

COMMONWEALTH OF PENNSYLVANIA

STIMULUS OVERSIGHT COMMISSION

On the Use of Funds from the
American Recovery and Reinvestment Act

MEETING TRANSCRIPT

Thursday, June 11, 2009

11:00 a.m.

Conference Room 1 - 6th Floor

Forum Place

Harrisburg, Pennsylvania

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Secretary Mary Soderberg, Budget
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Representative Brian Ellis
Representative Jennifer Mann
Mr. Gene Barr (Chamber of Business and Industry)
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Mr. Tony Ross (United Way)
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P R O C E E D I N G S

MR. NAPLES:

I'd like to welcome everybody to our fourth meeting. Time flies. I've already mentioned that we are expecting one or two other folks to join the meeting, a couple by phone, we think. And I think one or two more may arrive in person. I just want to introduce one more time Mike Richart, our secretary. He does all the heavy lifting. And if there's anything wrong it's his fault.

I want to remind everybody that this is a public meeting. And we will provide time for public comments at the end of the meeting, as time allows. Jim Creeden, the Secretary of the Department of General Services who is the chief implementation officer you may note is not here right now.

He's driving in from Philadelphia and I think he will be here in 15 minutes or so. He apologizes in advance for being late, but traffic didn't cooperate with him. Our meeting is planned to go 'til 12:30. And we're going to do all we can to stay within that limit, because I want to respect everyone's time, which is one of the reasons I want to get started on time.

1 As you'll recall, at the last meeting we
2 had several members of the administration come in to
3 lay out programs, talk about the flow of stimulus
4 funds, talk about the status of spending, talk about
5 the criteria for sanction of projects in their area.
6 That included Energy, Department of Transportation,
7 Department of Community Development, among others.

8 I think it was a thorough review of how
9 stimulus dollars are being handled. And it was a
10 timely review in the sense that we were able to brief
11 the Commission to get their advice and guidance on
12 these matters before we were in action. That is
13 indicative of the commitment we'll make in the
14 Commission to forthcoming reporting, well-informed,
15 timely disclosure and review so the Commission can do
16 its job. We're committed to having that kind of
17 forthcoming and open review. For me this squares with
18 a clear ultimate purpose of oversight, which I remind,
19 in terms of what our job is, is to assure Pennsylvania
20 is getting the best possible result, that is the
21 outcomes for its stimulus spending.

22 Along the way that means everything from
23 complying with the law, which of course is a minimum
24 standard, to processes for getting money out the door
25 expeditiously. But more important it means one making

1 the best choices on spending going in and assuring and
2 assisting on accountability for outcomes coming out.
3 So those are at heart, the two things that we really
4 want to make sure happen. You know, this subsumes
5 many elements along the way, from program management,
6 control and compliance and risk management, all of
7 which assures that we get the dollars where they need
8 to go in the time that they need to go, so that we're
9 timely and in the right places.

10 It also means accounting and auditing to
11 prevent and detect abuses from fraud to waste. And
12 importantly it means a public face of performance and
13 outcome reporting, so our citizens know what they are
14 getting for the money we're spending, and that they
15 have confidence in our ability to do what we say we're
16 going to do. Now, the Commission won't do any of
17 this. That's really a management execution function,
18 but it will review the state's effort to do these
19 things to be sure that someone is doing it and someone
20 is doing it well. So that's the what and the how of
21 what we're doing here.

22 The what, get the best possible result
23 for Pennsylvania's people. And the how, comprehensive
24 review of forthcoming and timely reports so that the
25 Commission can provide advice and counsel. And that's

1 consistent with what we'll be doing at each of these
2 meetings.

3 Today, as has been our practice so far,
4 we'll start with the general, an overview and an
5 update, although I actually have to shift it around
6 since Jim is not here. And we'll go to the specifics
7 planned for this particular meeting. As I mentioned,
8 Jim is not here yet. And as you probably can see,
9 he's not here yet, but when he does get here, he'll
10 provide a stimulus spending status report so you'll
11 know what we know.

12 That's the purpose of having this report
13 so that the Commission is as fully informed as we are
14 about what's happening with stimulus dollars. It will
15 cover the flow of the dollars, the program
16 implementation status and importantly he will look
17 forward so that we can be timely about the matters
18 that we review with the Commission.

19 And the specific part of this meeting is
20 being presented by Mary Soderberg. Last meeting, as
21 you'll recall, we talked about the flow of program
22 dollars. This meeting, there are no timely new
23 spending streams for review, so we're going to take a
24 deep dive into the processes and systems for audit
25 control and compliance. Welcome, Jennifer.

1 That is we're going to take a hard look
2 at what's in place to prevent and detect fraud and
3 abuse. As I said, Mary Soderberg, Secretary of the
4 Budget, will make an extensive presentation on how
5 Pennsylvania deals with this in regular affairs, which
6 will apply to how we'll deal with stimulus control. I
7 want to apologize in advance to the Commission for not
8 have the presentation available for them as far ahead
9 as we would like.

10 In this case, since it's a briefing, for
11 your information on well established processes, not a
12 new spending review, I trust that that won't make a
13 usefulness of the review for the purposes of this
14 meeting. So let's get started. Mary, we'll turn to
15 you, please. And when Mary is finished, we'll have
16 Jim give us the status report. I trust he'll be here
17 by then.

18 SECRETARY SODERBERG:

19 Thank you very much, everyone, and thank
20 you, Mr. Naples, for inviting me. For those of you
21 who don't know me, I am Mary Soderberg and I'm
22 Secretary of the Budget. I've only been in this
23 position for less than a year. It's been an
24 interesting ride, a very interesting ride. A lot of
25 new things happening within the state's economy,

1 within the federal economy and a very significant
2 piece that we are dealing with is, of course, the
3 federal stimulus funds that are designed to not only
4 help to stimulate the economy, but also to provide
5 some stabilization in our own state budget.

6 Mr. Naples has asked me to go through the
7 various pieces of oversight that we have currently in
8 place to manage our federal and state dollars.

9 I'm going to use some examples to further
10 illustrate. And I do not want to pretend to anyone
11 that I am the expert on all of this. There is a lot
12 of detailed work that each agency is doing with regard
13 to oversight and monitoring, depending on the type of
14 program they have. And I'm using some examples today
15 and as I've been working on this presentation, I've
16 realized that there is a lot going on with oversight
17 and a lot that I didn't even realize was happening.
18 So let me begin.

19 All right, today I'm just going to go
20 over the federal accountability objectives that we
21 have for ARRA. Talk a little bit about the ARRA funds
22 that come through state government. And there are a
23 lot of ARRA programs that do not flow through state
24 government. And I'm talking about things like tax
25 credits, and there are programs, funding streams, that

1 go directly to entities, but today's presentation is
2 all about the systems that we have within the
3 Commonwealth to manage federal dollars that are coming
4 through our state agencies. I want to talk about some
5 of the existing controls and I'm going to use examples
6 of how we distribute federal grant programs, whether
7 it be a formula grant, an entitlement grant program or
8 a competitive grant program.

9 I'm going to talk about additional state
10 oversight, federal oversight, the reporting
11 requirements and some of the increased transparency
12 and accessibility that we have on information.

13 There are five overarching accountability
14 objectives that the federal government has laid out
15 for the American Recovery and Reinvestment Act. And
16 it's all about making certain that we're awarding the
17 dollars in a prompt, fair fashion, that the process is
18 as transparent as possible. That we avoid unnecessary
19 delays and cost overruns and that we meet the broad
20 goal of stimulating the economy and creating jobs.

21 Today I'm going to focus on the third
22 one, which is making certain that the recovery funds
23 are used for authorized purposes and that we take
24 every step to prevent fraud, waste, error and abuse.

25 The programs that I'm talking about today

1 are going to focus again on the dollars, the federal
2 ARRA dollars that come through state government. And
3 that's close to \$10 billion in federal funds. There
4 are two primary distribution vehicles of the stimulus
5 funds. Most of these federal funds are coming to
6 existing programs. So the processes are in place. In
7 most cases we are not having to create a new system in
8 order to manage these funds. And I think that's very
9 important, because we've got some good established
10 systems that we are using in state government to use
11 these funds.

12 A good portion of the funds are going to
13 be driven out through entitlement programs or through
14 formulas that are already in place. And these are
15 just additional funds that are being rolled through
16 those programs. Then we also will have competitively
17 awarded contracts and grants. And some examples of
18 those would be transportation and weatherization. But
19 once again, we have systems in place for most of these
20 program areas.

21 Just in a brief overview, the federal
22 government awards the money to the Commonwealth. The
23 agencies are responsible for implementing the program.
24 For ARRA funds we have actually set up a separate
25 coding system so that we can track these dollars from

1 start to finish. The sub-recipients --- and a sub-
2 recipient is a term that we use frequently, but it
3 just refers to the grantee, the person who is getting
4 the money. And that might be a school district. It
5 might be a local government entity. But anyway, the
6 sub-recipients and the contractors are responsible for
7 implementing the program, reporting back to the
8 Commonwealth, adhering to their contractual
9 requirements and the agencies are responsible for
10 managing those contracts. We at the state level then
11 pulled together the report and report our efforts to
12 the federal government.

13 One of the processes that we have in
14 place is of course the appropriations process. And a
15 number of you are very familiar with this. And ARRA
16 funds are required to be appropriated. State law
17 requires that most federal funds are appropriated.
18 There are several exceptions. Funds dealing
19 specifically with special funds, such as the motor
20 license fund and the unemployment trust fund are
21 examples that those funds are not appropriated.

22 The federal funds are appropriated by a
23 line item and for the specific dollar amounts. And
24 these dollars are of course governed by federal and
25 state law.

1 In February, when the governor proposed
2 his budget for 9/10, the ARRA legislation had not yet
3 been finalized. It was working through the systems.
4 There were bills that had worked to both the House and
5 the Senate and that point and time. But final
6 agreement had not been reached. So we did make some
7 assumptions that Pennsylvania would receive some funds
8 that would help us to stabilize our budget situation.
9 And the two pieces that are most important for that
10 are FMAP, which is enhanced medical reimbursement.
11 And also the State Fiscal Stabilization Fund, which
12 provides support for education, but can also be used
13 to provide support for state government in the area
14 specifically of public safety.

15 In May, both the House and the Senate
16 introduced bills reflecting the state budget. And
17 both of those bills have the appropriations for the
18 federal ARRA dollars in them. They have it for the
19 '08-'09 year and for the '09-'10 year. In the budget
20 office, as we get additional information on the ARRA
21 funds --- for example, if a state agency is going to
22 get a fund for a program for a competitive grant,
23 we'll be working with the state agencies to get an
24 understanding of what they're applying for, how much
25 will it be for and do we need to give that information

1 to the Appropriations Committee so that they can
2 update the numbers in the appropriation bills that are
3 currently in the General Assembly.

4 There are a number of overarching
5 controls within our system, that I'm just going to
6 briefly summarize them. I'll mention them again and
7 again as we talk through different examples. A very
8 important control that we have is our SAP accounting
9 system. This is an integrated accounting system that
10 was first begun to be implemented at the end of the
11 Ridge administration. We use it for procurement. We
12 use it for accounting. We use it for payroll and HR,
13 human resource, personnel issues. So we have a very
14 robust system with a series of controls in it to
15 reduce fraud and also to track all of these projects.

16 It's also a very important system,
17 because by having an integrated system, it reduces the
18 number of times individual state employees enter data
19 into our system. Every time you have somebody
20 entering the data, making those keystrokes, you would
21 increase the chance of errors. So our SAP system
22 allows us to reduce the number of individual
23 keystrokes that actually go into entering the data
24 into the system.

25 We also have a number of agency quality

1 control functions. And these vary from agency to
2 agency, depending on the kinds of programs they are
3 implementing. But at a very minimum it includes
4 things like requiring competitive bids, reporting
5 requirements by the recipients, site visits, to
6 actually visit the projects.

7 We also have in my office Comptroller
8 Operations. Before any payment is made, we review
9 them to make certain that the invoice that comes in
10 matches the goods that are received by the agency and
11 matches the document that generated that procurement,
12 whether it be the contract, the purchase order, so
13 that we have a match there. Once they review that
14 supporting documentation, they send it over to
15 Treasury for payment. And there again, Treasury
16 reviews the information, does a pre-audit before
17 making the actual payment.

