

For Immediate Release
Thursday, March 11, 2010

Grassley seeks full picture of Cash for Clunkers administrative costs

WASHINGTON – Senator Chuck Grassley today is following up on the response he received from the Secretary of Transportation about the costs of the 2009 Cash for Clunkers program.

Grassley said he is seeking more information about data provided by the Department of Transportation, which said the program created or saved 60,000 jobs, as well as more detail regarding the Department's responses on agreements with contractors and other agencies.

The senator said he appreciated the response he got from the Secretary to his January inquiry. "The additional questions I have today are focused on completing the picture in the interest of transparency and accountability," he said. The federal Cash for Clunkers program spent \$3 billion in about one month. "If there's another short-term program along these lines in the future, policy makers and administrators should have the benefit of knowing what happened with Cash for Clunkers, both good and bad," Grassley said.

The text of both of Grassley's letters to the Transportation Secretary is below. The January 25, 2010 letter from Secretary Raymond H. LaHood is attached and posted with this news release at <http://finance.senate.gov> and <http://grassley.senate.gov>.

March 11, 2010

The Honorable Raymond H. LaHood
Secretary
U.S. Department of Transportation
1200 New Jersey Ave, SE
Washington, DC 20590

Dear Secretary LaHood:

Thank you so much for your prompt and comprehensive response to my January 5, 2010 letter regarding, among other things, administrative costs and information technology problems with the Cash for Clunkers (CARS) program. I appreciate your taking time to address the questions and concerns raised in my letter.

Throughout my career, I have believed that as a member of Congress I have an obligation to conduct oversight into how our government conducts the people's business and spends their money. I have and continue to work to fulfill this obligation through both Republican and Democratic administrations. While I appreciate the considerable time and effort the Department of Transportation (DOT/ Department) and the National Highway Traffic Safety Administration (NHTSA) have put into implementing the CARS program, I remain concerned with a number of the responses that I received. (attached)

A. Economic Impact

Your letter states that the CARS program had “...**facilitated the purchase of more than 677,000 new, more fuel efficient vehicles:...created or saved over 60,000 jobs; and increased the gross domestic product by approximately \$3.8 to \$6.8 billion (p. 1).**” (emphasis added) It seems to me that the Department’s determination may overstate the impact of the CARS program in at least two respects.

First, the 677,000 figure reflects the total number of vehicles potentially eligible to receive a voucher. Numerous studies show this figure includes many vehicles that would have been sold anyway and therefore does not reflect the net effect of the CARS program. For example; auto industry analyst, Edmunds.com, calculated that only 125,000 of the vehicle sales were incremental, stating that the rest would have happened anyway. Edmunds then goes on to say U.S. taxpayers spent about \$24,000 for each net new vehicle sold.^[1] I am not in a position to judge the veracity of the Edmunds’ analysis, however I am interested in how the Department’s figures were calculated. Accordingly, please:

- 1) Provide the Department’s estimate of the net effect of the CARS program on the total number of vehicles sold and the taxpayers’ cost per net new vehicle sold. Your estimate should include source data and an explanation of the methodology.

Next, Congress appropriated \$3 billion for the CARS program. Your estimate of the 60,000 jobs created or saved and the \$3.8 to \$6.8 billion increase in GDP assumes a “multiplier effect” whereby each \$1 of government spending results in \$1.27 (3.8/3) to \$2.27 (6.8/3) of additional economic activity. Again, it seems to me that such estimates ignore the fact that the government must get its money from somewhere. Those who gave the government \$3 billion – either through taxes or purchasing U.S. securities – no longer have their money, so they cannot spend it. Therefore, the jobs and GDP they would have created is redistributed to the CARS program. The net effect on an economy-wide basis is likely to be zero at best, or negative if governmental intervention causes inefficiencies. Accordingly, please:

- 2) Provide the Department’s estimate of the net effect of the CARS program on jobs and GDP for the entire economy. Your estimate should include source data and an explanation of the methodology.

In addition, unemployment figures from the Department of Labor show that unemployment rates rose in July, August and September from 9.4 percent to 9.7 percent to 9.8 percent respectively.^[2] The automobile industry also reported that September auto sales fell 41

^[1] Jeannine Fallon and Chintan Talati; “Cash for Clunkers Results Finally In: Taxpayers Paid \$24,000 per Vehicle Sold, Reports Edmunds.com”; <http://www.edmunds.com/help/about/press/159446/article.html>; accessed February/March 2010.

