This is a preliminary transcript of a Committee hearing. It has not yet been subject to a review process to ensure that the statements within are appropriately attributed to the witness or member of Congress who made them, to determine whether there are any inconsistencies between the statement within and what was actually said at the proceeding, or to make any other corrections to ensure the accuracy of the record.

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OVERSIGHT OF DEPARTMENT OF ENERGY RECOVERY ACT SPENDING

THURSDAY, MARCH 17, 2011

House of Representatives,

Subcommittee on Oversight

and Investigations,

Committee on Energy and Commerce,

Washington, D.C.

The subcommittee met, pursuant to call, at 1:30 p.m., in Room 2322, Rayburn House Office Building, Hon. Cliff Stearns [chairman of the subcommittee] presiding.

Present: Representatives Stearns, Sullivan, Murphy, Burgess, Bilbray, Gardner, Upton (Ex Officio), DeGette, Green, Christensen, and Waxman.

Staff Present: Todd Harrison, Chief Counsel; Alan Slobodin, Deputy Chief Counsel; Karen Christian, Counsel; John Stone, Associate Counsel; Peter Spencer, Professional Staff Member; Jim

Barnette, General Counsel; Alex Yergin, Hearing Clerk; Kristin Amerling, Minority Chief Counsel and Oversight Staff Director; Tiffany Benjamin, Minority Investigative Counsel; Anne Tindall, Minority Counsel; Ali Neubauer, Minority Investigator; and Lindsay Vidal, Minority Press Secretary.

Mr. Stearns. Good afternoon. The subcommittee will come to order on Oversight and Investigation. I will start with my opening statement.

Ladies and gentlemen, we are convening this hearing of the Subcommittee on Oversight and Investigation to gather information concerning the Department of Energy's stimulus spending. This is the first oversight hearing focusing on DOE's role in the stimulus program since the American Recovery and Reinvestment Act of 2009 was signed into law by President Obama just over 2 years ago.

We will hear today from the Department of Energy, and from the DOE Inspector General and the U.S. Government Accounting Office, the two chief overseers of the Department's spending, which have produced 50 reports on DOE stimulus between them. This happens to be the first time both the IG and the GAO have testified together on DOE's stimulus spending as well.

In 2009, DOE was appropriated about $36 billion under the Recovery Act to increase taxpayer spending on energy efficiency, environmental cleanup, loan guarantees and various energy-related research, development and deployment projects and activities. The appropriation was in addition to the DOE's annual funding of about $28 billion and represented an unprecedented expansion of taxpayer spending by the DOE.

This unprecedented spending was accompanied by promises that the program would stimulate economic growth, create jobs, clean

the environment, and transform our energy infrastructure. I, along with all of my Republican colleagues, were strongly against the Act's massive government spending. This was not the way to stimulate the economy and create jobs.

So the question is, how are things going?

Let's review some of the information to date:

The agency hit its own targets generally for allocating funds, but today, over 2 years later, only about $12 billion of the $33 billion allocated has actually been spent. The whole point of the Democrats' stimulus bill was to spend billions of dollars in the hope that such spending would stimulate the economy and, of course, create jobs. It doesn't appear that this massive increase in spending has done either -- most of the money still hasn't been spent and unemployment still stands at almost 9 percent.

While the Department had existing weatherization and energy efficiency programs, there was nothing "shovel ready" about expanding this on the scale that was dreamed up by the administration. As the GAO has documented, efforts to safeguard taxpayers funds, clear up wage requirements and State and local infrastructure issues slowed the promised $12 billion in spending considerably. Only recently, nearly 3 years after the financial crisis, has DOE even reached the halfway point of 580,000 homes it promises to eventually weatherize under this program?

In addition, questions of cost effectiveness and performance

remain. For example, with regard to the weatherization program, the GAO informed staff of one case in which contractors were hired to install new windows on every house on a Houston neighborhood street, without any clear measure of whether this was the most cost-effective way to help the homes save energy.

In an Illinois program, a DOE inspector general audit found 12 of 15 weatherized homes visited failed inspections because of substandard workmanship. Tennessee conducted its own State audit and found in 45 percent of 84 weatherized homes that "contractors had not performed weatherization measures, had not properly completed weatherization measures, or had performed work that was not allowable under the program."

So clearly there is a need for close oversight scrutiny of these projects.

The DOE stimulus funds awards up to 10,000 jobs with the $6 billion allocated for environmental cleanup. But contractors are already finishing some of the work and announcing the end of some 2,000 of these jobs. It is good that the funds help keep some people working during the tough economic times. Yet when the spending ends, can the agency show that this work reduced environmental risk or future cleanup costs, or that these stimulus funds are doing any more than just creating short-term temporary jobs?

Is DOE even tracking how the cleanup spending achieves long-term environmental cleanup goals? GAO has reported that this

past summer, the DOE's alleged future savings from the Recovery Act's accelerated cleanup spending overestimated taxpayer savings by almost 80 percent.

So this committee's oversight responsibility requires that we hold the DOE accountable for measuring its Recovery Act spending in a way that we can evaluate whether or not it was cost effective in terms of policy goals and just good fiduciary sense.

[The prepared statement of Mr. Stearns follows:]

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Mr. Stearns. With that, I welcome the witnesses and yield to the distinguished lady from Colorado for the purposes of an opening statement.

Ms. DeGette. Thank you so much, Mr. Chairman. I think it is important that this committee do oversight. And I am glad that we are looking at the agencies under our jurisdiction.

I don't think we are always going to agree on energy policy issues, but I do think we can do oversight in a productive bipartisan way. So I hope this hearing today on the DOE will look at ways to improve DOE programs that are promoting jobs and innovation and not simply just be an opportunity for people to rail against the Recovery Act.

In the face of one of the worst economic crisis this country has ever seen, the American Recovery and Reinvestment Act was an unprecedented effort to create and save jobs, increase overall economic activity, spur long-term growth and promote innovation. It also contained a number of DOE specific provisions to support the transition to a clean energy economy.

The Recovery Act has already had a tremendous positive impact. It provided $288 million in tax cuts and benefits for millions of families and businesses. It increased funding for a number of programs, including extending unemployment benefits by $224 billion.

In the weatherization assistance program, for example, which

enables low-income families to reduce permanently their energy bills by making their homes more energy efficient, we have weatherized 330,000 homes. What this does, as well as giving jobs to the people involved, it saves those families an average of almost $5,000 on their energy bills over the next decade.

Ultimately, Recovery Act funds will help pay to weatherize 600,000 homes, saving those families billions of dollars in utility bills. So again, it is just not the short term jobs that were created, but it is the actual weatherization that will save the families billions of dollars.

In Colorado, for example, the Recovery Act sponsored State energy program provided funds to schools and local businesses. These funds help the Calhan School, which is a rural public school northeast of Colorado Springs that was struggling with a worn out boiler and failing temperature controls. Recovery Act funds allowed the school to install a new, highly efficient heating and cooling system using a ground source system so students can focus on learning, not just keeping warm or cool.

Success stories like this can be seen across the country. In Virginia, James Madison University Center For Wind Energy received $800,000 from the State energy program to build a wind testing and training center geared towards students and companies who want to break into the wind industry. Tennessee used Recovery Act funds to build up its solar installation grant program allowing for rapid expansion in the solar installation industry, keeping people

employed when they needed it the most. And Mr. Chairman, in your own State, Recovery Act funds helped install solar and wind power on existing billboards which ended up saving the State $232,000 in energy costs.

Mr. Chairman, I have got a letter from Philip Guidice, who is the Commissioner of the Massachusetts Department of Energy Resources and chair of the National Association of State Energy Officials, which talks about many of these accomplishments. And I would like to ask unanimous consent to enter it into the record at this time.

Mr. Stearns. By unanimous consent.

[The information follows:]

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Ms. DeGette. Thank you. The letter says that "energy-related ARRA funds being deployed by the States have been a resounding success in terms of economic development, technology innovation, efficiency and energy savings."

It also notes that the National Weatherization Assistance Program under ARRA an has completed energy efficiency improvements, lowering energy bills for hundreds of thousands of elderly and other low-income citizens across the country.

I'm disappointed that we didn't get to have our minority witness like Mr. Guidice here today because States have been heavily involved in administering Recovery Act funds through some of these initiatives. And they would have been able to provide us with a really important perspective on how the States are using this money.

Beyond the goal of promoting economic recovery, the Recovery Act was also designed to promote oversight, and it provides for an unprecedented level of oversight to identify and prevent waste. And so I'm hoping we can hear today how those efforts have gone, and if we need to improve them exactly how we can improve those efforts. With that, Mr. Chairman, I yield back.

Mr. Stearns. The gentlelady yields back.

I just want to indicate we share your interest in the hearing, the perspective of the different States who did receive DOE stimulus funds and were responsible for administering them,

and perhaps in a later hearing, we will perhaps bring in your State, my State and others. So I appreciate your bringing that to my attention.

And we recognize the gentleman from Oklahoma, Mr. Sullivan, for 1 minute.

