts	2	475	8	1,548	8	1,613	0	65	N/A	4.20%
Subtotal Other Resources	2	\$475	8	\$5,548	8	\$12,703	0	\$ 7,155	N/A	128.97%
Total Budgetary Resources	137	\$41,146	192	\$46,142	100	\$33,000	(92)	\$(13,142)	-47.92%	-28.48%

Note: FY 2016 Appropriated Resources are Actual

1.2 – Budget Adjustments Table

Dollars in Thousands

Special Inspector General for TARP	FTE	Amount
FY 2017 Annualized CR	184	\$40,594
Changes to Base:		
Maintaining Current Levels (MCLs):		\$809
Pay raise		465
Pay annualization		170
Non-pay		174
Program Reductions	(92)	(\$21,106)
Technical FTE Adjustment	(92)	(14,600)
Reduce Support Services		(6,506)
Subtotal Changes to Base	(92)	(\$20,297)
Total FY 2018 Base	92	\$20,297
Total FY 2018 Request	92	\$20,297

C – Budget Increases and Decreases Description

Maintaining Current Levels (MCLs) +\$809,000 / +0 FTE

Pay Raise +\$465,000 / +0 FTE

Funds are requested for the proposed January 2018 pay-raise.

Pay Annualization +\$170,000 / +0 FTE

Funds are requested for annualization of the January 2017 pay-raise.

Non-Pay +\$174,000 / +0 FTE

Funds are requested for non-labor expenses such as travel, contracts, rent, contracts, supplies, and equipment.

Program Decreases -\$21,106,000 / -92 FTE

Technical FTE Adjustment -\$14,600,000 / -92 FTE

The technical FTE adjustment reduces the appropriated FTE level.

Reduce Support Services -\$6,506,000 / -0 FTE

SIGTARP will also seek to reduce non-personnel costs.

Quantifiable Results: SIGTARP's Return on Investment & Government Cost Savings

With \$10 billion in recoveries from SIGTARP investigations (nearly \$9 billion of which was recovered last year), SIGTARP has a 40 times return on investment compared to its annual appropriations through FY 2016.⁴ In FY 2017, SIGTARP's investigation in one case alone already resulted in the Government recovering \$52 million, which is more than the \$41 million FY 2017 Annualized CR level. Recoveries from SIGTARP's investigations can be used for other Government spending or to reduce the federal budget deficit. Government recoveries resulting from SIGTARP investigations help offset losses that taxpayers suffered on certain TARP investments. SIGTARP auditors save the Government money, and have identified \$2 billion in cost savings. SIGTARP is currently auditing how 19 state housing finance agencies spent nearly \$700 million. In September 2016, SIGTARP caught and exposed \$8.2 million in waste by a Nevada state agency contractor who spent federal dollars earmarked for homeowners on parties, a cocktail bar, employee gifts, a Mercedes Benz for the CEO, and more. SIGTARP also achieves additional Government cost savings by deterring fraud and waste. SIGTARP's exposure of waste in Nevada, and our publicly-announced audit, serve to deter waste and fraud for the approximately \$30 million per quarter that Treasury pays to state housing finance agencies for their expenses in administering TARP.

Countering Threats to Public Safety & Government Interests

SIGTARP brings accountability through law enforcement, as Congress authorized SIGTARP with the power to arrest. With concurrent responsibility with the Federal Bureau of Investigation (FBI) over TARP-related crime, SIGTARP saves FBI resources. SIGTARP counters threats to public safety and Government interests by investigating criminal actors, and neutralizing the threat they pose. With more than 200 people sentenced to prison, at an average of a nearly five-year prison sentence, the threat these crimes pose is significant.

Public corruption: State and local officials award contracts under various HFA blight elimination programs using TARP dollars. The corruption of local officials threatens public safety.

Antitrust violations: Unfair competitive practices for demolition contracts, like bid rigging and contract steering, threatens the quality of work, harming public safety, and threatens competition, harming the Government's interests.

Contract fraud: Fraud in charges for demolition, expenses by state housing finance agencies, or by HAMP servicers harms Government interests.

