



# Audit Report



OIG-15-013

Audit of the Gulf Coast Ecosystem Restoration Council's  
Financial Statements for Fiscal Years 2014 and 2013

November 17, 2014

Office of  
Inspector General

Department of the Treasury

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DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

OFFICE OF  
INSPECTOR GENERAL

November 17, 2014

The Honorable Penny Pritzker  
Secretary, U.S. Department of Commerce  
Chairperson, Gulf Coast Ecosystem Restoration Council  
1401 Constitution Ave., NW  
Washington, D.C. 20230

Dear Chairperson Pritzker:

I am pleased to transmit RMA Associates, LLC's (RMA) report on the Gulf Coast Ecosystem Restoration Council's (Council) financial statements as of and for the fiscal years (FY) ending September 30, 2014 and 2013.

The audit of the Gulf Coast Ecosystem Restoration Council's financial statements is required by the Chief Financial Officer's Act, as amended by the Accountability of Tax Dollars Act of 2002. This audit was performed as part of our authority under Section 1608 of the Resources and Ecosystems Sustainability, Tourist Opportunities, and Revived Economies of the Gulf Coast States Act of 2012. Under a contract monitored by my office, RMA, an independent certified public accounting firm, performed an audit of the Council's FY 2014 and 2013 financial statements. The contract required that the audit be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States and Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*.

In its audit, RMA reported the following:

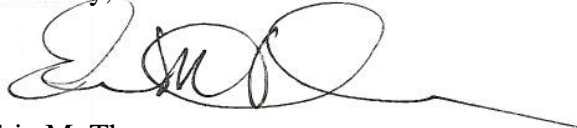
- the financial statements were fairly presented, in all material respects, in accordance with accounting principles generally accepted in the United States of America;
- a material weakness related to the Council's lack of sufficient implemented and documented internal control over financial reporting; and
- no instances of reportable noncompliance with laws and regulations tested.

In connection with the contract, we reviewed RMA's reports and related documentation and inquired of its representatives. Our review, as differentiated from an audit performed in accordance with generally accepted government auditing standards, was not intended to enable us to express, and we do not express an opinion on the financial statements or conclusions about the effectiveness of internal control or compliance with laws and regulations. RMA is responsible for the attached auditors' report dated November 7, 2014, and the conclusions expressed therein. However, our review disclosed no instances where RMA did not comply, in

all material respects, with generally accepted government auditing standards and OMB Bulletin No. 14-02.

I appreciate the courtesy and cooperation extended to RMA and my staff during the audit. Should you have any questions, please contact me at (202) 622-1090, or a member of your staff may contact Marla A. Freedman, Assistant Inspector General for Audit, at (202) 927-5400.

Sincerely,

A handwritten signature in black ink, appearing to read 'E. M. Thorson', with a long horizontal line extending to the right.

Eric M. Thorson  
Inspector General, Department of the Treasury

cc: Teresa Christopher, Chairperson Designee  
Justin Ehrenwerth, Executive Director

Enclosure

**SECTION I**

**INDEPENDENT AUDITORS' REPORT**

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# Independent Auditors' Report

Inspector General  
U.S. Department of the Treasury

Secretary, U.S. Department of Commerce and  
Chairperson, Gulf Coast Ecosystem Restoration Council

## Report on the Financial Statements

We have audited the accompanying financial statements of the Gulf Coast Ecosystem Restoration Council (Council) which comprise the balance sheets as of September 30, 2014 and 2013, and the related statements of net cost, changes in net position, and budgetary resources (hereinafter referred to as "financial statements" or "basic financial statements"), for the years then ended; and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 14-02 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness

of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion on the Financial Statements***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Gulf Coast Ecosystem Restoration Council as of September 30, 2014 and 2013, and its net costs, changes in net position, and budgetary resources for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### **Required Supplementary Information**

Accounting principles generally accepted in the U.S. require that the *Management's Discussion and Analysis* be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### **Other Information**

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The *Message from the Executive Director on Behalf of the Council*, the *Performance Section*, and the *Other Information* are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

## **Other Reporting Required by *Government Auditing Standards***

### ***Internal Control over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the Council's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control. Accordingly, we do not express an opinion on the effectiveness of the Council's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Council's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, we identified a deficiency in internal control described in Exhibit A that we consider to be a material weakness.

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Council's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 14-02. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 14-02.

### ***The Council's Response to Finding***

The Council's response to the finding identified in our audit is described in Exhibit A. The Council's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

***Purpose of the Other Reporting Required by Government Auditing Standards***

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Council's internal control or on compliance. Accordingly, this communication is not suitable for any other purpose.

*RMA Associates*

Arlington, VA  
November 7, 2014

## **Exhibit A: Material Weakness in Internal Control over Financial Reporting**

### **Lack of Sufficient Implemented and Documented Internal Control over Financial Reporting**

The Council lacks documented internal control policies and procedures. The Council uses the Treasury's Administrative Resource Center (ARC) for its accounting and financial reporting needs. However, ARC's controls can only be relied upon when considered in conjunction with the Council's implemented end-user complementary controls.

Internal controls over financial reporting have yet to be fully documented and assessed. Entity-level controls (control environment, risk assessment, information and communication, and monitoring) have not yet been documented and implemented. In terms of process level controls (control activities) the main area of implementation concern is a lack of segregation of duties. The Council's control environment is centered on the Chief Financial Officer with some Executive Director involvement. Examples of process level control weaknesses include lack of secondary review and approval over:

- Obligation data entry forms
- Obligation and accrual reports
- Unfilled customer orders, receivables, and cash receipts
- Financial reports
- Revenue and expense accruals
- Manual journal vouchers

OMB Circular A-123, *Management's Responsibility for Internal Control*, which presents guidelines for internal control requirements for Federal agencies, states that "Management is responsible for establishing and maintaining internal control to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations." According to OMB Circular A-123 and the GAO Standards for Internal Control within the Federal Government, management is responsible for developing and maintaining internal control over financial reporting.

The Council is in the preliminary stages of development, and currently lacks the resources to address its internal control over financial reporting needs.

**Recommendation:** The Council should acquire additional resources to assist in documenting and implementing its internal control policies and procedures. As the agency grows, these internal controls will set the foundation for achieving the objectives set forth by the Federal Managers' Financial Integrity Act of 1982.

**Management's Response:** Management concurs that a lack of resources during this start-up period has precluded the Council from fully documenting and implementing entity-level controls and that the Council's small start-up staff structure has not allowed sufficient segregation of

duties. However, the Council did implement those internal controls that were feasible given the level of its financial management resources and relatively small volume of transactions: 1) Council members were required to pre-approve all contracts and agreements over \$15,000; 2) smaller purchases required pre-approval by the Executive Director; and 3) all travel authorizations required a higher level review and approval. The Council concurs with the audit recommendation and is actively engaged in obtaining additional financial management resources that will both support the documentation and implementation of controls as well as directly address the lack of segregation of duties. As an interim measure, a Council member is providing supplementary finance staff support.

**SECTION II**

**GULF COAST ECOSYSTEM RESTORATION COUNCIL  
PERFORMANCE AND ACCOUNTABILITY REPORT  
FISCAL YEARS 2014 AND 2013**

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**GULF COAST ECOSYSTEM RESTORATION COUNCIL**  
**PERFORMANCE AND ACCOUNTABILITY REPORT**  
**Fiscal Years 2014 and 2013**

*This Performance and Accountability Report for FISCAL YEAR 2014 and 2013 provides the financial and performance information for the Gulf Coast Ecosystem Restoration Council (the Council), enabling the President, Congress, and the American people assess the Council's performance as provided by the requirements of the:*

- ◆ *Improper Payments Information Act (IPIA) of 2002 as amended by the Improper Payments Elimination and Recovery Act (IPERA) of 2010 and Improper Payments Elimination and Recovery Improvement Act of 2012;*
- ◆ *Accountability of Tax Dollars Act (ATDA) of 2002;*
- ◆ *Reports Consolidation Act of 2000;*
- ◆ *Government Management Reform Act of 1994;*
- ◆ *Government Performance and Results Act (GPRA) of 1993 as amended by the Government Performance and Results Act Modernization Act (GPRAMA) of 2010;*
- ◆ *Chief Financial Officers (CFO) Act of 1990;*
- ◆ *Federal Managers' Financial Integrity Act (FMFIA) of 1982.*

*This report is available on the internet at <http://www.restorethegulf.gov>*

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**MESSAGE FROM THE GULF COAST ECOSYSTEM RESTORATION COUNCIL  
NOVEMBER 17, 2014**

I am pleased to submit this Performance and Accountability Report (PAR) for the Gulf Coast Ecosystem Restoration Council (the Council) for fiscal year 2014. The PAR provides an assessment of the Council's financial information and outlines the Council's accomplishments to implement the *Resources and Ecosystems Sustainability, Tourist Opportunities, and Revived Economies of the Gulf Coast States Act of 2012*, or RESTORE Act, as well as our major goals and priorities to restore the ecosystem and economy of the Gulf Coast region.

The Gulf Coast region is vital to our Nation and our economy, providing abundant seafood, extraordinary beaches and recreational activities, a rich cultural heritage, and valuable energy resources. Over twenty-two million Americans live in Gulf coastal counties and parishes – working in crucial U.S. industries like commercial seafood, shipping, tourism, and oil and gas production. The region also boasts ten of America's fifteen largest ports accounting for nearly a trillion dollars in trade each year. Its waters and coasts are home to one of the most diverse environments in the world – including over 15,000 species of sea life. Over the past century, the Gulf Coast has experienced the loss of critical wetland habitats, erosion of barrier islands, imperiled fisheries, and water quality degradation. Amplifying these issues, the region has endured significant natural and man-made catastrophes in the last decade, including major hurricanes such as Katrina, Rita, Gustav, and Ike, and the *Deepwater Horizon* oil spill.

The Council, comprised of the Governors of the five Gulf Coast States (Alabama, Florida, Louisiana, Mississippi and Texas) and Cabinet-level officials from six federal agencies (Departments of Agriculture, Commerce, Defense, Homeland Security, and Interior, and the Environmental Protection Agency), was established by the RESTORE Act to respond to these challenges. The Council recognizes the unique and unprecedented opportunity we have to implement a restoration effort in a way that restores and protects the Gulf Coast environment, reinvigorates local economies, and creates jobs in the region. We are committed to working with Gulf communities and partners to invest in actions, projects, and programs that will ensure the long-term environmental health and economic prosperity of the Gulf Coast region. To guide these investments, the Council has adopted five overarching goals:

- ♦ Restore and Conserve Habitat;
- ♦ Restore Water Quality;
- ♦ Replenish and Protect Living Coastal and Marine Resources;
- ♦ Enhance Community Resilience; and
- ♦ Restore and Revitalize the Gulf Economy.