Mr. Sullivan. Thank you, Chairman Stearns and thank you for holding this important hearing today on oversight of the Department of Energy stimulus spending.

Democrats contended that the $787 billion stimulus was needed to jump-start the economy and add jobs. But as Republicans predicted, the stimulus has not worked. It has only added to our deficit, now at $14 trillion. And it has done little to help unemployment, which was 8.1 percent when the stimulus was signed in 2009 and rose to 10 percent at the end of that year, and now is at 8.9 percent.

DOE received approximately $35 billion for programs and activities through the stimulus making the agency, as some have said, the largest venture capital organization in the world. This sum was dwarfed by the Department's annual budget of about $27 billion.

This overnight infusion of a huge amount of taxpayer funds has caused a number of problems and concerns with wasteful spending. The risk of waste, fraud and abuse increases dramatically whenever there is pressure to spend large amounts of money quickly. Lack of controls and monitoring at the State level

also increase the likelihood that stimulus dollars were wasted on the wrong projects.

I look forward to the hearing from our independent panel of witnesses, from the GAO and from the Department of Energy Inspector General's office. And I yield back the balance of my time.

Mr. Stearns. I thank the gentleman. And the gentleman from California, Mr. Bilbray, is recognized for 1 minute.

Mr. Bilirakis. Thank you, Mr. Chairman. I appreciate your holding this hearing. You know, Mr. Chairman, we were allotted 1 day to mark up the bill that created this major funding and the old majority contended that the $787 billion was needed immediately for a jump-start. The fact is, at the time that we were confronting that, I think we were about 8 percent unemployment across the country. And the fact is that last I checked, I think there was only about 12 percent of this has been spent.

I think the DOE has received $35 billion in this program and for the stimulus, and the sum that they are looking at really is one that I think we have got to be conscious of what are we getting for this investment.

Mr. Chairman, we were at 8 percent, and we are, in California, we are now at 12 percent unemployment. I think that we have got to recognize that there is not necessarily a successful program when it comes to saving the economy or jobs.

And I just have to say that a lot of people look to a lot of these strategies and conservation as being a way of maintaining good job development. I would just like to point out that California has led the fight on energy conservation and we are at 12 percent unemployment. It hasn't done us very well.

Mr. Chairman, I would just like to point out, again, that this town doesn't make mistakes just by trying new things or by making mistakes. The biggest problem in this town is that when it tries to do things and makes mistakes, it won't admit it and go back and correct it. And that has been our greatest flaw. And I would just like to ask again that those who do not learn from history are damned to repeat it.

Contrary to what people think, the great expense of the WPA project did not create a strong economy for the United States. In fact, it wasn't until we started producing products and exporting it out of this country that the American economy responded and that government funding for government jobs were not the stimulus that pulled this country into the greatest economic powerhouse it has become historically. It was investment by private sector for manufacturing, something that we ought to go back and visit and not try the failed policies that appear to have failed again. Yield back.

Mr. Stearns. I thank the gentleman. At this point, I think on this side we have finished. And I recognize the gentleman from California, Mr. Waxman, ranking member.

Mr. Waxman. Thank you very much, Mr. Chairman. Two years ago, President Obama took office in the middle of one of the most significant economic crises this country has faced. And after years of lax oversight, the financial industry had collapsed and the recession it caused resulted in a loss of over 8 million jobs. Within 60 days of his inauguration, the President signed into law the American Recovery and Reinvestment Act. This law was designed to create new jobs and save existing ones, spur economic growth and foster accountability in government spending.

Since then, the Act has saved millions of jobs and supported projects around the country that conserve energy, promote innovation and save taxpayers' dollars. Today, the subcommittee is examining implementation of the Recovery Act within the Department of Energy. This is an important subject for oversight and I commend the chairman for holding this hearing. We need to ensure that the rigorous oversight mechanisms set in place by the law are operating consistent with the law's design and that the Recovery Act is implemented effectively.

I'm concerned, however, about a pattern emerging from this committee. What we have seen in the past couple of months is a series of hearings in which my colleagues on the other side seem more focused on bluster than oversight. The committee has become proficient about leveling complaints about government programs that have no foundation in fact, and we never seem to find time to figure out how to make government work more effectively or how to

save the taxpayers' money. And the committee has failed to move forward one single initiative to create jobs for the American people.

At this point in the last Congress, we had passed, and the President had signed into law both the Recovery Act and legislation to expand the State Child Health Insurance program. We were just months away from passing even more legislation, such as the Cash for Clunkers bill that boosted the American auto industry. Each of these initiatives provided critical economic support for families hard hit by the recession.

What we have done so far in this Congress, this committee's top priority was a bill to restrict women's access to health insurance for abortion. Earlier this week we approved a bill to cut off EPA's authority to regulate greenhouse gas emissions that are contributing to climate change and threatening public health. Today we are voting on a bill on the House floor to defund National Public Radio. It won't save a cent of money. It is only punitive to punish NPR for not being FOX News.

And the House passed a budget that would put hundreds of thousands of American out to work -- out of work. If it only put them out to work that would be good.

Not one of these bills create jobs. In fact, with respect to DOE programs we are discussing at today's hearing, the Republican funding resolution H.R. 1 threatens over 40,000 construction and permanent jobs as well as billions of dollars in investments in

major solar, wind, geothermal and biofuels projects.

My colleague from California a minute ago said the problem in this town is people never admit they were wrong. Well, I am waiting for a Republican to admit they were wrong about the American Recovery Act, because that bill saved jobs. No Republican voted for it. It saved jobs and has done a lot for our infrastructure. Can't they at least admit they were wrong? Republicans promised to govern by the cut-go rule but the impact of their legislation instead has followed the cut jobs principle. The major bills brought to the floor reduce employment and opportunity for growth.

This committee has jurisdiction over many areas where we could be legislating to spur the economy. I would like to see the committee resume its position as a leader in promoting economic growth and jobs. Today's hearing could be a first step in that process, and I hope it will be, Mr. Chairman. The DOE Inspector General and the GAO have been conducting rigorous oversight to review implementation of the DOE Recovery Act.

They are important witnesses, but we asked to invite a witness, a State official, who was implementing the legislation. We were told we couldn't have them. Ms. DeGette put into the record a statement from a State official who has many positive things to say about the program. That is in the committee record. But we were not allowed to have that witness testify today. That failure to include witnesses like this one makes me concerned that

we are continuing down the same road we have been going down since this Congress began. We are not passing legislation that creates jobs and strengthens our economy.

Instead, we are simply engaging in partisan sniping over programs that my Republican colleagues do not like. Why they don't like them I don't know. But they don't like them, I guess because it was a Democratic Congress and a Democratic administration. But that is not a good enough reason for me. I hope we can do better and the American people need us to do better. We need to be to do better on a bipartisan basis and not just use our time here for partisan sniping.

I'm glad I don't do things like that. I yield back my time.

Mr. Stearns. I thank my colleagues. Mr. Waxman represents certainly a different point of view, and I appreciate his opening statement. But I would point out that we did take her suggestion about having a witness from Massachusetts, and we talked about it and perhaps having a witness from Florida in another hearing. And I would say to my colleague from California that perhaps we will have another hearing on this oversight. And I agree and am pleased that you support this oversight on the stimulus package. And I, in all deference to you, I don't recollect any oversight hearing when the Democrats were in control on the stimulus package. So I'm very glad we can do it today.

And Mr. Green is recognized, from Texas, for 1 minute.

Mr. Green. Thank you, Mr. Chairman. I appreciate the

1 minute, and I appreciate our panel for being here.

My concern is that if we had hadn't spent that money what would our unemployment be now? And I will give you a great example. In the Houston area, the Department of Energy provided $200 million for a smart metering program. Somebody had to make those meters and put those meters out there. Now I have to admit, I'm worried about hearing from my constituents because historically we have smart metering, we found out that their bills go up and nobody wants to hear that. But maybe the technology, but that will help people control their electricity and not only for their cost but also so we don't have to build more power plants. But $200 million, I think, was one of the biggest grants the Department of Energy gave to a local community.

And like I said, there are people working now to install those meters. And I wish it had lowered the unemployment rate, but maybe our recession we had was much deeper and longer than most of us expected. With that Mr. Chairman I appreciate the opportunity to give a 1 minute.

Mr. Stearns. I thank my colleague. Does anybody else request time?

Dr. Christensen. Thank you, Mr. Chairman. I want to speak to the success of the program in my district as I'm sure it has been successful in many others. Our Energy Star appliance rebate infused $834,000 into the local economy through direct subsidies to 2,114 residents and small businesses, a sun power loan program

afforded 389 families to receive a solar water heater at no cost through a special program, the hybrid and electric vehicles rebate program was so successful that the rebates exceeded what they had planned, 81 rebates worth $259,200.

And in addition to the direct and indirect jobs, we trained about 40 people who been unemployed for a long time in solar water heater installation and repair. They are all going to work. And we are just really, this has been a great help to our economy both in reducing our electricity bills and in creating jobs and saving jobs. Thank you, Mr. Chairman.