18 A little bit more about SAP. There are
19 specific roles within SAP. And that is our way of
20 controlling who has access to the information, who can
21 enter the information and who has visibility on
22 different pieces. And it's all defined by your
23 physician. So if I, as Mary Soderberg, Secretary of
24 the Budget, I have access to certain pieces of
25 information in SAP. If I leave this position, my

1 roles and access to that information changes. And an
2 example of this might be somebody who is working in
3 our payroll operation for example, has access and is
4 entering information with regards to payroll. If that
5 person take a position someplace in Comptroller
6 Operations perhaps they'd lose that access to entering
7 that data for payroll purposes.

8 And those roles are all monitored and
9 managed centrally by our office of administration, our
10 human resources office and also Office of the Budget.
11 Within SAP there are also work total requirements that
12 manage the flow of data that makes certain that ---
13 and using bidding as an example. We issue bids
14 electronically, but the system ensures that all the
15 proper approvals and documents are in place before the
16 bids move forward. Purchase order invoicing is
17 another way that we use workflow. Making certain that
18 the goods ordered and received match the payment
19 invoice that comes in.

20 Some other controls that we have in SAP,
21 SAP automatically checks a contractor before payment
22 is made, to make certain that that contractor is not
23 in arrears with perhaps paying their sales tax. So
24 that is an automatic system. As I mentioned, we also
25 have unique account codes for the ARRA funds, so that

1 we can manage the ARRA dollars. But that's just an
2 existing function of SAP, so it was easy for us --- I
3 shouldn't say easy, but it was appropriate and
4 manageable for us to create these new account codes
5 for the ARRA fund. Once again, having integrated an
6 accounting system it reduces the opportunity for data
7 entry errors.

8 Another control that we have is the
9 central vendor registration. And this standardizes
10 and controls the information that we have on vendors
11 so that we are sure we have the correct address and
12 vendor information for each of our vendors.

13 I'm going to go through examples that
14 represent three large ways that we disburse funds,
15 federal funds. And one is the formula grant program.
16 The education subsidies would be an example of this.
17 Entitlement grant programs, unemployment compensation,
18 medical assistance would be examples of this. I'm
19 going to talk about medical assistance.

20 And then competitive grant programs,
21 weatherization, transportation are examples of
22 competitive grant programs. And I'm going to talk
23 about transportation as the example for a competitive
24 program.

25 So a formula grant is something the funds

1 come to us, and the funds get allocated based on
2 specific formulas that are already in place. And it
3 might be population, enrollment, per capita, income or
4 specific need.

5 For education funding, we have a separate
6 financial accounting information system within our
7 Department of Education that manages subsidy payments
8 to our school districts, totaling more than \$11
9 billion a year. The ARRA funds will be going through
10 this existing system. Before payments can be put into
11 the system, as funding is awarded, agreements are
12 entered into between the Department of Education and
13 the local education agencies. And those of you who
14 are not familiar with state government, a local
15 education agency is usually a school district. Those
16 agreements are reviewed not only by the Department of
17 Education, but also by the Office of Chief Counsel,
18 Attorney General for any agreement over a million
19 dollars and Comptroller Operations reviews them as
20 well before any funds are committed to those local
21 education agencies.

22 After the agreement is executed, it is
23 entered into the financial accounting information
24 system of the Department of Education. And that
25 system has a series of controls to make certain that

1 no payment can be initiated unless there is an
2 agreement in place, a fully-executed agreement. No
3 payment can begin before the start date. No payment
4 happens after the end date. A payment cannot be for
5 more than what the approved project amount is.

6 So we use the FAI system, the financial
7 accounting system, to calculate the payment for these
8 local education agencies and generate a payment
9 request, which then goes to Comptroller Operations to
10 review and approve, review the supporting
11 documentations, and send the request for payment over
12 to the Treasury, which once again is responsible for
13 pre-audit, reviewing these requests for payments and
14 do a pre-audit before initiating the payment.

15 After the payment is disbursed by
16 Treasury, the Commonwealth is then reimbursed for the
17 actual expenditures by the federal government. And
18 the grantees are responsible for submitting quarterly
19 reconciliation reports to monitor the project.

20 SENATOR WAUGH:

21 Do you want questions now or later?

22 SECRETARY SODERBERG:

23 Now would be fine.

24 SENATOR WAUGH:

25 On the education component, in your

1 description here, are you outlining --- when you talk
2 about these agreements that are executed between the
3 local school districts and the Department of
4 Education, are you outlining the process for the
5 subsidy payments, IDEA basic, et cetera?

6 SECRETARY SODERBERG:

7 Yes, large formula grant payments, yes.

8 SENATOR WAUGH:

9 And so my question is, have any of those
10 --- have there been any commitments made formally to
11 the school districts to this point?

12 SECRETARY SODERBERG:

13 At this point, no.

14 SENATOR WAUGH:

15 And you know where I'm going with that.
16 The reason for that question is because we still have
17 work to do before ---.

18 SECRETARY SODERBERG:

19 That is absolutely right. This is an
20 example where the funds need to be appropriated.

21 SENATOR WAUGH:

22 Right. The other question then, along
23 those same lines, and this is a question from one of
24 my caucus members, it's their understanding that
25 approximately \$400 million is identified for school

1 construction projects. Does this also apply to those
2 types of funds --- this process for executing
3 agreements, et cetera, apply to those dollars or is
4 that a separate and different process?

5 SECRETARY SODERBERG:

6 I am going to take a pass on answering
7 that question and I'll get back to you. I think it is
8 a separate process, but let me find out for sure.

9 SENATOR WAUGH:

10 The follow-up question to that then is,
11 further it's our understanding that the feds have
12 specifically identified about \$140 million of that
13 \$400 million for the Philadelphia School District.
14 And furthermore, that the Department of Education is
15 telling our caucus member that they are currently
16 developing criteria to determine how the remainder of
17 that \$400 million pot will be allocated.

18 SECRETARY SODERBERG:

19 Right. I believe you're talking about
20 the bond financing that will be available, yes. Funds
21 were allocated to Philadelphia School District. And
22 this is going to be a system that we can provide bond
23 financing at a reduced rate for school districts. So
24 yes, we're still working on those. And so that would
25 be a very different process than this.

1 SENATOR WAUGH:

2 The point then under this question is, as
3 soon as possible, I believe it's important to provide
4 that list of the criteria that is being considered or
5 that has already been developed for the other school
6 districts in order that --- we members of the General
7 Assembly, as you well know, get requests everyday from
8 our districts about this stuff. And it's important
9 that we have in their hands as quickly as possible
10 this information as to how they can apply, because as
11 you well know the building, especially in a lot of
12 areas at least, the building funding is vital.

13 SECRETARY SODERBERG:

14 Right.

15 SENATOR WAUGH:

16 And an important part of them hopefully
17 being able to keep their local tax effort at a
18 minimum. So that question actually was kind of
19 convoluted. Both had to do with education funding,
20 and thank you.

21 SECRETARY SODERBERG:

22 Okay. Well, clearly a very different
23 process and I'll get back to you with some additional
24 information on that.

25 SENATOR WAUGH:

1 Thank you, Secretary.

2 SECRETARY SODERBERG:

3 All right. Okay. The next type of
4 program is an entitlement grant program. And as I
5 mentioned, medical assistance is an example of that
6 and the unemployment compensation is an example.
7 Today I'm going to discuss medical assistance.

8 As you know, we provide health care for
9 about two million people in Pennsylvania through our
10 medical assistance program. As a result of the ARRA
11 funds, the ARRA funds are coming in and assisting us
12 in paying for our existing program. This is not a new
13 program. It's not even increasing the program.

14 What it does is it changes the percentage
15 of the program that is paid for out of federal funds.
16 So we spend more than \$16 billion a year on medical
17 assistance. And the federal share is increasing from
18 54 percent to 64 percent of that \$16 billion-plus
19 program.

20 Our agencies are working very hard on the
21 preventative side. The more that we can do to ensure
22 that the program is closely monitored, the more that
23 we can prevent fraud and abuse from happening, the
24 better use we have of the taxpayer dollars.

25 And DPW has a very detailed system that

1 they use when an individual applies for medical
2 assistance. And we also have a very comprehensive
3 system taking at a look at the claims for payments
4 that the providers make. When somebody comes in and
5 wants to apply for medical assistance, they are
6 checked to make certain what their citizenship is.
7 They look at wages that have been reported, income
8 from other states. They look at Social Security
9 information, unemployment compensation, cross check
10 with federal databases to see if they're deceased.
11 Looking at verification with Medicare, criminal
12 justice system, did they just win the Pennsylvania
13 lotto and walk home with millions of dollars and here
14 they are applying for medical assistance. So these
15 are the checks and balances for everyone who walks in
16 the door and they're applying for medical assistance.

17 Once the applicant's information is
18 verified they're entered into DPW's client information
19 system. And that determines the type of benefit that
20 that person is eligible for. Once that person goes in
21 and has some sort of a treatment, a claim is made by
22 the provider through the PROMISE system of DPW. And
23 PROMISE is the claims processing system within the
24 Department of Public Welfare. And it is integrated
25 both with the client information system and with SAP,

1 our central accounting system. PROMISE automatically
2 has a system of controls, where they look for the
3 appropriateness of the claim. They look at fee
4 schedules to make certain that it's within the dollar
5 amount of that particular service.

6 It takes a look at what is a period of
7 service eligibility. If the person is only eligible
8 for four office visits a year, it makes certain that
9 this is not the fifth visit of the year. There's also
10 certain areas that they take an additional look at for
11 utilization of certain kinds of drugs that are often
12 subject to abuse. Looking for things like early
13 refills of medication. There are signals that they
14 look at as they're processing these claims.

15 PROMISE calculates the amount of the
16 federal dollars. Once the claim is made, PROMISE
17 calculates the amount of federal dollars that were
18 reimbursed to the Commonwealth. And once again, it's
19 submitted to the Comptroller Operations for a pre-
20 audit of the payment documentation, before they
21 request payment by Treasury. And then Treasury
22 initiates the payment.

23 Just another couple of other pieces that
24 are mentioned on this slide is that we generate
25 quarterly reports of medical assistance expenses, and

1 submit that to CMS on a quarterly basis. We also
2 routinely, using a series of risk factors, we do post-
3 audit reviews of medical assistance payments on a
4 sampling of claims.

5 With regards to fraud and abuse
6 detection, Department of Welfare uses a system called
7 FADS, a Fraud and Abuse Detection System to detect
8 fraud and abuse by recipients. And their system ---
9 once again it's an automated system, just routinely
10 looks at things. Are recipients going to multiple
11 pharmacies? Are there certain drugs that are being
12 prescribed for not the right kind of diagnosis. Are
13 there multiple emergency room visits? Are there
14 controlled substances that are being filled on the
15 same day by different pharmacies. All things that
16 trigger red flags that need to be reviewed.

17 And DPW analyzes these results and does
18 further investigation. In 2007-'08, DPW referred 53
19 cases of suspected fraud over to the Office of the
20 Inspector General for further investigation and
21 prosecution.

22 MR. KOSTOFF:

23 If I could ask a question.

24 SECRETARY SODERBERG:

25 Sure.

1 REPRESENTATIVE ELLIS:

2 Recently the Auditor General did an audit
3 of DPW and found about 14 percent of the cases were
4 fraudulent. And if we're using the same system they
5 used for the ARRA dollars, or are we doing anything
6 above and beyond that to make sure that there's not
7 fraud involved?

8 SECRETARY SODERBERG:

9 Well, the Auditor General identified a
10 number of cases where there was concern. But once
11 they did more data --- or DPW did more data analysis
12 they realized that perhaps the situation was
13 overstated. And I think I'm going to turn it over to
14 M.L. Wernecke, who is here from the Department of
15 Public Welfare. She's from the policy office and she
16 can talk a little bit more about this.