Financial institution fraud: SIGTARP investigates fraud in current TARP banks and banks where taxpayers suffered a loss in TARP. Our record reflects 96 bankers charged with a crime, including 75 who have already been convicted while others await trial. A recent SIGTARP

⁴ Includes fines, restitution, forfeiture, and full homeowner relief by a large financial institution.

investigation into a bank still in TARP resulted in the Department of Justice (DOJ) indicting the former bank CEO for allegedly orchestrating a money laundering scheme for international narcotics trafficking involving a drug cartel. Charges are not evidence of guilt and trial is scheduled for FY 2018. In FY 2017, a jury found the CEO of a failed TARP bank guilty of bank fraud and the vice president pled guilty. When the bank failed, taxpayers lost \$7.5 million in TARP. Also in FY 2017, DOJ criminally charged a senior officer of another failed TARP bank with deceiving regulators about bank losses. Taxpayers lost \$30 million in TARP when that bank failed.⁵

Mortgage fraud: Mortgage fraud cases typically involve false representations to homeowners and/or Treasury. We are prioritizing investigations of mortgage servicers.

Proactive Investigative Efforts to Speed Up the Identification of Crime

With TARP currently spending \$1 billion each quarter, SIGTARP is mining data to find crime quickly, including in the HFA blight elimination programs. SIGTARP looks for anomalies that, when paired with red flags identified in its ongoing investigations, speed up investigative efforts to identify persons of interest and potential corruption, antitrust violations, and fraud.

⁵ Criminal charges contain an allegation that a defendant committed a crime. Every defendant is presumed innocent until and unless proven guilty.

1.3 – Operating Levels Table

Dollars in Thousands

Special Inspector General for TARP Object Classification	FY 2016 Actual	FY 2017 Annualized CR	FY 2018 Request
11.1 - Full-time permanent	15,408	21,788	11,761
11.3 - Other than full-time permanent	1,526	1,799	942
11.5 - Other personnel compensation	1,646	2,120	1,207
11.9 - Total personnel compensation	18,580	25,707	13,910
12.0 - Personnel benefits	6,013	8,184	4,790
Total Personnel and Compensation Benefits	\$24,593	\$33,891	\$18,700
21.0 - Travel and transportation of persons	838	1,000	1,000
23.2 - Rental payments to others	262	272	330
23.3 - Communication, utilities, and misc charges	93	103	87
24.0 - Printing and reproduction	201	162	0
25.1 - Advisory and assistance services	2,726	2,676	1,391
25.2 - Other services from non-Federal sources	130	68	121
25.3 - Other goods and services from Federal sources	10,796	7,044	10,534
25.6 - Medical care	100	100	100
25.7 - Operation and maintenance of equipment	50	48	43
26.0 - Supplies and materials	472	448	347
31.0 - Equipment	276	260	277
42.0 - Insurance claims and indemnities	34	60	60
91.0 - Unvouchered	0	10	10
Total Non-Personnel	\$15,978	\$12,251	\$14,300
Total Budgetary Resources	\$40,571	\$46,142	\$33,000
FTE	135	184	92

Note: This table includes total annually appropriated funding (actuals for FY 2016, FY 2017 Annualized CR and FY 2018).

D – Appropriations Language and Explanation of Changes

Appropriations Language	Explanation of Changes
<p style="text-align: center;">DEPARTMENT OF THE TREASURY SPECIAL INSPECTOR GENERAL FOR THE TROUBLED ASSET RELIEF PROGRAM <i>Federal funds</i></p> <p style="text-align: center;">SALARIES AND EXPENSES <i>For necessary expenses of the Office of the Special Inspector General in carrying out the provisions of the Emergency Economic Stabilization Act of 2008 (Public Law 110–343), \$20,297,000.</i></p> <p>Note.—A full-year 2017 appropriation for this account was not enacted at the time the budget was prepared; therefore, the budget assumes this account is operating under the Further Continuing Appropriations Act, 2017 (P.L. 114–254). The amounts included for 2017 reflect the annualized level provided by the continuing resolution.</p>	

E – Legislative Proposals

PPIP Funds

The Public-Private Investment Program (PPIP) Improvement and Oversight Act of 2009 (12 U.S.C. § 5231a) provided \$15 million in no-year appropriations to SIGTARP for the purpose of providing oversight to PPIP and the Term Asset-Backed Securities Loan Facility. As both programs have closed, SIGTARP is currently using these funds to support limited investigative activities where taxpayers suffered a loss in PPIP. SIGTARP is requesting that these PPIP funds be made available to also support SIGTARP’s oversight of ongoing TARP programs.

