

**Testimony of Governor Edward G. Rendell on
“Tracking the Money: Preventing Waste, Fraud, and Abuse of Recovery Act Funding”
House Committee on Oversight and Government Reform
July 8, 2009**

Chairman Towns, Ranking Member Issa, and Members of the Committee, thank you for the opportunity to testify before you today on Pennsylvania’s use of American Recovery & Reinvestment Act funding. I am particularly grateful for your role in providing the American people with this necessary stimulus package and for your dedication to overseeing its successful implementation.

Pennsylvanians will receive approximately \$16 billion from the Recovery Act. This includes billions of dollars in direct relief for Pennsylvania taxpayers – including over \$1.7 billion this year alone from tax relief to individuals and over \$750 million in additional food stamps in the next two years – as well as approximately \$9.9 billion in formula-driven funding for health care, education, infrastructure, job training, energy independence, housing and other aid. As Pennsylvania’s Governor, I am deeply committed to the effective deployment of these crucial resources, and from Day 1 have put in place systems to ensure transparency, integrity and accountability of all Recovery funds.

Before I describe the structure and strategies we have implemented to prevent waste, fraud and abuse, let me provide you with some highlights on how we are already putting stimulus funding to work creating jobs and strengthening Pennsylvania communities:

- **Transportation Funding:** In March, we announced the list of \$1 billion in highway and bridge infrastructure projects that were selected by local officials to receive stimulus funds, and the federal government has already obligated \$720 million for these projects – including \$315 million in Economically Distressed Areas. Bids are coming in an average of 15% lower than we expected, and I am particularly pleased that to date we have awarded 162 Recovery contracts worth more than \$369 million, out of a planned 242 total contracts, and started work on 131 projects totaling about \$300 million. I anticipate that all of our original stimulus-funded transportation projects will have bids opened by Labor Day and by that date work will have begun on an estimated 70%. Every billion dollars of transportation investment is estimated to create 30,000 direct and indirect jobs, so it is particularly important to inject these resources into the economy as quickly as possible. I also want to emphasize that federal stimulus funds are supplementing, not supplanting, our previously planned state spending; the combined investment totals close to \$3 billion – by far the most highway and bridge work ever produced in a single year in Pennsylvania. In fact, just this year, Pennsylvania has begun work on 540 out of 5,900 structurally deficient bridges – 470 of these are from our own bridge program and 70 are funded from the federal stimulus.

As one Western Pennsylvania contractor told his local newspaper: “The stimulus money is starting to flow, and it has meant a great deal to the contracting industry. It also means a lot to the general public because of the crisis that we currently have with all of our

infrastructure, particularly transportation infrastructure – the roads and the bridges.... It is allowing contractors to put people to work that I don't know would otherwise be working if it wasn't for the stimulus money.”

In addition, Pennsylvania is focused on doing it right – not just fast. That means following a “fix it first” policy, which avoids sprawl and also has the most immediate job creation impact. A recent report by Smart Growth America found that Pennsylvania's commitment to upgrading existing highways with stimulus funds – as opposed to building new ones – ranks 14th best among all the states.

- **Water and Sewer Infrastructure Upgrades:** Recovery funding is making it possible to upgrade water systems across the Commonwealth, which is particularly important as a recent study found that Pennsylvania's drinking and wastewater systems face \$36.5 billion in capital repairs and upgrades over the next 20 years. We announced \$114 million in Recovery funding to upgrade water systems in 26 counties in April, and next week more than half of that work is scheduled to begin – with the balance starting on October 1. The final \$106 million in water and wastewater stimulus funding will be awarded to projects before the end of this month.
- **Energy Independence:** The Recovery Act's energy-related investments are especially powerful because of their dual impact: creating jobs and spurring innovation in the emerging alternative energy sector, while reducing our nation's demand for non-renewable energy and foreign oil. Pennsylvania submitted its State Energy Plan to the federal government on May 12, and the first 10% of our allocation has been released to the state and is already allocated to nine cutting-edge alternative energy projects.

We are also hard at work ratcheting up local capacity in order to maximize the \$253 million in Weatherization funding that Pennsylvania will receive – enough to weatherize over 25,000 homes. This allocation represents a six-fold increase in the Weatherization resources that Pennsylvania typically draws down, and we are taking advantage of this opportunity to revamp our entire Weatherization program so that it is performance-based on energy savings and better targeted to low-income, high-energy use eligible households.