17 MS. WERNECKE:

18 Hi, I'm M.L. Wernecke, and I'm the DPW
19 Policy Director. I agree with what the Secretary said
20 in terms of we don't believe the Auditor General's
21 finding of 14 percent to be an accurate finding. We
22 believe that's overstated. The Secretary testified in
23 her appropriation hearings that we think the numbers
24 --- of course, you'd like to have zero fraud; you'd
25 like to have zero crime. We actually think it's more

1 on the order of five to six percent, based on our
2 review. We've looked at specific findings that he
3 made and in some cases we think he didn't interpret
4 eligibility rules correctly. In some cases we agreed
5 with his findings and we also agreed with some of the
6 recommendations that came out of that audit and are
7 working to implement them.

8 REPRESENTATIVE ELLIS:

9 All right. So there will be a slightly
10 different process then, for the ARRA dollars, based on
11 the Auditor General's recommendations?

12 MS. WERNECKE:

13 The ARRA dollars are part of our overall
14 medical assistance program. It's not as though we
15 have some services that are ARRA services and some
16 services that are not ARRA services. But I think
17 you're exactly right that there are additional
18 procedures that are coming into place because we're
19 continually working to find weaknesses in the system;
20 we're continually working to try to add an additional
21 check on the eligibility side or modify our
22 procedures.

23 REPRESENTATIVE ELLIS:

24 Okay. On another point I guess, can you
25 provided me with how you guys came up with the five to

1 six percent versus the Auditor General, who I tend to
2 believe, at 14 percent. Can you provide that to me at
3 some point?

4 MS. WERNECKE:

5 Yes.

6 REPRESENTATIVE ELLIS:

7 Thank you very much.

8 MR. BARR:

9 Just a quick follow-up on that.

10 SECRETARY SODERBERG:

11 Sure.

12 MR. BATTALGLIA:

13 Following up on that, it's not a medical
14 assistance, but it's a DPW question. And while it may
15 be premature and you may not even be able to comment
16 on it, recently there was a fairly large case in
17 Philadelphia with misappropriation by employees of
18 LIHEAP dollars. Where does the system fail in that
19 case, and given that we're going to be pushing many
20 similar-type dollars out through the system, what are
21 we doing to address that. Now again, this was not ---
22 as I understand was not or could involve some of the
23 recipients, but it was mainly DPW employees who were
24 engaged in this. Do I have that correctly?

25 SECRETARY SODERBERG:

1 Yes, you're referring to the case that
2 charges were filed against 18 people on Tuesday of
3 this week I believe. And this was a situation,
4 unfortunate as it is, it was actually a DPW person who
5 reported it to the Inspector General, and it was a
6 result of that investigation that resulted in the
7 charges being made last year. Those go back to the
8 2004-'05 fiscal year, am I ---?

9 MS. WERNECKE:

10 2003.

11 SECRETARY SODERBERG:

12 2003. And can you tell us a little bit
13 more about some of the changes that have been
14 implemented by DPW as a result of this? I know that
15 LIHEAP is being integrated with the client information
16 system.

17 MS. WERNECKE:

18 Right. There's really two kinds of
19 changes that are being made as a result of it. And I
20 think you described it exactly right. This isn't a
21 case where it was a recipient or someone who was
22 trying to abuse the system. And similarly it wasn't a
23 case where there was a provider per se guilty of any
24 impropriety. It was a case of employees wanting to
25 circumvent controls who were the alleged perpetrators

1 of the fraud. You know, to say you welcome
2 investigation or a finding like that, of course you'd
3 prefer never to see something like that.

4 But this is a case where we support the
5 investigation that was done and the work by the
6 district attorney in Philadelphia to bring the
7 charges. If you read the grand jury report you'll see
8 that --- two things, first of all that there are a
9 large number of controls in place already. And second
10 of all, that the employees were able to figure out
11 ways to get around the controls. So the way that
12 we're responding to that and have been, as we
13 continuously try to tighten up our system, it's on two
14 levels. One, it should try to make more things
15 automatic, rather than letting people key in Social
16 Security numbers, which would be the kind of --- or a
17 similar data entry opportunity for fraud, as Mary
18 said.

19 If it's an automatic link to the client
20 information system, or we can --- we have set up links
21 with the Social Security administration to try to
22 tighten upon that. That slide you saw a couple of
23 minutes ago where there were a number of electronic
24 checks to make sure people were income-eligible, those
25 checks are now being implemented so that that will

1 apply to persons who are applying for LIHEAP as well.
2 So those are the kind of electronic things you do, but
3 you also have to follow that up with or match it with
4 additional oversight and audits, because you have make
5 sure that the people are not circumventing the system
6 in the way that the district attorney happened (sic).
7 So we have some additional audits in place that are
8 really multi-level at the local office, but then from
9 Harrisburg to the local office as well.

10 MR. BARR:

11 So you had to implement some because ---.

12 MS. WERNECKE:

13 Some, but not all of those things.

14 MR. BARR:

15 So I guess I'm even a little more
16 concerned, because I made this --- I assumed that it
17 was our system that caught them when in reality it was
18 simply an ethical individual. Which means that the
19 system --- they could still be going on if we didn't
20 have one responsible ethical individual there, and the
21 fact that it was I guess a five-year systemic issue.

22 MS. WERNECKE:

23 I think we have ---. And I want to say
24 that I think that most of our individuals are ethical
25 individuals. This is not --- this would be the

1 exceptional case ---.

2 MR. BARR:

3 I don't mean there was only one in DPW.
4 What I mean is, thank God for the one in that office.

5 CROSS TALK

6 MS. WERNECKE:

7 So I'd be on the wrong side of that
8 calculation otherwise. So we have to work with your
9 people, but at the same point in time, you try to add
10 those other controls. Many of those controls
11 --- the investigation began in September of 2003. And
12 even in the grand jury finding you'll note they note
13 some decreases in the numbers that they were seeing as
14 that was going on. And I believe that we can
15 attribute that to some of the changes we've made at
16 the DPW level.

17 MR. BARR:

18 Thank you. And with the money obviously
19 we're pushing out of here that becomes an even larger
20 concern. Thank you for doing that. I appreciate
21 that.

22 MS. WERNECKE:

23 Absolutely.

24 MR. KOSTOFF:

25 Mary, I have a question. This issue, if

1 there's collusion by employees, you'd have the best
2 system, automated system. It's tough to prevent
3 things from happening when you have collusion. But
4 the question I had, Mary, with internal controls,
5 recently the Auditor General and EMY issued their
6 single audit report for 2007 and indicated there was
7 some material weaknesses in both the financial and
8 compliance reporting. Now, the 2008 report hasn't
9 been issued yet.

10 I assume there's going to be some in
11 there. Having in my state career been on both sides
12 as the auditor and auditee, I realize that there tends
13 to be disagreements over the auditors' perspective on
14 things. But I guess my question is, on those material
15 weaknesses that management has agreed the auditors are
16 correct, have the changes been made to correct those
17 controls, so going forward, we're not going to run
18 into a situation of something happening as a result of
19 those controls be deficient?

20 SECRETARY SODERBERG:

21 Just as a way of background, for the
22 single audit that was done in '06-'07, that was the
23 first time that there was a requirement that the
24 auditors go in and take a look at internal controls.
25 Is there a potential for a weakness as a result of ---

1 or a problem as a result of some weakness in the
2 internal control. So this was the first time that the
3 auditors proactively did this. And this is of course
4 some of the result of a number of changes that have
5 happened since ENRON. So this was the first year that
6 we had done that.

7 We have put into place a fairly active
8 compliance process. We've met with the deputy
9 secretaries of administration to make certain that
10 they are on top of whatever compliance needs to be put
11 in place. We've asked the agencies to submit reports
12 to us on where they are, with those efforts. And if
13 they had not corrected the situation, what the
14 timeline is for correction. There were a number of
15 issues that were raised, and I cannot give you the
16 answer right now, where we are in each of those. But
17 we have been working with the agencies to make certain
18 that we're on top of it.

19 MR. KOSTOFF:

20 And one follow-up question to internal
21 controls. In the GAO report that they issued in
22 April, they indicated that the office of Budget Bureau
23 of Audits was going to do a risk assessment of
24 programs and then create a risk matrix for those
25 programs. And it was due to be done by the end of

1 June. When it's complete, can the Commission get the
2 results of that and see the matrixes that were created
3 for the programs?

4 SECRETARY SODERBERG:

5 I think so, yes. What we're going to be
6 doing is taking a look --- what we are doing I should
7 say is taking a look at each of the federal ARRA
8 programs and doing a risk assessment. Perhaps the
9 risk is because there's a large dollar amount
10 involved. Medical assistance would be an example of
11 that. Perhaps the risk is because there is a
12 significant increase in dollars that are being added
13 to the program. So just looking at a number of
14 factors and identifying where we need to put more
15 internal oversight to mitigate that opportunity for
16 risk of fraud and abuse.

17 REPRESENTATIVE ELLIS:

18 If I could ask one more question. On
19 this page that's up there right now, in 2005 and 2006
20 I was fortunate enough to serve on a select committee
21 where we actually went department to department to see
22 how you were doing as far as protecting the
23 information, the Social Security numbers and
24 everything of the constituents of Pennsylvania. And
25 when we met with DPW, one of the things that was --- I

1 had to push, and push and push, but eventually I
2 discovered that at no process --- number one up here
3 you say you verify U.S. citizenship and identity.

4 There was never a mandatory place where
5 you had to provide photo ID. And actually yesterday
6 on the House floor, during a debate over expanding
7 adult basic and health care in Pennsylvania, we had a
8 provision shot down that would have required the photo
9 identification. So I guess what I'm asking you is,
10 based on what was going on in '05, '06 and the fact
11 that we lost that amendment yesterday on the House
12 floor debate, you list U.S. citizenship and identity as
13 one of the things DPW checks for. How do they check
14 for identity if they don't require a photo ID?

15 SECRETARY SODERBERG:

16 I'm going to turn that over to M.L.
17 again.

18 MS. WERNECKE:

19 Sure. We check for citizenship and
20 identity using the standards that are established by
21 the federal government in the Deficit Reduction Act.
22 And that does not require the use of a photo ID. It
23 actually has a list of documents for different
24 applicants or recipients that would satisfy both the
25 citizenship side, there's one list of documents. And

1 on the identity side there's a second list of
2 documents, more for the identity that you're referring
3 to. Say for children it could be a school record. It
4 doesn't necessarily have to be a photo ID. So we hold
5 ourselves to the standard of the federal government.
6 And that doesn't require photo ID.

7 REPRESENTATIVE ELLIS:

8 Thank you.

9 SECRETARY SODERBERG:

10 Continuing on on the efforts that DPW
11 makes with regards to provider errors or fraud with
12 providers. As I said, they have a team of folks that
13 are just routinely mining the information that PROMISE
14 generates through their fraud abuse and detection
15 program. And in 2007 to 2008, just as the most recent
16 year, full year of information, 145 providers were
17 actually terminated for providing services to medical
18 assistants. And of that 145, 69 were referred to the
19 Attorney General. Interestingly enough, the largest
20 categories of providers that are involved with --- are
21 disenrolled from medical assistance are nurses and
22 physicians.

23 I want to talk a little bit about
24 competitive grants. And the example here is going to
25 be PennDOT. PennDOT has been working very hard at

1 getting under contract about a billion dollars in ARRA
2 funds for highways and bridges. And this, once again,
3 is an example of a funding stream that does not need
4 to be appropriated at the state level. So as a
5 result, PennDOT is aggressively moving forward to get
6 these dollars out the door. Once again, PennDOT
7 already had a very large construction program in place
8 for bridges and highways. So this is just an increase
9 to that already existing effort.

10 They're using the existing system for
11 both the stimulus and the non-stimulus dollars. The
12 one piece that they have done is they have created
13 what they call a war room and I'd really recommend
14 that the members of the Commission try to get over to
15 PennDOT and see this room, because what they have done
16 is they have a single room in the Department of
17 Transportation where they post on the walls, by
18 district, all of the different ARRA projects and where
19 they are in the process.

20 Have they gone out to bid yet? Has the
21 contract been awarded? Have they stuck a shovel in
22 the dirt? Is there a delay happening? What's causing
23 the delay? What's the problem? And so you walk into
24 a room and with a single snapshot see where the
25 different projects are. So it's a very interesting

1 system that they've set up.

