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U.S. Department of Energy

Before the

Subcommittee on Regulatory Affairs, Stimulus Oversight,
and Government Spending

Committee on Oversight and Government Reform

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Mr. Chairman and Members of the Subcommittee:

I appreciate the opportunity to testify today at your request on the work of the Office of Inspector General (OIG) concerning the Department of Energy's (Department) implementation of the American Recovery and Reinvestment Act of 2009 (Recovery Act). The intent of the Recovery Act was to quickly stimulate the economy and create jobs while fostering an unprecedented level of accountability and transparency.

The Department received \$35.2 billion in Recovery Act funding for various initiatives. At this funding level, the Department received significantly more funds than its Fiscal Year (FY) 2011 annual budget of about \$27 billion. Some existing Department programs received dramatic increases in funding. For example, the Weatherization Program received \$5 billion in Recovery Act funding, more than a 10-fold increase from its FY 2009 budget of \$450 million. In addition, Recovery Act funds were used to create essentially new Departmental efforts, such as the Energy Efficiency and Conservation Block Grant Program, which received \$3.2 billion in funding.

Recovery Act funds also allowed the Department to drastically expand its Loan Guarantee Program for certain renewable energy systems, electric power transmission systems and biofuels projects that would commence construction no later than September 30, 2011. With this expanded authority, the Department estimated that it could guarantee up to \$71 billion in loans. Additionally, the Recovery Act provided the Bonneville Power Administration and the Western Area Power Administration over \$3 billion each in authority to borrow funds from the U.S. Department of the Treasury to modernize and build transmission infrastructure.

Office of Inspector General Oversight

Given the unprecedented level of funding and required transparency and oversight, the OIG launched efforts to assist the Department with its Recovery Act implementation. Since the passage of the Recovery Act, the OIG has:

- Issued 68 audit, inspection, and investigative reports covering all major program activities; attached to this testimony is a complete listing of the OIG's Recovery Act reports;
- Initiated over 100 Recovery Act-related criminal investigations; and,
- Conducted nearly 300 fraud awareness briefings for over 15,700 Federal, contractor, state, and other officials.

Overall Observations

Based on our body of work, we found that the effort by the Department to use Recovery Act funds to stimulate the economy was more challenging than many had originally envisioned. The concept of "shovel ready" projects became a Recovery Act symbol of expeditiously stimulating the economy and creating jobs. In reality, few actual "shovel ready" projects existed. The Department programs which benefitted from the huge influx of Recovery Act funds, as it turned out, required extensive advance planning, organizational enhancements, and additional staffing and training. We found this to be true at the Federal, state, and local levels. As a result, despite a major effort in a high pressure environment, the Department struggled to obligate and expend Recovery Act funds on a timely basis. As noted, the expeditious creation of jobs was a prime goal of the program. The delay in expenditures was not helpful in this regard.

Our reviews have identified a fairly consistent pattern of delays in the pace at which Recovery Act funds had been spent by grant and other financial assistance recipients. While the Department has made significant progress since passage of the Recovery Act, a number of challenges still exist. To place this in context, according to the Department's own records, as of October 22, 2011, about 45 percent of its Recovery Act funds had not been spent, largely by recipients such as state and local governments. This is detailed by major program area in the following chart:

<i>Recovery Act Funding (\$ million)</i>			
Program Office	Authorized	DOE Obligated	Spent
Energy Efficiency and Renewable Energy	\$16,666	\$16,655	\$9,855
Environmental Management	5,989	5,988	5,378
Electricity Delivery and Energy Reliability	4,488	4,488	1,914
Fossil Energy	3,379	3,379	384
Loan Guarantee Programs	2,470	1,918	396
Science	1,669	1,669	1,185
Advanced Research Projects Agency–Energy	387	386	173
Departmental Administration	144	112	83
Western Area Power Administration	10	9	7
Energy Information Administration	8	8	8
Total	\$35,210	\$34,612	\$19,383

Illustrative of this situation, our most recent work noted that:

- In the Energy Efficiency and Conservation Block Grant Program, \$879 million, or nearly a third of the formula grant funds, had not been obligated by recipients as of March 31, 2011.
- One state had only spent 30 percent of its State Energy Program funds two years after they had become available. We found that this was due to the time needed to comply with regulatory requirements of the National Environmental Policy Act, the Davis-Bacon

Act and the National Historic Preservation Act-issues that affected other jurisdictions as well.