Here's how one Weatherization leader from Lycoming County described the impact: “In my opinion, this really is a good way to make these stimulus dollars work. There will be job creation, subcontracting and materials purchase. The beauty of it, too, is that we will be helping a lot of people reduce their energy costs.”

The successful implementation of these and other Recovery programs demands vigilance from all levels of government on behalf of the taxpayers we serve.

Strong Oversight and Accountability

Preventing waste, fraud and abuse starts with an effective structure for oversight and accountability. Pennsylvania's oversight structure consists of the following key elements:

- **Chief Implementation Officer:** General Services Secretary James Creedon is serving as the Chief Implementation Officer for the Recovery Act in Pennsylvania. Secretary Creedon has extensive experience in infrastructure and in the contracting process, and he is responsible for overseeing the implementation efforts of all state agencies and of eliminating any bureaucratic hurdles to efficient deployment of stimulus resources.
- **Chief Accountability Officer:** To spearhead our accountability efforts, we recruited the esteemed business leader Ronald Naples, who most recently ran the Quaker Chemical Corporation. Mr. Naples works across state agencies to ensure that appropriate programmatic, selection criteria, outcome measures and financial structures are in place, and to lead our efforts to report to the federal government and the public on our use of Recovery funds.
- **Stimulus Oversight Commission:** Mr. Naples also serves as the Chairperson of the non-partisan Stimulus Oversight Commission that I established to provide Congressional, state legislative, private sector, labor and non-profit leaders with a prominent role in furthering our efforts to effectively implement the Recovery Act. The Commission includes 11 members in addition to Chairman Naples and Secretary Creedon: one from each legislative caucus in our state General Assembly; one appointed by each United States Senator; one appointed by each caucus of our United States House of Representatives delegation; and three at-large representatives from the AFL-CIO, the United Way of Pennsylvania and the Pennsylvania Chamber of Business & Industry. The Commission meets regularly to monitor our progress and provide input on implementation strategies. Its meetings are publicly advertised and open to the press and public, and videos of the Commission meetings as well as transcripts and all briefings materials are posted on our public Recovery Web site.
- **Management Committee:** The operational side of Pennsylvania's stimulus implementation is furthered through a Management Committee of 8 Cabinet and Deputy Secretary-level staff who meet weekly to discuss implementation, financial oversight, accountability and federal reporting. This group also regularly updates legislative staff and legislative standing committees with oversight over impacted program areas.

These formal structures are supplemented by additional work groups that cross all involved agencies in order to align information technology, financial control and audit, federal reporting, grant processes and other Recovery Act functions.

Promoting Transparency and Public Engagement

It is essential that Americans have confidence in our administration of the stimulus, and transparency is a prerequisite to achieving that goal and to ensuring that these resources are appropriately invested in the public interest.

We intend to use federal reporting requirements as a starting point to make regular public reports to the Commonwealth that include information on the status of our expenditures and –

even more importantly – how Recovery funds are impacting Pennsylvanians. Job creation and retention are certainly the most important measures, but we also have a responsibility to illustrate how stimulus resources are furthering the President and Congress’s goals of moving towards energy independence, improving education and modernizing health care. And in addition to meeting our federal reporting requirements, I have tasked the Chief Accountability Officer with developing additional performance measures that can provide meaningful information to our citizens, which we plan to make easily accessible in simple and direct terms.

Our first order of business following passage of the Recovery Act was to establish a dedicated website – www.Recovery.PA.gov – to provide our citizens with up-to-date information on all stimulus spending decisions and a way to track every stimulus dollar. In fact, our Web site was highlighted as a case study in a recent edition of *Federal Computer Week* magazine.

Through the Recovery Web site, taxpayers can see how much funding we are receiving and for what purpose, how those funds are being used, and what the impact is for the state as a whole and for their own town or county. Visitors are also able to see how they can provide public input into each of the major grant streams, as well as to report waste, fraud and abuse.

Since it is the furthest along, transportation funding is the best example of our commitment to transparency. As you can see in the attachment to my testimony, our Web site provides the status of each project, the number of jobs that will be created, estimated start and completion dates, the cost, the contractors who were selected through the bidding process, and even a map of the location and before-and-after photographs.

