

United States Senate
COMMITTEE ON FINANCE
WASHINGTON, DC 20510-6200

July 29, 2010

Via Electronic Transmission

The Honorable Arne Duncan
Secretary
United States Department of Education
400 Maryland Avenue, SW
Washington, DC 20202

Dear Secretary Duncan:

As the Senior Senator from Iowa, I have a duty to conduct oversight into how federal entities spend taxpayer dollars, especially when fraud, waste, or abuse might be involved. I also serve as the Ranking Member of the Committee on Finance (Committee), which has exclusive jurisdiction over both federal taxation and our country's public debt. In both capacities, my duty to conduct oversight is more important than ever with federal spending at unprecedented levels due in part to the passage of the American Recovery and Reinvestment Act of 2009 (Recovery Act/ Stimulus Money).

Congress enacted the Recovery Act in an effort to stimulate economic activity and stave off further decline in the American economy. I opposed final passage of the Recovery Act because, as I said at the time, it was loaded down with spending to satisfy special interests rather than to stimulate the economy. Pursuant to the Recovery Act, the Department of Education (Department/Education) received over \$98 billion of taxpayer money. It is crucial that these funds are used properly and that Education is acting to prevent fraud, waste and abuse of these funds.

Recently, my staff reviewed a series of audits/reports issued by the Department of Education Office of Inspector General (OIG) which examined the expenditure of federal funds at the Department's state/territory level. The OIG conducted these audits to examine the integrity of the use of federal funds. In light of that review I want to take this opportunity to share my concerns as they relate to the expenditure of Stimulus money.

Audit of Philadelphia School District's Controls Over Federal Expenditures

The Department has obligated over \$343 million of Stimulus funds to the Philadelphia School District in Philadelphia, Pennsylvania (PSD),¹ despite a recently

¹ According to Recovery.gov, PSD was directly obligated \$2.6 million from the Department of Education and PSD was obligated \$341.6 million as a sub-recipient from either the Pennsylvania Department of Education and/or Commonwealth of Pennsylvania.

released audit which raised concerns about its lack of control in handling federal funds (ED-OIG/A03H0010). The OIG audit examined PSDs fiscal controls of \$245 million in federal funds between July 2005 and June 2006. The findings are alarming and give me little faith that over \$343 million of Stimulus funds will not be similarly abused.

Based upon the audit completed, OIG determined that PSD had little control of personnel expenditures charged to federal grant funds. At the same time the balance in the general fund at PSD on June 30, 2006 was in the red by about \$66 million. The OIG further found that PSD lacked written policies and procedures for certifying personnel costs charged to federal grants. Specifically, the OIG determined that PSD committed over \$2.9 million in unallowable costs, and over \$107 million in inadequately supported costs. For example, the OIG found over \$400,000 in unallowable expenditures on items including: finance charges, late fees, tips for alcoholic beverages, Ipods, and pool tables.

PSD also supplanted state and local funding with federal funds, which included approximately \$7 million in unallowable costs. Unfortunately, the bad news did not end as the OIG also found that PSD employees abused federal funds for unallowable travel reimbursements. They charged lodging over the government rate and submitted charges for business class rail fare, tips for food, taxicabs, and hotel maid service.

Other examples of egregious spending identified by the OIG include:

- Lack of inventory controls and missing equipment, including:
 - At least 24 computers;
 - Three televisions;
 - 7 of 10 PDAs; and
 - Five digital cameras.
- Out of 779 expenditures reviewed to an Office Depot account, 584 were not allowable and totaled over \$66,000 including:
 - A mini fridge;
 - Hand trucks;
 - A microwave oven; and
 - Greeting cards.
- On several occasions the PSD ordered excessive amounts of food, including:
 - 100 Continental breakfasts ordered with no set agenda and only 22 parents attended;\$8 per plate breakfast where 40 percent of attendees were school personnel;
 - \$4,000 of food ordered for a “Thousand Parent Breakfast” with a mere attendance of between 162 and 400 parents attended; and
 - \$685 in unallowable food charges for staff meetings.