2 But within PennDOT, within the
3 transportation projects, contractors are pre-qualified
4 based on their audited financial statements, their
5 information that they provide on their organization
6 and their experience qualifications and then also
7 affirmative action.

8 Qualified contractors are entered into
9 --- once again, we have an electronic system at
10 PennDOT that manages this. And it's the electronic
11 contract management system. So qualified contractors
12 are entered into the system and it's all an electronic
13 bidding process. So once the projects were identified
14 by PennDOT working with the MPOs and the RPOs, the
15 projects were put out for bid and the different
16 contractors bid on them.

17 MR. BATTAGLIA:

18 I have a question.

19 SECRETARY SODERBERG:

20 Sure.

21 MR. BATTAGLIA:

22 You have some good information here on
23 the medical side here for waste, fraud and abuse. Do
24 you have anything on it here in PennDOT, any data that
25 they've come up with on waste, fraud and abuse in

1 regards to the stimulus?

2 SECRETARY SODERBERG:

3 I did not do research on that before this
4 presentation. And what we do have in the --- we have
5 with us today is Dave Azatto, who is the division
6 chief of contracts at PennDOT. And Dave, I don't know
7 if you can respond to that.

8 MR. AZATTO:

9 I can say that we're running projects
10 through our system that we normally run the projects
11 through. We capture the dollars. We capture the
12 projects from the contractors that work, and so forth.

13 So we capture a lot of information electronically in
14 our systems, that can be viewed for waste, fraud and
15 abuse and so forth.

16 MR. BATTAGLIA:

17 I'm asking what results you have as a
18 result of all that oversight. I mean what kind of
19 cases in terms of dollars are cases of waste fraud and
20 abuse?

21 MR. AZATTO:

22 I'm not aware of any concerning the ARRA
23 projects at this point in time.

24 REPRESENTATIVE ELLIS:

25 If I could ask a question, and it's not

1 necessarily a tremendous waste, but in my district
2 there's an ARRA project going on. And we have really
3 nice signs to let everybody know it's an ARRA project,
4 versus the normal construction signs that Pennsylvania
5 already owns and puts up. Are you required to use
6 these? Did the federal government say if you're going
7 to take the ARRA money for projects you have to let
8 everybody know publicly that the federal government is
9 helping out with these projects or is that something
10 we decided in Pennsylvania that we were going to do?

11 MR. AZATTO:

12 It was strongly encouraged by the Federal
13 Highway Administration to use those signs. We took
14 the position that we didn't want to spend a lot of
15 dollars on signs, on all projects, so we asked the
16 district to give us three or four high priority
17 projects.

18 REPRESENTATIVE ELLIS:

19 So not every project is going to have the
20 ARRA signs, just the high profile ones.

21 MR. AZATTO:

22 Right, three or four per district, so
23 that's 11 districts and about 30, 40 projects out of
24 the 242 projects that we have under way or plan to
25 have under way.

1 REPRESENTATIVE ELLIS:

2 Thank you.

3 SECRETARY SODERBERG:

4 So the bids come in electronically to
5 PennDOT, and they are reviewed to make certain that
6 they are responsible bidders for that specific
7 project. And then of course the bid is awarded on
8 lowest bid. Once the contract is awarded, it is
9 reviewed not only by the staff of PennDOT, but also
10 their chief counsel, the contractor and as well as
11 Comptroller Operations. And Comptroller Operations is
12 the last in the approval process. It makes certain
13 that the funds are available, that the documents are
14 all in order before they post the commitment into the
15 accounting system. All construction projects are
16 inspected to make certain that they are meeting the
17 specifications required. And the contractors submit a
18 request for payment, and they are then reimbursed
19 after the fact for the work that they have been doing.

20 And of course, before any payment is
21 made, the supporting document is reviewed by
22 Comptroller Operations. And they submit the payment
23 request to Treasury who also does a pre-audit of the
24 supporting documentation. In addition, Comptroller
25 Operations pulls together a financial accounting

1 report on a weekly basis that is submitted to the
2 Federal Highway Administration. So that is basically
3 an overview of, whether it be an entitlement program,
4 whether it be a formula program or it be a grant
5 program, all of these programs have significant
6 programmatic and financial reporting requirements.

7 The sub-recipients reporting up to the
8 state, Commonwealth reviewing these reports. The
9 agencies have done a lot of effort to increase their
10 oversight and management of these individual programs.
11 And I think I'll just use weatherization as an
12 example. We had DCED in here, was it last month
13 talking about the weatherization program and of the
14 increased number of site visits that they are planning
15 to do for the ARRA programs. Anyway, so the
16 information is compiled in reports and submitted to
17 the federal government.

18 There is no question that the reporting
19 requirements for the ARRA funds are more rigorous than
20 normal federal programs. We have a number of federal
21 agencies that are coming in and closely scrutinizing
22 Pennsylvania and other states as to how we manage
23 these programs. And the Government Accountability
24 Office is an example of that.

25 So anyway, then in addition to everything

1 that the agencies are doing, we have additional layers
2 of oversight that are in place. Individual agencies
3 do their own internal audits and investigations. And
4 M.L. talking about the processes that DPW has in place
5 is an example of that.

6 We also, in the office of Comptroller
7 Operations we have a Bureau of Audits that we perform
8 programmatic audits based on our risk assessment. We
9 also have a Bureau of Quality Assurance that does
10 routine post-audit on payments. Additionally we have
11 the Office of the Inspector General who is responsible
12 for investigating fraud, waste and abuse in
13 Commonwealth programs. And they handle about 500
14 complaints annually. And they have a telephone number
15 and you can click on their web site and they have a
16 box that you can click on to report fraud. And of
17 course all state employees are protected by the
18 whistleblower law so that --- or all public employees
19 I should say, that if they report violations or
20 suspected violations of state, local and federal law
21 they will not lose their job.

22 MR. BATTAGLIA:

23 Am I required to make periodic reports
24 from the IG's office, do you know?

25 SECRETARY SODERBERG:

1 You know, I do not know that. I do not
2 know that. I will check into that, though.

3 We also have the Ethics Act, which
4 created the Pennsylvania State Ethics Commission,
5 which is designed to prevent conflict of interest by
6 key public officials and public employees.

7 And we also have independent oversight by
8 our Department of Auditor General who works in
9 conjunction with an independent auditor, Ernst and
10 Young in doing the single audit on the federal
11 programs, the Commonwealth financial statement audit,
12 the county assistance audits, audits of the school
13 districts and newer requirements that have come in.

14 As I mentioned, primarily as a result of
15 Enron, there are stricter auditing standards. One of
16 them is SAS 99. And so whenever a financial audit is
17 done, the managers have to make a statement of whether
18 or not they are aware of the possibility of fraud in
19 their operations. There's also the requirement that I
20 mentioned earlier of SAS 112 and I guess it's been
21 updated with 115, that requires the audits to take a
22 look at control deficiencies during an audit.

23 Then again we have the single audit,
24 which is a specific audit on federal programs. And
25 their focus is on those programs that are a value of

1 more than \$30 million per program in a state. So
2 Pennsylvania, as a larger state, will receive more
3 scrutiny through the single audit than some of the
4 smaller states that don't get the volume of dollars
5 that we do. And any sub-recipient that receives more
6 than half a million dollars in federal funds is
7 required to have an organization-wide audit.

8 In addition, we have our Pennsylvania
9 Attorney General. The civil law division is
10 responsible for representing the Commonwealth agencies
11 with regards to tax appeals, Commonwealth contracts
12 and regulations. But our Attorney General has a
13 specific Medicaid Fraud and Control Section. And the
14 situations of expected fraud that DPW uncovers, they
15 hand over to the Attorney General for further
16 investigation. And in '07-'08 our Attorney General
17 secured 41 convictions in Medicaid fraud.

18 REPRESENTATIVE ELLIS:

19 Do you know --- obviously every year we
20 have a discussion about funding the Attorney General
21 in general. Are we using the federal stimulus dollars
22 to --- I mean obviously that role is expanded. Are we
23 taking some of those dollars to help that effort or is
24 he still operating on the same budget and just doing
25 more?

1 SECRETARY SODERBERG:

2 He is operating on the same budget. And
3 I don't know if he is doing more. Using this program
4 is a good example where medical assistance, although
5 there are more federal dollars coming into the
6 program, it's not a larger program. It's still, I
7 think about \$16.4 billion, something like that,
8 between the state and the federal dollars. So he's
9 still managing that same size of program.

10 REPRESENTATIVE ELLIS:

11 Okay. Thank you.

12 SECRETARY SODERBERG:

13 But he might be applying for some
14 competitive grants.

15 In addition to our state oversight, we
16 also have federal oversight. Pennsylvania is one of
17 sixteen states that the Government Accountability
18 Office has selected to routinely review how we are
19 managing the ARRA program. And they come in on a bi-
20 monthly basis, meet with us. I have personally met
21 with them I think about four times now. I know that
22 they have met with Ron Naples. I know that they have
23 gone in and met with some of the school districts that
24 are expecting to receive funds. So they're really out
25 in the field getting an understanding of how we are

1 managing these programs. And they submit quarterly
2 reports to Congress on the results of their analysis
3 and review of the 16 states.

4 Each federal agency also has a federal
5 Office of Inspector General. And those offices are
6 also actively engaged in reviewing the federal ARRA
7 dollars. Most recently the inspector general from the
8 Department of Education was in Harrisburg meeting with
9 representatives of the Department of Education,
10 representatives of the comptroller's operation. I
11 believe they met with the Auditor General and also
12 reached out to different school districts as well.

13 So they're engaged and I suspect that
14 before we are through this process we will get to know
15 the inspector generals from just about every federal
16 agency. We also have individual agencies increasing
17 their oversight of these funds as well. And the
18 example here is the Federal Highway Administration has
19 begun to do additional oversight of the ARRA programs
20 here in Pennsylvania.

21 MR. BATTAGLIA:

22 Can I ask you if ---

23 SECRETARY SODERBERG:

24 Sure.

25 MR. BATTAGLIA:

1 --- any of the GAO funds are made
2 available to you?

3 SECRETARY SODERBERG:

4 No, they're not.

5 MR. BATTAGLIA:

6 They're not available?

7 SECRETARY SODERBERG:

8 No.

9 MR. BATTAGLIA:

10 So you don't --- usually GAO sends out
11 their findings to recipients.

12 SECRETARY SODERBERG:

13 Oh, I thought you said if their funds are
14 available.

15 MR. BATTAGLIA:

16 No, no, no, not their funds, no, no.
17 Sorry.

18 SECRETARY SODERBERG:

19 That's somewhat of a sore point. Yes,
20 their findings are available. They submit their
21 report publicly to Congress. And so it's a very
22 public report. And they do a summary report and then
23 a brief summary of each of the 16 states that they
24 have visited. They actually have teams, separate
25 teams going into each of the 16 states. I'm not

1 certain how many people are assigned to Pennsylvania,
2 but routinely they'll have a team of five or six
3 people coming up here.

4 MR. BATTAGLIA:

5 How can we receive a copy of their
6 report?

7 SECRETARY SODERBERG:

8 I believe that the Commission members did
9 receive a copy of the first report in April. It was
10 about an inch thick report. Their next report, and
11 it's available on the web site as well, isn't it? The
12 next report is due July 10th?

13 MR. NAPLES:

14 I believe July 6th.

15 SECRETARY SODERBERG:

16 So that would be the next report.

17 MR. BATTAGLIA:

18 Do you think we can get the one page
19 summary?

20 MR. NAPLES:

21 Basically, there's two sections. There's
22 the national report and the Pennsylvania section. The
23 Pennsylvania section is about eight or nine pages. I
24 think that's probably the best --- we don't want to
25 try to boil it down beyond that.

1 SECRETARY SODERBERG:

2 Yeah.

3 MR. NAPLES:

4 Charlie, it's in the report of the
5 Pennsylvania section, of course, but we can dig that
6 out and send it out. I think it's maybe 14 pages
7 long, but we can get that out.