Another important strategy for promoting transparency, public involvement and proper use of funds is to engage stakeholders through formula structures – such as Pennsylvania’s municipal planning organizations (MPOs) and rural planning organizations (RPOs) – as well as informal means, like posting draft guidelines on the Web site and seeking public comment.

As we speak, our plan to put energy funds to use is up for public comment before we issue a planned Request for Proposals – just as we did with Weatherization funding and school cafeteria equipment grants. We also posted draft versions of our \$1.9 billion State Fiscal Stabilization Fund application before formally submitting it to the U.S. Department of Education on June 26.

Ensuring Financial Integrity

Pennsylvania’s existing financial control and auditing systems manage the \$61.5 billion in state, federal and special funds that make up the Commonwealth’s total budget. These strong and well-tested internal controls are being applied to provide the necessary preventive oversight for avoiding waste, fraud and abuse with regard to Recovery funds. In addition, we have supplemented our existing systems to meet new requirements under the stimulus – particularly with regard to reporting requirements and managing the roles of sub-grantees.

Our financial controls accomplish all of the safeguards that we would expect of a large government entity, including:

- Specific accounting codes that track stimulus funds;
- Central control of the accounting system accompanied by segregation of duties at all levels and in all agencies;
- Competitive bidding, reporting requirements and site visits to ensure funds are spent appropriately;
- Pre-audit functions that make certain the necessary documentation is in place before payments are initiated, and separate checks before payments are subsequently processed;
- A state Inspector General who investigates reports of waste, fraud and abuse; and
- Independent auditing by a public accounting firm.

Pennsylvania's current programmatic strategies to prevent and detect waste, fraud and abuse prepare us to appropriately administer Recovery funds, as evidenced by two of our largest stimulus funding streams: the increase in the Federal Medical Assistance Percentage (FMAP) and the transportation funding described earlier.

Our Medical Assistance claims management system, called "PROMISe," currently verifies, calculates and creates payment requests for more than \$16 billion a year. We check extensive citizenship, financial and criminal applicant information for everyone who applies for Medical Assistance in order to combat fraud, and the PROMISe system then uses its built-in controls to verify eligibility and health care benefits before allowing any payment. Additional data mining flags potential fraud in order to avoid abuse.

With regard to transportation funding, Pennsylvania is using the same well-established contract award process for stimulus funding as we do for all other funds. Our process requires that contractors pre-qualify based on successful review of their audited financial statement, organization and experience statement, and affirmative action statement. Only after a contractor pre-qualifies can the firm bid on contracts. Bidding opportunities are publicly advertised online, and prospective contractors have the opportunity to electronically submit their bids. Our Department of Transportation then reviews the bids and makes an award to the lowest responsible bidder. Once a project begins, inspectors review construction throughout the building process, and contractors cannot submit a request for payment until each phase is inspected. Actual payment requires multiple checks for supporting documentation and compliance with contract conditions. This process ensures accuracy, transparency and quality.

Implementation of a number of stimulus programs will require extensive use of sub-grantees, and Pennsylvania is strengthening its financial requirements to match its new expectations for these entities. For example, the vast expansion of the Weatherization program will stretch the capacity of existing community agencies. As part of our allocation process for Weatherization funds, Pennsylvania is implementing new specifications for the separation of financial and programmatic functions at each agency and the first-ever mandatory filing of financial disclosure and conflict of interest statements by agency board members. In education, we are seeking the assistance of an independent auditing firm or entity with similar financial experience to perform pre-expenditure reviews of school districts' investment plans. This technical review will ensure that taxpayers are getting the most for their money, while simultaneously streamlining financial reporting for school districts.

Pennsylvania has also conducted a detailed risk assessment of our major stimulus-funded programs to determine where we need to focus the most attention to avoid abuse. Our review used criteria provided by the Office of Management and Budget, as well as our own Budget Office. It examined 90 stimulus-funded programs, and based on agency interviews, previous audit results and our experience within some of these programs, identified 15 programs that will receive a high level of oversight as Recovery funds are deployed.

