



Audit Report



OIG-15-046

Corrective Action Verification: Treasury Needs to Establish Procedures to Expend and Invest Gulf Coast Restoration Trust Fund Monies

September 3, 2015

Office of
Inspector General

Department of the Treasury

Contents

Audit Report	1
Background.....	2
Status of Corrective Actions Taken by Management... ..	3
Conclusion	6

Appendices

Appendix 1: Objective, Scope, and Methodology	7
Appendix 2 Management Response	9
Appendix 3: Major Contributors to This Report.....	10
Appendix 4: Report Distribution.....	11

Abbreviations

BFS	Bureau of the Fiscal Service
JAMES	Joint Audit Management Enterprise System
OIG	Office of Inspector General
RESTORE Act	Resources and Ecosystems Sustainability, Tourist Opportunities, and Revived Economies of the Gulf Coast States Act of 2012
Treasury	Department of the Treasury
Trust Fund	Gulf Coast Restoration Trust Fund

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*The Department of the Treasury
Office of Inspector General*

September 3, 2015

David A. Lebryk
Fiscal Assistant Secretary

This report presents the results of our review of the corrective actions taken by the Department of the Treasury (Treasury) management in response to our September 2013 report on Treasury's progress to establish procedures governing the investment and expenditure of Gulf Coast Restoration Trust Fund (Trust Fund) monies in accordance with the *Resources and Ecosystems Sustainability, Tourist Opportunities, and Revived Economies of the Gulf Coast States Act of 2012* (RESTORE Act).^{1,2} The objective of this corrective action verification was to determine whether management has taken corrective action that was responsive to our recommendations. Appendix 1 provides more detail of our audit objective, scope, and methodology.

In our September 2013 report, we recommended that management (1) take necessary action to establish regulations for the Trust Fund, and to finalize internal Treasury procedures for the Trust Fund; (2) ensure that Treasury's proposed regulations address how Treasury intends to meet the requirements of 31 U.S.C. §9702 for investment of the Trust Fund;³ and (3) ensure that the Bureau of the Fiscal Service (BFS), working with the administrators of each Trust Fund Component, establishes an investment strategy that takes into account projected outlays. According to the Joint Audit

¹ *RESTORE ACT: Treasury Needs to Establish Procedures to Expend and Invest Gulf Coast Restoration Trust Fund Monies* (OIG-13-052; issued September 24, 2013).

² Pub. L. 112-141, 126 Stat. 588-607 (July 6, 2012), authorized the establishment of the Trust Fund to provide funds for environmental and economic restoration of the Gulf Coast region that was damaged by the 2010 Deepwater Horizon oil spill.

³ The RESTORE Act requires that the Trust Fund be invested in accordance with 31 U.S.C. §9702 which states that funds shall be invested in Government obligations and earn at least a 5 percent interest rate.

Management Enterprise System (JAMES), management implemented and closed all planned corrective actions as of November 3, 2014.

Overall, management addressed the recommendations. However, we found that corrective actions to finalize internal procedures for the Trust Fund occurred after the recommendation was reported as closed in JAMES. While we are not making a new recommendation in this report, management should ensure that JAMES is revised to reflect the actual date when internal procedures for the Trust Fund were finalized. As a reminder, recommendations in JAMES should remain open until all parts of the recommendations are implemented.

In a written response, Treasury management agreed with our conclusion. Furthermore, management revised JAMES to reflect the actual completion date for the Trust Fund internal operating procedures. Management's response, in its entirety, is included as appendix 2 of this report.

Background

According to Office of Management and Budget Circular No. A-50, audit follow-up is an integral part of good management and a shared responsibility of management and auditors. Each agency should establish an audit follow-up system to assure the prompt and proper resolution and implementation of audit recommendations.⁴ Treasury Directive 40-03, *Treasury Audit Resolution, Follow-Up, and Closure*, requires bureau staff to ensure that (1) audit recommendations are resolved on a timely basis, (2) resolved audit recommendations (i.e., those agreed to by bureau management) are promptly acted upon and that progress with respect to proposed and ongoing corrective actions is adequately monitored, and (3) statistical information and other data are appropriately reported pursuant to all statutory and regulatory requirements.

⁴ Office of Management and Budget Circular No. A-50 Revised, "Audit Followup."

The status of audit recommendations is tracked in JAMES, an interactive system accessible to both the Treasury Office of Inspector General (OIG) and bureau management. JAMES contains tracking information on audit reports from their issuance through completion of all actions related to findings and recommendations.