8 SECRETARY SODERBERG:

9 And then finally, we talked about all the
10 systems that we have in place, the controls, the
11 oversight mechanisms, the electronic systems we have,
12 every year we're seeing more and more transparency in
13 state government, information that is available on
14 agency web sites. The open record law has been
15 instrumental in opening up information on state
16 government more. We try to put as much information on
17 the web site recovery.gov with regards to the ARRA
18 funds. And that web site was designed to complement
19 the federal web site. So just a lot more information
20 on this. As we get further along on each of these
21 projects and programs, you'll see more and more
22 information on those web sites.

23 In addition, the Treasury Department
24 maintains a contracts library that are --- contracts
25 available on line. Department of Auditor General has

1 the information on all of the payment processes and
2 that's more of a --- you actually have to go to their
3 office to view that system. And as an example of an
4 agency that has a lot of information on their web
5 site, you can go to the Department of Community and
6 Economic Development and see the investment tracker.
7 And so you can just sort by program and see
8 information on a number of projects that are funded.
9 And with that, are there any questions?

10 MR. KOSTOFF:

11 I do have one question concerning, and
12 it's not controls, Mary. An issue earlier on with the
13 ARRA funding was administrative cost reimbursement.
14 And OMB issued a letter in May indicating the states
15 could use some flexibility in the statewide indirect
16 cost plan to recover administrative costs associated
17 with ARRA. Do you think though using the indirect
18 cost rate, the state will be able to recovery most if
19 not all its administrative costs associated with
20 administering ARRA?

21 SECRETARY SODERBERG:

22 No. No. You know, I look around this
23 room, and I don't know how many people in this room
24 are state employees, but I suspect there's a large
25 number who are. And I am talking about state

1 employees who work for the Treasurer's office, for the
2 General Assembly, for the Auditor General, for state
3 government. The federal stimulus program is very
4 important to all of us. We are all dedicating
5 resources to this effort. And there's no way that the
6 ARRA indirect cost funds will begin to cover all of
7 the costs associated with this.

8 MR. ROSS:

9 Hi, Mary, just quickly. I want to
10 congratulate you on the integration with the SAP
11 process, because I know a lot of states, each agency
12 in the state has individual financial processes and so
13 they have to take 30 different things, integrate them
14 into one. And so to a great extent, we don't have to
15 do that here because of that process, so thank you for
16 that. Having said that, SAP covers pretty much all
17 the ABCs that are under the governor's jurisdiction;
18 correct? So there are some agencies that might
19 receive ARRA funds that are not under the governor's
20 jurisdiction. Can you just give us a sense of how many
21 of those there are and you guys are going to integrate
22 the data from those agencies that are not under ---
23 who would not be in SAP, how you're going to try to
24 roll those folks. And then I had one other quick
25 question.

1 SECRETARY SODERBERG:

2 For entities that are not part of state
3 governments, we will not be integrating that into our
4 system.

5 MR. ROSS:

6 But I'm thinking of like, for example, I
7 don't if state system or I don't know who some of the
8 ---. Are they getting any money? Are there any sort
9 of state agencies that are not under --- that would
10 not be in SAP? I guess that's may question. Are
11 there any state agencies that are not SAP that are
12 getting money?

13 SECRETARY CREEDON:

14 Mary, can I take that?

15 SECRETARY SODERBERG:

16 Yeah.

17 SECRETARY CREEDON:

18 I can't think of one that's going to
19 receive direct formula. There's a possibility that
20 the University of Pittsburgh may apply for a
21 competitive research grant and receive it. Their
22 relationship is going to be directly with the federal
23 government, not something that we have to capture up
24 and be responsible for. The City of Pittsburgh or the
25 City of Harrisburg is going to receive direct funding,

1 increased CDBG or energy money. Again, their
2 relationship is going to be the federal Department of
3 Energy or with the Department of Housing and Urban
4 Development. And their reporting relationships and
5 responsibility relationships will be there as well.
6 I'm not coming up with one, such as the turnpike
7 commissioner, LCB. If I think of one I'll shoot you
8 an e-mail, but I'm not coming up with one that's going
9 to get direct formula money that we don't have within
10 SAP.

11 MR. ROSS:

12 Great. And then this is my last
13 question. This may be more appropriate for your
14 colleague from Transportation. In terms of the
15 affirmative action statements, things of that, in
16 terms of waste, fraud and abuse sometimes there are
17 things known as fronts, where people claim to WBE, NBE
18 and they're not. So I was just wondering what is
19 being done in terms of that to ensure that that
20 doesn't happen?

21 SECRETARY SODERBERG:

22 I suspect Jim Creeden or ---?

23 SECRETARY CREEDON:

24 The certifications that are required for
25 both PennDOT work, VGS work, any type of state work

1 are managed by the DHS Bureau of Minority and Women
2 Owned Business Development. And we have a
3 certification process that goes through that very
4 carefully to make sure that we don't have fronts. And
5 based on the number of times that I get letters from
6 people complaining that they were disapproved,
7 something is telling me we're getting pretty tough on
8 people, because we have some where I think there were
9 some fronts that were trying to be established and we
10 picked them off.

11 SENATOR WAUGH:

12 Secretary, there is an undertaking known
13 as the Project on Government Oversight. I believe
14 it's an independent group. Regardless, we looked at
15 their credibility at least to make sure I'm not just
16 blowing something off here. And we find that they are
17 least credible in their findings. In May or mid-May
18 they issued the following determination regarding
19 state web sites on stimulus spending and they found
20 the following. Only seven states have clear
21 procedures for whistleblowers on their web sites as to
22 what to report, how to report it and what will be
23 done. They also found that only seven states even
24 mentioned whistleblower protections with any detail.
25 And they also found that only 14 states had a hotline

1 number to report waste, fraud and/or abuse and a
2 contact e-mail or telephone number. Only five states,
3 Florida, Maine, Georgia, Texas and Connecticut
4 provided the above three, a clear procedure for
5 whistleblowers, whistleblower protection mentioned and
6 a hotline number or contact point.

7 My question is, and this may be for the
8 chairman as much as you, Secretary, is the Governor's
9 Office looking at providing a clear reporting
10 mechanism on our web site with those procedures,
11 protections being listed and hotline numbers or
12 contact points being advertised? And then I have a
13 follow-up question.

14 MR. NAPLES:

15 Let me take that, Mary.

16 SECRETARY SODERBERG:

17 Sure.

18 MR. NAPLES:

19 Mike, you should know that as we speak
20 there's a process under way to review how we can do
21 this better on the web site, the whole thing of giving
22 people away that report stuff to us. That is under
23 way, and we'll be working on that further. But more
24 to the point right now, the web site does give people
25 an opportunity to report to us things that --- there's

1 a way to e-mail us about --- and when I say us, I mean
2 the state, not us here, but the state.

3 If you look in the accountability section
4 of the web site, two clicks away. And the problem is
5 it's two clicks away. That's what we're going to try
6 to fix. But there is two clicks away someone --- an
7 opportunity for people to report to the state anything
8 they'd like to report about something bad going on.
9 So it is there, it's just not as apparent as it needs
10 to be. So we're going to look at that, is it apparent
11 enough, and we're going to look at the substance of
12 how we're doing it, should we be doing something
13 further, so yes.

14 SENATOR WAUGH:

15 And my follow-up question then, Chairman,
16 is should --- and I happen to believe we should, but I
17 leave it to this group. Should we be kept posted or
18 somehow be provided a listing of these complaints that
19 may come in to the web site, seeing as how our title
20 is oversight.

21 MR. NAPLES:

22 My own view on that --- and I'll express
23 a view and others can express a view --- is that one
24 of the things that we ought to have as the Oversight
25 Commission is some regular report on what the findings

1 are about any waste, fraud and abuse that we discover.
2 I think that's the right level of our involvement.
3 I'm not sure it's constructive for the oversight
4 commission to see everything we get on some kind of
5 whistleblower thing, because you know a lot of that
6 stuff, and I base this on experience in other places,
7 a lot of that stuff is inappropriate kinds of things.
8 So my take on it is we probably would not want to look
9 at everything which comes into the hotline or whatever
10 it is we call it, but that we should get a regular
11 report in the Commission of anything that is
12 discovered and reportable in terms of anything bad
13 happening where waste, fraud and abuse are concerned.
14 So we would get a regular report on that.

15 SENATOR WAUGH:

16 Legitimate is probably a term, because
17 I'm sure there are probably some crackpot entries that
18 come through. And no, I don't --- I think it's a
19 waste of time for us to look at all that. But
20 anything that is legitimate and of concern I think we
21 should know about it.

22 MR. NAPLES:

23 I agree with that. That's one of things
24 that flowed out of Mary's comments this morning that
25 struck me is that we ought to establish that process

1 for a regular report on what is discovered. What do
2 we know? And where is it going? Anything else Mary?

3 SECRETARY SODERBERG:

4 I think that's it.

5 MR. NAPLES:

6 Any other questions for Mary from the
7 Commission. As you can tell, the problem with this
8 report was where to begin and where to end. It wasn't
9 could we cover anything, but it's so extensive in the
10 kinds of things that are in place that the difficulty
11 is saying what's the right level of detail and what do
12 we actually cover and not cover.

13 I think I'd just like to step back for
14 one moment in the terms of the big picture. One of
15 the takeaways from this kind of presentation for me,
16 and perhaps others on the Commission feel the same
17 way, is the risk of what about stimulus monies being
18 abused in some way, because there are new monies, and
19 there are large monies, and there are concentrated
20 flows and they're fast and that kind of thing.

21 But one of the levels, one of the things
22 that comes through on this is that the processes the
23 state will use to manage stimulus monies are not ad
24 hoc, newly developed, let's try this out processes.
25 All the stimulus monies will run through mature well

1 developed processes for control. So that should be a
2 level of comfort in how we do this. Now, there is a
3 question of course, well, if there are some gaps
4 somewhere points have been made already this morning
5 about --- well some reports say some things weren't
6 done so well.

7 So I think it is incumbent on us to go
8 back and look --- if there are big gaps somewhere,
9 where we know there's a problem, is there something in
10 addition we can do that might help us control the
11 stimulus funds better. But that's much more of an
12 exception basis than it is a process of designing a
13 whole new system to control this. So I think one of
14 the comfort levels, your big picture, is that these
15 are mature, well-developed processes that are
16 exercised all the time in this state. So we're not
17 having to climb up a big learning curve to get this
18 done well.

19 The other takeaway is that in this whole
20 area of audit and control, there's multi-levels of
21 effort here. Starting from the bottom up you've got
22 agency level --- or agency or department controls, you
23 have state controls and you have federal controls. By
24 the time all of those are applied we should have a
25 pretty good picture of whether we have a problem

1 somewhere. So that also is, from a big picture, more
2 of a comforting view of the stimulus monies will be
3 controlled.

4 And the third point I'd like to make is
5 just what I've actually already said, so forgive me
6 for repeating this, is that I think that it is
7 appropriate that the Commission get a regular report
8 on what, if anything, is being discovered in the area
9 of waste, fraud and abuse.

10 So those are three things that I would
11 just raise with the Commission as takeaways from what
12 we heard this morning. And I would thank Mary ---
13 where did she go? Did she leave already? There she
14 is. I thought you were escaping already.

15 SECRETARY SODERBERG:

16 One of the things I didn't talk about.
17 And you're absolutely right. You never know where to
18 stop in a presentation like this. One of the things
19 that we are doing is continuous improvement in our IT
20 system. And SAP is a perfect example of that. We had
21 started last fall working on a more robust reporting
22 system that's supposed to provide us a dashboard for
23 our managers, information from SAP and we're planning
24 on using these tools for ARRA. So there's a lot of
25 good things happening on a routine basis in state

1 government.

2 MR. NAPLES:

3 Okay. We have seven minutes. And the
4 last shall be first, Jim. Or was it the other way
5 around? Jim, why don't you go ahead with the status
6 report please.