Mr. Stearns. I thank my colleague. Now we come to our witnesses. All of you are aware that the committee is holding an investigative hearing. And when doing so, it is in the practice of taking testimony under oath.

Do you have any objection to testifying under oath?

The chair then advises you that under the rules of the House and the rules of the committee, you are entitled to be advised by counsel. Do desire to be advised by counsel during your testimony today? If not, if you would please rise and raise your right hand, I will swear you in.

[Witnesses sworn.]

Mr. Stearns. You are now under oath and subject to the penalties set forth in title 18 section 1001 of the United States Code. Before you give your 5-minute summary, let me introduce each of our five witnesses today. Mr. Frank Rusco will testify on

behalf of the Government Accountability Office. He is a director on GAO's natural resources and environmental team. Welcome. Mr. Gregory H. Friedman, Inspector General at the Department of Energy will also testify. He was confirmed by the Senate as Inspector General of DOE in 1998. He has been with the DOE's Inspector General's office since 1982.

Finally, testifying on behalf of DOE is Steve Isakowitz, DOE chief financial officer and accompanying him will be several people that he might want to introduce.

And so I welcome each of you, and before your opening statement, if you wanted to introduce some of your staff that you have with you, that would be helpful.

We will start with you, Mr. Rusco, for your opening statement.

STATEMENTS OF FRANKLIN RUSCO, DIRECTOR, NATURAL RESOURCES AND ENVIRONMENT, GOVERNMENT ACCOUNTABILITY OFFICE; GREGORY FRIEDMAN, INSPECTOR GENERAL, UNITED STATES DEPARTMENT OF ENERGY; AND STEVE ISAKOWITZ, CHIEF FINANCIAL OFFICER, UNITED STATES DEPARTMENT OF ENERGY, CHIEF FINANCIAL OFFICER, ACCOMPANIED BY INES TRIAY, ASSISTANT SECRETARY FOR ENVIRONMENTAL MANAGEMENT, AND STEVE CHALK, CHIEF FINANCIAL OFFICER FOR ENERGY EFFICIENCY AND RENEWABLE ENERGY

STATEMENT OF FRANKLIN RUSCO

Mr. Rusco. Thank you, Mr. Chairman and members of the committee. I'm pleased to be here today to discuss GAO's oversight of DOE spending under the Recovery Act. The Recovery Act included almost $42 billion for the Department of Energy programs activities and borrowing authority.

This Recovery Act money was spread over many DOE offices and programs, but the bulk of the money was concentrated in DOE's Offices of Energy Efficiency and Renewable Energy, Environmental Management, Electricity Delivery and Energy Reliability, Loan Guarantees, Fossil Energy and Science.

My remarks today are focused on five programs that received approximately 56 percent of DOE's Recovery Act funding. The Office of Environmental Management has for years overseen the cleanup of DOE's contaminated nuclear weapons research, development and production facilities. This Office received almost $6 billion in Recovery Act funds, a substantial increase in funding levels to the office which has an annual budget of about $6 billion.

The Weatherization Assistance Program has been providing home weatherization help to low-income households for over 30 years. The program received $5 billion in Recovery Act funding, a large increase from an annual budget of about $225 million.

The energy efficiency and conservation block grants program provides grants to States territories tribes and localities to improve energy efficiency. This program was authorized in 2007,

but the $3.2 billion it received in Recovery Act funding was the first funding ever for these block grants.

The State energy program has, since 1996, provided grants to States, the District of Columbia, and territories to promote national energy goals such as increasing energy efficiency. This program, which typically has an annual budget of under $50 million received $3.1 billion in Recovery Act funds.

Finally, the loan guarantee program was established in 2005 to provide Federally guaranteed loans to energy projects that are innovative and reduce greenhouse gas emissions. Until the Recovery Act, the loan guarantee program had only been authorized to provide loans to companies who paid their own credit subsidy costs, an amount roughly equivalent to the expected loss to the government of the loan. In contrast, the Recovery Act provided $2.5 billion specifically to enable the program to pay the credit subsidy costs for the projects.

Because the government, instead of a borrower pays the credit subsidy costs for loans made under the Recovery Act, this increases the amount of taxpayer money that is at risk considerably.

The extent to which Recovery Act funds provided to the five programs have been spent varies significantly. As of March 10, 2011, DOE reported that 67 percent of Recovery Act funds for environmental management projects had been spent, 50 percent of funding for the Weatherization Assistance Program had been spent,

34 percent for the State energy program, 28 percent for energy efficiency and conservation block grants and 5 percent for the loan guarantee program.

The number of full-time equivalent jobs reported by recipients also varies by program. For example, the recipients of Weatherization Assistance Program funding reported 15,400 full-time equivalence jobs for the fourth quarter of 2010. Environmental management recipients reported 9,400 FTEs in the fourth quarter, and the loan guarantee program reported 784 FTEs.

In the course of our work, we found a variety of concerns. Overall, it has been difficult for DOE to build in effective measures for program goals, such as improving energy efficient, energy saved, costs saved, cost effectiveness or reduced environmental risk. In addition, DOE and funding recipients have struggled to accurately measure jobs funded by the Recovery Act. The loan guarantee program has had difficulty reconciling the inherent tension between funding innovative projects that reduce greenhouse gases, funding projects that have a high likelihood of paying back the loan, and in the case of Recovery Act funds creating jobs in a timely fashion.

GAO has made recommendations to DOE to improve the reporting and measurement of jobs funded by Recovery Act money, to improve oversight and monitoring of Recovery Act funds and to improve the measurement and reporting of program outcomes. In most cases, DOE has generally agreed with our recommendations and has taken steps

to implement them.

Thank you. This concludes my oral statement. I will be happy to answer any questions the committee may have.

Mr. Stearns. Thank you.

[The prepared statement of Mr. Rusco follows:]

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Mr. Stearns. Mr. Friedman, your opening statement.

STATEMENT OF GREGORY FRIEDMAN

Mr. Friedman. Mr. Chairman and members of the subcommittee, I appreciate the opportunity to testify today on the work of the office of Inspector General concerning the Department of Energy's implementation of the American Recovery and Reinvestment Act of 2009.

I'm very pleased to be joined today by my colleague, my long-time colleague, Greg Hass, who is the deputy Inspector General for audits and inspections.

In March 2009, I testified before the Subcommittee on Investigations and Oversight Committee on Science and Technology on issues relating to the Recovery Act. In that hearing, I laid out the office of Inspector General's strategy for ensuring that the Recovery Act funds were used effectively and efficiently. Many of the findings I will discuss today parallel issues raised in my 2009 testimony.

As you have heard, and as you know, the Department received a little over $35 billion under the Recovery Act for various science, energy and environmental programs and initiatives. As of March 4th, according to the Department's own records, it had obligated just over $33 billion or approximately 93 percent of

these funds. However, of this amount, $12.3 billion had actually been spent. These funds were used to provide financial assistance awards to a variety of recipients and to accelerate the work of certain existing facilities management contractors.

The Recovery Act called for intensive Inspector General oversight. Consequently my office has pursued a strategy designed to prevent, hopefully, and to detect inefficient, ineffective and abuse of Recovery Act expenditures. Since passage of the Act, we have issued 47 audit inspection investigative reports covering activities that received about $26 billion in Recovery Act funding. These efforts identified weaknesses in the management administration of contracts and financial assistance awards.

In the case of the Department's $5 billion weatherization program, our work also revealed the need to resolve health and safety issues some of which could have been danger to low-income recipients of services.

Further, we initiated over 80 Recovery Act-related criminal investigations. These investigations were predicated on alleged schemes such as fraudulent claims for rebates and mischarging for services. To date, they have resulted in two criminal prosecutions and over $1 million in recoveries.

In addition, 20 percent of the remaining Recovery Act cases have thus far been accepted for prosecutorial action. And we provided 258 fraud awareness briefings for nearly 15,000 Federal contractors, State and other officials. These briefings alerted

responsible officials to possible fraud schemes, and in so doing, we hope serve to prevent abusive Recovery Act expenditures.

Department officials have told us that these efforts have helped improve the management of Recovery Act programs. My full testimony provides additional details regarding our work including a listing of the relevant Inspector General reports.

As you are no doubt aware, the Department of Energy was one of the largest recipients of Recovery Act funding in the Federal Government. This additional funding allowed the Department to expand longstanding programs such as the residential weatherization program and create new initiatives, including the energy efficiency and community block grant programs.

The goals of the Recovery Act were to be accomplished expeditiously so as to stimulate the economy and create jobs, all in an atmosphere of transparency and accountability. The Department, in our view, responded with a robust, good faith effort to implement and execute the various aspects of the Recovery Act. Through our work, we have identified a number of overarching issues and lessons learned that should be considered if similar programs are proposed.

First, the demanding nature of the Recovery Act's implementation placed an enormous strain on the Department's then-existing infrastructure. Secondly, dealing with a diverse and complex set of departmental stakeholders complicated Recovery Act startup and administration. Third although shovel-ready

projects were the symbolic goal of the Recovery Act, reflecting the desire to expeditiously create jobs, in most cases, execution was more challenging and time consuming than had been anticipated.