PROPOSED LANGUAGE

Sec. 128 Notwithstanding paragraph (2) of section 402(c) of the Helping Families Save their Homes Act of 2009, in utilizing funds made available by paragraph (1) of section 402(c) of such Act, the Special Inspector General for the Troubled Asset Relief Program shall prioritize the performance of audits or investigations of any program that is funded in whole or in part by funds appropriated under the Emergency Economic Stabilization Act of 2008, to the extent that such priority is consistent with other aspects of the mission of the Special Inspector General.

Section II – Annual Performance Plan and Report

A – Strategic Alignment

The Investigations budget activity supports SIGTARP’s priority of law enforcement of crimes related to TARP. The Audit budget activity supports SIGTARP’s priority of being an independent watchdog over TARP dollars. Both activities support and complement Treasury’s efforts to safeguard and protect the integrity of the financial system. SIGTARP coordinates with other law enforcement agencies, leveraging its unique position and expertise by forming law enforcement partnerships.

The FY 2018-2022 Strategic Plan is currently under development. The Annual Performance Plan will be updated in the FY 2019 Budget to reflect the new priorities.

B – Budget and Performance by Budget Activity

2.1.1 – Investigations Resources and Measures

Dollars in Thousands

Resource Level	FY 2012 Actual	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Actual	FY 2017 Annualized CR	FY 2018 Request
Appropriated Resources	\$25,618	\$29,230	\$27,382	\$27,295	\$32,478	\$32,069	\$16,441
Other Resources	920	1,516	5,656	6,354	376	4,701	10,289
Budget Activity Total	\$26,538	\$30,746	\$33,038	\$33,649	\$32,854	\$36,770	\$26,730
FTE	102	110	119	115	103	144	81

Note: FY 2016 Appropriated Resources are Actual

Measure	FY 2012 Actual	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Actual	FY 2016 Target	FY 2017 Target	FY 2018 Target	FY 2012 - FY 2016 Trend
Percentage of Cases Accepted for Consideration by Civil or Criminal Authorities Resulting in a Positive Final Outcome	N/A	N/A	N/A	N/A	77.0	60.0	70.0	70.0	N/A
Percentage of Cases Presented to Civil or Criminal Authorities within Eight Months of the Case Being Opened	N/A	N/A	N/A	N/A	80.0	70.0	70.0	50.0	N/A
Percentage of Cases That are Joint Agency/Task Force Investigations	65.0	79.0	75.5	69.65	71.0	70.0	70.0	50.0	
Percentage of Preliminary Investigations Converted to Full Investigations within 180 Days	77.0	82.0	95.75	100.0	99.0	80.0	80.0	60.0	

Key: DISC - Discontinued; B - Baseline

Investigations Budget and Performance

(\$16,441,000 from direct appropriations)

SIGTARP exceeded all metrics in FY 2016. The “Percentage of Cases Accepted for Consideration by Civil or Criminal Authorities Resulting in a Positive Final Outcome” in FY 2016 was 77 percent, exceeding the target of 60 percent. During FY 2016, the “Percentage of Cases Presented to Civil or Criminal Authorities within Eight Months of the Case Being Opened,” was 80 percent, exceeding the target of 70 percent. In FY 2016, the “Percentage of Cases That are Joint Agency/Task Force Investigations” with other law enforcement agencies was 71 percent. In FY 2016, “Percentage of Preliminary Investigations Converted to Full Investigations within 180 days” was 99 percent, exceeding the target of 80 percent.

2.1.2 – Audit Resources and Measures

Dollars in Thousands

Resource Level	FY 2012 Actual	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Actual	FY 2017 Annualized CR	FY 2018 Request
Appropriated Resources	\$13,789	\$10,376	\$7,219	\$6,824	\$7,618	\$8,525	\$3,856
Other Resources			1,947	1,069	99	847	2,414
Budget Activity Total	\$13,789	\$10,376	\$9,166	\$7,893	\$7,717	\$9,372	\$6,270
FTE	60	57	45	35	34	48	19

Note: FY 2016 Appropriated Resources are Actual

Measure	FY 2012 Actual	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Actual	FY 2016 Target	FY 2017 Target	FY 2018 Target	FY 2012 - FY 2016 Trend
Number of Completed Audit Products including Referral to Investigations Division (Units)	N/A	N/A	N/A	N/A	11	7	7	3	N/A
Percentage of Congressional Inquiries Responded to within 45 Days of Receipt	N/A	N/A	N/A	85.0	100.0	85.0	85.0	85.0	

Key: DISC - Discontinued; B - Baseline

Audit Budget and Performance

(\$3,856,000 from direct appropriations)

SIGTARP exceeded its performance measure “Number of Completed Audit Products including Referrals to Investigations Division” of seven in FY 2016, with 11 products. SIGTARP exceeded its 85 percent goal of “Percentage of Congressional Inquiries Responded to within 45 Days of Receipt,” at 100 percent.