The Department has enjoyed a number of successes, particularly in the use of Recovery Act funds in its environmental management and science projects. Yet, our reviews identified issues that impacted performance and affected the Department's ability to meet its Recovery Act goals.

For example, our most recent work identified that:

- Weatherization work was often of poor quality. In a recent audit performed at the state level, 9 of the 17 weatherized homes we visited failed inspections because of substandard workmanship;
- Other program management issues adversely affected weatherization work. For example, one subrecipient gave preferential treatment to its employees and their relatives for weatherization services over other applicants, thus disadvantaging eligible elderly and handicapped residents;
- The Loan Guarantee Program had not properly documented and as such could not always readily demonstrate how it resolved or mitigated relevant risks prior to granting loan guarantees; and,
- One of the Department's environmental management sites, relying on Recovery Act funding, adopted an approach to radioactive waste processing that could have cost about \$25 million more than necessary.

Recovery Act Investigations

The Office of Inspector General initiated over 100 investigations associated with the Recovery Act. These involve various schemes, including the submission of false information, claims for unallowable or unauthorized expenses, and other improper uses of Recovery Act funds.

To date, our Recovery Act-related investigations have resulted in over \$2.3 million in monetary recoveries as well as five criminal prosecutions. This includes a series of cases involving fictitious claims for travel per diem resulting in the recovery of \$1 million alone in Recovery Act funds.

Recovery Act Implementation and Performance Observations

Even under ideal circumstances, the Recovery Act established challenging goals for the Department. We noted during our work that there was what we considered to be an intense effort to implement and execute the various aspects of the Department's Recovery Act responsibilities. These efforts notwithstanding, we had a number of overarching observations about the Department's implementation of the Recovery Act. These observations include:

1. The pressure of achieving expeditious program implementation and execution (and doing so with great emphasis on transparency and accountability) placed an enormous strain on the Department's personnel and infrastructure.
2. The challenges associated with the Department's program implementation and execution efforts were complicated by the nature of the bureaucracy in which it operates, specifically the diverse, complex, and often asymmetrical set of stakeholders which play an integral role in this process. This includes literally thousands of state and local

jurisdictions, community action organizations in every state and territory, universities and colleges, contractors, and other private sector entities.

3. The concept of "shovel ready" projects was not realized, nor, as we now have confirmed, was it a realistic expectation.
4. The Federal, state and local government infrastructures were, simply put, overwhelmed. In several states, the very personnel who were charged with implementing the Recovery Act's provisions had been furloughed due to economic situations. Ironically, this delayed timely allocation and expenditures of funds intended to boost the U.S. economy and create jobs.
5. The pace of actual expenditures was significantly slowed because of the time needed to understand and address specific requirements of the Recovery Act.
6. Recipients expressed their concern with what they described as overly complex and burdensome reporting requirements.

In summary, a combination of massive funding, high expectations and inadequate infrastructure resulted, at times, in less than optimal performance.

Path Forward

Nearly 45 percent of the Department's Recovery Act funding has yet to be spent. Accordingly, we have ongoing and planned reviews of Recovery Act funds in a number of high-risk areas such as Advanced Research Projects Agency-Energy, Electricity Delivery and Energy Reliability, and Renewable Energy programs. Additionally, our investigative efforts continue.