Fourth, infrastructure at the State and local levels was overwhelmed. Ironically, in several States, those charged with implementing the act's provisions had been furloughed due to economic conditions in those very States.

Fifth, the pace of actual expenditures was significantly slowed because of the time needed to understand and address specific requirements of the Recovery Act.

And finally, in the initial phase, recipients of the Recovery Act funding expressed their frustration with what they described as overly complex, complicated and burdensome reporting requirements.

In summary, massive funding, high expectations and inadequate infrastructure resulted at times -- and I stress at times -- in less than optimal performance. Large portions of the funds allocated through the Recovery Act have yet to have been spent. Accordingly, we continue to focus our attention on the Recovery Act programs, including currently an evaluation of contingency plans to address transitioning to a post Recovery Act funding posture. And our investigative efforts continue.

Mr. Chairman, this concludes my formal statement. I would be pleased to answer any questions that you or other members of the subcommittee may have.

Mr. Stearns. I thank the gentleman.

[The prepared statement of Mr. Friedman follows:]

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Mr. Stearns. Our next witness is Mr. Steve Isakowitz, and if you don't mind just introducing the people that are with you.

STATEMENT OF STEVE ISAKOWITZ

Mr. Isakowitz. Chairman Stearns, Ranking Member DeGette and members of the subcommittee, thank you for the opportunity to appear before you today to discuss the Department of Energy's monitoring and oversight efforts to ensure the effective implementation of the American Recovery and Reinvestment Act.

The Department has received $35.2 billion in appropriations and $6.5 billion in power market administration borrowing authority. These funds have gone to over 4,500 recipients who are developing an estimated 15,000 clean energy projects across the Nation. As of March 13, 2011, over $12.5 billion dollars of the Department's Recovery Act appropriations had been executed on projects around the country.

Let me give several examples of how the Recovery Act is playing a pivotal role in stimulating economic growth, creating jobs in long-term competitive sectors, reducing energy costs for Americans and supporting critical environmental cleanup goals. First, advance vehicle industry is beginning to take root in America. As a result of the Recovery Act, we will have the capacity to produce enough batteries for about 500,000 plug-in

hybrid electric vehicles a year at 2015.

Second, the Department of Energy's weatherization program has made it possible for more than 330,000 families nationwide to reduce their energy use and cut their utility bills. We are on track to weatherize nearly 600,000.

Third, as a result of the Recovery Act investments in clean energy, U.S. renewable energy generation is set to double by 2012.

Finally, for DOE's Office of Environmental Management, we estimate that by the end of 2011, the acceleration of cleanup of contaminated areas will reduce the Department's cleanup footprint by 40 percent, potentially freeing up land for local communities' reuse.

Most at DOE's recovery-funded programs were new initiatives or significant increases to existing programs, presenting the challenge of quickly ramping up activities while ensuring that all taxpayer funds are well spent. Indeed, our mantra within the Department is to spend fast, spend well. We have initiated numerous efforts to identify and mitigate risks associated with implementation of these projects. Many of these efforts have become government wide best practices. We are working to extend to our base-funded activities.

Before any Recovery Act awards were issued, the Department created over 140 individual project plans comprised of project descriptions, monthly obligation and payment plans, milestones and performance targets. We also ensure the development of detailed

risk plans for nearly every project which are updated as necessary to assist with the identification and mitigation of program execution risks.

The risk plans incorporated lessons learned from the IG and GAO reports including those focusing on similar programs at other agencies. And in order to ensure transparency and accountability of our funds and provide real-time financial execution, information to the Department's management, we developed a Web-based tool called I Portal to provide immediate access to financial and programmatic execution for our projects. Most of this information is made available to the public through DOE's Web site at recovery.gov.

As part of our comprehensive risk management efforts, we have also worked hard to identify those --

Mr. Stearns. Is your mic turned on? It is? Maybe just bring it a little closer to you.

Mr. Isakowitz. As part of our comprehensive risk management effort, we have also worked hard to identify those recipients that might require heightened monitoring and oversight. We currently have risk scores for over 4,000 individual Recovery Act recipients, and over 12,000 sub recipients which we will use to prioritize oversight and monitoring efforts.

Our risk scoring methodology was recognized by staff on the Recovery Accountability and Transparency Board which is made up of agency IGs as a best practice. In addition, the Department

established special monitoring and oversight procedures with the largest energy efficiencies and renewable energy programs.

To date, the Department has conducted over 700 monitoring visits for these programs.

Audits and inspections conducted by the DOE, IG and GAO are an integral part of the Department's monitoring and oversight efforts. And we are committed to working with the IG and GAO to facilitate their work and address any issues they identify.

For example, we have given IG and GAO staff direct access to all contents in our I portal and provided training on using the system. To date, the Inspector General has issued 47 reports related to the Recovery Act implementation. For 16, the Inspector General did not identify any issue significant enough to warrant recommendations for management action.

For the other reports, the IG issued 111 separate recommendations, and the Department has already resolved 50 percent of these. Costs questioned by the Inspector General represent only 0.03 percent of the Department's Recovery Act spending authority. The GAO has issued 10 reports, three of which contain recommendations for management action which we are actively addressing.

Mr. Chairman, I would like to thank you again for inviting me to testify about the Department's efforts under the Recovery Act. The Department was charged to ensure that the money is spent quickly and spent well. We take this responsibility seriously. I

look forward to responding to your questions and I would like to introduce two of my colleagues who help me in doing so. Inez Triay is Assistant Secretary For Environmental Management, and Steve Chalk, the, Chief Operating Officer for the Office of Energy Efficiency and Renewable Energy. Thank you.

Mr. Stearns. I thank Mr. Isakowitz.

[The prepared statement of Mr. Isakowitz follows:]

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Mr. Stearns. You seem to be very high on the program and indicate that you have tried to implement most of the GAO Inspector General's recommendation. Is that what you are saying?

Mr. Isakowitz. Yes, we have moved as expeditiously as we can.

Mr. Stearns. I think when you look at the program, here we are 2 years after the program was signed, the stimulus package was signed, and if I would, pertaining to the weatherization program, it is still only about halfway to meeting its target, and I think Mr. Rusco and Mr. Friedman, isn't it fair to say that the States and the Department of Energy were not prepared to implement this plan in a way that satisfied what most of us thought the stimulus bill would do, provide immediate injection into the economy and jobs for the unemployed? Mr. Rusco?

Mr. Rusco. Well, there were a number of issues early on that slowed the implementation of this program, and among them were the Davis-Bacon requirements that required the Department of Labor --

Mr. Stearns. So the Davis-Bacon actually slowed down the actual implementation of the plan, particularly with weatherization, is that correct?

Mr. Rusco. Yes, it did. It required the Department of Labor to establish rates for weatherization workers in localities. And they eventually did that in September of 2009.

Mr. Stearns. Mr. Friedman.

Mr. Friedman. I would agree with that Mr. Chairman. If you would allow me a moment of personal privilege if you don't mind.

Mr. Stearns. Sure.

Mr. Friedman. Mr. Isakowitz is a good friend of mine, but I just want to point out for the record that it took the IG to show him how to turn on his microphone.

Mr. Stearns. Okay, that is good. That is good.

Mr. Bilbray. We are glad to see the Energy Department knew how to flip a switch.

Mr. Isakowitz. Saving energy.

Mr. Stearns. I have here cases, particularly in Tennessee, dealing with weatherization which shows some gross mismanagement where they came in to put insulation in, and all they did was put the bag of insulation. I will be glad to show this to you. Actually, they were supposed to weatherize a home through the windows and through the attic, and all they did was paint the house and I have new numerous examples here.

So I think the question is for you, Mr. Isakowitz. What measures did you take to ensure the quality of the weatherization was not sacrificed for deadlines? And actually, did you have some kind of measuring techniques, because I would be glad to show you these egregious examples where the work was not done.

In fact, during our preliminary analysis of the 440 homes reviewed, we found efficiencies with 233 of these, 52 percent and the work was not even performed in about 45 percent of these

homes, and I will be glad to give you this information.

So I guess the question we have here is what kind of measuring techniques did you have? I think the GAO, Mr. Rusco, indicated earlier that at the mentioned in his opening statement they did not use new good measuring techniques for the jobs that were implemented.

Mr. Isakowitz. I'm going to turn to Mr. Chalk to answer the specifics to your question, but let me just say generally the way we treated this program is the way we treated all the programs when we got started on the Recovery Act. As has been mentioned, a number of times this was significant funding and new funding for the Department. Particularly for the State programs, many times, this represented anywhere from 20 to 60 times more funding than we get on an annual basis. In the case of a block grant, it was a brand new program.

So one of the things we did up front for this program and the others is to, before we start spending money to make sure we had the necessary controls in place and work with the States who were going to be recipients of an unprecedented amount of funding up front, to make sure that they were able to handle it. As to the specifics of your question --

Mr. Stearns. Before you do that, just based upon what you said, I think I would take on face value that you are saying that to create a stimulus package through the weatherization program, this is not the best way to do it, because you had to ramp up so

much. And when I see what you were dealing with annually, the program I think was preparing about 100,000 annually, but the stimulus increased it almost to 600,000 over a 3-year period.