7 SECRETARY CREEDON:

8 Thank you, Ron. I'll just keep this
9 brief. I know you got a copy of this report on
10 Tuesday and if you have any particular questions. I
11 apologize I was a little bit late. I needed to attend
12 a meeting in Philadelphia this morning. And I was a
13 little bit late getting back up here. What I want to
14 do is walk through an implementation report and begin
15 with a summary for you of funds received. This is all
16 information that has been up on the web site and is
17 updated as of this Tuesday. We collect it on a
18 Friday, updated on a Tuesday. We received \$840
19 million so far of ARRA funds, broken down into
20 categories as noted. We have expended just under a
21 billion in funds. The \$159 million difference is
22 actually now listed as a billable to the federal
23 government for ARRA. So we've asked for the money.
24 We just haven't received it in yet.

25 The one thing I'll point out, and because

1 I'll be talking about PennDOT next, is that you see it
2 on the PennDOT side, the numbers are pretty low given
3 a billion dollar program. Keep in mind that the
4 contractor has to do with the work before they receive
5 the money. Mary had mentioned up there before as one
6 of the controls, in any construction project you don't
7 just write the check to the contractor. That work has
8 to be complete. It has to be certified by our on-site
9 inspectors. It has to be certified by the
10 construction management company, reviewed by PennDOT
11 and then processed for it to start seeing these
12 numbers.

13 You will see these numbers steadily grow
14 over the summer as more projects go in the ground and
15 more projects reach the 30 day, 60 day, 90 day point
16 where they're now even spending more money on each of
17 those projects.

18 As far as progress by program, let my
19 begin by the transportation continues to move very
20 quickly on moving the projects out. 102 projects of
21 the 242 have already been awarded; 64 projects have
22 started; 54 percent of our funds are obligated and
23 right now we're ranked currently about 4th to 5th
24 nationally in terms of our progress in moving the
25 projects out.

1 The key measure that PennDOT is using is
2 that all projects will be started plus or minus Labor
3 Day. That's the goal. And I meet with the Department
4 every other week. They meet every Thursday morning to
5 go through where they are on that schedule and that
6 everything is matching and that we continue to move
7 everything through. So PennDOT continues to move
8 these projects out and on schedule.

9 On the weatherization side --- I guess
10 this more in the area of follow-up from our last
11 meeting together, just to give you a sense of the
12 information we gave you, what has happened since.

13 On the weatherization side you saw a
14 review of the state plan. That was submitted on May
15 12th to the federal government. We have not received
16 back our approval from the Department of Energy yet.
17 Craig Hime has been selected to serve as director for
18 the program. He will become the second ARRA employee
19 after Eileen McNulty, as far as being brought in
20 specifically to manage a program, I think we've been
21 --- as Mary mentioned, being very judicious in hiring.
22 And this is a program where we felt we needed to bring
23 someone in to devote full-time attention to this
24 position, to this opportunity as far as weatherization
25 goes.

1 To continue with the follow-ups,
2 Secretary Hanger joined us by internet feed last time
3 to talk about the energy efficiency and block grant
4 programs. The state plan was submitted as scheduled
5 on May 12th. The deadline for --- and I'll just
6 mention this because you may hear about this, there's
7 another group of recipients, large cities, large
8 counties who apply directly at the end of June.
9 That's not the Commonwealth submitting something.
10 They do that on their own on June 25th. I will
11 mention Secretary Hanger also forwarded a letter to
12 you to keep you up to date on the progress on the
13 energy efficiency block grants and listing some
14 projects based on the ten percent award that we
15 received from the Department of Energy as far as
16 moving ahead with some projects.

17 And Kelly Hefner is here from DEP today
18 if there's any questions on that listing and on that
19 process. And we'll try to do that with you on as
20 timely a basis as we can as these various programs
21 that you've been briefed on already start to evolve
22 further and further into the implementation phase and
23 decisions had to be made. PA conservation --- yes,
24 sir?

25 SENATOR WAUGH:

1 The list that we received from Secretary
2 Hanger. It simply says recommended at the top. What
3 does that mean? What does that mean? Where are those
4 projects, what does recommended refer to? Does that
5 mean there's some process that's ongoing to approve
6 them or what?

7 SECRETARY CREEDON:

8 I'll take a stab at that and Kelly, you
9 can fill in with specific details. These are the ones
10 the secretary is recommending we move forward with.
11 And he is open to comments and questions and concerns
12 about the awards. It means what it says. They're
13 recommended and he's targeting, probably within the
14 next two to three weeks to resolve these and get these
15 moving.

16 SENATOR WAUGH:

17 Do these projects and the appropriations
18 for them in some way fall under a category that does
19 not need to be appropriated, the appropriations
20 approved by our budgeting process?

21 SECRETARY CREEDON:

22 Kelly, do you want to ---?

23 MS. HEFNER:

24 Yeah, I can --- the way this was
25 explained to me is that there's still some process

1 that if we wanted to actually write the check we
2 could, but that ultimately we will need appropriation
3 for the state energy plan dollars. The interesting
4 thing is, until we kind of wrap this up, I will add to
5 Secretary Creeden's comments that these particular
6 projects on this particular list have been vetted
7 twice through the guidelines that were posted when the
8 projects were originally received.

9 These are really good solid projects that
10 we were just unable to fund because we ran out of
11 dollars at the close of the round. So that's why they
12 were brought back to look at again. We've had direct
13 staff to staff contact with these folks ensuring that
14 indeed if they were funded, they were shovel ready,
15 they could get started. But at the end of the day I
16 think that the short answer is we will need
17 appropriation to spend some of the money.

18 SENATOR WAUGH:

19 Before you start, secretary, and I'm
20 interested in your answer or someone's answer, you
21 piqued my curiosity when you talked about some process
22 that allows checks to be written before appropriations
23 are approved?

24 MS. HEFNER:

25 No, no, not at all. Some processes start

1 the grant paperwork. We would start the grant
2 paperwork. We would encourage them to get their side
3 of the equation lined up before any money would ever
4 be allotted or sent out. And that would more than
5 likely happen well into the next fiscal year.

6 SECRETARY SODERBERG:

7 And just to reiterate, we have a lot of
8 programs in place, most of them cannot --- the dollars
9 cannot be spent until the appropriations bill is
10 enacted. But the agency, they're working to get
11 everything teed up so as soon as that happens we can
12 move forward.

13 SENATOR WAUGH:

14 Chairman, if I may, my only concern is
15 that --- not that you would do anything to appropriate
16 money before --- in any way before it was appropriate
17 or legal. That's not my concern. My concern however
18 is, that we in some way indicate --- these are all
19 worthy projects by the way. I'm familiar with a
20 number of them. And had a meeting just last week with
21 Secretary Hanger and we talked about some of these
22 digesters and what not. My concern is that we some
23 --- the Department would somehow put these people in
24 the position where they feel very sure that there is a
25 commitment and they are moving forward, and then who

1 knows what's at the end of the budget process. And
2 somehow they're let down or the plug is pulled and
3 they've already been moving their wheels forward and
4 expending maybe private --- because I know a lot of
5 these there is private money involved, in addition
6 matching money. And somehow they're left hanging or
7 strung out. That is a concern that I have with the
8 way this is moving.

9 SECRETARY SODERBERG:

10 It's a very common section in a contract
11 with the state, dependant on the availability of
12 funds, appropriation of funds.

13 SENATOR WAUGH:

14 I know. So it's their risk if they jump
15 the gun.

16 SECRETARY SODERBERG:

17 Hopefully everything will really come
18 together over the next few weeks.

19 SENATOR WAUGH:

20 Okay. Thank you.

21 SECRETARY CREEDON:

22 Go down to the PennVEST program. You
23 remember when we met in April I believe that was about
24 the time that the PennVEST board approved the projects
25 and I'll give you a quick status. About half of those

1 projects should be on the way by the next time we
2 meet, which will be by July 16th. And we're trying to
3 accelerate some of those back closer from the October
4 1 date that we had set, but the remainder are on
5 target for an October 1 date. The PennVEST board
6 meets again on July 21st, where they will be looking
7 at awarding about \$106 million in ARRA funding.

8 Getting into the areas now --- and maybe
9 some of these, if there's any particular questions on
10 the neighborhood stabilization program --- but just to
11 give you some dates. There's a competitive grant
12 process opening up with applications due by July 17th
13 under the neighborhood stabilization program.

14 Under the senior community services
15 program we have already been awarded \$1.2 million and
16 was allocated by formula to area agencies on aging to
17 train and provide placement and subsidize employment
18 for PA residents age 55 and older.

19 Just to give you a sense of what will be
20 happening between now and the next time we meet or
21 shortly thereafter, I want to give you a couple of
22 updates. Intercity passenger rail, we are expected to
23 receive the guidance on that. It's a nationally-
24 competitive program. We're not getting \$8 million.
25 This is a nationally-competitive program. We're

1 expecting the guidance to be released on June 17th.
2 This may be something the Commission may want to get
3 an update on their July 16th meeting. I put this out
4 here just as a possible depending on where we're at.

5 Secretary Biehler was in with you at the
6 last meeting, I believe, and spoke about the \$1.5
7 billion in nationally competitive discretionary
8 grants. We have received information now that the
9 letters of intent are due on August the 4th, with
10 applications due in mid-September for that grant
11 program. And this may be something that the
12 Commission also wants to have some discussion on at
13 the July meeting, since that will be before the
14 letters of intent, which would be due on August 4th.
15 As Secretary Biehler is aware of your time frame and
16 the need to have some of that discussion.

17 Another program which is out there
18 between now and your next meeting is the senior
19 nutrition program. Again, a small amount of money
20 available to Pennsylvania, \$4.48 million for both
21 formula allocations and competitive grants to Area
22 Agencies on Aging. This will be to fund for uses in
23 congregate nutrition centers for senior centers and
24 the idea here is to use these funds to help them
25 upgrade the senior centers themselves, the equipment

1 they use to cook the food, the way they serve the
2 food. And some of these are literally --- and the
3 counties run out of church basements and are in long
4 need of some energy-efficient equipment and some other
5 things. So the Department of Aging is setting up a
6 program now to establish a competitive process for
7 that.

8 I'll mention the next two, which I know
9 is on a lot of people's minds of the area of
10 broadband. Clearly an item that may want to be
11 discussed or presented at the July meeting, because
12 we're now starting to see some dates. We're starting
13 to see some guidelines. We're starting to see some
14 debate. The Office of Administration has conducted
15 three or four public hearings throughout the
16 Commonwealth to get some input. There will be \$4.7
17 billion not to Pennsylvania, but in competitive grants
18 nationally. And there will be funds for a variety of
19 areas in the broadband area.

20 I have this note for a Commission
21 presentation sometime July through September. We
22 really don't know when the plan will have to come
23 together and how much public input we'll still need to
24 do. So it might be something that we discuss in July,
25 it might be something in August, but I wanted to have

1 it out there just so you're aware that this is --- and
2 as we tracked out when projects would happen, we knew
3 that the broadband would kind of be the one coming
4 around this summer. And we need to kind of tee up on
5 our agendas or at least on our to do list here as a
6 Commission. Yes, senator?

7 SENATOR WAUGH:

8 On this issue, I have a question from a
9 caucus member wondering whether or not any
10 Pennsylvania entities have made application. What I'm
11 hearing you say is that at this point we're not able
12 to make applications; is that correct?

13 SECRETARY CREEDON:

14 That's correct. There's no application
15 to make.

16 SENATOR WAUGH:

17 And that by late June or early July we
18 will then know what the application process is?

19 SECRETARY CREEDON:

20 What the application process is, what the
21 guidelines are going to be, what the funding areas are
22 going to be. And we're going to be able to sit down
23 and have some good discussions on what strategies
24 would be best.

25 SENATOR WAUGH:

1 Thank you.

2 SECRETARY CREEDON:

3 And the last one I'll mention, fire
4 station construction. This goes kind of more along
5 the lines of taking the money to the local level.
6 We've received a number of inquiries as far as funding
7 being available or looking for funding for fire
8 station construction. And FEMA will handle this
9 program directly with the local government, or the
10 regional fire department as far as that funding being
11 available.

12 Again, this will not be something that
13 the state government becomes involved in, but again,
14 because I know you hear a lot of information out
15 there, there's a lot being said, I'm just trying to
16 identify some areas just to give you a sense of what's
17 going on out there in the community right now around
18 some of these areas.