Over the past two years, we have achieved key milestones toward standing up the Council as a new federal entity, worked with tens of thousands of citizens to develop a regional restoration plan, and have established the administrative and operational infrastructure to allow us to efficiently and effectively disburse funds available from the Trust Fund.

Because the Council expended only a minimal amount of administrative funds made available from the Trust Fund late in fiscal year 2013, and the draft Treasury Rule did not require the Council to have an independent audit performed on its financial statements until the end of fiscal year 2014, a financial statement audit was not performed in fiscal year 2013. The fiscal year 2013 financial statements, presented in comparative form with the fiscal year 2014 financial statements, were audited by an independent auditor in conjunction with the audit of the fiscal year 2014 financial statements. We are pleased to report that the audit resulted in an unmodified opinion and that the financial statements present fairly, in all material respects, the financial position of the Gulf Coast Ecosystem Restoration Council.

In accordance with guidance from OMB, I have determined, to the best of my knowledge and belief that the performance and financial data included in this report is complete and reliable, and that the internal controls over the effectiveness and efficiency of operations, reliable financial reporting and compliance with applicable laws and regulations were operating effectively. However, in fiscal years 2013 and 2014, the Council was in start-up operations and had insufficient staff resources to be able to fully implement a sufficiently comprehensive internal control program to meet all of the objectives of FMFIA and OMB Circular A-123 *Management's Responsibility for Internal Control*, and accordingly, the audit reported a material weakness due to a lack of sufficient implemented and documented internal control policies and procedures. The Council is training current staff and hiring additional staff to ensure that a documented comprehensive internal control program is put in place.

Although the Council still faces the challenge of not knowing the ultimate amount and timing of available funding, we are committed to continuing to work with the citizens of the Gulf Coast to make smart investments and use resources wisely to restore the region's ecosystem and economy.



Justin R. Ehrenwerth  
Executive Director

Gulf Coast Ecosystem Restoration Council

11/17/14

## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

### OVERVIEW

This PAR presents the Gulf Coast Ecosystem Restoration Council's program and financial management performance for fiscal year 2014.

Building on prior efforts to help ensure the long-term restoration and recovery of the Gulf Coast region, the *Resources and Ecosystems Sustainability, Tourist Opportunities, and Revived Economies of the Gulf Coast States Act of 2012*, or the RESTORE Act, was passed by Congress on June 29, 2012, and signed into law by President Obama on July 6, 2012. The RESTORE Act provides for planning and resources for a regional approach to the long-term health of the valuable natural ecosystems and economy of the Gulf Coast region. The RESTORE Act dedicates 80 percent of any civil and administrative penalties paid under the Clean Water Act, after the date of enactment, by responsible parties in connection with the *Deepwater Horizon* oil spill to the Gulf Coast Restoration Trust Fund (Trust Fund) for ecosystem restoration, economic recovery, and tourism promotion in the Gulf Coast region. In addition to establishing the Trust Fund, the RESTORE Act established the Gulf Coast Ecosystem Restoration Council (the Council) to help restore the ecosystem and economy of the Gulf Coast region by developing and overseeing implementation of a Comprehensive Plan and carrying out other responsibilities.

Due to uncertainty around a variety of factors associated with ongoing litigation, the ultimate amount of administrative and civil penalties that may be available to the Trust Fund and the timing of their availability are currently unknown. On January 3, 2013, the United States announced that Transocean Deepwater Inc. and related entities had agreed to pay \$1 billion (plus interest) in civil penalties for violating the Clean Water Act (CWA) in relation to their conduct in the *Deepwater Horizon* oil spill. In accordance with the consent decree, Transocean has paid its first two installments of civil penalties plus interest to the Department of Justice. In addition, the United States continues to seek additional civil penalties from BP Exploration and Production Inc. and Anadarko Petroleum Corporation, which may also provide funds for the Trust Fund. The Department of Justice has transferred 80% of these funds (\$653,034,301) to Treasury for deposit into the Gulf Coast Restoration Trust Fund. Of the amounts deposited into the Trust Fund, the Council is responsible for administering 60%: 30% for the Council-Selected Restoration Component and 30% for the Spill Impact Component. The Council will oversee and implement this funding with the goal of a coordinated Federal, State, and local long-term recovery approach.

The Council successfully completed its first statutorily mandated deliverable in fiscal year 2013, an Initial Comprehensive Plan to provide a framework to implement a coordinated, Gulf Coast region-wide restoration effort in a way that restores, protects, and revitalizes the Gulf Coast. The Council also conducted an environmental analysis, published a Programmatic Environmental Assessment (PEA) and issued a Finding of No Significant Impact (FONSI) for the Comprehensive Plan.

The Comprehensive Plan expresses the manner in which the Council will achieve its goals and objectives through its selection and implementation of projects and programs, its activities, and its outreach and engagement with its stakeholders and the communities of the Gulf region. The Council will coordinate, as appropriate, with states, federal agencies, tribes, and other entities working in the Gulf Coast region to achieve common goals, ensure regulatory efficiency, and collectively work towards an integrated vision for comprehensive restoration. The Council recognizes that similar work resulting from the *Deepwater Horizon* oil spill has been undertaken by the Natural Resource Damage Assessment (NRDA) Trustees, the National Fish and Wildlife Foundation (NFWF), the National Academy of Sciences (NAS) and the North American Wetlands Conservation Fund (NAWCF). The Council will work with these partners to advance common goals, avoid duplication, and maximize the benefits to the Gulf Coast region. As set forth in the Council's Initial Comprehensive Plan, the Council makes the following commitments to its constituents.

*Commitment to Science-Based Decision-Making*

The decisions made pursuant to the Plan will be based on the best available science, and this Plan will evolve over time to incorporate new science, information, and changing conditions.

*Commitment to a Regional Ecosystem-Based Approach to Restoration*

The Council recognizes that upland, estuarine, and marine habitats are intrinsically connected, and will promote ecosystem-based and landscape-scale restoration without regard to geographic location within the Gulf Coast region. The Council recognizes that regional ecosystem restoration activities can have multiple human and environmental benefits, such as restoring habitats that sustainably support diverse fish and wildlife populations, while also providing an array of commercial, recreational, and other human uses of the ecosystem.

*Commitment to Engagement, Inclusion, and Transparency*

It is the Council's intent to seek broad participation and input from the diverse stakeholders who live, work, and play in the Gulf Coast region in both the continued development of this Plan and the ultimate selection and funding of ecosystem restoration activities.



*Commitment to Leveraging Resources and Partnerships*

The Council will encourage partnerships and welcome additional public and private financial and technical support to maximize outcomes and impacts. Such partnerships will add value through integration of public and private sector skills, knowledge, and expertise.

*Commitment to Delivering Results and Measuring Impacts*

The Council recognizes the importance of measuring outcomes and impacts in order to achieve tangible results and ensure that funds are invested in a meaningful way. The Council will consider a variety of methods to measure and report on the results and impacts of Council- Selected Restoration Component activities and will include project- or program-specific measurement and reporting requirements in funding agreements with Council Members.

In fiscal year 2013, the Council initiated a phased approach to stand-up the independent entity and ensure that it would be ready to move efficiently and effectively to implement a restoration plan once the Treasury regulations were published and funds could be expended for projects and programs. In fiscal year 2013, working in close partnership with the people who live and work in the Gulf, the Council focused on meeting its congressionally mandated deadlines including the development and release of an Initial Comprehensive Plan.

In fiscal year 2014, the Council established basic administrative operations and processes, hired core foundational staff, including an Executive Director and Chief Financial Officer. The Council developed its internal operating procedures and established its administrative infrastructure, functions and procedures. The Council also developed the processes for evaluating and selecting projects under the Council-Selected Restoration Component, approving the State Expenditure Plans required under the Spill Impact Component, and administering the disbursement of funds through grants and interagency agreements. Additionally, the Council took steps to coordinate the Council's efforts with other large-scale Gulf restoration initiatives, such as the *Deepwater Horizon* NRDA Trustees and NFWF, to ensure that efforts are complementary and mutually beneficial.

## **MISSION AND ORGANIZATION**

The Council is charged with helping to restore the ecosystem and economy of the Gulf Coast region by developing and overseeing implementation of a Comprehensive Plan, approving State Expenditure Plans, and carrying out other responsibilities. The Council is chaired by the Secretary of Commerce and includes the Governors of the States of Alabama, Florida, Louisiana, Mississippi, and Texas, and the Secretaries of the U.S. Departments of Agriculture, Army, Homeland Security and the Interior, and the Administrator of the U.S. Environmental Protection Agency.

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**Chair**  
**Department of Commerce**  
Penny Pritzker  
Secretary

State of Alabama  
Robert Bentley  
Governor

Department of Agriculture  
Thomas Vilsack  
Secretary

State of Florida  
Rick Scott  
Governor

Department of the Army  
John McHugh  
Secretary of the Army

State of Louisiana  
Bobby Jindal  
Governor

Environmental Protection Agency  
Gina McCarthy  
Administrator

State of Mississippi  
Phil Bryant  
Governor

Department of Homeland Security  
Jeh Johnson  
Secretary

State of Texas  
Rick Perry  
Governor

Department of the Interior  
Sally Jewell  
Secretary

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## **DISCUSSION OF PERFORMANCE**

In fiscal year 2013, the Council successfully completed its first statutorily mandated deliverable, an Initial Comprehensive Plan to provide a framework to implement a coordinated, Gulf Coast region-wide restoration effort in a way that restores, protects, and revitalizes the Gulf Coast. The Council also conducted an environmental analysis, published a Programmatic Environmental Assessment and issued a Finding of No Significant Impact from the Comprehensive Plan.

In fiscal year 2014, the Council completed the threshold activities to become operationally capable to carry out its statutorily mandated mission and goals. A financial, internal control and administrative infrastructure was established and funds were drawn from the Trust Fund to enable basic administrative and operational planning activities to be carried out. The Council continued to refine its internal governance structure through the development of Standard Operating Procedures and the finalization of a Federal Agency Memorandum of Understanding (an agreement documenting mutual expectations regarding participation by the Federal Members on the Council). Administrative services including accounting, budget, finance, human resources, procurement, travel, legal, and payroll were acquired through agency cross-servicing agreements. Permanent office space for a small, central agency headquarters was acquired in New Orleans. This central location is supported by a distributed organizational structure across the Gulf Coast states. Fiscal year 2014 and 2013 financial statements were produced, and an audit of both was completed. The audit resulted in an unmodified opinion.

