Statement of Gregory H. Friedman
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Before the
Subcommittee on Investigations and Oversight
Committee on Science and Technology
U.S. House of Representatives
Mr. Chairman and Members of the Subcommittee:

I appreciate the opportunity to testify today on accountability and transparency issues related to the American Recovery and Reinvestment Act of 2009 (Recovery Act). My testimony focuses on the efforts of my office to provide effective oversight of Recovery Act funds at the Department of Energy, which will receive approximately $40 billion for various science, energy, and environmental programs and initiatives. Furthermore, based on the Recovery Act and previously approved programs, the Department has been authorized to make or guarantee loans totaling up to $127 billion for innovative technologies as well as auto industry advancements.

The Recovery Act will undoubtedly have a significant impact on the operations and activities of the Department and, in turn, the Office of Inspector General. Under the Recovery Act, the Federal Government hopes to stimulate the economy in the shortest timeframe possible, while fostering an unprecedented level of accountability, oversight, and transparency. The passage of this legislation makes this a transformative time for the Department of Energy, particularly in the area of scientific discovery and innovation.

Consistent with the objectives outlined in the Recovery Act, my office has developed a strategy to provide the most effective oversight possible given our available resources. Before discussing the specifics of the oversight strategy, I would like to outline a few fundamental principles that I believe must guide the Department’s management of Recovery Act funds.

- *Prevention and Detection:* In terms of oversight, it is important to note that simply detecting problems after the fact is not satisfactory. As the Department works to
establish safeguards and internal controls for managing Recovery Act funds, the prevention of fraud, waste, and abuse must be a top priority.

- **Expediency and Accountability:** A principle feature of the Recovery Act involves the allocation of funds with all possible speed as a means of stimulating the economy. While expeditious action is an important goal, the Department must be mindful of the fact that accountability must be maintained over funds.

- **Management Responsibility:** Responsible program managers and contracting officials must exercise effective program management as a primary tool to ensure Recovery Act success. Inspector General oversight activities supplement, rather than supplant, program execution.

**Office of Inspector General Oversight Strategy**

My staff and I are committed to evaluating the actions the Department takes to ensure that Recovery Act funds are used both efficiently and effectively. Our risk-based strategy for achieving these goals includes the following steps:

- **Evaluate the internal control structure for the most significant programs receiving Recovery Act funds:** To ensure effective oversight, my office will review the internal control structure and management of Department programs, beginning with those receiving in excess of $500 million in funding under the Recovery Act. To provide immediate feedback on areas needing improvement, “real time” reviews will be initiated as controls are established, and policies and procedures are developed.

- **Evaluate the effectiveness of the Department’s distribution of funds to key external recipients:** The vast majority of funds provided to the Department will be distributed
under various procurement instruments to contractors, State and local governments, educational institutions, and non-profit organizations. After reviewing the Department’s internal control structure, my office will evaluate the controls established by the primary recipients over the use of funds.

- **Examine the use of funds through transaction testing, utilizing a risk-based approach:** My office will conduct transaction testing at the recipient or end-user level to fully explore the effectiveness and efficiency of Recovery Act projects.

- **Evaluate Department metrics to gauge program success:** We will evaluate established goals and metrics to ensure that they address Recovery Act objectives. We will also test specific performance and economic information, including reported performance in the critical area of job creation, to determine whether objectives are being met.

- **Provide fraud awareness briefings throughout the Department complex:** On a regular basis, the Office of Inspector General will provide fraud awareness briefings to groups of Federal employees, contractor officials, and fund recipients. These briefings aid significantly in preventing fraud, waste and abuse by heightening managers’ awareness of fraud indicators and familiarizing officials with our operations.

- **Enhance existing relationships with Federal, State, and local prosecutors and law enforcement agencies:** These relationships are critical to establishing effective networks for identifying areas that are most vulnerable to fraud, waste, and abuse as well as bringing to justice those who would defraud the government.

- **Expand Hotline capabilities:** The Office of Inspector General maintains a Hotline to facilitate the reporting of allegations of fraud, waste, abuse, or mismanagement in Department of Energy programs or operations. On an annual basis, the Hotline receives approximately 1,300 complaints. We anticipate receiving an additional 500 Hotline
complaints each year that pertain to Recovery Act funds. In the coming months, we will expand our Hotline capabilities, as necessary, to accommodate these complaints.