19 And certainly our Pennsylvania Emergency
20 Management Agencies will be able to assist if agencies
21 need some help in identifying some opportunities. But
22 the applications will go directly to the Federal
23 Emergency Management Agency.

24 UNIDENTIFIED SPEAKER:

25 Is that \$200 million for Pennsylvania, or

1 is that ---?

2 SECRETARY CREEDON:

3 That's national. Gene?

4 MR. BARR:

5 Secretary, two quick questions --- well,
6 I hope they are, since we're already beyond time.
7 When we had the Department of Ed in, I think they
8 appropriately noted that as education dollars go out,
9 they are telling schools, please whatever you do don't
10 bring in new teachers, use this for other things,
11 because when these expire, you've got to go find them.
12 And this is anecdotal but in looking at some news
13 accounts I read of a particular municipality who said,
14 gee, we took stimulus dollars and hired five new
15 police officers and so forth. Have the same
16 directions been given out? What controls do we have
17 over that, because it seems to me that municipalities
18 are setting themselves up for the same problem we
19 cautioned against on the education side.

20 SECRETARY CREEDON:

21 The municipalities apply directly to the
22 federal department or to the Attorney General's --- or
23 Department of Justice at the federal level for what's
24 called JAG money. If they have hired them, they've
25 done that at their own risk. The latest information I

1 have is that there's \$8 billion in applications with
2 \$1 billion worth of money. So certainly we can
3 caution, we can --- mayors can be tough sometimes.

4 MR. BARR:

5 So that is out there. We have no control
6 ---.

7 SECRETARY CREEDON:

8 They're applying directly to the
9 Department of Justice for those funds.

10 MR. BARR:

11 Second quick question. I know there's
12 been some concern expressed over whether or not with
13 the utilization of stimulus dollars we are going above
14 and beyond what the feds may require relative to
15 project labor agreements and prevailing wage. Are we
16 adhering to federal? Are we going beyond? I think
17 the goal is to get this as broadly distributed as
18 possible, to do as much good with the money as
19 possible. And the concern is that that tends to
20 constrain those dollars and kind of tighten those up
21 and put them into smaller baskets shall we say.

22 SECRETARY CREEDON:

23 I'll address those two. Let's separate
24 the issue between PLA and Davis Bacon, which is really
25 the requirement for federal, which is the state

1 prevailing wage. The act does not require project
2 labor agreements. The president signed an executive
3 order where he encourages project labor agreements.
4 The position that we have taken is that we are not
5 going to require project labor agreements on any of
6 the state ARRA-funded projects. That does not mean
7 that if for example PennVEST does an ARRA to the City
8 of Philadelphia and the City of Philadelphia has a
9 policy of doing project labor agreements, they can
10 elect to do that. Or a school district receives money
11 for modernization of a school, and they make that
12 policy decision.

13 That's the message that I've been giving
14 out fairly consistently. But there's no blanket
15 requirement for it. However if a recipient is a
16 direct recipient of funds, they can make those
17 decisions based on what the law requires for doing
18 project labor agreement on their own. As far as Davis
19 Bacon applies, we're not going to try to enhance Davis
20 Bacon. If Davis Bacon is not applying, state
21 prevailing wage applies. We're not trying to make any
22 changes on that for ARRA funding, either.

23 MR. NAPLES:

24 Mike, did you want to raise something?

25 SENATOR WAUGH:

1 Yeah, actually I just wanted to --- and I
2 know we're running short here, but I wanted to comment
3 on the fire department, fire station grant. I'd like
4 to just for the record commend PEMA and the Fire
5 Commissioner for their advance notice. It was
6 probably three or four weeks ago that the Commissioner
7 was in touch with our offices and gave us
8 recommendations on communicating with our local
9 departments in order to get them queued up and made
10 aware of this. So I think that was a good effort on
11 his part and I thought it should be said.

12 MR. NAPLES:

13 Thank you, Mike. Brian.

14 REPRESENTATIVE ELLIS:

15 I just have a couple things. Jim, I
16 appreciate the report. I think it provides a lot of
17 information for us. But one of the things that we ---
18 you know, since the beginning I've been saying how
19 many jobs is this going to create. It was excluded in
20 this report and maybe for the next meeting we can get
21 back on that, because I know we still didn't really
22 know how the federal government was going to define
23 what a job is. Have they defined it yet?

24 SECRETARY CREEDON:

25 Yes and no, which is exactly why I'm not

1 putting jobs on this report. My preference would be
2 to wait until we know exactly how we're all going to
3 agree --- well, we may never agree on how it's
4 defined, but what that guidance is going to be before
5 I start putting this on a regular basis. We do keep
6 track of this. I worry that there would be a report
7 out there that would have one number that would have
8 to be adjusted based on some adjustments done this
9 summer on a report and people would become confused.
10 So that's one of the reasons I've kind of pulled that
11 off. Plus I would normally present that more when I'm
12 doing project by project, than I would be in doing a
13 rolled up summary. But we'll get there.

14 MR. NAPLES:

15 But on that point, Brian, not just jobs,
16 but other measures, outcome measures we want to make.
17 One of the things we want to try to do in the
18 accountability is have a regular report and have it on
19 the web site actually so it's available to people all
20 the time, a running accounting of what we're spending
21 and what we're getting for it. And jobs would be one
22 of those things.

23 REPRESENTATIVE ELLIS:

24 And then in the last meeting when we were
25 talking about the weatherization and the massive need

1 that we're going to have in Pennsylvania for training
2 individuals to go in and do this, they said that in
3 two or three weeks we may receive guidelines on who
4 was going to be training. And I know the senator and
5 I were both concerned that we, you know, look at some
6 of the tech schools that we have in Pennsylvania, as
7 well as the community colleges as an opportunity to
8 expand that training. Did they set the guidelines yet
9 on who can be an authorized training location?

10 SECRETARY CREEDON:

11 No, we have not. The Department of Labor
12 and Industry is currently working on that. I was
13 involved in some conference calls last week.
14 Actually, the goal of those was to broaden the areas
15 for training, much like we had our conversation last
16 week. We can try to keep you up to speed as L&I pulls
17 that together.

18 REPRESENTATIVE ELLIS:

19 And then my final thought, and then I'll
20 let somebody else ask a question, when you talked in
21 your report about the neighborhood stabilization
22 program you said they're still receiving the bids and
23 applications until July 17th. The Governor had a
24 press release the other day indicating that there were
25 already projects that were awarded money. One

1 specifically that I was concerned with was in the City
2 of Pittsburgh in Allegheny County, \$4 million to bring
3 the Wood Street Commons out of foreclosure. And I
4 didn't look at all of them specifically, but that one
5 jumped out at me. If we're going to be using federal
6 dollars to bring homeless shelters out of foreclosure,
7 I want to understand the process a little bit more on
8 that. So you don't have to answer now, but if you can
9 provide me with information on how that process is
10 going to work, that would be very beneficial to me.

11 SECRETARY CREEDON:

12 Sure, we can put some more information on
13 the neighborhood stabilization program. I believe the
14 ones he announced yesterday were actually from the
15 previously appropriated funding and not for ARRA
16 funds. So if there's some confusion there --- but I'll
17 double back on that just to be sure.

18 REPRESENTATIVE ELLIS:

19 Thank you.

20 SECRETARY CREEDON:

21 One other thing I just want to quickly
22 mention. On the numbers on the front, I want to make
23 sure that people understood that we have not spent
24 more than were scheduled to receive. This is simply
25 that we are waiting for that reimbursement. I'm

1 trying to keep this as accurate and as timely as
2 possible. It's going to sometimes cause perhaps some
3 numbers not exactly to match up. But the 159 million
4 difference is not that somehow Pennsylvania has spent
5 \$159 million that we're not going to receive from the
6 federal government. It's in the check's in the mail,
7 or the bill has been sent, whichever direction it's
8 coming, but the numbers do match up.

9 MR. ROSS:

10 Just quickly. I wanted to ---.

11 SECRETARY CREEDON:

12 Everybody says that, Tony.

13 MR. ROSS:

14 I'll be quick. I want to first commend
15 all the staff that's been working on this. I can tell
16 you from my own personal experience they've been
17 wonderful to deal with. And also, I've referred a
18 number of people to a number of the departmental
19 contacts and it's just been a wonderful process. So I
20 want to make that known and say thank you to all the
21 folks who are doing that. It really makes my job
22 easier. I just thank all those folks at those various
23 department agencies.

24 MR. NAPLES:

25 Why don't you go on a bit more about

1 that.

2 MR. ROSS:

3 I want to follow-up, thank you
4 Representative, I had a question about the
5 weatherization training and that was good. Just going
6 back to transportation I know that when Secretary
7 Biehler was here, we talked a little bit about WBMB
8 and the existing processes that were going to be used.
9 Is there any data available yet on that? And if not
10 when it is available, can it be made available and can
11 it be on the web site, because I get asked about that
12 quite a bit. I think you've been doing a great job
13 just getting it out there to people as well.

14 SECRETARY CREEDON:

15 Yeah, we have been tracking where PennDOT
16 has been going on MBW. Actually I'll be testifying
17 before the house special committee on MBWB development
18 on Monday. And we're pulling together an update
19 report on the stimulus program. And that's really the
20 projects that are out there to report on, just to give
21 people a general sense of where we are, compared to
22 where we are with normal --- I don't want to say
23 normal PennDOT projects, but I guess a regular PennDOT
24 project. The latest I saw we're tracking basically
25 where we are with the other projects as well. We

1 haven't seen a spike, an increase, but it's not that
2 we're seeing a decrease. And there continues to be,
3 even with the amount of outreach that we're doing,
4 some challenges there getting the participation levels
5 that we'd all like to see.

6 MR. KOSTOFF:

7 First I'd like to follow-up on Tony's
8 comment. The staff has been excellent and I commend
9 them for the job they're doing and helping us when we
10 have questions. The one in your status that wasn't
11 there, the education application to --- what's the
12 status of that with U.S. Education as far as ---?

13 SECRETARY CREEDON:

14 Yeah, the request for the stabilization
15 funding?

16 MR. KOSTOFF:

17 Yes, the stabilization fund, where does
18 that stand?

19 SECRETARY CREEDON:

20 Mary is still here. I believe we did
21 file that since the last meeting.

22 MR. KOSTOFF:

23 The second request was filed as an
24 amended application, I think.

25 SECRETARY CREEDON:

1 Beginning in May was it filed?

2 SECRETARY SODERBERG:

3 Yeah, I don't remember the exact date.
4 But that is an example of a program that we have to
5 wait for the final appropriation.

6 SECRETARY CREEDON:

7 Right. It's in Washington.

8 MR. NAPLES:

9 Thank you. Mike?

10 SENATOR WAUGH:

11 I have some general questions, Mr.
12 Chairman if it's appropriate now or ---?

13 MR. NAPLES:

14 Is this for new business?

15 SENATOR WAUGH:

16 Yeah.

17 MR. NAPLES:

18 Okay. Before we just do that, Mike, ---
19 we'll take a minute to do that. I just wanted to say
20 that the status report that Jim just delivered, and I
21 thank you for that, Jim, but the whole notion here is
22 to try to make sure that you know what the state knows
23 about what we're doing and to try make sure that you
24 have a good look forward as to what else you want to
25 look at and try to make sure we do this in a timely

1 way to get ahead of the curve. So that's the heart of
2 what we're trying to get done here. And to the extent
3 that the Commission doesn't feel well-served by that
4 please let me know, but that's what we're trying to do
5 here. So If there are no other questions for Jim on
6 the status, let's go to new business.

7 SENATOR WAUGH:

8 On new business, and I by the way thank
9 both secretaries for their presentation today. The
10 information they presented was helpful and it was
11 appreciated. On new business I have received
12 questions from a number of county individuals, one
13 specifically in my home county of York. Another from
14 one of our members in Allegheny County relative to the
15 concerns that are coming from our county grant
16 coordinators of being somewhat overwhelmed and feeling
17 somewhat inadequate when questions are posed to them a
18 number of different ways.