So I think you are implying that you had to ramp up and perhaps all that ramp up made it more difficult for you, maybe the stimulus through this weatherization ramp up is not the best way to create a stimulus. Would you agree with that?

Mr. Isakowitz. No. We think it actually has been a very effective program. And we think the program impact we have received as a result has shown that it has been very effective in saving average Americans and low-income homes significant funds.

Mr. Stearns. How would you measure that? What measurement were you using to determine and validate what you just said?

Mr. Isakowitz. Well, just broadly speaking, for low-income homes, energy costs are usually 15 percent of oftentimes what they have to pay where an average American it may --

Mr. Stearns. So you are just broadly speaking on your own.

Mr. Isakowitz. Speaking just in terms of the value of this program back, and in terms of actual homes that we have touched we have already done for 300,000 homes --

Mr. Stearns. Do you think this will create sustainable jobs after?

Mr. Isakowitz. Well, in many cases, we are creating the kind of skills that as we move in our entire economy to a more energy efficient economy, many of the skills that are being applied for

those homes are same kind of skills that can be applied elsewhere.

Mr. Stearns. But if they are not creating more work afterwards, if there is not work afterwards, then they will suddenly stop and they will not have any more work. Anyway, Mr. Chalk, why don't you finish so I don't go too far.

Mr. Chalk. If I may, I will address a couple of issues, one is the late start, the challenges that have been mentioned --

Mr. Stearns. Through the Davis-Bacon Act?

Mr. Chalk. With new requirements on the program that weren't with the legacy program, it was an increase of about 25 fold in terms of the size of the program.

The program was always structured to be done within 3 years of the Recovery Act. So even though we got a late start, we are on schedule, and we are scheduled for just about every State, every territory, every tribe to be completed in March of 12, March 2012, 3 years after the Recovery Act was initiated. So over the last year, we have been running at about 20 to 30,000 homes per month, doing about 300,000 homes a year. So we have really accelerated the program.

Initially, we had some workmanship problems, and there have been references to Tennessee and Illinois.

Mr. Stearns. So you are familiar with the Tennessee, all the cases I have got.

Mr. Chalk. I'm not personally familiar with Tennessee but we have had workmanship issues in the onset of the program.

Mr. Stearns. I need you to wrap up because my time has expired.

Mr. Chalk. Essentially, the way we are handling that is a significant 20 percent of the funding was for training and technical assistance. We have a massive training, about two dozen training centers, we are training the contractors, we are training the sub recipients who are monitoring the work. Our State folks now are actually measuring the 5 percent of the homes by sample, and the DOE has about two dozen monitors that go out regularly and oversee the work. So we have several layers of oversight to make sure that the improvement measures are being instituted, the right ones, and that usually is not windows. It is usually insulation, caulking and things like that.

Mr. Stearns. I'm going to let you wrap up so the ranking member --

Mr. Chalk. And what we have now is working very well, and we are producing quality home weatherization.

Mr. Stearns. All right. My time is expired.

Ms. DeGette. Thank you very much, Mr. Chairman.

Mr. Friedman, the Recovery Act contained quite a bit of money for oversight and investigation to try to eliminate fraud and other kinds of misuse of the funds, correct?

Mr. Friedman. That's correct.

Ms. DeGette. Can you explain to this committee very briefly what kinds of resources were available to the DOE Inspector

General under the ARRA.

Mr. Friedman. Yes. As I recall, the precise number, Ms. DeGette, it was $15 million. With those funds, we have taken the following approach: One is we hired temporary employees to augment our staff, specifically focused on areas where we thought the most vulnerabilities, the most vulnerable aspects of the program.

Ms. DeGette. And you have done about 47 reports and audits on ARRA funding to date, correct?

Mr. Friedman. That's correct, yes.

Ms. DeGette. And Mr. Rusco, I wonder if you can tell us about the resources and responsibility given to GAO under the Recovery Act?

Mr. Rusco. Yes, GAO received $25 million to oversee the Recovery Act. With that money, we hired a largely retired annuitant back into the fold to help us with this work, but we also used a lot of our other resources in this. We focused on State programs primarily and we reported on a bimonthly basis typically.

Ms. DeGette. And you issued 107 reports, correct?

Mr. Rusco. I will take your word for it. It was a lot.

Ms. DeGette. Now, Mr. Isakowitz, I would assume that you are not trying to imply when you say you had to ramp up quickly, that there is any view that we shouldn't have quickly tried to implement this program, correct?

Mr. Isakowitz. No, we think this is a great program and it has great results and a lot of impacts.

Ms. DeGette. And let me ask you this: Do you think that the fact that you had to ramp up quickly meant that there was a disproportionate amount of poor work or improper use of the funds or anything like that?

Mr. Isakowitz. No. In fact, we have been very careful as we ramped up to make sure we had all the internal controls the accountability and transparency in place.

Ms. DeGette. Now, what about situations like this shoddy work in Tennessee that the chairman was talking about?

Mr. Isakowitz. Well, it is a vast undertaking and when you have as many homes as we have had to deal with, again, we had over 300,000 clearly you are going to have cases of issues that have come up. That is why it was very important up front before these dollars went out and that we went and visited all 50 States to actually work with them to set up controls to make sure, in fact, they had appropriate mechanisms in place to take care. And we had a very exacting monitoring process where we track and look for issues. In fact, very often we will work closely with the States and the IG and GAO to try to identify these problems before they become big problems.

Ms. DeGette. So what you are saying is you feel like where there are problems like this where certainly none of us would want to see problems like that, you are feeling that because of the

programs you put in place, it is not endemic throughout the system?

Mr. Isakowitz. That's correct. We would love to be perfect.

Ms. DeGette. What about Mr. Rusco, Mr. Friedman, would you agree with that statement, that it is not these problems aren't endemic throughout the system?

Mr. Friedman. First of all, one of the first things we did, Ms. DeGette, in early 2009 was issue a lessons learned report in which we looked back on the work that we had done the prior couple of years and determined whether there were lessons we could learn from what had been experienced in the past, including in weatherization.

Ms. DeGette. And did you learn lessons?

Mr. Friedman. Did we learn lessons? Yes, I think we did, and it was a teaching moment for us as how to use our resources to address the most pressing problems.

Ms. DeGette. Mr. Rusco, anything to add?

Mr. Rusco. I guess I would say it is a mixed bag. There are problems identified in our reports that DOE has begun to implement and respond to. We continue to do work and we continue to have findings where we will be reporting in a couple of months on the energy efficiency and conservation block grants program.

Ms. DeGette. I think, Mr. Chairman, that might be a good opportunity to have that other hearing you were talking about. They are coming up with another report in a couple of months.

Let me ask you, Mr. Rusco, you said one of the reasons for the slow start to starting these programs was Davis-Bacon. That is a law says you have to pay prevailing wages in these areas, correct?

Mr. Rusco. That is correct.

Ms. DeGette. So, say in Tennessee, if you are going in and adopting weatherization programs or something, you can't undercut the local wages, right?

Mr. Rusco. Right.

Ms. DeGette. That would seem to me to make sense, given what we are trying to do with the ARRA money which is to promote the job market. Thank you, very much Mr. Chairman.

Mr. Stearns. I thank the gentlelady.

The gentleman from Oklahoma is recognized for 5 minutes.

RPTS KESTERSON

DCMN ROSEN

[2:27 p.m.]

Mr. Sullivan. Thank you, Mr. Chairman. Mr. Rusco, GAO has completed two reports on loan guarantee programs; is that correct?

Mr. Rusco. I think it is three now, yes.

Mr. Sullivan. So it is three programs.

Mr. Rusco. Three reports. I am sorry.

Mr. Sullivan. Three reports? Okay. The most recent report was issued July 2010; is that correct?

Mr. Rusco. Correct.

Mr. Sullivan. As you know, the loan guarantee program is currently the subject of an investigation by this subcommittee, in particular, a loan guarantee to a California company named Solyndra. So I don't want to get into the particulars over certain guarantees at this point. Instead, I want to discuss the program generally. The first Recovery Act related guarantee was announced in March 2009; is that correct, sir?

Mr. Rusco. I believe that is correct, yes.

Mr. Sullivan. And that was to Solyndra, a California company; is that correct?

Mr. Rusco. Yes.

Mr. Sullivan. Was that a $535 million loan they got?

Mr. Rusco. Yes, it was.

Mr. Sullivan. Since then, DOE has announced 15 other loan guarantees for companies engaging or planning to engage and producing innovative energy technologies; is that correct, sir?

Mr. Rusco. They have issued now 10 and they have another -- I am not sure exactly how many are conditional loans.

Mr. Sullivan. Aside from Solyndra, was is the status of the other 14 companies who received loan guarantees? Where are they in developing these projects?

