



**Department of Energy**  
Washington, DC 20585

April 12, 2013

The Honorable Claire McCaskill  
Chair, Subcommittee on Financial  
and Contracting Oversight  
Committee on Homeland Security  
and Governmental Affairs  
United States Senate  
Washington, DC 20510

Dear Chairman McCaskill:

Thank you for your March 7, 2013 letter to Secretary Chu regarding the Inspector General's (IG) report on the Department of Energy's (DOE) grant to LG Chem Michigan, Inc. (LG Chem). DOE takes the IG's findings and recommendations for improving grant management seriously and has no tolerance for the misuse of taxpayer funds.

As part of the American Reinvestment and Recovery Act, the Department's Office of Energy Efficiency and Renewable Energy (EERE) awarded \$2 billion in funding to 29 companies to build or retool 45 manufacturing facilities in 20 states to manufacture advanced batteries and other key components for plug-in electric vehicles. As part of this program, LG Chem received a \$151 million, 50 percent cost-shared award to construct facilities that manufacture advanced battery cells and modules in Holland, Michigan. To date, DOE has disbursed approximately \$142 million of the award amount, which LG Chem has matched dollar for dollar with private investment.

EERE manages this program with support from the National Energy Technology Laboratory for project implementation and monitoring. As with all grants, EERE closely monitors grantees through a combination of reporting, in-person visits, peer reviews, and other methods. When DOE became aware of the allegations against LG Chem in October 2012, the Department immediately reported the matter to the IG and took swift action to stop further payments, conduct a preliminary audit, and secure a refund of the questionable labor costs before the IG concluded its investigation and issued recommendations. The IG determined that LG Chem had charged \$1.6 million during the period in question and that a fraction of this total was unallowable cost. Since the IG was unable to calculate the exact amount of unallowable cost, the entire \$1.6 million, representing all labor charges across all months in which they could identify any improper charges, was disallowed and the federal portion of this 50-50 cost-shared project – \$842,000 – was reimbursed to the government.



DOE is wholly committed to effective grants management and, as part of this commitment, began a series of steps to continue to improve and strengthen project management. These steps include:

- Reviewing and improving our grants management process, benchmarking it against peer agencies;
- Establishing an internal, expert “community of practice” for program and project management to develop new standard operating procedures and best practices to be applied to all EERE programs and projects. This effort includes a uniform set of terms and conditions for awards, as well as the use of cooperative agreements (rather than grants) for most future projects to allow greater oversight and facilitate modification or termination of under-performing projects;
- Creating a new Project Management Coordination Office to ensure consistent and active project management across our entire project portfolio;
- Consolidating multiple IT systems in order to establish a single Enterprise IT solution for core business functions, including grants management, and provide project managers with innovative tools for managing and evaluating projects’ technical progress, budgets, and schedules;
- Centralizing and strengthening project invoice reviews; and
- Strengthening engagement with project recipients and increasing the number of annual site visits for large projects.

With respect to LG Chem’s reporting, DOE has increased its scrutiny of the company’s quarterly reports and provided additional instruction on federal reporting requirements. We also requested and received an updated project budget and project management plan in order to validate the current cost and schedule. This plan – currently under review – proposes completion of the project at full manufacturing capacity with no increase in cost to the federal government beyond the original \$151 million award. Should DOE choose to accept the updated plan and continue the project, going forward, labor charges will not be allowed in any remaining federal disbursements supporting completion of the LG Chem project.

DOE shares the IG’s frustration that LG Chem has not met the employment or production benchmarks under the grant. While the market for electric vehicle batteries has developed slower than many predicted, there are a number of positive signals that indicate market growth is accelerating, including overall growth of plug-in electric vehicle sales of 200 percent in 2012. Although we do not have the authority to control LG Chem’s production decisions, we note the company has stated publicly that it will begin production at the Michigan plant later this year. DOE will actively monitor LG Chem and hold the company accountable for any failure to comply with the terms and conditions of the grant. Please be assured that the issues raised in the IG’s report have served to strengthen our grant management practices and refocus our commitment to using federal funding as effectively and efficiently as possible.

We remain committed to helping the United States succeed in the global battery manufacturing market. As DOE takes steps to improve internal processes, we continue to support plug-in

electric vehicle development, expand our nation's manufacturing sector, and promote innovative technologies that increase choice and reduce costs for consumers.

We thank you for your continued interest in the successful deployment of advanced vehicle technologies. If you need additional information, please contact Brad Crowell, Office of Congressional and Intergovernmental Affairs, at (202) 586-5450.

Sincerely,

A handwritten signature in black ink, appearing to read 'K. Hogan', with a stylized flourish at the end.

Kathleen Hogan  
Deputy Assistant Secretary for  
Energy Efficiency

Enclosures

Cc: The Honorable Ron Johnson  
Ranking Member