19 First of all, when they get press calls,
20 asking what kind of monies have come to York, what
21 kind of money is available to York. I'm using my
22 county as an example and I assume it's the same in
23 all. And she just feels as though there is no
24 organized method for her to look at something in York.
25 What she's finding it and this ---. I had a nice

1 conversation with the lady who --- by the way, her
2 title is coordinator of grants for the County of York
3 or something like that. What she's finding is that
4 the agencies, say economic development knows what's
5 going on in economic development, but she doesn't
6 necessarily.

7 And the planning commission might know
8 what's going on with --- or coming up at least, with
9 the weatherization program, because they are
10 administrator for that, but she may not. And then
11 there are also some other nonprofits out there that
12 are accessing various grants. The point is, and the
13 question for both of these folks, is there a way that
14 there could be prepared a categorized listing on a
15 county-by-county basis indicating what's available,
16 whether it's money from the state, money direct from
17 the feds to the counties, or to the various agencies
18 within that county, to show what kind of funding is
19 available, what kind of funding is being driven and
20 ultimately what funding has been spent on a county-by-
21 county basis. Is that a fair request or is that ---?

22 SECRETARY CREEDON:

23 I'm thinking of all 67 counties right
24 now, Senator.

25 SENATOR WAUGH:

1 I know.

2 SECRETARY CREEDON:

3 Let me try to respond to that. I feel
4 --- in a sense, she probably feels a lot like I do
5 some days when I'm trying to keep track of aging and
6 that type of thing and I understand that can be a
7 challenge. And it's certainly a challenge here at the
8 Commonwealth level.

9 But I think that a couple of things I'd
10 advise her to do is that members of the National
11 Association of Counties has done a pretty good job of
12 coordinating seminars and educational opportunities,
13 as well as listings of what's available by county. A
14 lot of county officials I have spoken to have really
15 been happy with what NACO has done for them in
16 providing hotline advice on headlines and ---.
17 Because a lot of times it doesn't even come through us
18 of what accounting might be interested in going to.
19 So they have to deal with the federal Department of
20 Energy, the federal Department of Housing and Urban
21 Development and using NACO as that conduit to the
22 federal government. And that's the feedback I
23 received from some county coordinators.

24 The other side --- it would be difficult
25 for us to be able to sit and I could certainly tell

1 them what we see through the formula programs, but to
2 be able to predict what a nonprofit in York County is
3 going for --- I'll have to think about this one.

4 The last piece of advice, I've done this
5 for a lot of local elected officials. They can always
6 feel free to give a call. We get a 15, 20 minute time
7 frame on my calendar and we get on the phone together
8 with some staff that worked for me and we'll noodle
9 around what some of their problems are and maybe kind
10 of help them through some of it.

11 But I'm picturing 67 conference calls
12 now. But if that's --- we've done that kind of
13 personalized outreach where people really feel
14 frustrated. But I would recommend they link up with
15 NACO, because the feedback I'm getting is that that
16 hotline or that ability to go to them to ask questions
17 has really helped a lot of county officials.

18 SENATOR WAUGH:

19 Is there a contact person that our county
20 folks could use, particularly, especially I should say
21 for the federal programs? In other words, is there a
22 contact taken relating to other than the National
23 Association or an actual federal director of county
24 funding under ARRA?

25 SECRETARY CREEDON:

1 It would be agency by agency, Senator.
2 So they'd have to establish a contact with the
3 Department of Energy or with the Department of Housing
4 and Urban Development or the Department of ---
5 whatever other department they were looking at. And
6 that's why I think NACO has kind of served that role
7 to help --- they're there in Washington working with
8 all those agencies. They've got reps at each of
9 those. I'd be happy to get you the name of the person
10 at NACO or our contact have him get over to your
11 office if that would be helpful.

12 SENATOR WAUGH:

13 I have some other stuff, but Tony wants
14 to ---.

15 MR. ROSS:

16 I have been running into something going
17 around the state since our last meeting. I've been in
18 six or seven communities that this very issue comes
19 up.

20 MR. NAPLES:

21 Right.

22 MR. ROSS:

23 And what I'm recommending to communities
24 is that they should come together maybe in the same
25 way they might around a disaster, form a community

1 type committee to do this kind of coordination.
2 Because I was actually in Reading yesterday. And my
3 message is, this is bigger than any one organization
4 or any one entity. And so there are some models out
5 there, I'm happy to share with you. I'm happy to come
6 to York and have a meeting, you know, specifically
7 with people in York County to try to get this process
8 going. But it's an issue everywhere I can tell you.

9 SENATOR WAUGH:

10 Could you talk to Bob?

11 MR. ROSS:

12 Sure. Yeah, Bob and I actually talked
13 about this the other day.

14 SENATOR WAUGH:

15 And if there's anything I can do. I have
16 another group of questions, if I could. And I don't
17 know if you have the answer, whoever is in charge of
18 education maybe or otherwise. One of the areas of
19 concern in our state budget --- there are a number of
20 areas of concern. One of the areas of great concern
21 for many of us that as looking at the potential for a
22 pretty significant hit, our public libraries. My
23 question is whether or not somewhere in this package
24 there's funding available be it through the state or
25 individually by our library systems, that they can

1 access funding to help offset what could be a pretty
2 hard hit in the state budget.

3 SECRETARY CREEDON:

4 I am not aware of a source of funds
5 directly for libraries through the ARRA program. It
6 was not in the legislation. Certainly if there is a
7 school district that operates a library system they
8 could look at some of their stimulus money to support
9 some of those efforts. That would be their individual
10 decision that they're going to have to make. But we
11 all know that both budgets being circulated have hit
12 libraries pretty hard. I got stopped on Saturday at a
13 zoo event by a librarian.

14 SENATOR WAUGH:

15 The reason I say education is because it
16 ---. I mean the line item for public libraries is
17 under the education chapter. I believe I'm right
18 about that, Secretary. But it's not necessarily
19 education money. It just happens to drive out under
20 education. So if there's someone who could look at
21 that, and if you're not sure, even a little bit not
22 sure, if we could hear about it it would really be
23 appreciated. Thank you.

24 And then if I may, Mr. Chairman, I have
25 one last question and this is a general one. This

1 week we heard President Obama say that he was, quote,,
2 not satisfied with how quickly things were happening
3 and he was looking to, quote, ramp it up even more.
4 What does that mean for us?

5 SECRETARY CREEDON:

6 As I interpreted --- and this is
7 dangerous ground for me, the President's statement, I
8 believe that there has been a lot of states who have
9 expressed concern about waiting to get guidelines on
10 certain programs and waiting for reporting.

11 I have to tell you here in Pennsylvania
12 we are almost exactly where I thought we would be when
13 we started this in February. PennDOT would roll out
14 quickly and aggressively and we'd have our projects
15 about where we needed to be. That about half the
16 PennVEST money would be in the system and underway to
17 starting construction. That the energy programs would
18 have received their guidelines and we'd have our
19 applications starting and in some cases even some
20 awards started.

21 And I know the governor has expressed
22 this too, that we're right where we felt we wanted to
23 be. If we had said in February where do we want to be
24 on June 15th, about where we wanted to be. We had
25 received some comments the other day that the pipes

1 are clogged. We think the pipes have been pretty
2 clear here in Pennsylvania. The money has been ---
3 our reimbursements have been coming in when we submit
4 for it. The guidelines have been coming and basically
5 the schedule that we felt. We'd all like to see
6 things move with the speed of lightning, but I think
7 we're ---.

8 SENATOR WAUGH:

9 I was just saying it may not mean really
10 anything. We may be ahead of the curve as compared to
11 some of the other states.

12 SECRETARY CREEDON:

13 I believe we are. I think that we
14 haven't gotten hung up on some of the frustrations and
15 that we've decided to move ahead and we know which
16 ones we've got to wait on. The one area where I know
17 the president and the vice president both expressed
18 some concerns is more the competitive grant side out
19 of the agencies. Because particularly the Federal
20 Highway Administration Tiger Grants, some of the rail
21 grants, and getting those moving forward. But as I
22 reported now, we're 45 days away from submitting
23 letters of intent. So pretty much where you thought
24 we'd be.

25 SENATOR WAUGH:

1 That's fair. Thank you.

2 MR. NAPLES:

3 Any other new business? Okay. Thank
4 you. Then we are way over time, but I'm going to allow
5 a couple minutes for public comment if anybody is
6 dying to say something. Yes, sir.

7 MR. KAUFFMAN:

8 Hi, I'm Barry Kauffman, Common Cause.
9 Two quick questions. Number one, Secretary Soderberg
10 and Senator Waugh both talked a good bit about
11 whistleblower protection, which does exist for state
12 and federal employees. Does ARRA or any statute
13 extend that to private employees who may have direct
14 and immediate information about improper or illegal
15 activities? Question number two is how soon can we
16 expect a prominent posting on the Commission web site
17 of these meetings?

18 MR. NAPLES:

19 Well, I'm not sure what you mean, Barry,
20 by prominent posting of these meetings. You mean
21 notice of a meeting?

22 MR. KAUFFMAN:

23 Yes, I know a lot of people who've said
24 they've tried to find a notice about these meetings
25 and have had difficulty finding them.

1 MR. NAPLES:

2 Well, that's certainly something we can
3 fix. I mean these are posted, right, Mike?

4 MR. RICHART:

5 They're on the web site.

6 MR. NAPLES:

7 It is on the web site now?

8 MR. RICHART:

9 Yeah.

10 MR. KAUFFMAN:

11 The full list for the year.

12 MR. NAPLES:

13 Yeah, we've published the advanced
14 meetings, Barry.

15 MR. KAUFFMAN:

16 And the whistleblower?

17 MR. NAPLES:

18 Well, we're working on that. And the
19 issue about the private employees, there's a specific
20 question we'll throw in there. I'm not sure where
21 that stands. Anything else? Well, with that I will
22 take the ---. I'm sorry.

23 MR. ROZOWSKI:

24 Thank you for the opportunity to be here
25 today. My name is Ken Rozowski (phonetic) from Towson

1 Solutions. We're a capital project consulting firm
2 located in Philadelphia. And we specialize in
3 construction audit, cost recovery and risk assessment.
4 All components of fraud, waste and abuse. My question
5 to you is, has there been any consideration for
6 additional staffing or consulting needs for the
7 oversight management, specifically due to the
8 increased number of projects coming under the stimulus
9 program? And the reason we ask that, really is it
10 possible to maintain the level of oversight that's
11 needed with the number of projects coming through on
12 competitive bids?

13 SECRETARY CREEDON:

14 We have just completed our internal
15 review of each of the agencies. Keep in mind PennDOT
16 has moved their projects out already. They have
17 rather extensive investments in project management
18 systems already, as well as a rather comprehensive
19 system of reporting from each of the field sites. We
20 are now, as PennVEST starts to move their projects
21 I'll have each of the local agencies working with
22 them. I have my weekly meeting with them this
23 afternoon to continue discussions on how that
24 reporting will work. And we have identified, by each
25 agency, how our project management system will be

1 built and where those risks are. Our Office of
2 Administration is currently assessing what current
3 technology we already have licensing to, what kind of
4 capacity additions we may need and how they can be all
5 merged into --- are we going to have the capability to
6 do that. They will assess and will meet with Ron and
7 myself and a few others in the next couple of weeks to
8 give recommendations on whether we need to use our ITQ
9 systems or any kind of outside vendor to provide any
10 type of resources such as your company.

11 MR. ROZOWSKI:

12 Very good. Thank you very much.

13 MR. NAPLES:

14 You're welcome. Okay. With that I want
15 to thank everybody for their forbearance in going
16 overtime. I think we'll have to rethink the timing of
17 these meetings, and I thank everybody for being here.
18 And we'll adjourn the meeting.

19

20 * * * * *

21 MEETING ADJOURNED AT 2:00 P.M.

22 * * * * *

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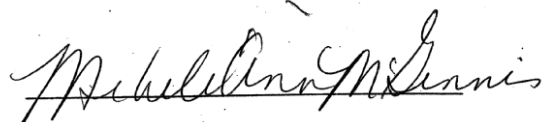
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CERTIFICATE

I hereby certify that the foregoing proceeding 06/11/09 Stimulus Oversight was transcribed by me on 06/18/2009 and that I attest that this transcript is a true and accurate record of the proceeding.


Court Reporter