We are also in the process of evaluating contingency plans to address problems with transitioning to a post-Recovery Act funding posture. Of the most immediate concern is how the Department plans to deal with a significant downsizing of the contractor workforce. For example, Recovery Act funding for environmental clean-up activities are nearly exhausted and the Department now confronts the unpleasant task of laying off significant numbers of contractor workforce, many of whom had just recently been hired. The Department estimates that with the end of the Recovery Act funding, over 4,000 workers at Environmental Management sites throughout the complex will be displaced by the end of 2011. As part of its plan to transition contract employees, the Department is offering a series of benefits including re-training, severance and other paid benefits. We are currently reviewing the Department's workforce transition plans at two of these sites: the Savannah River Site in Aiken, South Carolina, and the Hanford Site in Richland, Washington.

As our work progresses, we are further refining our observations on the Department's implementation of the Recovery Act and are drafting a report to highlight other lessons learned in the areas of risk management practices; financial management, accounting and reporting; human capital management; regulatory compliance; and delivery of public services. We are hopeful that the Department's decision makers and others with an interest in these matters will consider these lessons learned in the management of future programs and projects.

Mr. Chairman, this concludes my statement and I would be pleased to answer any questions that the Subcommittee may have.

**Department of Energy Office of Inspector General
Recovery Act Reports**

	Title	Report Number	Date Issued
1.	Action for a Better Community, Inc. – Weatherization Assistance Program Funds Provided by the American Recovery and Reinvestment Act of 2009	OAS-RA-11-21	2011-09-30
2.	People’s Equal Action and Community Effort, Inc. – Weatherization Assistance Program Funds Provided by the American Recovery and Reinvestment Act of 2009	OAS-RA-11-20	2011-09-30
3.	The 12 GeV CEBAF Upgrade Project at Thomas Jefferson National Accelerator Facility	OAS-RA-L-11-13	2011-09-30
4.	Cuyahoga County of Ohio Department of Development – Weatherization Assistance Program Funds Provided by the American Recovery and Reinvestment Act of 2009	OAS-RA-11-19	2011-09-29
5.	Community Action Partnership of the Greater Dayton Area – Weatherization Assistance Program Funds Provided by the American Recovery and Reinvestment Act of 2009	OAS-RA-11-18	2011-09-29
6.	Implementation of the Recovery Act at the Savannah River Site	OAS-RA-L-11-12	2011-09-29
7.	The Department of Energy’s Energy Efficiency and Conservation Block Grant Program Funded under the American Recovery and Reinvestment Act for the State of Pennsylvania	OAS-RA-L-11-11	2011-09-23
8.	The Department of Energy’s Weatherization Assistance Program under the American Recovery and Reinvestment Act in the State of Tennessee	OAS-RA-11-17	2011-09-19
9.	Management Alert on The Status of Energy Efficiency and Conservation Block Grant Recipients’ Obligations	OAS-RA-11-16	2011-09-01
10.	The Department of Energy’s Weatherization Assistance Program Funded under the American Recovery and Reinvestment Act for the Commonwealth of Virginia	OAS-RA-11-14	2011-08-25
11.	Los Alamos National Laboratory Environmental Management Activities Funded by the Recovery Act	OAS-RA-11-15	2011-08-25
12.	The Department of Energy’s Weatherization Assistance Program under the American Recovery and Reinvestment Act in the State of Indiana	OAS-RA-11-13	2011-08-26