Our approach to these 15 programs will be based on each one's unique characteristics and needs. For example, in programs like highway funding and water infrastructure where our Budget Office already conducts audits, we will simply add additional audit procedures to test the Davis-Bacon and the Buy America requirements of the stimulus. For newer programs that have not been audited before, we will conduct audits in accordance with OMB guidelines and, for those where prior audits have indicated challenges that have been corrected in the past, we will focus our auditing on the areas where problems previously occurred to be sure that our programs are stronger.

Our Budget Office will also assist agencies with self-assessments on these targeted programs to help managers identify where potential risks can occur as well as ways to protect against fraud, waste and abuse. In addition, we have completed a gap analysis on our project management systems, particularly as it relates to sub-grantees, and have begun to implement improvements as necessary.

As the GAO report being released today states: "Pennsylvania has taken steps to track Recovery Act funds and assess risks." These processes are working, and I am committed to ensuring the integrity of Recovery funds on behalf of the Commonwealth's taxpayers.

National Governors Association Recommendations

It is a privilege to be here this morning with Governors Patrick and O'Malley and to learn from their experiences in implementing the Recovery Act. I also have the honor of leading the National Governors Association, and I would like to share with you what I am hearing from some of our colleagues across the nation.

In addition to our gratitude to the President and Congress for enacting this legislation, we are pleased that the Administration, individual agencies and OMB have provided a substantial amount of guidance and cooperation, and that funds are flowing to the states. We have a deep respect for the oversight responsibilities of both Congress and the Administration.

As we move forward together to ensure the successful implementation of the stimulus package, the National Governors Association has compiled a few recommendations, which the organization is releasing this morning to coincide with this hearing:

- **Coordinate and streamline reporting requirements and oversight:** Congress and the Administration should share information and develop common definitions to the greatest extent possible to make state reporting easier and more usable. National and regional

oversight activities also should be coordinated to avoid duplication and minimize the impact on limited state resources.

- **Provide resources for accountability and transparency:** OMB efforts to allow states to use up to 0.5 percent of Recovery funds for administration are helpful, but in the experience of some Governors it is not sufficient to adequately support state oversight and accountability efforts.
- **Allow time for planning:** The Recovery Act's objective of spending money quickly must be tempered with the objective of spending taxpayer dollars wisely. Congress and the Administration should provide states flexibility to organize and plan after federal rules are finalized to ensure proper handling and priority-setting at the state level. States especially need time to plan and execute for *long-term growth* in health IT, broadband, high speed rail, R&D, and alternative energy and smart grid. The focus of these five programs is different from short-run stimulus programs and thus effective and efficient planning, as opposed to accelerating spending, should be the priority.
- **Communicate with and through Governor's Offices:** The Recovery Act provides states and Governors with central responsibility for using and administering federal recovery funds. Federal officials should ensure that the Governor's Office is kept informed of the federal spending and activities that occur in a state. Governors must also have access to all reporting information on both a transactional and aggregate basis to ensure accurate, consistent and quality reporting of expenditure and job creation data.

Thank you again for the opportunity to appear before you today. Our shared commitment to preventing waste, fraud and abuse will provide public confidence in these vital Recovery funds and – most importantly – maximize the use of every stimulus dollar in growing our economy and advancing our long-term economic priorities.

Pennsylvania is Committed to Transparency and Taxpayer Accountability

Sample of Transportation Infrastructure Information Available on All Projects

Where Is Your Money Going? - Microsoft Internet Explorer

File Edit View Favorites Tools Help

Address <http://www.recovery.pa.gov/portal/server.pt?open=514&objID=525527&mode=2&projectid=68592>

Pleasant Gap Resurfacing

Resurfacing, Shoulder Rehabilitation and Drainage and Guiderail Upgrades to State Route 26 from State Route 144 to State Route 64 and State Route 64 from State Route 26 to State Route 550 in Pleasant

Project Status 40%

Counties
[Centre](#)

Municipalities
Benner, Spring, Walker

Project Schedule
Construction Start Date
2009-04-08
Estimated Complete Date
2009-08-21

Estimated Total Funding Amount
\$3,900,000

Funding Recipient(s)
Glenn O. Hawbaker, Inc.
Amount:
\$2,784,026 (ARRA)

Inspection
Michael Baker Jr., Inc.
Amount:
\$162,851 (ARRA)

Estimated Jobs Created/Retained
86

Primary State Route
26

Photos
[Before](#)