Mr. Rusco. Well, there are three other companies that have gotten loans that have identified and submitted job information. So there are a total of 4 out of the 10 loans that have actually been issued that were development --

Mr. Sullivan. Have any of these companies under consideration by you even broken ground yet?

Mr. Rusco. Four have. And Solyndra is far along, if not finished with the plant that it was building.

Mr. Sullivan. Of the 10 closed loans, only three have begun construction. And you say there may be some other activity?

Mr. Rusco. That is what I believe, yes.

Mr. Sullivan. Mr. Isakowitz, the purpose of the stimulus was to create jobs as everyone was saying, right? Is that right?

Mr. Isakowitz. That is correct.

Mr. Sullivan. And the loan program's Web site shows the number of jobs that each loan guarantee is supposedly creating; is that right, sir?

Mr. Isakowitz. That is correct.

Mr. Sullivan. So the jobs numbers shown on the Web site, can they be considered created before the facilities have broken ground?

Mr. Isakowitz. Well, it is important to note how we go about collecting information. They put the numbers in, the recipients of those dollars based upon dollars by which we have obligated. In many cases, some of these applicants would, in fact, start to break ground and create some of the jobs prior to it. So what we receive and what we report is what the recipients give us based upon those that we close.

Mr. Sullivan. But they were considered before they even broke ground, some of them were, right?

Mr. Isakowitz. Yeah. I cannot speak to -- it happens usually when they are breaking ground.

Mr. Sullivan. Also, Mr. Rusco, in the July 2010 report, you state that the DOE loan program's office had not developed sufficient performance goals to measure the actual results of the loan guarantees against the planned or desired results. Why is this significant?

Mr. Rusco. Well, with any program, we would like to be able to go back over time and see how they are doing in achieving their goals. And among the goals for the loan guarantee program was to create funding for innovative projects, energy projects that reduce greenhouse gas emissions that also have a high probability

of paying back the loan. And under the Recovery Act funding, also one of the goals was to create jobs.

Mr. Sullivan. Well, Mr. Rusco, is the loan guarantee program office making any effort to determine whether loan guarantees and grants are actually resulting in greater energy efficiencies or infrastructure improvements? Yes or no?

Mr. Rusco. They may be taking steps to do so. We are not satisfied with the steps and they have not agreed with most of our recommendations.

Mr. Sullivan. That would be no? Kind of no? It sounds like no. Mr. Isakowitz, in the GAO report, DOE states that we will revisit the performance goals. Has DOE done so?

Mr. Isakowitz. I would have to get back to you on that.

Mr. Sullivan. Could you submit that for the record?

Mr. Isakowitz. We will.

Mr. Sullivan. What are the performance goals?

Mr. Isakowitz. Some of the general I can speak of, and again, I would have to get you the details for the record. But generally, we have looked at the impact we have in terms of our focus on clean energy, in terms of CO2 sequestration and on issues on some of the jobs created.

Mr. Sullivan. Does the loan program office plan to go back and determine the actual results of these loans?

Mr. Isakowitz. Yes, we monitor it. In fact, when we close the loan, we don't step away from the loan. In fact, we are

staying very close to the loans throughout the whole repayment of the loan itself.

Mr. Sullivan. Mr. Isakowitz, if the DOE does not close a number of the loans soon, it would stand to lose its unspent stimulus money or 2 billion right now I believe; is that right?

Mr. Isakowitz. We have 2 billion of unobligated funds.

Mr. Sullivan. And you are going to try to get that out the door pretty quick?

Mr. Isakowitz. We have the demand to get it out the door, yes.

Mr. Sullivan. And the office would need to close these loans soon, right, in order for the companies to meet the construction deadlines; is that correct?

Mr. Isakowitz. And we have cued it up just for that, yes.

Mr. Sullivan. Does the loans program office intend to spend all of this 2 billion? And if so, by what day would it need to do so?

Mr. Isakowitz. Yes, we intend to and we need to do it by the statutory date, which is at the end of September.

Mr. Sullivan. Mr. Rusco, are you concerned by this situation?

Mr. Rusco. Well, we do have concerns about the internal controls of the program. We have in every report issued recommendations to improve controls and performance measures for the program. So there is some concern about if the program were

to ramp up the speed of issuing loans, we would like to see those controls in place.

Mr. Sullivan. So, Mr. Rusco, you are still concerned about this, aren't you, this situation, how they are measuring it?

Mr. Rusco. We are working on our fourth report right now.

Mr. Stearns. The gentleman's time has expired.

Mr. Rusco. And continuing to find issues that we are concerned about, yes.

Mr. Sullivan. Thank you, sir.

Mr. Stearns. The gentlelady is recognized from the Virgin Islands, Ms. Christensen.

Dr. Christensen. Thank you, Mr. Chairman. And welcome to all of the people on the panel. Today, we have heard from DOE that the funds provided by the Recovery Act helped the Department and its State, local and private grantees create tens of thousands of new jobs. In just the last quarter, those grantees reported supporting employment for 43,000 workers. And those numbers are quite laudable, but they may understate actually the impact of DOE's Recovery Act funding.

For instance, I know that DOE has always relied heavily on both contractors and subcontractors to carry out its mission. Yet, as the DOE IG noted in an April 2010 audit report, many of the prime contractors reporting Recovery Act hiring to the department failed to report any of the job creation that occurred at the subcontractor level. So, Mr. Friedman, is that correct?

Mr. Friedman. That is correct. If I may, Ms. Christensen, I -- not take exception to it, but your characterization may be a little different. According to the rules that have been established from the beginning, a subcontractor job creation was not to be included in the report. So in fairness, at some point, of course, they changed the rules, the rules did change, but that was the going in posture which we felt understated the job creation capability of the money that had been spent.

Dr. Christensen. So even though it wasn't absolutely required initially, the fact that subcontractors may not have reported may understate the number of jobs. Because it is my understanding from the same report that perhaps the subcontractors, the jobs created by them was nearly double that by the prime contractors.

Mr. Friedman. That is one of the interesting aspects that we discovered, which was that job creation at the subcontractor level may have far exceeded that of the contractor level. So I agree with your fundamental point.

Dr. Christensen. So you agree that we may have significantly underestimated the impact of the Recovery Act spending on employment?

Mr. Friedman. Certainly, as far as that category of spending is concerned at that time.

Dr. Christensen. And I know that calculating the exact number of jobs created by a Federal spending can be complicated.

Some people suggest that this sort of spending might be crowding out private sector employment or bringing jobs into the present that would have been created in the future. So setting aside the validity of those concerns in a time of full employment, Mr. Rusco, are we worried that DOE job creation has been crowding out private sector hiring during the recession?

Mr. Rusco. It varies depending on the economic conditions in any locality. But in a time when there is high unemployment and economic activity is very low, we are in a recession, there is much less concern for crowding out than there would be if we were at a point of full employment.

Dr. Christensen. So during recession, there is a benefit to turning potential future jobs into present jobs; is that right?

Mr. Rusco. That is something I really can't comment on. That is a choice.

Dr. Christensen. And finally, Mr. Isakowitz, do the job numbers we have talked about capture all the economic benefits of the Department's Recovery Act spending or did that spending benefit Americans in other ways as well?

Mr. Isakowitz. I think that is correct. As Mr. Friedman pointed out, in addition to the subcontracts, the way the numbers are collected is if there are two people working half-time on it, it is treated as one person. It also doesn't include those that it would call the induced and the indirect, like for those who let us say might be a vendor carrying goods across country would not

be counted and as well as the impact on the local economy to, let us say, local restaurants and so on, those are not counted. And then again, a lot of what we are investing in is, in fact, an investment in the long term.

So, in fact, when our dollars stop from any of these activities, we hope it will stimulate local opportunities for small businesses to, in fact -- in fact, we spent almost $10 billion of Recovery Act on small businesses that we think would enable a more vibrant economy than had we not been there.

Dr. Christensen. Then you have the average savings for homes that have been weatherized and other benefits. And I remember Dr. Chu speaking just as he became Secretary about maybe the lack of a strong record of grand management and trained staff at the Department. But it sounds as though from what you have had to do to prepare for the spending and the monitoring, that the Department is probably in much better shape going forward. So there is an additional benefit to the Department of Energy, isn't there?

Mr. Isakowitz. Yes. In fact, we have demonstrated a number of best practices, that one of my focuses now going forward is to make sure that our ongoing programs, in fact, benefit from exactly that.

Dr. Christensen. We have a situation in the Virgin Islands where perhaps one of the programs is oversubscribed and others where our government has passed legislation determining, for

example, that solar water heaters must be in new homes for 70 percent of the hot water and rebates should be allowable up to 50 percent. Is there any flexibility or a possibility, say, for those programs that are oversubscribed from moving money from one area to another?

Mr. Stearns. The gentlelady's time has expired. You are certainly welcome to answer her question.

Mr. Chalk. Within the State energy program and within the Block Grant Program, we can revise activities, as long as there is money left and then do some of the things that have been oversubscribed and we would have to cut things that have been undersubscribed or you don't want to do any longer.

Dr. Christensen. Thank you. Thank you, Mr. Chairman.