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13.	The Advanced Research Projects Agency – Energy	OAS-RA-11-11	2011-08-22
14.	The Department of Energy’s Weatherization Assistance Program under the American Recovery and Reinvestment Act in the State of Missouri	OAS-RA-11-12	2011-08-22
15.	The Department of Energy’s American Recovery and Reinvestment Act – California State Energy Program	OAS-RA-11-10	2011-07-28
16.	Department of Energy’s Controls over Recovery Act Spending at the Idaho National Laboratory	OAS-RA-L-11-10	2011-07-21
17.	Performance of Recovery Act funds at the Waste Isolation Pilot Plant	OAS-RA-L-11-09	2011-07-07
18.	The Department of Energy’s Weatherization Assistance Program under the American Recovery and Reinvestment Act in the State of West Virginia	OAS-RA-11-09	2011-06-13
19.	The Department of Energy’s Weatherization Assistance Program Funded under the American Recovery and Reinvestment Act for the State of Wisconsin	OAS-RA-11-07	2011-06-06
20.	Use of American Recovery and Reinvestment Act of 2009 Funds on Solid Waste Project Activities at the Department of Energy’s Hanford Site	OAS-RA-L-11-08	2011-05-19
21.	Management Alert on Planned Actions Related to the National Energy Technology Laboratory’s Simulation-Based Engineering User Center	OAS-RA-11-08	2011-04-22
22.	The Department of Energy’s American Recovery and Reinvestment Act – New Jersey State Energy Program	OAS-RA-L-11-07	2011-04-15
23.	Department’s Management of Cloud Computing Services	OAS-RA-L-11-06	2011-04-01
24.	The Department of Energy’s Geothermal Technologies Program under the American Recovery and Reinvestment Act	OAS-RA-11-05	2011-03-22
25.	The Department of Energy’s American Recovery and Reinvestment Act – Massachusetts State Energy Program	OAS-RA-11-06	2011-03-22
26.	Recovery Act Funded Projects at the SLAC National Accelerator Laboratory	OAS-RA-L-11-05	2011-03-08

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27.	The Department of Energy's Loan Guarantee Program for Clean Energy Technologies	IG-0849	2011-03-03
28.	The Department's Infrastructure Modernization Projects under the American Recovery and Reinvestment Act of 2009	OAS-RA-L-11-04	2011-03-02
29.	Management of the Tank Farm Recovery Act Infrastructure Upgrades Project	OAS-RA-L-11-03	2011-02-09
30.	The Department of Energy's Weatherization Assistance Program under the American Recovery and Reinvestment Act for the Capital Area Community Action Agency – Agreed-Upon Procedures	OAS-RA-11-04	2011-02-01
31.	Audit of Environmental Cleanup Projects Funded by the Recovery Act at the Y-12 National Security Complex	OAS-RA-L-11-02	2010-12-20
32.	Management Alert on the State Energy Efficient Appliance Rebate Program	INV-RA-11-01	2010-12-03
33.	The Department of Energy's Weatherization Assistance Program under the American Recovery and Reinvestment Act for the City of Phoenix – Agreed-Upon Procedures	OAS-RA-11-03	2010-11-30
34.	Management of the Plutonium Finishing Plant Closure Project	OAS-RA-L-11-01	2010-11-10
35.	Selected Aspects of the Commonwealth of Pennsylvania's Efforts to Implement the American Recovery and Reinvestment Act Weatherization Assistance Program	OAS-RA-11-02	2010-11-02
36.	The State of Illinois Weatherization Assistance Program	OAS-RA-11-01	2010-10-14
37.	Management Controls over the Department of Energy's American Recovery and Reinvestment Act – Michigan State Energy Program	OAS-RA-10-18	2010-09-29
38.	Review of Allegations Regarding Hiring and Contracting in the Office of Energy Efficiency and Renewable Energy	OAS-SR-10-04	2010-09-22
39.	Status Report: The Department of Energy's State Energy Program Formula Grants Awarded under the American Recovery and Reinvestment Act	OAS-RA-10-17	2010-09-21
40.	The Department of Energy's American Recovery and Reinvestment Act - Georgia State Energy Program	OAS-RA-L-10-06	2010-09-15