Audit of the Virgin Islands Department of Education

The Department also obligated over \$58 million of Stimulus funds to the Virgin Islands Department of Education (VIDE) even though VIDE is classified as a high risk grantee. The OIG has consistently reported serious problems with VIDE's financial management, which raises concerns that Stimulus funds received are at risk. Recently, the OIG released a final audit report (Report) for VIDE (ED-OIG/A04J0004) which provides a comprehensive overview of all the financial and administrative deficiencies and VIDE's lack of effort to resolve them. According to the Report, VIDE "has a history of unsatisfactory performance in the administration of the Department's programs (p. 2)," including:

- Failure to fully implement a credible financial management system to maintain financial data on Department grant funding, and payroll information;
- Failure to submit around \$5 million in funding liquidation requests on time and without adequate supporting documents, indicating a cash management weakness that puts Department funds at risk of lapsing;
- Failure to submit required financial audits on time or at all, which gives no assurance that funds are used as intended;
- Failure to complete an accurate and complete teacher qualification system and personnel database, instead relying on inconsistent documentation with no assurance of corrective action; and
- Failure to maintain an efficient property management system, with adequate physical inventories and monitoring. A physical inventory is required to be taken at least once every 2 years VIDE has not performed an inventory at all schools, resulting in a failure to account for property valued at over \$300,000.

Questions

The accountability of Stimulus money is a serious concern for me and I am greatly troubled by these findings. I believe taxpayer dollars intended for educating our young people should not be lost as a result of administrative and other systemic weaknesses. Accordingly, please answer the following questions and please respond by first repeating the enumerated question followed by the appropriate answer:

- 1) Does the Department take into consideration state and territorial education departments' history of mismanaging federal funds prior to distributing stimulus dollars? Please explain in detail.
- 2) It is my understanding that VIDE has failed to comply with several previous audits that have been performed. What actions have been and/or are being taken by the Department to ensure VIDE compliance with these audits?

- 3) What steps are being taken to ensure that state/territorial education departments have established proper controls for federal funds before Stimulus funds are distributed? Have there been instances where the Department has not awarded funds due to lack of controls by an education department?
- 4) Does the Department score state/territorial education department's handling of federal funds? If so, please provide the list. If not, why not?
- 5) Please describe in detail the safeguards developed by the Department to limit fraud, waste, and/or abuse of Stimulus funds at the state, territorial, and local education level. Please explain in detail.
- 6) Per the OIG recommendation, has the PSD reimbursed the Department over \$17 million in unallowable costs? If yes, when did PSD pay and how? If no, why not?
- 7) Per the OIG recommendation, has PSD provided adequate documentation to support over \$121 million in inadequately supported expenditures or has PSD reimbursed the Department for that amount?
- 8) Please provide a complete and up-to-date list of grantees the Department has designated as "high risk."
- 9) List the criteria used to:
 - a) place a School District on the "high risk" list;
 - b) remove a School District from the "high risk" list; and
- 10) Please:
 - a) identify each School District currently on the "high risk" list;
 - b) the amount of Stimulus funds obligated to each "high risk" School District;
 - c) the date the School District was placed on the "high risk"; and
 - d) the reason the School District was placed on the "high risk" list.
- 11) Does the Department make the "high risk" list public? If not, does it plan to make it public?

Thank you in advance for your prompt attention to this matter. I would appreciate receiving your response to this letter by August 12, 2010. Should you have any questions regarding this matter, please do not hesitate to contact Chris Armstrong or Brian Downey of my Committee staff at (202) 224-4515. All documents responsive to this request should be sent electronically in PDF format to Brian_Downey@finance-rep.senate.gov.

Sincerely,

A handwritten signature in blue ink that reads "Chuck Grassley". The signature is written in a cursive, flowing style.

Charles E. Grassley
Ranking Member