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United States Senate

COMMITTEE ON
HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS

WASHINGTON, DC 20510-6250

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March 7, 2013

The Honorable Steven Chu
Secretary of Energy
U.S. Department of Energy
1000 Independence Ave. SW
Washington, DC 20585

Dear Secretary Chu:

I am writing regarding a recent report by the Energy Department's Inspector General regarding the management of a \$150 million grant awarded to LG Chem Michigan Inc.¹

In February 2010, LG Chem Michigan was awarded a grant to design, construct, start up, and test a production facility for lithium-ion polymer batteries by the end of 2013. Under the grant, LG Chem Michigan committed to creating more than 440 jobs and producing enough battery cells to equip 60,000 electric vehicles annually.²

In February 2013, the Inspector General released a report which raises serious concerns about the Energy Department's grant management. The Inspector General found that LG Chem Michigan failed to manufacture battery cells which could be sold to the public and created less than half of the expected number of jobs. The Inspector General also found that LG Chem Michigan submitted invoices requesting reimbursement for labor costs incurred while the plant was idle and employees volunteered for local organizations, played games, and watched movies. Based on a review of invoices for the third quarter of 2012, the Inspector General questioned more than \$1,684,377 in costs submitted by LG Chem Michigan.

The Department's National Energy Technology Laboratory (NETL), which managed the grant, failed to identify LG Chem Michigan's questionable labor activities. According to the Inspector General, NETL took no steps to suspend payments and did not require LG Chem Michigan to take corrective action when NETL learned that the project was not on track and appeared to be headed toward cost overruns. Only three of the five planned production lines have

¹ United States Department of Energy Office of Inspector General, *The Department of Energy's Management of the Award of a \$150 Million Recovery Act Grant to LG Chem Michigan Inc.* (Report No. OAS-RA-13-10) (Feb. 2013).

² *Id.*

been completed and commercial production of batteries has not begun. LG Chem Michigan estimates completion would cost the government an additional \$22 million.

The Inspector General made four formal recommendations to improve the Department's grant management. Among these were recommendations to evaluate questioned costs and recover overpayments and to consider an alternative use for the plant. The Inspector General also recommended that the Department enhance its grant monitoring procedures and to use "the full range of remedial actions available to the government" to hold LG Chem Michigan accountable for the project outcomes.³

I request that the Department provide an update on its progress in addressing the problems raised in the report and implementing the OIG recommendations. I request that you respond on or before **March 29, 2013**.

The jurisdiction of the Subcommittee on Financial and Contracting Oversight is set forth in Senate Rule XXV clause 1(k); Senate Resolution 445 section 101 (108th Congress); and Senate Resolution 64 (113th Congress). An attachment to this letter provides additional information about how to respond to the Subcommittee's request.

Please contact Sarah Garcia with the Subcommittee staff at (202) 224-5602 with any questions. Please send any official correspondence relating to this request to Lauren_Corcoran@hsgac.senate.gov.

Sincerely,



Claire McCaskill
Chairman
Subcommittee on Financial and Contracting Oversight

Enclosure

cc: Ron Johnson
Ranking Member
Subcommittee on Financial and Contracting Oversight

³ *Id.*