^[2] U.S. Department of Labor, Bureau of Labor Statistics; “Labor Force Statistics from the Current Population Survey”; http://data.bls.gov/PDQ/servlet/SurveyOutputServlet?series_id=LNS14000000; accessed March 2010.

percent following the end of the CARS program.^[3] So, again you can see why I am having a great deal of difficulty understanding the actual impact of the CARS program on unemployment rates in the United States. Accordingly, I would appreciate receiving a response to the following question:

- 3) Given that funding for the CARS program lasted just one month instead of the four months originally projected, please document how many of the 60,000 jobs allegedly created and/or saved still exist today?

B. Contractors and Award Fees

Your response provided a list of 32 companies and governmental entities that received federal contracts or executed inter-agency agreements to administer the CARS program. I would appreciate receiving the following information based on the information already provided:

- 1) Copies of all contracts and interagency agreements, including modifications, for each of the entities listed in the Department's response.

It is my understanding that one of the companies used by the Department was Stefani Solutions, LLC. Our research indicates that Alexis Stefani previously served as Assistant Secretary for Budget and Programs and Assistant Inspector General for Auditing and Evaluation at the Department. In light of this connection, please provide the following:

- 2) The amount paid and remaining to be paid to Stefani Solutions, LLC.
- 3) Specific information regarding the services Stefani Solutions, LLC provided as an internal control consultant including a description of the contracts that Stefani Solutions, LLC received **before** Congress passed the CARS Program legislation.

The footnote on the bottom of page 10 in your letter referred to a consultant, but only identified the consultant by previous positions held in the Administration. Accordingly please:

- 4) Identify the consultant by name and previous positions held by the individual in the Administration.
- 5) Identify the specific services the consultant provided and the amount of money paid to this individual/company.

In my previous correspondence I requested information regarding bonuses paid to companies providing services to the CARS program. I was informed that no bonuses were paid, but that two companies, Oracle and Citibank, were eligible for award fees. Therefore, I am requesting the following information regarding award fees:

- 6) The amount of award fees paid and yet to be paid to all entities either contracted or otherwise eligible to receive the award fees.

^[3] Kevin Krolicki, David Bailey and Taiga Uranaka; "U.S. September auto sales plunge; GM, Chrysler hit hard"; <http://www.reuters.com/article/idUSTRE59066D20091002>; accessed March 2010.

- 7) The performance measures used to determine the amount of award fees.
- 8) Documentation that the performance measures established were fully met.

The Department's response also stated that, "NHTSA conducted market research to determine the best contractor to support transaction processing (p. 5)." In light of this please:

- 9) Provide the market research materials received and a description of how it was used in the selection process.

Again, thank you for your assistance with this and the previous request for information.

Sincerely,
Charles E. Grassley
United States Senator
Ranking Member of the Committee on Finance

cc: The Honorable Calvin L. Scovel, III
Inspector General
U.S. Department of Transportation
1200 New Jersey Avenue, SE
Washington, DC 20590

For Immediate Release
Tuesday, January 5, 2010

Grassley seeks accounting of Cash for Clunkers administrative costs

WASHINGTON --- Senator Chuck Grassley is asking the Secretary of Transportation to for an accounting of the administrative costs for the \$3 billion "Cash for Clunkers" program set up on a temporary basis last year to help consumers buy new, more fuel efficient cars.

Grassley said he based his request on consultation with the Inspector General for the Department of Transportation. "Cash for Clunkers was set up very quickly, and there hasn't been an accounting of the administrative costs of the program. There also hasn't been publicly available information about how contractors were picked to process the thousands of transactions that the program generated. My concern is the waste, fraud and abuse that may have resulted from the vulnerabilities that can come with such a quick start," Grassley said.

Grassley also asked the Secretary of Transportation to say when or if the Department took recommendations from the Inspector General about problems with the way the information technology system was set up in the Cash for Clunkers program. Recommendations were made, but it's not known if they were implemented.

“It seems taxpayers deserve a full report for the money that was spent on this program in the event that a similar program, maybe for a different purpose, is set up in the future,” Grassley said.

The text of Grassley’s letter of inquiry is below.

January 5, 2010

The Honorable Raymond H. LaHood
Secretary
U.S. Department of Transportation
1200 New Jersey Ave, SE
Washington, DC 20590

Dear Secretary LaHood:

Recently, my staff spoke with the Office of the Inspector General (OIG) to discuss the “Cash for Clunkers” program. As Ranking Member of the Committee on Finance (Committee), it is my constitutional duty to conduct oversight into the actions of the Executive Branch, including the activities of the Department of Transportation (DOT).