Personnel within the Risk and Control Group within the Office of the Deputy Chief Financial Officer, request corrective action status updates from the office responsible for implementing the action. BFS was responsible for implementing the recommendations in the report titled, *RESTORE Act: Treasury Needs to Establish Procedures to Expend and Invest Gulf Coast Restoration Trust Fund Monies*. The program office provided the status reports and notified the Risk and Control Group that all three recommendations in the report had been addressed. Accordingly, the Risk and Control Group closed the recommendations in JAMES.

Status of Corrective Actions Taken by Management

In our September 2013 report, we found that Treasury lacked the necessary procedures to expend amounts from the Trust Fund and an investment strategy. Accordingly, we made the following three recommendations to management to address this finding, which it should be noted, management closed in JAMES as of November 3, 2014.

Take necessary action to establish regulations for the Gulf Coast Restoration Trust Fund, and to finalize internal Treasury procedures for the Trust Fund.

We reported that Treasury had not finalized the RESTORE Act regulations and its internal procedures, *Gulf Coast Restoration Trust Fund Concept of Operations* (CONOPS), related to the investment function. Since making the recommendation above, Treasury established regulations by publishing the Interim Final Rule for the RESTORE Act in the Federal Register on August 15, 2014, which became effective on October 14, 2014.⁵ The proposed final rule is going through the clearance and review process, and upon

⁵ 31 CFR Part 34

completion Treasury will publish the Final Rule. Although the Final Rule has not yet been published, Treasury's actions have met the intent of our recommendation as the Interim Final Rule is in effect.

Although Treasury closed this recommendation in JAMES on November 3, 2014, management had not addressed the second part of our recommendation to finalize internal procedures for the Trust Fund. Furthermore, management documented in JAMES that internal procedures were being finalized. At the time this recommendation was reported as closed in 2014, the CONOPS, presented to us as the internal procedures for the Trust Fund, were still in draft.

After receiving a draft of this report in July 2015, management clarified that the CONOPS was never meant to be the day to day operational procedures but rather the overarching plan from which operational procedures were developed. Although the CONOPS was presented to us as Treasury's internal procedure at the time of our original audit in 2013, management has since developed and implemented the *Standard Operating Procedures for the Gulf Coast Restoration Trust Fund* in December 2014. However, these procedures were not final at the time this recommendation was closed in JAMES.

While we acknowledge that management finalized internal procedures for the Trust Fund, corrective actions were taken after the recommendation was reported as closed in JAMES.

Ensure that Treasury's proposed regulations address how Treasury intends to meet the requirements of 31 U.S.C. §9702 for investment of the Trust Fund.

We reported that Treasury was investing amounts in the Trust Fund in short-term rather than long-term securities until an investment strategy was finalized. This was a result of Treasury's delay in finalizing RESTORE Act regulations and its internal procedures.

To address our second recommendation, Treasury included language on how it intends to meet the requirements of 31 U.S.C. §9702 for investment of the Trust Fund in the Interim Final

Rule which became effective on October 14, 2014. The rule states that the Secretary may invest in interest-bearing obligations of the United States, having maturities suitable to the needs of the Trust Fund as determined by the Secretary. These obligations will bear interest at rates described in 31 U.S.C. § 9702, unless the Secretary determines that such rates are unavailable for obligations with suitable maturities. In that event, the Secretary will select obligations of the United States bearing interest at rates determined by the Secretary, taking into consideration current market yields on outstanding marketable obligations of the United States of comparable maturities. Treasury's actions have met the intent of our recommendation.

Ensure that BFS, working with the administrators of each RESTORE Act Component establishes an investment strategy that takes into account projected outlays from the Trust Fund.

We reported that BFS planned to work with the administrators of each RESTORE Act Component (National Oceanic and Atmospheric Administration, the Gulf Coast Ecosystem Restoration Council, and Treasury's Office of Gulf Coast Restoration) to obtain cash projections and related timetables for required funds so that funds can be invested accordingly.

To address the recommendation above, BFS staff coordinated with the three administrators to establish an investment strategy. As part of the coordination, BFS staff continues to work with each of the administrators to estimate the projected outlays and cash flow needs of the agencies. The strategy stipulates that Treasury will consult with the administrators on an approximate quarterly basis once grant activity begins, or as necessary, to confirm that the investment strategy continues to meet the financing needs of the RESTORE Act programs. Treasury's actions have met the intent of our recommendation.