Fiscal year 2014 operational planning activities included the following:

- developed National Environmental Policy Act (NEPA) and environmental compliance policy and procedures; publication of the procedures is expected in early fiscal year 2015;
- developed processes for integrating the assessment of the best available science into project and program evaluation;
- executed a program for public engagement;
- drafted guidelines for State Expenditure Plans;
- published a rigorous proposal submission and evaluation process, announced the opening of a project submission window for Council members to select projects and programs to be included on a draft Funded Priorities List (FPL) and published for public comment; and
- published an Interim Final Rule for Gulf Coast states to receive funding for development of their State Expenditure Plans. The rule provides access of up to 5% of the funds available to each State under the Oil Spill Impact Component for planning.

The Council anticipates releasing a proposed rule in fiscal year 2015 that will set forth the final oil spill impact formula and the levels of funding to be provided to each State.

## **ANALYSIS OF THE FINANCIAL STATEMENTS**

To best serve the communities of the Gulf Coast Region, the Council will carry out its activities to implement the Initial Comprehensive Plan and accomplish the requirements of the Act in an effective and efficient manner, at the minimum cost possible. Due to the uncertainty and timing of future resources, the Council's financial planning is based on current and known future resources.

The Council has been in the process of standing-up as a self-sustaining independent federal entity, putting its administrative foundation in place, and engaged only in planning and developing its programs. Due to the significant support received from Council members, the expenses of the Council funded by the Trust Fund were minimal in fiscal year 2013, and while they increased in fiscal year 2014, remained relatively small.

The Statement of Budgetary Resources shows that in fiscal year 2013, the Council budgeted and obligated \$360,000 which funded two Memoranda of Understanding (MOU's) to reimburse the Department of Commerce (DOC) for the salaries of the Executive Director and Chief Financial Officer/Director of Administration from September 2013 through November 2013, an Interagency Agreement (IAA) to fund the development of the Council accounting system, and an IAA for fiscal year 2014 finance, procurement and travel services. In fiscal year 2014, the Council budgeted \$1,964,164 for salaries and administrative services and operations but obligated only \$919,725 of Trust Funds due to slower than anticipated hiring, the extension of several non-reimbursable staff detail agreements, and the funding of the website migration through the use of gift funds provided to the Department of Commerce to be used on behalf of the Council. In addition, the acquisition of the grants management system (\$492,936) and the award of the interagency agreement with Treasury for finance, procurement and travel services (\$238,220) for fiscal year 2015 were deferred to fiscal year 2015. In fiscal year 2014, the Council received non-reimbursed services (imputed expense) in the amount of \$1,120,327<sup>1</sup> from Council Members and other external entities in support of its mission bringing the total obligations and expense for fiscal year 2014 to \$2,040,052. Table 1 on the next page presents this information.

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<sup>1</sup> Amount estimated.

<b>COMPARISON OF BUDGET TO COSTS OBLIGATED/INCURRED</b>				
<b>EXPENSE CATEGORY</b>	<b>FY 14 BUDGET</b>	<b>OBLIGATED FY14</b>	<b>IMPUTED COSTS</b>	<b>DEFERRED TO FY15</b>
<b>SALARIES/BENEFITS</b>	\$ 860,201	\$ 336,221	[\$ 609,892]	
<b>TRAVEL</b>	\$ 109,391	\$ 45,245	[\$ 70,623]	
<b>RENT/COMMUNICATIONS</b>	\$ 22,625	\$ 47,162	[\$ 51,109]	
<b>ACCOUNTING/TRAVEL/ PROCUREMENT SVCS</b>	\$ 263,739			\$ 238,220
<b>GRANT MGMT SYSTEM</b>	\$ 250,000			\$ 492,936
<b>WEBSITE MAINTENANCE AND MIGRATION</b>	\$ 187,500		[\$ 386,492]	
<b>SUPPLIES/MATERIALS</b>	\$ 15,000	\$ 5,127		
<b>OTHER CONTRACT SVCS</b>	\$ 204,728	\$ 428,977	[\$ 2,211]	
<b>SERVICES - IMPUTED/ NON REIMBURSED*</b>			\$ 1,120,327	
<b>EQUIPMENT</b>	\$ 7,000	\$ 6,993		
<b>OFFICE SET-UP/ REFURBISHMENT</b>	\$ 20,430	\$ 50,000		
<b>PRINTING AND REPRODUCTION</b>	\$ 7,550			
<b>CONFERENCES/PUBLIC MEETINGS</b>	\$ 16,000			
<b>TOTAL</b>	\$ 1,964,164	\$ 919,725	\$ 1,120,327	\$ 731,156

*\*amounts in brackets depict breakdown of Services - Imputed/Non-Reimbursed*

Table 1

Whereas the Statement of Budgetary Resources reports obligations, the Comparative Statement of Net Cost reports expenses as they are incurred in the same way private entities record expenses, and reflects the change in expenses from fiscal year 2013 to fiscal year 2014. The Council incurred expenses of \$1,193,648 in fiscal year 2013 which included the development of the council accounting system, salaries and non-reimbursed costs, while expenses incurred in fiscal year 2014 increased to \$2,029,997, including non-reimbursed costs. The table on the next page shows the breakout of fiscal year 2014

expenses incurred from fiscal year 2013 obligations, fiscal year 2014 obligations and non-reimbursed/imputed expenses.

<b>SOURCES OF EXPENSES INCURRED IN FISCAL YEAR 2014</b>				
<b>EXPENSE CATEGORY</b>	<b>FY 14 EXPENSE INCURRED FROM FY 13 OBLIGATIONS</b>	<b>FY 14 EXPENSE INCURRED FROM FY 14 OBLIGATIONS</b>	<b>IMPUTED EXPENSE</b>	<b>TOTAL FY 14 EXPENSE</b>
<b>SALARIES/BENEFITS</b>	\$ 47,877	\$ 331,272	\$ 609,892	\$ 989,041
<b>TRAVEL</b>		\$ 43,019	\$ 70,623	\$ 113,642
<b>RENT/EQUIP/COMMUNICATIONS</b>		\$ 1,999	\$ 51,109	\$ 53,108
<b>ACCOUNTING/OTHER SERVICES</b>	\$ 182,244			\$ 182,244
<b>WEBSITE MAINTENANCE</b>			\$ 218,596	\$ 218,596
<b>WEBSITE MIGRATION</b>			\$ 167,896	\$ 167,896
<b>SUPPLIES/MATERIALS</b>		\$ 5,127		\$ 5,127
<b>OTHER CONTRACT SERVICES</b>		\$ 298,132	\$ 2,211	\$ 300,343
<b>TOTAL</b>	\$ 230,121	\$ 679,549	\$ 1,120,327	\$ 2,029,997

Table 2

The Statement of Net Costs also classifies costs as administrative (as defined by the Treasury Rule), programmatic and when incurred, as costs for projects and programs. Table 3 on the next page shows the breakout of FY 14 costs by administrative and programmatic classification.

<b>BREAKDOWN OF EXPENSE BY ADMINISTRATIVE AND PROGRAMMATIC COST CLASSIFICATION</b>			
<b>EXPENSE CATEGORY</b>	<b>TOTAL FY 14 EXPENSE</b>	<b>ADMINISTRATIVE</b>	<b>PROGRAMMATIC</b>
<b>SALARIES/BENEFITS</b>	\$ 379,149	\$ 231,229	\$ 147,920
<b>TRAVEL</b>	\$ 43,019	\$ 19,523	\$ 23,496
<b>RENT/COMMUNICATIONS</b>	\$ 1,999	\$ 946	\$ 1,053
<b>ARC ACCOUNTING AND OTHER SERVICES</b>	\$ 182,244	\$ 182,244	
<b>SUPPLIES/MATERIALS</b>	\$ 5,127	\$ 4,363	\$ 764
<b>OTHER CONTRACT SERVICES</b>	\$ 298,132	\$ 170,401	\$ 127,731
<b>SERVICES - IMPUTED</b>	\$ 1,120,327	\$ 23,010	\$ 1,097,317
<b>TOTAL</b>	\$ 2,029,997	\$ 631,716	\$ 1,398,281

Table 3

The Council received approximately \$1.1 million in support from Council members in fiscal years 2014 and 2013. This support consisted of non-reimbursable details of staff and their travel costs, website support and miscellaneous other expenses. Table 4 compares the categories of services provided by external entities by fiscal year.

Table 4

<b>COMPARISON OF IMPUTED (NON-REIMBURSED) COSTS</b>		
<b>CATEGORY</b>	<b>FY 14</b>	<b>FY13</b>
<b>SALARIES/BENEFITS</b>	\$ 609,892	\$ 771,032
<b>TRAVEL</b>	\$ 70,623	\$ 73,715
<b>WEBSITE MAINTENANCE</b>	\$ 218,596	\$ 218,596
<b>WEBSITE MIGRATION</b>	\$ 167,896	
<b>OFFICE SPACE &amp; EQUIPMENT</b>	\$ 51,109	\$ 48,847
<b>PUBLIC MEETING COST</b>		\$ 16,710
<b>MISCELLANEOUS OTHER</b>	\$ 2,211	\$ 13,748
<b>TOTAL NON-REIMBURSED</b>	\$ 1,120,327	\$ 1,142,648

The following charts depict the budget; obligations/expenses incurred for fiscal year 2014; and a comparison of budget to actual broken out by cost categories.