Section III – Additional Information

A – Summary of Capital Investments

SIGTARP has limited non-major IT investments that allow for routine updates, modifications, maintenance, and equipment refreshment of its existing systems.

A summary of capital investment resources can be found at:

<http://www.treasury.gov/about/budget-performance/Pages/summary-of-capital-investments.aspx>

This website also contains a digital copy of this document.

Comments of the Honorable Christy Goldsmith Romero Special Inspector General Troubled Asset Relief Program on the FY 2018 Proposed Funding Level

Under the provisions of section 6(f)(3)(E) of the Inspector General Act of 1978, as amended, as applied through the Emergency Economic Stabilization Act of 2008, the Special Inspector General has provided the following comments regarding FY 2018 proposed funding:

The FY 2018 budget request substantially inhibits the Office of the Special Inspector General (OIG) for TARP from performing the duties of the office, including audits and criminal investigations. The proposed funding represents a 50% reduction (\$20 million) from the FY 2017 Annualized CR level enacted by the Congress, despite the Federal Government's continued ownership or control of troubled assets in TARP housing programs that are \$38 billion in size – the same size as last year. This year alone (FY 2018), Treasury will spend \$4 billion in TARP. This spending is in two programs: (1) the recently expanded and extended Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets (Hardest Hit Fund or HHF); and (2) TARP's Making Home Affordable Program (MHA), which has spent just over half (60%) of obligated/committed TARP dollars.

In the Consolidated Appropriations Act of 2016, the Congress authorized an extension and an additional \$2 billion in the Hardest Hit Fund. With that authorization, Treasury extended the spending of Federal dollars in HHF from FY 2018 to FY 2022. There are \$3.2 billion in unspent Federal dollars in HHF. Recipients of these Federal TARP dollars are 19 state agencies, 38 cities/counties, 147 individuals, 8 for-profit companies, 158 non-profits, 39 land banks, hundreds of demolition contractors and subcontractors (including asbestos, inspection and removal, waste disposal, fill dirt, grading, greening, site inspection, maintenance), homebuyers, and homeowners.

The OIG's investigations and audits have revealed risks of criminal behavior, fraud, waste, and abuse in the Hardest Hit Fund program. The OIG's FY 2016 audit revealed that the HHF blight demolition program is significantly vulnerable to the substantial risk of unfair competitive practices, including favoritism, undue influence, contract steering, bid-rigging, and other closed-door contracting processes, as well as fraudulent overcharging. Only two of 20 recommendations in that audit have been implemented. Other FY 2016 audits revealed

abuse related to evicting people out of their homes to qualify for TARP-funded demolition, and \$8.2 million in waste of TARP dollars by a state agency contractor.

Additionally, in the Consolidated Appropriations Act of 2016, the Congress terminated MHA, but exempted homeowners who applied before December 31, 2016. Just over half (60%) of these federal dollars have been paid to Ocwen, Wells Fargo, JPMorgan Chase, Bank of America, Nationstar, SPS, CitiMortgage, and more than 130 mortgage servicers, investors and homeowners. Treasury is obligated or committed to pay a remaining \$10.94 billion through FY 2023. Program participation has remained steady at about one million homeowners in FY 2015, FY 2016 and FY 2017. The OIG's investigations with the Justice Department, and audits, have revealed a track record of violations of TARP rules and the law by some servicers in MHA and warned of risk of fraud, waste, and abuse to the Federal Government and homeowners.

The OIG has a significant number of ongoing criminal investigations of recipients of Federal dollars in TARP, in addition to audits of TARP recipients. The proposed budget effectively removes the resources necessary for the OIG to: (1) identify costly waste and abuse, as well as cost savings through ongoing and future audits, and (2) conduct ongoing and future criminal investigations that (a) counter threats, including public corruption, antitrust (unfair competition), contract fraud, financial institution fraud, and mortgage fraud, and (b) lead to indictments, convictions, prison sentences, and recoveries. This places critical Federal Government interests at risk, and substantially inhibits the OIG in carrying out its duties and responsibilities.