Mr. Stearns. The gentleman from Pennsylvania, Mr. Murphy, is recognized for 5 minutes.

Mr. Murphy. This question is for Mr. Isakowitz and Mr. Chalk. As you review programs within the Department of Energy, how do you assess of a Federal program that is operating now, is working efficiently and effectively and it is worth keeping money in it versus one that you are going to reduce money in that? Can either one of you give me an idea?

Mr. Isakowitz. Sure. I will just talk more broadly. On what we have done up front is we had identified these project plans where we identify specific metrics of what we wanted each program to achieve. In addition, we identified areas of risk. We

also identified particular milestones in terms of when they would be delivering. And we had set up a system due to the unprecedented effort we had in transparency to actually collect this information. We have regular what we call deep dive reviews where we go over in great detail how we are doing, is the recipient delivering as promised. In areas that we see are running into issues, we work with the recipient to see how it is --

Mr. Murphy. Recipients of the grants, for example?

Mr. Isakowitz. Yes. Recipients of grants or contracts to make sure that they remain on track.

Mr. Murphy. Of course, we have heard that some of the DOE monies, the 33 billion, are having trouble allocating that out or obligating or releasing it. Of course, one of the problems made by the administration is that they could rapidly disburse these funds. I want to see if we can look at a particular agency within the Department of Energy that executed its responsibilities from, what I understand in a timely and efficient manner which I think would meet those standards. Specifically to my understanding, that the National Energy Technology Laboratories, or NETL, obligated all of its stimulus dollars; is that correct?

Mr. Isakowitz. Yes.

Mr. Murphy. I understand they did that pretty effectively, on time, on budget, without fraud or any terrible thing. Am I correct on that too?

Mr. Isakowitz. Yeah. I want to give commendation not only to NETL, but a lot of the rest of the organizations, in fact, were able to obligate 99.9 percent at the prescribed deadline.

Mr. Murphy. So they did a good job disbursing those funds?

Mr. Chalk. Yes, they did.

Mr. Murphy. Now, I am concerned about something and perhaps you can help me with this. I am concerned there seems to be an effort in the President's 2012 budget that is going to transfer operations or programs like having experts out in the field into Washington, D.C. And in particular, when I look at the EERE presidential request of 3.23 billion, it is a 37 percent increase over 2011, presidential request. And yet I see NETL is projected to receive 14.9 million. It is a $10.6 million reduction, which would be about a 50 percent reduction of the Federal staff within NETL.

My concern is here is a program that has done its job, on time, on budget, without fraud or abuse and yet -- correct me if I am wrong, maybe I am misreading this. It looks like money it pulling away from there, expanding into another area. Does this indicate that this program is going to be reducing its funding and its mission?

Mr. Chalk. The reduction in program direction, or FTEs of NETL, is really symbolic of the decrease of workload, Recovery Act. So it peaked over the last 2 years and then in fiscal year 2012, when most of the procurements and so forth are completed, it

is dropping back to the FTE level that it saw prior to the Recovery Act.

Mr. Murphy. But we still have some funds that are yet to be disbursed? And where will those be?

Mr. Chalk. All funds are disbursed.

Mr. Murphy. Disbursed now? Are there other functions within NETL that you are looking to pull out and move to Washington, D.C.?

Mr. Chalk. We are constantly looking at optimal program management, whether something should be done in the field or at headquarters. That is under constant evaluation every year that we prepare for the budget.

Mr. Murphy. When the President gave his State of the Union address, he also talked about clean coal. And I commented to him as he is walking up the aisle, I am pleased about that, every inch of my district is over coal and natural gas. Do you see us moving forward on some programs like NETL which, in the past, played a good role in research, et cetera, in coal-related research? Will those continue to be worked and funded and maintained?

Mr. Isakowitz. Yeah. We had in the President's 2011 request, and we will see where things come out. But we had important investments to make, in fact, in fossil energy and we are going to continue to make important R&D investments. When you heard the President and the Secretary speak about the need for a broad effort in clean energy, clearly coal, clean coal

particularly and carbon capture sequestration is a key part of that. So we have maintained our investment. And, in fact, the Recovery Act has been very critical, in fact, to demonstrate the very technologies that are important for the future.

Mr. Murphy. I would be glad to talk with you more and see how we can support this future too. I know it is important to have headquarters like that in the middle of coal country and I know that NETL is in both Pennsylvania, West Virginia. It is certainly the heart of everything there and a lot of great workers who have spent their careers and the long legacy of that across many administrations. And I hope that we can continue to look at programs that have been very efficient and effective in that and I will be glad to work with you and see how we can help on that together.

Mr. Isakowitz. We would be happy to work with you.

Mr. Murphy. Thank you, Mr. Chairman, I yield back.

Mr. Stearns. I thank the gentleman. The gentleman from Texas, Mr. Green, is recognized for 5 minutes.

Mr. Green. Thank you, Mr. Chairman. Let me briefly talk about prevailing wage or Davis-Bacon. In my part of the country, we call it prevailing wage. Part of the Recovery Act also required to hire local workers or local folks, that if you had the skills in the local area to do the work. And I know not only was it Davis-Bacon for prevailing wage and that has been part of Federal law in construction projects as long as I can remember, is

that generally true of our witnesses? Prevailing wages?

Mr. Rusco. I am sorry. I don't know the full scope of where the Davis-Bacon Act is --

Mr. Green. Well, maybe it is new to the Department of Energy because in other construction projects, it is not new. It has been around, I think, since the 1930s. In fact, we have had some votes on the House floor in the last 50 years trying to remove it. And it typically always wins not to remove it on a bipartisan basis. I don't know if that got in the way as much because that is required on a lot of Federal projects that they do all over the country.

Let me ask you about some of the concerns about the DOE program. H.R. 1 that we had and will continue since we have a 3-week continuing resolution, cuts the budget of the Office of Energy Efficiency by 35 percent from over 2.2 billion to 1.5 and prevents DOE from spending money for weatherization and State energy programs. Could you discuss the consequences of the cuts? What is it going to do to both State energy programs, but also to home weatherization? I know it has benefited in a lot of our districts.

Mr. Chalk. Yes. Eliminating the weatherization program is going to be devastating. As I said earlier, it has been a tremendous effort to get the program back on schedule. We are supposed to be completed in March of 2012. And without 2011 appropriations, and there is tremendous lead time that is

required, we need fiscal year 2011 appropriations because it is kind of a cash business, weatherization, materials need to be bought prior to the production year that the States have, which is usually right in the middle of our fiscal year.

So it is a little complicated. But if we don't get the fiscal year 2011 funding, we are in jeopardy of furloughing about 8,000 people, 34,000 homes that won't be weatherized and again, the investment ratio here is for every dollar that the Federal Government puts in, there is about a $1.80 of savings out. And this has been well-founded over the years. So we will lose that savings for low-income people who, again, they pay a disproportionate amount of their income on energy bills, about five times what non-low-income people pay. This will be pretty devastating to the weatherization network, as well as the low-income families. We jeopardize losing our training centers which -- recognizing some of the startup in workmanship issues. Most of those are behind us. Tennessee for instance is doing very well. We rate every State on how well they do in monitoring. Tennessee scored very well on our last site visit for monitoring.

So we feel things are very much on track. And 42 out of our 59 states and our territories and Indian tribes, 42 out of 59 will be totally out of money in the middle of fiscal year 2012 with their annual money and their Recovery Act money. So if the fiscal year 2011 money does not come, then we see significant consequences of essentially a cliff, where work just stops, we

lose the infrastructure related to training, certifying inspectors and training the actual contractors to do the work.

Mr. Green. It is my understanding about 300,000 homes thus far has been weatherized using Recovery Act funds.

Mr. Chalk. Well, if you include the January numbers, it is about 350,000. So we are past the halfway point.

Mr. Green. I am real familiar with the training centers. I have one in my district. Of course, my folks from up north wonder why would we weatherize in Texas. But come to Texas between May and September and you will know why we need to weatherize, because it gets pretty warm there.

About the State efficiency programs. I know I only have a few seconds. State offices use DOE funds to leverage investments and for efficiency upgrades. I understand it is estimated for every 50 million in State energy program funding, it produces 333 million in annual energy savings costs and leverages another 585 million for energy related economic development. Is that number true?

Mr. Chalk. I would have to get back to you on the record for that number. I would say that the State energy program, as well as the energy efficiency Block Grant Program really are reinvesting for the future. They are more long-term payoff than we typically think the Recovery Act is immediate stimulus, like weatherization and the environmental restoration that we are doing. These programs that you are mentioning do have tremendous

lifecycle savings and are really programs investing in the future.

Mr. Green. Thank you, Mr. Chairman.

Mr. Stearns. The gentleman's time has expired. The gentleman from Texas, Dr. Burgess.

Dr. Burgess. Thank you, Mr. Chairman. And, Mr. Rusco and Mr. Friedman. Again, I apologize also for being out of the room for part of your testimony today. And if I am asking you something that has already been asked, please indulge me and don't embarrass me by pointing it out. On the loan programs, the loan office program, it is not a huge sum of money by Washington standards, but it is still a big bunch of money. $2-1/2 billion, is that about right?