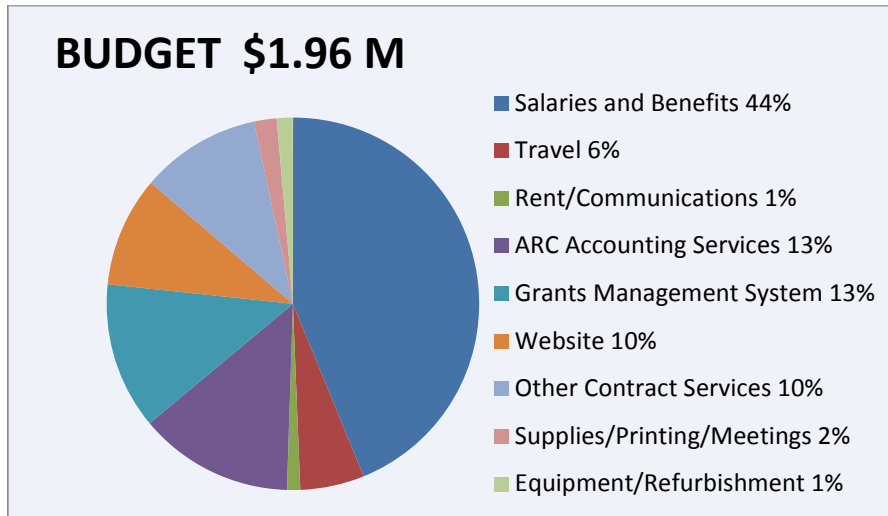


Chart 1

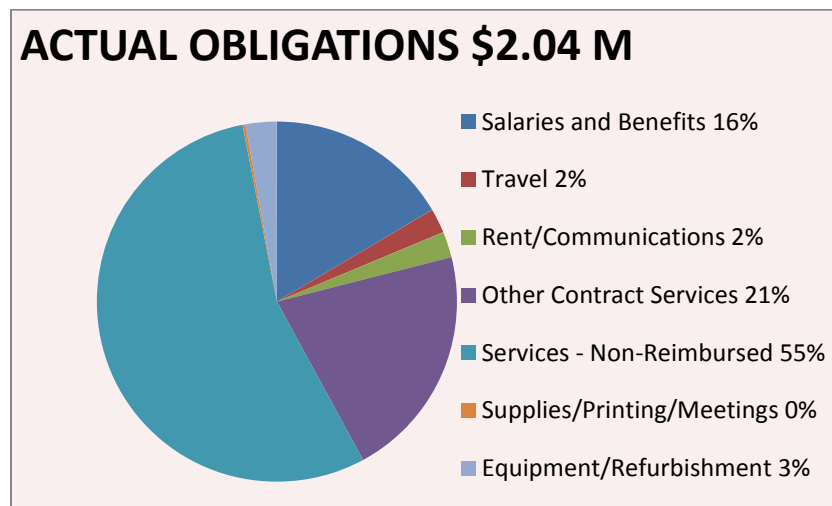


Chart 2

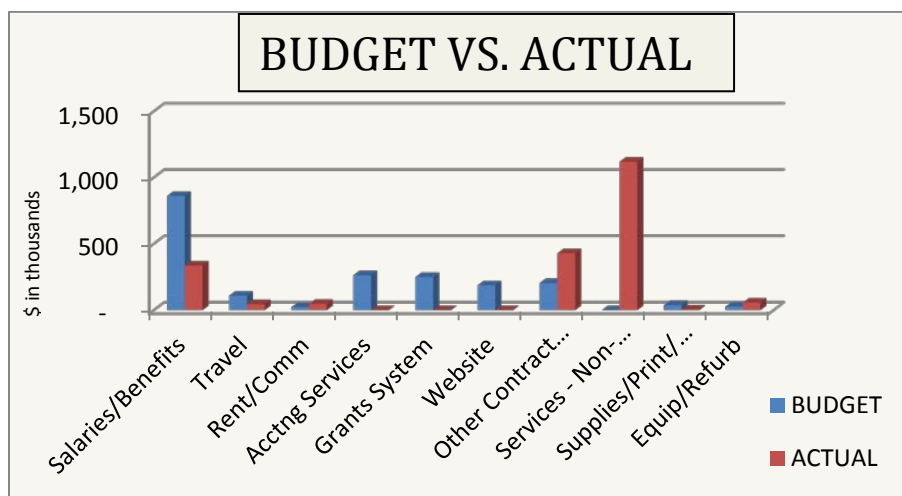


Chart 3



The chart below depicts fiscal year 2014 expense incurred by expense category.

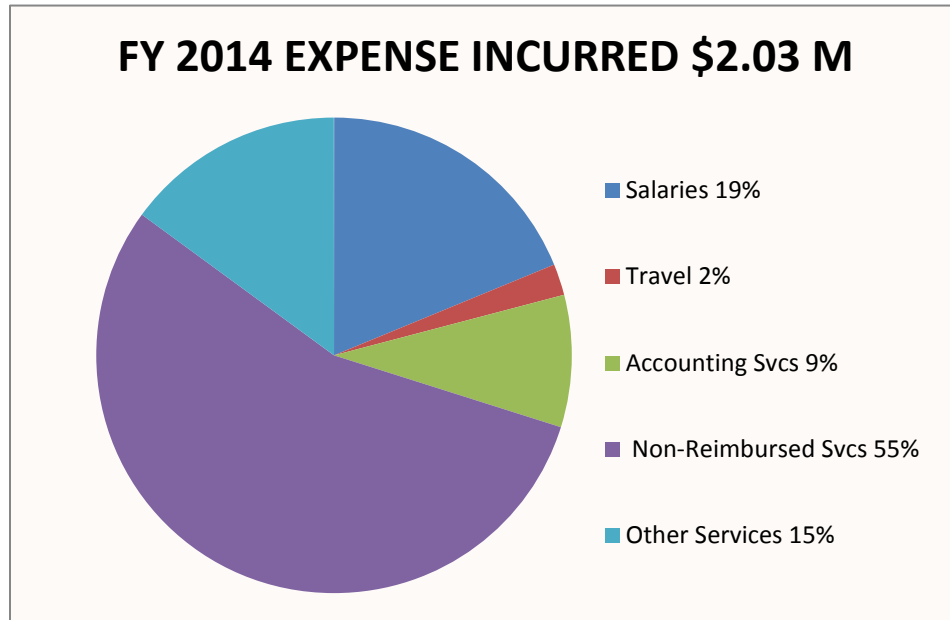


Chart 4

The next chart presents fiscal year 2014 expense incurred by cost classification.

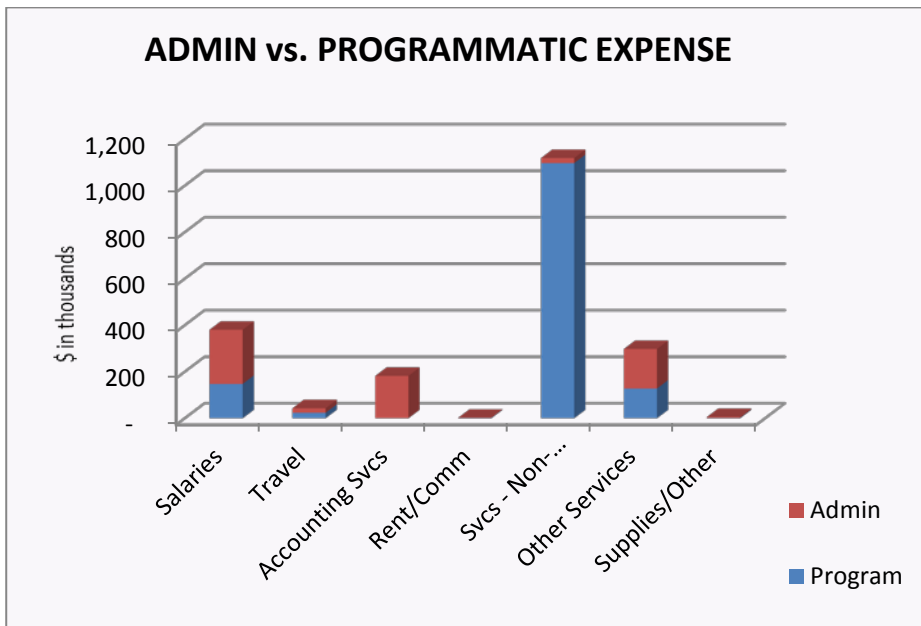


Chart 5

The increases reflected in all of the financial statements are a reasonable and accurate reflection of the Council's growth and development as an independent entity, compliant with Federal rules, regulations and requirements, prepared to carry out operations to achieve its statutory mission.

The Council's financial condition as of September 30, 2014 is sound, and the Council has sufficient processes in place to ensure its budget authority is not exceeded and that funds are utilized efficiently and effectively. The Council's accounting services provider, the U.S. Department of the Treasury Administrative Resource Center (ARC) in the Bureau of the Fiscal Service (Fiscal Service), prepared the Council's financial statements as required by the Accountability of Tax Dollars Act of 2002 and pursuant to the requirements of 31 U.S.C. 3515(b). They have been prepared from, and are fully supported by, the books and records of ARC in accordance with Generally Accepted Accounting Principles (GAAP) recognized in the United States of America, the standards of the Federal Accounting Standards Advisory Board (FASAB), and OMB Circular A-136, *Financial Reporting Requirements*.

#### **Limitations of the Financial Statements**

The principal financial statements have been prepared to report the financial position net costs, changes in net position and budgetary resources of the Council, pursuant to the requirements of 31 U.S.C. 3515(b). While the statements have been prepared from the books and records of the Council in accordance with GAAP for Federal entities and the formats prescribed by OMB, the statements are, in addition to the financial reports, used to monitor and control budgetary resources, which are prepared from the same books and records. The statements should be read with the understanding that they are for an independent agency of the U.S. Government. The financial statements, footnotes, and the remainder of the required supplementary information appear in their entirety in Section 4, Financial Statements.

#### **Financial Performance Measure Summary**

The Council does not have an in-house financial accounting system and does not receive a Performance Measure Summary from the Department of the Treasury. The Council acquires travel, procurement, accounting and financial services from the Treasury ARC. The Council verifies and reconciles all financial statements and reports prior to submission, and has remained in compliance with all reporting thresholds.

#### **SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE**

This section provides information on the Council's adherence with the objectives of the Federal Managers' Financial Integrity Act (FMFIA). FMFIA requires that CFO Act agencies establish controls to provide reasonable assurance that obligations and costs comply with applicable law; assets are safeguarded against waste, loss, unauthorized use, or

misappropriation; and revenues and expenditures are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets. It requires the agency head to provide an assurance statement of the adequacy of management controls and conformance of financial systems with government standards.

The Council has provided its annual assurance statement, signed by the Executive Director, on the following page.

## COUNCIL'S FMFIA STATEMENT OF ASSURANCE

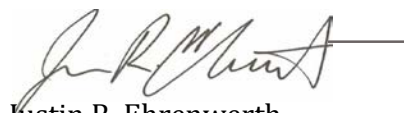
The Council is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA).

The Council utilizes the services of the Department of Treasury Fiscal Services financial management system, Oracle Federal Financials. Annual examinations of their system indicate that the system complies with federal financial management systems requirements, standards promulgated by the Federal Accounting Standards Advisory Board (FASAB), and the U.S. Standard General Ledger (USSGL) at the transaction level.