- *Enhance our program to process and report on whistleblower retaliation complaints, to respond to new requirements under the Recovery Act:* The Office of Inspector General will direct additional resources to review retaliation complaints relating to Recovery Act programs.

- *Participate actively as a member of the Recovery Accountability and Transparency Board:* As outlined in the Recovery Act, I will serve with nine other Inspectors General on the Recovery Accountability and Transparency Board. This work will complement my regular duties as Department of Energy Inspector General. I look forward to working closely with my colleagues to help ensure that Recovery Act funds are spent efficiently and effectively throughout government.

**Areas Requiring Special Attention**

The strategy outlined above takes into account management challenges that we have reported on over time as well as new issues that we expect as a result of the sudden influx of substantial additional Department funding.

For example, for over a decade, the Office of Inspector General has identified “contract administration” as one of the most significant management challenges facing the Department. We have issued numerous reports on a wide variety of contract administration and project management deficiencies. Given the Department’s almost total reliance on contractors to carry out its mission, a commitment to effective contract administration will be of vital importance as the unprecedented flow of funds begins under the Recovery Act.
The Office of Inspector General has also reported on the maturity of the internal control structure of the Department’s loan guarantee program, questioning whether it was adequately staffed to support its goals and objectives. For example, prior to the signing of the Recovery Act, we reported that staffing levels were not adequate to, among other things, monitor disbursed loans and complete credit underwriting for applicants. We noted that the Department has stated its intention to augment the staffing levels. We think this is a positive step that should be pursued aggressively as the process of reviewing and approving loan guarantee applications proceeds.

As implementation of the Recovery Act continues, all parties should recognize that the potential risk of fraud increases dramatically when large blocks of funds are quickly disbursed. Our experience in the investigative arena has demonstrated that even during periods of normal operation, the Department is vulnerable to the misuse of funds, submission of false or fictitious data, employee conflicts of interest, and other related wrongdoing.

Finally, given the magnitude of the Recovery Act, successfully infusing funds into existing Department programs will be a significant challenge. For example, the Office of Electricity Delivery and Energy Reliability, which will continue to lead efforts to modernize the electric grid, had a budget of approximately $138 million in Fiscal Year 2008. Under the Recovery Act, this Office will receive $4.5 billion, the bulk of which will be used for electricity delivery and energy reliability activities. Such an expansive increase in funding in a short timeframe carries with it certain vulnerabilities and operational risks.

These are just a few examples of areas relating to Recovery Act programs and operations that we believe will require special attention by Department management. Utilizing the risk-based
oversight approach previously outlined, in conjunction with experience gleaned in part from existing management challenges, we will continue our efforts in these, as well as other, critical areas to aid the Department in the successful implementation of the Recovery Act.

Accomplishments to Date

While continuing to focus attention on our customary responsibilities, in recent weeks my office has accelerated efforts to provide proactive oversight of Recovery Act funds and programs. To date, my office has:

- Developed a comprehensive oversight strategy, as outlined above.
- Completed and will shortly issue a “lessons learned” report based on concerns identified in prior work. The report will provide the Department with a resource as it works to establish a framework to manage the unprecedented amount of funding under the Recovery Act.
- Launched a proactive effort to communicate with Federal and State prosecutors on strategies for pursuing allegations of fraud.
- Completed and will shortly issue a report on staffing concerns relating to the Department’s acquisition workforce and its impact on implementation of the Recovery Act.
- Delivered several fraud awareness briefings to various Departmental elements, including the Office of the Chief Financial Officer, the Office of Energy Efficiency and Renewable Energy, the Office of Science, the Office of Environmental
Management, and the Bonneville Power Administration. We have numerous other briefings scheduled in the near future.

- Initiated discussions with the State Auditors in several states to establish collaborative efforts, most notably in the area of weatherization, to follow the expenditure of Recovery Act funds to project completion.
- Commenced outreach efforts with the Government Accountability Office to discuss interaction and communication as it relates to the Recovery Act.
- Applied additional resources for receiving and reviewing whistleblower retaliation complaints associated with Recovery Act programs, as outlined in the legislation.

Conclusion

We appreciate the significance of the Department of Energy’s participation in the Recovery Act and the potential short and long term implications for the U.S. economy. We are mindful, as well, of the special responsibilities of the Office of Inspector General to help ensure transparency and accountability, all in the interest of the American taxpayers. We have already initiated efforts in this arena and will continue to work diligently to meet these challenges. We look forward to keeping this Subcommittee and others in Congress apprised of the results of our work.

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