Mr. Rusco. That is correct.

Dr. Burgess. So this office is currently the subject of some investigations within this committee and it is the object of some interest by yourselves; is that correct?

Mr. Rusco. Yes. We are currently doing a review of the program.

Dr. Burgess. Now, I think one of the things that has raised some concern is that the loan program's office issued a loan guarantee to one company prior to receiving a single report from the external reviewers whose job it was to evaluate the soundness of the loan guarantee.

Mr. Rusco. I believe that they issued a conditional commitment prior to receiving a final financial or marketing

report and then issued the loan before having completed -- I am sorry -- a legal report.

Dr. Burgess. Now, there is a time commitment to money to be received under this program, that the construction on the projects must begin by September of this year; is that correct?

Mr. Rusco. That is correct.

Dr. Burgess. Are you concerned that any other loans might be fast-tracked in the same nature?

Mr. Rusco. Our concerns are broadly about the way the program has been set up, both to follow a consistent and rigorous due diligence process to make sure that before they issued loans, they have fully gone through their process and have fully vetted all of the issues that they have that the program has identified as important, and we found in our last report that for a number of loans that went to conditional commitment, they had not finished all of the steps of their due diligence process.

Dr. Burgess. Well, is there any pressure -- pressure is not quite the right word. But if you have got to be submitted and constructing by September, that is a fairly condensed time line, 6 months from now. Is that condensation of the time line? Is that putting any additional pressure to bear on that?

Mr. Rusco. I cannot speak to exactly where the program is in terms of the process of all of the existing loan applications. I can say that the pace at which they have been able to issue loans up to date would, if that pace were to continue today, would

definitely not make it.

Dr. Burgess. And then what would happen, those loans would just go away or be reclaimed by the Department of Energy or by the Federal Treasury.

Mr. Rusco. I think they go back to the Federal Treasury.

Dr. Burgess. Mr. Isakowitz, is it appropriate that this committee is concerned about the loans program office putting taxpayer dollars at risk by guaranteeing loans without doing the due diligence first?

Mr. Isakowitz. First, I want to be very clear. We have set up a very exacting process of due diligence as we go through it. I think the report that you are referring back to was from about 9 months ago. We did not agree with that particular finding. Just to be clear, there is a major difference between what we call a conditional commitment and a closing. A closing is the key milestone. That is when we are committing and obligating the funds for that particular project. At a conditional commitment, we have just identified the issues that we expect the applicant to address before we close. So I believe in that particular report what they raised were some issues that some of the reports were not fully in hand at the time of the conditional commitment. But we understood that at the time and we were able to address that risk sufficiently so that we had told the recipient that before we close on the loan, all the required reports needed to be in. So we are not cutting any corners to get to closing.

Dr. Burgess. What about now? There is an abbreviated time line between now and September. Does that put additional pressure on the program?

Mr. Isakowitz. We have had the opportunity to either close or get the condition of commitment on 16 projects. And we have greatly improved the time line without cutting any corners in terms of getting to it. We had actually staffed up accordingly 2 years ago. We had maybe 10 or 15 people in the office. Today, we have over 100. In fact, we have put the processes in place to address the demand that we see in terms of getting to those funds by the end of the fiscal year.

Dr. Burgess. Let me pose a question to the Inspector General. So we are told that this is kind of not a big deal, these are trivial. What is your response? Do you feel that this is a misplaced concern on the part of the committee?

Mr. Friedman. Well, to put it in some perspective, Dr. Burgess, essentially the authority under the loan guarantee program is $71 billion. So there is a significant amount of money at risk. I cannot address the particular specific issues that you are raising, but it is obviously for that reason that both deserves the attention of the Department and the attention of all of the oversight bodies to make sure that the taxpayers' risks are protected to the extent possible. Obviously you wouldn't need a government guarantee if there was no risk. So there is some element of risk inherently in these programs. So I think your

probing is appropriate and that is basically all, I guess, I can add.

Dr. Burgess. All right. Thank you, Mr. Chairman.

Mr. Stearns. I thank the gentleman. We are going to allow Mr. Gardner to finish up and then we are going to close the hearing. I think we have had good timing with the votes. I just would like to ask for a unanimous consent request to place an audit report from Tennessee and the Department of Energy IG report into the record. Hearing no objection, so ordered.

[The information follows:]

******** COMMITTEE INSERT ********

Mr. Stearns. Mr. Gardner, you are recognized for 5 minutes.

Mr. Gardner. Thank you, Mr. Chairman, and the witnesses here today. Just a couple of quick questions for Mr. Friedman. In one of your audit reports, you stated the State resources -- State resources have been significantly strained due to the administration of DOE stimulus dollars; is that correct?

Mr. Friedman. That is correct. And without meaning to be too clever, we have characterized this as attaching a garden hose to a fire hydrant. The money is extraordinarily large, in many cases.

Mr. Gardner. And DOE also then had to ramp up as a result to manage the DOE stimulus portions; is that correct?

Mr. Friedman. That is correct.

Mr. Gardner. Is that the same hose to fire hose --

Mr. Friedman. Absolutely.

Mr. Gardner. Very good. In your testimony, you state that you are now in the process of evaluating contingency -- and I quote -- evaluating contingency plans to address problems with transitioning to a post Recovery Act funding posture. The immediate concern you identify is how the Department will deal with the significant, again, in quotes, "significant downsizing of the contractor workforce." Do you have any estimate of many contractors will lose their jobs at DOE after Recovery Act funding runs out?

Mr. Friedman. I don't have that.

Mr. Gardner. Mr. Isakowitz, as CFO, can you comment on that question?

Mr. Isakowitz. Many of these activities we expect and hope would continue, that the economy would, as was the intent of the Recovery Act, to be targeted and temporary would allow activities to follow from that. To speak to some of the specific ones, I am going to turn to Inez who can speak most directly to your question.

Ms. Triay. Our approach in the environmental management program was to create temporary jobs and to train those workers to work in the important field of nuclear and radioactive contamination areas. So what we did was to concentrate on footprint reduction, which then creates assets of now liabilities in the communities where we have installations in the environmental management complex so that the communities could enter into economic development efforts using the assets that the environmental management program through the Recovery Act was able to put at their disposal.

We intend to reduce the active cleanup footprint by 40 percent by the end of 2011. In addition to that, of course, we have the small business development that we have been able to accomplish. We have awarded $1.8 billion out of the $6 billion to small business in the environmental management Recovery Act. We have been able to create infrastructure in the small businesses to

be able to compete in the national and international nuclear industry.

Mr. Gardner. But in terms of estimates of how contractors will lose their jobs at DOE, do you have any?

Ms. Triay. In the environmental management program, we are talking about 2,000 jobs just like I stated at the beginning.

Mr. Gardner. Thank you. Mr. Rusco, GAO has spent the last 2 years evaluating how States and localities are implementing the stimulus. Now that we are nearing the end of its funding in 2012, what impact will this have on the States? And will those workers that the States added through these programs be furloughed?

Mr. Rusco. In some cases, we are going to see with the end of the Recovery Act, we are certainly going to see a cliff effect of jobs ending and environmental management is one such case. Already we are seeing reductions in employment in the fourth quarter of last year, over the third quarter and expected decreases in employment after that. So if we go back to the regular annual budget for that, then there will be a large drop-off in jobs at the sites.

Mr. Gardner. Thank you. And, Mr. Isakowitz, I think in response to Mr. Sullivan's question, responded if the primary job, or the primary purpose of the stimulus was to create jobs. And I believe your answer was yes; is that correct? I think that was directed to you.

Mr. Isakowitz. It is to create jobs and make long-term

investments for our economy.

Mr. Gardner. There was a grant that was awarded by the Department of Energy to a city in my district that was over $2 million and it is less than 50 percent completed and it says zero jobs were created. This is according to the Web site that reveals information on grants awarded and how many jobs have been created. How many awards have been granted that have created zero jobs by the DOE?

Mr. Isakowitz. I cannot speak to that specific one. But in every case, the recipient who we have worked with identifies back to us how many people have, in fact, been employed as a result of the dollars that they received. Anybody who receives a dollar from us clearly has created some kind of work that they should be reporting back to the system. But we would be happy to get back to the specific example for the record.

Mr. Gardner. Thank you very much. And in terms of -- I yield back my time. Thanks.

Mr. Stearns. I thank the gentleman. We just want to get to vote. I will just close. Mr. Friedman, I put into the record your letter of October 14th where you had indicated -- and this is considering the State of Illinois' weatherization assistance program. You said "Our testing reveals substandard performance in weatherization workmanship, initial home assessments and contractor billing. These problems were of such significance, they put the integrity of the entire program at risk."

So that was put in. I want to the thank our witnesses for coming today, for the testimony and members for their devotion to this hearing. The committee rules provide that members have 10 days to submit additional questions for the record to the witnesses. And with that, the subcommittee is adjourned.

[Whereupon, at 3:03 p.m., the subcommittee was adjourned.]