The Council established internal controls over its support agreements, disbursements, and end-user controls, and relies on the controls over accounting, procurement and general computer operations that ARC has in place. The Council obtained the ARC 2014 Statement on Standards for Attestation Engagements (SSAE) Number 16, *Reporting on Controls at a Service Organization* report and reviewed it to assist in assessing the internal controls over the Council's financial reporting. After a thorough review of the results, the Council did not discover any significant issues or deviations in its financial reporting during fiscal year 2014.

In fiscal years 2013 and 2014, the Council was in start-up operations and had insufficient staff resources to fully implement a sufficient and comprehensive internal control program to meet all of the objectives of FMFIA and OMB Circular A-123 *Management's Responsibility for Internal Control*. Accordingly, the Council provides qualified assurance that the objectives of Section 2 of FMFIA have been achieved due to the material weakness related to the lack of implemented and documented internal control over financial reporting. The Council provides unqualified assurance that the objectives of Section 4 of FMFIA have been achieved. The Council is responsible for establishing and maintaining effective internal control over financial reporting and provides qualified assurance that internal control over financial reporting as of June 30, 2014 was operating effectively in light of a material weakness related to a lack of sufficient implemented and documented internal control over financial reporting.

The Council is implementing an aggressive action plan to correct the material weakness which includes training current staff to assume processing activities, and hiring additional staff to implement a documented comprehensive internal control and assessment program.



Justin R. Ehrenwerth

Executive Director

Gulf Coast Ecosystem Restoration Council

11/17/14

## PERFORMANCE SECTION

### GOALS AND OBJECTIVES

The Initial Comprehensive Plan provides a framework to implement a coordinated, Gulf Coast region-wide restoration effort in a way that restores, protects, and revitalizes the Gulf Coast. This Plan is the first version of a Plan that will change over time. It will guide the Council's actions to restore the Gulf Coast ecosystem and economy. The Plan establishes the Council's Goals for the region and provides for a process to fund restoration projects and programs as funds become available. Over the next few years, development and implementation of this Plan will be an iterative process leading to a comprehensive, region-wide, multi-objective restoration plan based on the best available science.

Building on the strong foundation established in the Gulf Coast Ecosystem Restoration Task Force<sup>2</sup> *Gulf of Mexico Regional Ecosystem Restoration Strategy* and other local, regional, state, and federal plans, the Council is taking an integrated and coordinated approach to Gulf Coast restoration. This approach strives to both restore the Gulf Coast region's environment and, at the same time, revitalize the region's economy because the Council recognizes that ecosystem restoration investments may also improve economic prosperity and quality of life. In addition, this approach acknowledges that coordinated action with other partners is important to successfully restore and sustain the health of the Gulf Coast region. This coordination is particularly important because diverse funding sources and decision-making bodies are investing in Gulf Coast restoration.

#### Goals

To provide the overarching framework for an integrated and coordinated approach for region-wide Gulf Coast restoration and to help guide the collective actions at the local, state, tribal, and federal levels, the Council has adopted five goals.

- (1) ***Restore and Conserve Habitat*** – Restore and conserve the health, diversity, and resilience of key coastal, estuarine, and marine habitats.
- (2) ***Restore Water Quality*** – Restore and protect water quality of the Gulf Coast region's fresh, estuarine, and marine waters.

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<sup>2</sup> The Gulf Coast Ecosystem Restoration Task Force was created by President Obama through an Executive Order on October 5, 2010, and was the result of a recommendation made in Secretary Mabus' report on long term recovery following the Deepwater Horizon Oil Spill. The Task Force was charged with development of a restoration strategy and a Gulf Coast ecosystem restoration agenda.

- (3) ***Replenish and Protect Living Coastal and Marine Resources*** – Restore and protect healthy, diverse, and sustainable living coastal and marine resources.
- (4) ***Enhance Community Resilience*** – Build upon and sustain communities with capacity to adapt to short- and long-term changes.
- (5) ***Restore and Revitalize the Gulf Economy*** – Enhance the sustainability and resiliency of the Gulf economy.

The fifth goal focuses on reviving and supporting a sustainable Gulf economy to ensure that those expenditures by the Gulf Coast States authorized in the RESTORE Act under the Direct Component (administered by the Department of the Treasury) and the Spill Impact Component can be considered in the context of comprehensive restoration. To achieve all five goals, the Council will support ecosystem restoration that can enhance local communities by giving people desirable places to live, work, and play, while creating opportunities for new and existing businesses of all sizes, especially those dependent on natural resources. In addition, the Council will support ecosystem restoration that builds local workforce capacity.

The Council will work to coordinate restoration activities under the Council-Selected Restoration Component and the Spill Impact Component to further the goals. While the Council does not have direct involvement in the activities undertaken by the States or local governments through the Direct Component, the Council will strive, as appropriate, to coordinate its work with those activities. In addition, the Council will actively coordinate with the Gulf Coast Ecosystem Restoration Science Program (administered by NOAA) and the Centers of Excellence Research Grants Program (administered by Treasury).

## **Objectives**

The Council will select and fund projects and programs that restore and protect the natural resources, ecosystems, water quality, fisheries, marine and wildlife habitats, beaches, and coastal wetlands of the Gulf Coast region. Projects and programs not within the scope of the following Objectives for ecosystem restoration will not be funded under the Council-Selected Restoration Component.

1. **Restore, Enhance, and Protect Habitats** – Restore, enhance and protect the extent, functionality, resiliency, and sustainability of coastal, freshwater, estuarine, wildlife, and marine habitats.
2. **Restore, Improve, and Protect Water Resources** – Restore, improve, and protect the Gulf Coast region’s fresh, estuarine, and marine water resources by reducing or treating nutrient and pollutant loading; and improving the management of

freshwater flows, discharges to and withdrawals from critical systems.

3. **Protect and Restore Living Coastal and Marine Resources** – Restore and protect healthy, diverse, and sustainable living coastal and marine resources including finfish, shellfish, birds, mammals, reptiles, coral, and deep benthic communities.
4. **Restore and Enhance Natural Processes and Shorelines** – Restore and enhance ecosystem resilience, sustainability, and natural defenses through the restoration of natural coastal, estuarine, and riverine processes, and/or the restoration of natural shorelines.
5. **Promote Community Resilience** – Build and sustain Gulf Coast communities' capacity to adapt to short - and long - term natural and man - made hazards, particularly increased flood risks associated with sea-level rise and environmental stressors. Promote ecosystem restoration that enhances community resilience through the re-establishment of non-structural, natural buffers against storms and flooding.
6. **Promote Natural Resource Stewardship and Environmental Education** – Promote and enhance natural resource stewardship through environmental education efforts that include formal and informal educational opportunities, professional development and training, communication, and actions for all ages.
7. **Improve Science-Based Decision-Making Processes** – Improve science-based decision-making processes used by the Council.

## **PERFORMANCE/ACTIVITIES**

In fiscal years 2014 and 2013 the Council has been engaged in planning and developing the Council-Selected Restoration Program and the Spill Impact Program to carry out the requirements of the Act and achieve its goals and objectives. As required by the Act, the Council developed its processes for ensuring the incorporation of best available science in the projects and programs it expects to fund and will include adaptive management as a key element of its science methodology. The Council instituted a program for public engagement, and drafted submission and content guidelines for State Expenditure Plans required by the Spill Impact component of the Act.

In August 2014, the Council released proposal submission guidelines and announced the opening of a project submission window for Council members to consider projects and programs for inclusion on an initial draft Funded Priorities List (FPL). The list will be

published for public comment. This announcement requested project submissions that are foundational in nature and focus on restoring and conserving habitat and restoring water quality. This focus for the initial draft FPL will assist Council members make prudent and coordinated investments while only limited funds are available. The announcement promoted proposal submissions that emphasize:

- a) How a project/program is foundational in the sense that it forms the initial core steps in addressing a significant ecosystem issue and that future projects can be tiered to substantially increase the benefits;
- b) How a project/program will be sustainable over time;
- c) Why a project/program is likely to succeed; and
- d) How a project/program benefits the human community.

Approximately \$150 million to \$180<sup>3</sup> million from the settlements with Transocean Deepwater Inc. and related entities is planned to be available to fund projects and programs under the Council-Selected Restoration Component. At the same time, the Council also published a new rule for Gulf Coast states to receive funding for development of their State Expenditure Plans. The Interim Final Rule provides access of up to 5% of the funds available to each State under the Oil Spill Impact Component for planning. The Council anticipates releasing a proposed rule in fiscal year 2015 that will set forth the final oil spill impact formula and sets forth the levels of funding to be provided to each State.

Once there is more certainty regarding ongoing litigation, the Council will publish a Draft Ten-Year Funding Strategy (*i.e.*, a description of the manner in which the Council will allocate amounts from the Trust Fund that are projected to be available to the Council for the next ten years) as an addendum to the Comprehensive Plan. The public will have an opportunity to review and comment on the Draft Ten-Year Funding Strategy before it is finalized.

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<sup>3</sup> This range represents funds made available from the Transocean Deepwater Inc. settlement (approx. \$240 million), minus funds necessary to address possible future changes in project costs, impacts of sequestration, prudent planning costs necessitated by the unknown date of future infusion(s) of funds from other responsible parties, and the reasonable costs of administering the restoration program over at least 10 years.



## FINANCIAL SECTION

### Message from the Chief Financial Officer

I am pleased to present our financial statements for fiscal years 2013 and 2014. This report demonstrates our commitment to fulfill our fiduciary responsibilities to our constituents in the Gulf Coast Region and to the American public.

The draft Treasury Rule did not require the Council to have an independent audit performed until the end of fiscal year 2014 in acknowledgment that only a small amount of administrative funding would be received from the Gulf Restoration Trust Fund in fiscal year 2013. Fiscal year 2013 financial data is presented in the fiscal year 2014 and 2013 comparative financial statements and was audited by an independent auditor during the fiscal year 2014 audit. The audit resulted in an unmodified opinion, but also reported a lack of sufficient implemented and documented internal control policies and procedures which resulted in a material weakness and expressed concern with a limited segregation of duties resulting from the very small staff level.

The Council approved a staffing plan as part of the FY 2015 budget and is in the process of hiring to provide the resources necessary for the adequate segregation of duties over routine processing and financial reporting. One new staff person is on board, a part-time detailee engaged, and two additional staff are in the final stages of hiring. These two staff members are expected to be on-board by the end of the calendar year. Additional recruitments are in process, and the Council expects a full staff complement by the end of the third quarter.

These financial statements fairly present our financial position, net cost, changes in net position, and budgetary resources and were prepared in accordance with Generally Accepted Accounting Principles (GAAP) for Federal entities and the formats prescribed by OMB.