Conclusion

Although management addressed the recommendations, we found that corrective actions to finalize internal procedures for the Trust Fund occurred after the recommendation was reported as closed in JAMES. While we are not making a new recommendation in this report, management should ensure that JAMES is revised to reflect the actual date when internal procedures for the Trust Fund were finalized. As a reminder, recommendations in JAMES should remain open until all parts of the recommendations are implemented.

Management Response

Management agreed with our conclusion. Furthermore, management revised JAMES to reflect the actual completion date for the Trust Fund internal operating procedures.

OIG Comment

We verified that Treasury management revised JAMES to reflect December 2014 as the actual completion date for the Trust Fund internal operating procedures.

* * * * *

We would like to extend our appreciation for the cooperation and courtesies extended to our staff during the audit. Major contributors to this report are listed in appendix 3. A distribution list for this report is provided as appendix 4. If you have any questions, please contact me at (202) 927-5762 or Eileen Kao, Audit Manager, at (202) 927-8759.

/s/

Deborah L. Harker
Director, Gulf Coast Restoration Audits

As part of our oversight of programs, projects, and activities authorized by the *Resources and Ecosystems Sustainability, Tourist Opportunities, and Revived Economies of the Gulf Coast States Act of 2012* (RESTORE Act), we initiated a review of the corrective actions taken by Department of the Treasury (Treasury) management in response to the recommendations presented in our audit report titled, *RESTORE Act: Treasury Needs to Establish Procedures to Expend and Invest Gulf Coast Restoration Trust Fund Monies* (OIG-13-052; issued September 24, 2013). The objective of this corrective action verification was to determine whether management has taken corrective action that is responsive to our recommendations.

To accomplish our objective, we conducted fieldwork at the Treasury Office of Inspector General (OIG) office in Washington, D.C., between December 2014 and July 2015, which comprised the following steps.

- We reviewed the following documents:
 - *OIG audit report, RESTORE ACT: Treasury Needs to Establish Procedures to Expend and Invest Gulf Coast Restoration Trust Fund Monies* (OIG-13-052; issued September 24, 2013) for the original finding and recommendations;
 - Joint Audit Management Enterprise System report for the status of the prior report's recommendations and corrective actions;
 - Office of Management and Budget Circular No. A-50, *Audit Followup*;
 - Treasury Directive 40-03, *Treasury Audit Resolution, Follow-Up, and Closure*;
 - Treasury Interim Final Rule for RESTORE Act and Preamble, 31 CFR Part 34, effective October 14, 2014;
 - Investment Strategy document signed by a National Oceanic and Atmospheric Administration official on August 14, 2013, and the Gulf Coast Ecosystem Restoration Council Chief Financial Officer on July 31, 2013;

- Email communication from a Treasury official concurring with the Investment Strategy on July 29, 2013;
 - Amended Investment Strategy dated January 15, 2015;
 - *Gulf Coast Restoration Trust Fund Concept of Operations* dated January 16, 2015; and
 - *Standard Operating Procedures for the Gulf Coast Restoration Trust Fund* dated December 2014.
- We interviewed key officials at the Bureau of the Fiscal Service responsible for implementing the recommendations, including:
 - Supervisory Accountant;
 - Accountant; and
 - Counsel.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix 2
Management Response



ASSISTANT SECRETARY

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

August 31, 2015

Ms. Deborah L. Harker
Director, Gulf Coast Restoration Audits
Office of the Inspector General
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Dear Ms. Harker:

This letter responds to the draft audit report (Report) titled *Corrective Action Verification: Treasury Needs to Establish Procedures to Expend and Invest Gulf Coast Restoration Trust Fund Monies (OIG-15-xxx)*. The Report is a follow-up to a 2013 report from the Office of the Inspector General (OIG), in which OIG made various recommendations about the Gulf Coast Restoration Trust Fund internal operating procedures, investment strategy, and in-effect interim final rule. We accept the Report's findings. We have updated JAMES to reflect the completion date for the Gulf Coast Restoration Trust Fund internal operating procedures, as requested in the Report.

We appreciated the cordial and productive interactions we had with your team over the course of this audit, and we look forward to working with you in the future.

Sincerely,

David A. Lebryk
Fiscal Assistant Secretary

Appendix 3
Major Contributors to This Report

John B. Gauthier, Audit Manager
Eileen J. Kao, Audit Manager
Eleanor P. Kang, Auditor-in-Charge
Usman Abbasi, Auditor
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