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41.	Office of Science's Energy Frontier Research Centers	OAS-RA-L-10-09	2010-08-27
42.	Decommissioning and Demolition Activities at Office of Science Sites	OAS-RA-L-10-05	2010-08-12
43.	The Department of Energy's Implementation of the Energy Efficiency and Conservation Block Grant Program under the Recovery and Reinvestment Act: A Status Report	OAS-RA-10-16	2010-08-11
44.	Review of the Department's of Energy's Plan for Obligating Remaining Recovery Act Contract and Grant Funding	OAS-RA-10-15	2010-08-04
45.	Management Controls over the Development and Implementation of the Office of Energy Efficiency and Renewable Energy's Performance and Accountability for Grants in Energy System	OAS-RA-10-14	2010-07-22
46.	The Department of Energy's Use of the Weatherization Assistance Program Formula for Allocating Funds Under the American Recovery and Reinvestment Act	OAS-RA-10-13	2010-06-11
47.	The Department of Energy's American Recovery and Reinvestment Act-Florida State Energy Program	OAS-RA-10-12	2010-06-07
48.	Management Controls over the Commonwealth of Virginia's Efforts to Implement the American Recovery and Reinvestment Act Weatherization Assistance Program	OAS-RA-10-11	2010-05-26
49.	Waste Processing and Recovery Act Acceleration Efforts for Contact-Handled Transuranic Waste at the Hanford Site	OAS-RA-10-10	2010-05-25
50.	Management Controls over the Department of Energy's American Recovery and Reinvestment Act-Louisiana State Energy Program	OAS-RA-10-09	2010-05-03
51.	Progress in Implementing the Advanced Batteries and Hybrid Components Program under the American Recovery and Reinvestment Act	OAS-RA-L-10-04	2010-04-27
52.	The Department of Energy's Program to Assist Federal Buyers in the Purchasing of Energy Efficient Products	OAS-RA-10-08	2010-04-27
53.	Moab Mill Tailings Cleanup Project	OAS-RA-L-10-03	2010-04-23

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54.	Fermi National Accelerator Laboratory's NOvA Project	OAS-RA-L-10-02	2010-04-16
55.	Management Alert on Environmental Management's Select Strategy for Disposition of Savannah River Site Depleted Uranium Oxides	OAS-RA-10-07	2010-04-09
56.	The Department of Energy's Management of the NSLS-II Project	OAS-RA-L-10-01	2010-04-06
57.	Accounting and Reporting for the American Recovery and Reinvestment Act by the Department of Energy's Funding Recipients	OAS-RA-10-06	2010-04-01
58.	Management Controls over the Department's WinSAGA System for Energy Grants Management Under the Recovery Act	OAS-RA-10-05	2010-03-25
59.	Progress in Implementing the Department of Energy's Weatherization Assistance Program Under the American Recovery and Reinvestment Act	OAS-RA-10-04	2010-02-19
60.	Review of Allegations Involving Potential Misconduct by a Senior Office of Environmental Management Official	S09IS024	2009-12-29
61.	Management Challenges at the Department of Energy	IG-0832	2009-12-11
62.	Selected Department of Energy Program Efforts to Implement the American Recovery and Reinvestment Act	OAS-RA-10-03	2009-12-07
63.	Management Alert on the Department's Monitoring of the Weatherization Assistance Program in the State of Illinois	OAS-RA-10-02	2009-12-03
64.	The Department of Energy's Quality Assurance Process for Prime Recipients' Reporting for the American Recovery and Reinvestment Act of 2009	OAS-RA-10-01	2009-10-21
65.	Department of Energy's Efforts to Meet Accountability and Performance Reporting Objectives of the American Recovery and Reinvestment Act	OAS-RA-09-04	2009-09-04
66.	Department of Energy Efforts to Manage Information Technology Resources in an Energy-Efficient and Environmentally Responsible Manner	OAS-RA-09-03	2009-05-27

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67.	The Department of Energy's Acquisition Workforce and its Impact on Implementation of the American Recovery and Reinvestment Act of 2009	IG-RA-09-02	2009-03-30
68.	The American Recovery and Reinvestment Act at the Department of Energy	OAS-RA-09-01	2009-03-20