Mary C. Pleffner  
Chief Financial Officer

11/17/2014

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***GULF COAST ECOSYSTEM RESTORATION COUNCIL***

***FINANCIAL STATEMENTS***

***FOR THE YEARS ENDED  
SEPTEMBER 30, 2014 AND 2013***

**GULF COAST ECOSYSTEM RESTORATION COUNCIL  
FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013**

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**GULF COAST ECOSYSTEM RESTORATION COUNCIL  
BALANCE SHEET  
AS OF SEPTEMBER 30, 2014 AND 2013  
(In Dollars)**

	2014	2013
<b>Assets:</b>		
Intragovernmental		
Fund Balance with Treasury (Note 6)	\$ 940,904	\$ 360,000
Expenditure Transfers Receivable (Note 3)	764,164	--
Other	--	--
Total Intragovernmental	\$ 1,705,068	\$ 360,000
<b>Total Assets</b>	<b>\$ 1,705,068</b>	<b>\$ 360,000</b>
<b>Liabilities</b>		
Intragovernmental		
Accounts Payable (Note 4)	\$ 332,763	\$ 51,000
Employer Contributions on Payroll Taxes Payable	285	--
Total Intragovernmental	333,048	51,000
With the Public		
Accounts Payable	6,102	
Accrued Payroll	2,424	--
Total Liabilities With the Public	8,526	--
<b>Total Liabilities</b>	<b>\$ 341,574</b>	<b>\$ 51,000</b>
<b>Net Position</b>		
Cumulative Results of Operations – Funds from Dedicated Collections	1,363,494	309,000
Total Net Position	\$ 1,363,494	\$ 309,000
<b>Total Liabilities and Net Position</b>	<b>\$ 1,705,068</b>	<b>\$ 360,000</b>

**GULF COAST ECOSYSTEM RESTORATION COUNCIL  
STATEMENT OF NET COST  
FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013  
(In Dollars)**

	2014	2013
<b>Program Costs:</b>		
Comprehensive Plan – Administrative Expenses:		
Gross Costs	\$ 631,716	\$ 1,193,648
Less: Earned Revenue	--	--
<b>Net Comprehensive Plan – Administrative Expenses</b>	<b>\$ 631,716</b>	<b>\$ 1,193,648</b>
Comprehensive Plan – Programmatic Expense		
Gross Costs	\$ 1,398,271	\$ --
Less: Earned Revenue		
<b>Total Comprehensive Plan – Programmatic Expenses</b>	<b>\$ 1,398,271</b>	<b>\$ --</b>
Comprehensive Plan – Projects and Programs (grants)		
Gross Costs	\$ --	\$ --
Less: Earned Revenue		
<b>Total Comprehensive Plan Projects and Programs (grants)</b>	<b>\$ --</b>	<b>\$ --</b>
<b>Net Comprehensive Plan - Programmatic Expense Costs</b>	<b>\$ 1,398,271</b>	
Spill Impact – State Expenditure Plan (grants)		
Gross Costs	\$ --	\$ --
Less: Earned Revenue		
<b>Net Spill Impact Costs (grants)</b>	<b>\$ --</b>	<b>\$ --</b>
Costs Not Assigned to Programs	\$ --	\$ --
Less: Earned Revenues Not Attributed to Programs		
<b>Net Cost of Operations</b>	<b>\$ 2,029,997</b>	<b>\$ 1,193,648</b>

**GULF COAST ECOSYSTEM RESTORATION COUNCIL**  
**STATEMENT OF CHANGES IN NET POSITION**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013**  
(In Dollars)

	2014	2013
<b>Cumulative Results of Operations:</b>		
Beginning Balances	\$ 309,000	\$ --
Adjustments		--
Beginning Balances, as Adjusted	309,000	--
<b>Budgetary Financing Sources:</b>		
Transfers In/Out Without Reimbursement	1,964,164	\$ 360,000
<b>Other Financing Sources (Non-Exchange):</b>		
Imputed Financing Sources (note 8)	1,120,327	\$ 1,142,648
Total Financing Sources	3,084,491	1,502,648
Net Cost of Operations	(2,029,997)	(1,193,648)
Net Change	1,054,494	309,000
Cumulative Results of Operations	\$ 1,363,494	309,000
<b>Unexpended Appropriations:</b>		
	\$ --	\$ --
<b>Budgetary Financing Sources:</b>		
	\$ --	\$ --
Total Budgetary Financing Sources	--	--
Total Unexpended Appropriations	\$ --	\$ --
Net Position	\$ 1,363,494	\$ 309,000

**GULF COAST ECOSYSTEM RESTORATION COUNCIL**  
**STATEMENT OF BUDGETARY RESOURCES**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013**  
(In Dollars)

	2014	2013
<b>Budgetary Resources:</b>		
Unobligated Balance Brought Forward, October 1	\$ --	\$ --
Adjustment to Unobligated Balance Brought Forward, October 1	--	--
Unobligated Balance Brought Forward, October 1, as adjusted	--	--
Recoveries of Prior Year Unpaid Obligations	78,879	--
Other changes in unobligated balance	--	--
Unobligated balance from prior year budget authority, net	78,879	--
Appropriations	--	--
Spending Authority from Offsetting Collections	1,964,164	360,000
<b>Total Budgetary Resources</b>	<b>\$ 2,043,043</b>	<b>\$ 360,000</b>
<b>Status of Budgetary Resources:</b>		
Obligations Incurred	\$ 919,725	\$ 360,000
Unobligated balance, end of year:		
Apportioned	1,044,439	--
Exempt from apportionment	--	--
Unapportioned	78,879	--
Total unobligated balance, end of year	1,123,318	--
<b>Total Budgetary Resources</b>	<b>\$ 2,043,043</b>	<b>\$ 360,000</b>
<b>Change in Obligated Balance</b>		
<b>Unpaid Obligations</b>		
Unpaid Obligations, Brought Forward, October 1	\$ 360,000	--
Adjustment to unpaid obligations	--	--
Obligations Incurred	919,725	360,000
Outlays (gross)	(619,096)	--
Actual transfers, unpaid obligations	--	--
Recoveries of Prior Year Unpaid	(78,879)	--
Unpaid Obligations, end of year	581,750	360,000
<b>Uncollected payments:</b>		
Uncollected customer payments from Federal sources, brought forward	--	--
Change in uncollected customer payments from Federal Sources	(764,164)	--
Actual transfers, uncollected customer payments from Federal Sources	--	--
Uncollected customer payments from Federal sources, end of year	(764,164)	--
<b>Memorandum entries:</b>		
Obligated balance, start of year	\$ 360,000	--
Obligated balance, start of year, as adjusted	360,000	
Obligated balance, end of year	\$ (182,414)	\$ 360,000
<b>Budget Authority and Outlays, Net:</b>		
Budget authority, gross	\$ 1,964,164	\$ 360,000
Actual offsetting collections	(1,200,000)	(360,000)
Change in uncollected customer payments from Federal sources	(764,164)	--
Anticipated offsetting collections	--	--
<b>Budget Authority, net</b>	<b>\$ --</b>	<b>\$ --</b>
Outlays, gross	\$ 619,096	--
Actual offsetting collections	(1,200,000)	(360,000)
<b>Agency outlays, net</b>	<b>(580,904)</b>	<b>(360,000)</b>



## **NOTES TO THE FINANCIAL STATEMENTS**

### **NOTE 1. REPORTING ENTITY**

#### **A. Reporting Entity**

The Gulf Coast Ecosystem Restoration Council (Council) was established under the *Resources and Ecosystems Sustainability, Tourist Opportunities, and Revived Economies of the Gulf Coast States Act of 2012* (RESTORE Act) (title I, subtitle F of PL 112-141) and section 311 of the Federal Water Pollution Control Act (FWPCA) (33 U.S.C. 1321). The Council is comprised of governors from the five affected Gulf States (Alabama, Florida, Louisiana, Mississippi and Texas), the Secretaries from the U.S. Departments of the Interior, Commerce, Agriculture, and Homeland Security as well as the Secretary of the Army and the Administrator of the U.S. Environmental Protection Agency.

The Council reporting entity is comprised of a General Fund and General Miscellaneous Receipts. The Council is a party to interagency transfers with the Gulf Coast Restoration Trust Fund (Trust Fund). The interagency transfers are processed through the Intra-Governmental Payment and Collection (IPAC) System.

General Funds are accounts used to record financial transactions arising under congressional appropriations or other authorizations to spend general revenues.

### **NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **A. Basis of Accounting and Presentation**

The financial statements have been prepared to report the financial position net costs, changes in net position and budgetary resources of the Council. The Balance Sheet presents the financial position of the agency. The Statement of Net Cost presents the agency's operating results; the Statement of Changes in Net Position displays the changes in the agency's equity accounts. The Statement of Budgetary Resources presents the sources, status, and uses of the agency's resources and follows the rules for the Budget of the United States Government.

The statements are a requirement of the Chief Financial Officers Act of 1990, the Government Management Reform Act of 1994 and the Accountability of Tax Dollars Act of 2002. They have been prepared from, and are fully supported by, the books and records of the Council in accordance with the hierarchy of accounting principles generally accepted in the United States of America, standards issued by the Federal Accounting Standards

Advisory Board (FASAB), Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*, as amended, and the Council accounting policies which are summarized in this note. These statements, with the exception of the Statement of Budgetary Resources, are different from financial management reports, which are also prepared pursuant to OMB directives that are used to monitor and control the Council's use of budgetary resources. The financial statements and associated notes are presented on a comparative basis. Unless specified otherwise, all amounts are presented in dollars.

Transactions are recorded on both an accrual accounting basis and a budgetary basis. Under the accrual method, revenues are recognized when earned, and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal requirements on the use of federal funds.

## **B. Fund Balance with Treasury**

Fund Balance with Treasury is the aggregate amount of the Council's funds with Treasury in expenditure, receipt, and deposit fund accounts. Funds recorded in expenditure accounts are available to pay current liabilities and finance authorized purchases.

The Council does not maintain bank accounts of its own, has no disbursing authority, and does not maintain cash held outside of Treasury. Treasury disburses funds for the agency on demand.

## **C. Expenditure Transfers Receivable**

An Expenditure Transfers Receivable is established when an apportionment is approved by OMB and funds can be drawn from the Trust Fund. However, funds are left in the Trust Fund until needed for cash disbursements so that these monies can continue to be invested and earn interest.

## **D. Liabilities**

Liabilities represent the amount of funds likely to be paid by the Council as a result of transactions or events that have already occurred.