The Consumer Assistance to Recycle and Save Act of 2009 (CARS/Program) was passed as part of the Supplemental Appropriations Act of 2009 that was introduced in Congress on May 12, 2009 and signed into law on June 24, 2009. In essence, CARS was intended to help consumers pay for new, more fuel efficient cars or trucks from a participating dealer when they traded in less fuel efficient vehicles. This legislation originally provided for \$1 billion for auto dealers and on August 7, 2009 the President and Congress appropriated an additional \$2 billion for CARS.

Pursuant to the legislation, the DOT had only 30 days after the date the legislation was enacted into law to engage contractors and stand up the Program before the first rebates were issued. It is my understanding that the original legislation provided \$50 million to cover the costs of these contracts, but no specific funding provision for the contractors was included with the additional \$2 billion that was provided for the Program. To date the Administration has not provided an accurate accounting of the administrative costs related to the Cash for Clunkers program and I believe that the American taxpayer deserves more information, not less, and that information needs to come sooner rather than later.

A. Contracting

In addition to auditing the individual transactions of the Cash for Clunkers program, I am interested in the corporations and executive branch agencies that received contracts from the DOT to process thousands of transactions generated by CARS. It seems to me that the Administration chose an inherently risky approach to developing and implementing the Cash for Clunkers program and spent millions to get it up and running in record time with little regard for proper oversight and accountability; thus creating an environment ripe for waste, fraud and abuse.

It is my further understanding that the DOT contracted with the following corporations/agencies to support either directly or indirectly the Cash for Clunkers program:

- Citibank, N.A.;
- Vangent;
- Affiliated Computer Services (ACS);
- the Internal Revenue Service (IRS); and the
- Federal Aviation Administration (FAA) in Oklahoma City, OK.

In light of this, I have the following questions about the contractors and the contract(s) they received pursuant to CARS. For each question throughout this letter, please respond by first repeating the enumerated question followed by the appropriate answer:

- 1) Please confirm that the list above is complete and if not please provide a complete list of the contractors and executive branch agencies that received funds to assist in the implementation of the Cash for Clunkers program?
- 2) Please set forth how much each of these contractors received to date and the anticipated total that they will receive once the books are closed on CARS?
- 3) What type of contract did the contractors receive? (e.g. time and material contracts, fixed price contracts, cost and cost plus contracts, or all others contracts)
- 4) Please explain whether or not other types of contracting vehicles were considered and what was the reasoning for choosing one type of contract over another?
- 5) Please describe in detail the process used to select the corporations/agencies identified in the response to question 1 above?
- 6) What, if any, bonuses were (are being) paid to the contractors upon completion of their respective contracts?

B. Vulnerabilities to the CARS IT System

The CARS legislation also included a provision requiring the Secretary of Transportation to consult with the OIG to “establish and provide for the enforcement of measures to prevent and penalize fraud.” It is my understanding that the OIG pointed out a number of possible vulnerabilities, especially with the IT system, which experienced significant problems in the Cash for Clunkers program. In light of this please respond to the following questions:

- 1) What was the overall effect of the IT disruptions on the implementation of the program?

- 2) Please provide documentation of the DOT's IT vulnerability and testing recommendations.
- 3) Please describe in detail the criteria the DOT used to determine allowed costs versus disallowed costs for the IT system?

C. OIG Recommendations and Related Implementation

Furthermore, it is my understanding that the OIG made a number of recommendations and pointed out many additional program vulnerabilities. However, I am concerned that the DOT may not have fully complied with the OIG consultative provision as the CARS program was being implemented. Therefore I would like clarification of the role the OIG played and the actions taken by the DOT to respond to those recommendations.

- 1) What vulnerabilities were identified for the DOT by the OIG?
- 2) At what point in the process did the DOT ask for this information from the OIG and how was it requested?
- 3) How were the OIG concerns and recommendations incorporated into the Cash for Clunkers program as it was being implemented? Please be specific.

In cooperating with the Committee's review, no documents, records, data or information related to these matters shall be destroyed, modified, removed or otherwise made inaccessible to the Committee.

Sincerely,

Charles E. Grassley
Ranking Member

cc: The Honorable Calvin L. Scovel, III
Inspector General
U.S. Department of Transportation
1200 New Jersey Avenue, SE
Washington, DC 20590