The Council reports its liabilities under two categories, Intragovernmental and With the Public. Intragovernmental liabilities represent funds owed to another Federal agency. Liabilities with the Public represents funds owed to any entity or person that is not a federal agency, including private sector firms and federal employees. Each of these

categories may include liabilities that are covered by budgetary resources and liabilities not covered by budgetary resources.

Liabilities covered by budgetary resources are liabilities funded by a current appropriation or other funding source. These consist of accounts payable and accrued payroll and benefits. Accounts payable represent amounts owed to another entity for goods ordered and received and for services rendered except for employees. Accrued payroll and benefits represent payroll costs earned by employees during the fiscal year which are not paid until the next fiscal year.

Liabilities not covered by budgetary resources are liabilities that are not funded by any current appropriation or other funding source. These liabilities consist of accrued annual leave and benefits.

#### **E. Use of Estimates**

The preparation of the accompanying financial statements in accordance with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses. Actual results could differ from those estimates.

#### **F. Funds from Dedicated Collections**

The RESTORE Act of 2012 established in the Treasury of the United States a trust fund known as the Gulf Coast Restoration Trust Fund, which consists of deposits equal to 80% of all administrative and civil penalties paid by responsible parties in connection with the explosion on and sinking of the mobile offshore drilling unit Deepwater Horizon.

Pursuant to P.L. 112-141 Sec 1601-1608, 60% of administrative and civil penalty deposits in the Gulf Coast Restoration Trust Fund (020X8625) and 50% of interest revenue collections from the amount in the Gulf Coast Restoration Trust Fund, available until expended, are transferred to the Gulf Coast Ecosystem Restoration Council.

#### **G. Imputed Costs**

Federal Government entities often receive goods and services from other Federal Government entities without reimbursing the providing entity for all the related costs. In addition, Federal Government entities also incur costs that are paid in total or in part by other entities. An imputed financing source is recognized by the receiving entity for costs

that are paid by other entities. The Council received support from Council Members primarily through non-reimbursable details, use of office space and equipment, website support, and travel. The Council also received support from external entities through Intergovernmental Personnel Act assignments. The Council recognized imputed costs and financing sources in fiscal years 2014 and 2013 to the extent directed by accounting standards.

**NOTE 3. EXPENDITURE TRANSFERS RECEIVABLE**

Expenditure Transfers Receivable represents the balance of funds from the Trust Fund to the Council from the apportionments approved by OMB.

<b>EXPENDITURE TRANSFERS RECEIVABLE</b>		
	<b>2014</b>	<b>2013</b>
Funds Apportioned		
FY 2013 apportionment	\$ --	\$ 360,000
FY 2014 apportionment	1,964,164	--
Total funds apportioned	1,964,164	360,000
Funds Received from the Trust Fund		
Funds IPAC'd	1,200,000	360,000
Funds Receivable from the Trust Fund	--	--
Balance Expenditure Transfers Receivable	\$ 764,164	\$ --

**NOTE 4. INTRAGOVERNMENTAL LIABILITIES - ACCOUNTS PAYABLE**

The balance in Accounts Payable account consists of a number of interagency agreements for services from other federal agencies received but not yet billed. The table below provides additional detail.

<b>INTRAGOVERNMENTAL LIABILITIES - ACCOUNTS PAYABLE</b>		
	<b>2014</b>	<b>2013</b>
Department of Agriculture / National Finance Center/payroll	\$ 35,000	\$ --
Department of Commerce / Legal/HR/email services	91,777	--
General Services Administration/office space lease	1,462	--
Department of the Treasury Office of Inspector General/audit	12,582	--
Department of the Treasury/Fiscal Service/ARC	--	41,800
Department of Commerce / MOUs for salary reimbursement	191,942	9,200
Total Intragovernmental Liabilities	\$ 332,763	\$ 51,000

**NOTE 5. LEASES**

The Council entered into an operating lease for 1,883 usable (2,399 rentable) square feet of office space with GSA in September 2014 in the Hale Boggs Federal Building/Courthouse in New Orleans. The first year commitment is \$35,092; at any point after the first twelve months of occupancy the Council may relinquish space upon four months' notice. Thus, after the first twelve months of occupancy, the Council's financial obligation will be reduced to four months of rent.

**NOTE 6. FUND BALANCE WITH TREASURY**

Fund balance with Treasury account balances as of September 30, 2014 and 2013 were as follows:

<b>FUND BALANCE WITH TREASURY ACCOUNT BALANCES</b>		
	2014	2013
<b>Fund Balances (General Fund):</b>		
Comprehensive Plan – Administrative Costs	\$ 755,055	\$ 360,000
Comprehensive Plan Program Costs		
Programmatic Expense	165,849	--
Projects and Programs (grants)	--	--
Spill Impact Program (grants)	--	--
Other	--	--
<b>Total</b>	<b>\$ 940,904</b>	<b>\$ 360,000</b>

No discrepancies exist between the Fund Balance reflected on the Balance Sheet and the balances in the Treasury accounts.

<b>STATUS OF FUND BALANCE WITH TREASURY</b>		
	2014	2013
<b>Status of Fund Balance with Treasury:</b>		
Unobligated Balance		
Available	\$ 1,044,439	
Unavailable	78,879	--
Obligated Balance Not Yet Disbursed	(182,414)	360,000
Non-Budgetary FBWT	--	--
<b>Total</b>	<b>\$ 940,904</b>	<b>\$ 360,000</b>

The available unobligated fund balances represent the current-period amount available for obligation or commitment. At the start of the next fiscal year, this amount will become part of the unavailable balance as described in the following paragraph.

The unavailable unobligated fund balances represent the amount of appropriations for which the period of availability for obligation has expired. These balances are available for upward adjustments of obligations incurred only during the period for which the appropriation was available for obligation or for paying claims attributable to the appropriations.

The obligated balance not yet disbursed includes accounts payable, accrued expenses, and undelivered orders that have reduced unexpended appropriations but have not yet decreased the fund balance on hand.

**NOTE 7. INTRAGOVERNMENTAL COSTS**

Intragovernmental costs represent exchange transactions between the Council and other federal government entities, and are in contrast to those with non-federal entities (the public). Such costs are summarized as follows:

INTRAGOVERNMENTAL COSTS		
	2014	2013
Intragovernmental Costs	\$ 1,967,131	\$ 1,193,648
Public Costs	62,867	--
Total Program Costs	\$ 1,193,648	\$ 1,193,648
Total Net Cost	\$ 2,029,997	\$ 1,193,648

**NOTE 8. IMPUTED COSTS**

The Council received support totaling \$1,120,327 in fiscal year 2014, and \$1,142,648 from members of the Council, outside organizations and the Office of Personnel Management. The table that follows identifies the level of support provided by agency/organization.

<b>IMPUTED COSTS</b>		
	<b>2014</b>	<b>2013</b>
Department of Agriculture	\$ --	\$ 59,590
Department of Commerce	141,751	537,629
Department of Commerce (Walton Family Foundation gift)	183,071	15,220
Environmental Protection Agency	380,554	--
United States Coast Guard	218,596	218,596
Office of Personnel Management	1,544	--
Department of Justice	--	113,036
Department of Transportation	--	89,742
State of Alabama	--	3,896
State of Louisiana	--	8,919
State of Mississippi	--	96,020
Mississippi State University	90,837	--
Ocean Conservancy	103,974	--
<b>Total</b>	<b>\$ 1,120,327</b>	<b>\$ 1,142,648</b>

**NOTE 9. BUDGETARY RESOURCE COMPARISONS TO THE BUDGET OF THE UNITED STATES GOVERNMENT**

The President's Budget that will include fiscal year 2014 actual budgetary execution information has not yet been published. The President's Budget is scheduled for publication in February 2015 and can be found at the OMB Web site: <http://www.whitehouse.gov/omb/>.

**NOTE 10. UNDELIVERED ORDERS AT THE END OF THE PERIOD**

For the periods ended September 30, 2014 and 2013, budgetary resources obligated for undelivered orders amounted to \$581,750 and \$360,000, respectively.

**NOTE 11. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET**

The Council has reconciled its budgetary obligations and non-budgetary resources available to its net cost of operations. See the table on the next page.

<b>RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET</b>		
	<b>2014</b>	<b>2013</b>
<b>Resources Used to Finance Activities:</b>		
Budgetary Resources Obligated		
Obligations Incurred	\$ 919,725	\$ 360,000
Spending Authority from Offsetting Collections and Recoveries	(2,043,043)	(360,000)
Obligations Net of Offsetting Collections and Recoveries	(1,123,318)	--
Offsetting Receipts	--	--
Net Obligations	(1,123,318)	--
Other Resources		
Imputed Financing From Costs Absorbed by Others	1,120,327	1,142,648
Other Resources	--	--
Net Other Resources Used to Finance Activities	1,120,327	1,142,648
Total Resources Used to Finance Activities	(2,991)	1,142,648
<b>Resources Used to Finance Items Not Part of the Net Cost of Operations:</b>		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered But Not Yet Provided	68,824	(309,000)
Other	1,964,164	360,000
Total Resources Used to Finance Items Not Part of Net Cost of Operations	2,032,998	51,000
Total Resources Used to Finance the Net Cost of Operations	\$ 2,029,997	\$ 1,193,648
Net Cost of Operations	\$ 2,029,997	\$ 1,193,648



**OTHER INFORMATION (UNAUDITED)**

**SCHEDULE OF SPENDING AND EXPLANATORY NOTES**

GULF COAST ECOSYSTEM RESTORATION COUNCIL SCHEDULE OF SPENDING FOR THE YEARS ENDED SEPTEMBER 30, 2014 & 2013 (In Dollars)		
	2014	2013
<b>What Money is Available to Spend?</b>		
Total Resources	\$ 2,043,043	\$ 360,000
Less Amount Not Agreed to be Spent	(1,044,439)	-
Less Amount Not Available to be Spent	(78,879)	-
<b>Total Amounts Agreed to be Spent</b>	<b>\$ 919,725</b>	<b>\$ 360,000</b>
<b>How was the Money Spent?</b>		
Personnel Compensation	\$ 258,341	\$ 42,279
Personnel Benefits	77,880	14,798
Benefits for Former Personnel	-	-
Travel and transportation of persons	45,245	-
Transportation of things	-	-
Rent, Communications, and utilities	47,162	-
Printing and reproduction	-	-
Other contractual services	428,977	302,923
Supplies and materials	5,127	-
Equipment	6,993	-
Land and structures	50,000	-
Investments and Loans	-	-
Grants, subsidies and contributions	-	-
Insurance claims and indemnities	-	-
Interest and dividends	-	-
Refunds	-	-
Other	-	-
<b>Total Spending</b>	<b>919,725</b>	<b>360,000.00</b>
<b>Total Amounts Agreed to be Spent</b>	<b>\$ 919,725</b>	<b>\$ 360,000</b>
<b>Who did the Money go to?</b>		
Federal	\$ 836,620	\$ 360,000
Non-Federal	83,105	-
<b>Total Amounts Agreed to be Spent</b>	<b>\$ 919,725</b>	<b>\$ 360,000</b>

## **SCHEDULE OF SPENDING EXPLANATORY NOTES**

In fiscal year 2013, the Council received a total of \$360,000 in administrative funds from the Gulf Coast Restoration Trust Fund. Funds were spent through Interagency Agreements (IAA) with ARC to develop and implement an automated accounting system for the Council, and to provide budget, finance, accounting, travel and procurement services to the Council in fiscal year 2014. The ARC has been designated by the Office of Management and Budget as a Financial Management Line of Business Shared Service Provider. The Council also entered into Interagency Agreements with the U.S. Department of Commerce to reimburse the Department for the administrative portion of the salaries of the Executive Director and the Chief Financial Officer. The IAA's commenced on September 22, 2013. Expenses were accrued through September 30, 2014, but not completely billed and disbursed in fiscal year 2014.

In fiscal year 2014, the Council received a total of \$1,964,164 and obligated \$919,725 of that amount. In addition, after a review of the level of services provided, the IAA with ARC for fiscal year 2014 services was reduced by \$78,879, thus reducing expense in fiscal year 2014 and recovering the funds from the fiscal year 2013 obligation. IAA's for accounting, procurement, travel, legal, audit and payroll services, entered into with ARC, the Department of Commerce, the Department of the Treasury Office of Inspector General, and the USDA National Finance Center respectively comprise "other contractual services." IAA's with the Department of Commerce for salary reimbursement comprise personnel compensation and benefits. Rent, communications and utilities includes a lease for office space and cell phone equipment and service. Land and structures consists of a reimbursable work agreement for office space refurbishment.

The Council has no revenue forgone, and does not collect taxes.

## **MANAGEMENT CHALLENGES and RESPONSE**

The Treasury Inspector General (IG) has oversight responsibility over the Council. The 2014 Management and Performance Challenges (OIG-CA-15-003) Report and the Council's response follows.



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

October 28, 2014

OFFICE OF  
INSPECTOR GENERAL

The Honorable Penny Pritzker  
Secretary, U.S. Department of Commerce  
Chairperson, Gulf Coast Ecosystem Restoration Council  
1401 Constitution Ave., NW  
Washington, D.C. 20230

Re: 2014 Management and Performance Challenges (OIG-CA-15-003)

Dear Chairperson Pritzker:

The Reports Consolidation Act of 2000 requires that I provide you, as Chairperson for the Gulf Coast Ecosystem Restoration Council (Council), an annual perspective by my office of the most serious management and performance challenges facing the Council. This is my first writing under this requirement since the Council was created by the Resources and Ecosystems Sustainability, Tourist Opportunities, and Revived Economies of the Gulf Coast States Act of 2012 (RESTORE Act). Recognizing that the Council is a very new Federal entity, we are reporting one challenge this year: Implementing an Infrastructure to Administer Gulf Coast Restoration Activities.

**Challenge: Implementing an Infrastructure to Administer Gulf Coast Restoration Activities**

One of the more formidable initial tasks of the RESTORE Act was to stand up the Council. In addition to being a new Federal entity, the Council is charged with administering two critical RESTORE Act components: the Comprehensive Plan Component and the Spill Impact Component. Together, these components will receive over half the monies deposited into the Gulf Coast Ecosystem Restoration Trust Fund (60 percent of all deposits plus 50 percent of total interest earned on the Trust Fund). That said, we commend the Council, in the absence of initial funding and with limited staff, for its proactive efforts to establish an operating framework very early.

In assessing this challenge, we are mindful of the breadth and depth of the Council's responsibilities under the RESTORE Act and all the many parties dependent on its success. We also recognize that the Department of the Treasury (Treasury) only recently announced its Interim Final Rule governing RESTORE Act funds, which became effective on October 14, 2014. In the meantime, the Council has been very resourceful in borrowing the necessary facilities and personnel from member-entities to keep costs down. Furthermore, we acknowledge that the amount of future funding remains unknown as litigation surrounding the *Deepwater Horizon* explosion and resulting oil spill is still pending.

The Council faces challenges on many levels as it must operate in an environment where its actions are subject to RESTORE Act mandates including high levels of scientific review, environmental regulatory oversight, and public transparency. Not only must the Council ensure it has the organizational infrastructure to complete its stand-up as a new Federal entity, but it must also be prepared to distribute funds and ensure they are used appropriately to support economic and environmental restoration efforts in the Gulf Coast.

With few permanent staff, the Council has made notable achievements over the past 2 years to include acquiring office space in New Orleans, Louisiana, and undergoing its first financial statement audit (covering fiscal years 2013 and 2014). Concurrent with its stand-up efforts, the Council released its Initial Comprehensive Plan in August 2013. As we reported in October 2013, the Initial Comprehensive Plan did not include all RESTORE Act requirements.<sup>1</sup> Also notable, for the Spill Impact Component, the Council published an Interim Final Rule in the Federal Register allowing Gulf Coast State Council members to apply for grants to fund planning activities including development of Gulf Coast state expenditure plans. Although the Council has taken these preliminary steps, it continues to face risks inherent in any new organization. That is, the Council still needs to develop its infrastructure to include permanent staffing, information technology, and sound internal control with the necessary policies and procedures in place to administer grants and interagency agreements under the Comprehensive Plan Component and the Spill Impact Component grants

With Treasury's Interim Final Rule now in effect, it is expected that funds will begin to flow to the Comprehensive Plan Component and Spill Impact Component in fiscal year 2015. Therefore, it is paramount that the Council transition to a more permanent infrastructure as continuity of staff and subject matter experts will be needed to adequately implement the Comprehensive Plan Component and Spill Impact Component, and ensure that funds spent for restoration efforts are effective but not overlapping.

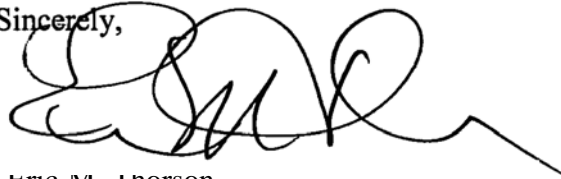
So far, our audit work has focused on the Council's Initial Comprehensive Plan and the Council's Programmatic Environmental Assessment. As Restore Act funds begin to flow, we plan to focus on the Council's organizational stand-up as well as the use of funds to support restoration efforts in the Gulf Coast.

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<sup>1</sup> Office of Inspector General, *Restore Act: Gulf Coast Ecosystem Restoration Council Faces Challenges in Completing Initial Comprehensive Plan* (OIG-14-003; issued Oct. 25, 2013)

We would be pleased to discuss our views on this management and performance challenge and the other matters expressed in this letter in more detail.

Sincerely,

A handwritten signature in black ink, appearing to read 'Eric M. Thorson', written over the word 'Sincerely,'.

ERIC M. THORSON  
Inspector General, Department of the Treasury

cc: Teresa Christopher, Chairperson Designee  
Justin Ehrenwerth, Executive Director



NOVEMBER 17, 2014

**MEMORANDUM**

FROM: Justin R. Ehrenwerth   
Executive Director, Gulf Coast Ecosystem Restoration Council

TO: Eric M. Thorson  
Inspector General, Department of the Treasury

SUBJECT: Response to the OIG Report, "2014 Management and Performance Challenges (OIG-CA 15-003)"

Thank you for the opportunity to review the Office of the Inspector General's (OIG) report, "2014 Management and Performance Challenges (OIG-CA-15-003)." As the report noted, this is the first such OIG report for the Gulf Coast Ecosystem Restoration Council due to the recent creation of the Council as an independent entity in the federal government. The OIG report provides a useful context for and corroborating voice to the Council's FY 2014 Performance and Accountability Report in which this response will be included.

We concur with your analysis that it is "paramount that the Council transition to a more permanent infrastructure as continuity of staff and subject matter experts will be needed to adequately implement the Comprehensive Plan Component and Spill Impact Component, and ensure that funds spent for restoration efforts are effective but not overlapping." Accordingly, we are currently in the process of making the transition to a more permanent infrastructure by recruiting staff, negotiating an agreement to develop and implement an automated grants system, and developing the foundational administrative and program policies necessary for a solid and sustainable infrastructure

We look forward to working with you to address the challenges identified in this first OIG report and we will document our progress in our next Performance and Accountability Report.

## SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

The following tables provide a summary of an audit-identified material weaknesses and other FMFIA-related information as outlined in the fiscal years 2014 and 2013 Performance and Accountability Report. This information is consistent with the deficiency identified in the Council's FMFIA Statement of Assurance.

**Table 1 - Summary of Financial Statement Audit**

Table 1 - Summary of Financial Statement Audit					
Audit Opinion	Unmodified				
Restatement	No				
Material Weakness	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Lack of Sufficient Documented Internal Controls over Financial Reporting	0	1	NA	NA	1
<i>Total Material Weaknesses</i>	0	1	NA	NA	1

**Table 2 - Summary of Management Assurances**

Table 2 - Summary of Management Assurances						
Effectiveness of Internal Control over Financial Reporting (FMFIA - § 2)						
Statement of Assurance	Qualified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Insufficient staff to fully implement its FMFIA Program	0	1	NA	NA	NA	1
<i>Total Material Weaknesses</i>	0	1	NA	NA	NA	1
Effectiveness of Internal Control over Operations (FMFIA - § 2)						
Statement of Assurance	Unqualified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
<i>Total Material Weaknesses</i>	0	0	NA	NA	NA	0
Conformance with Financial Management System Requirements (FMFIA - § 4)						
Statement of Assurance	Conform					
Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
<i>Total Non-Conformances</i>	0	0	NA	NA	NA	0

## **IMPROPER PAYMENTS**

The Council has not made any improper payments reportable under the Improper Payments Information Act of 2002 (IPIA) as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA) and the Improper Payments Elimination and Recovery Improvement Act of 2012. The Council has determined that at this time they do not have any programs that are susceptible to significant improper payments, no OMB designated high priority programs, and based on its risk assessment, its current activities are at a low risk of susceptibility for improper payments.

As part of its internal control processes, on a weekly basis, the Vendor Supplier Group in ARC submits a file of active vendors through the Do Not Pay Business Center's Continuous Monitoring system. The results are received and conclusive matches reviewed. Matches from the SSA Death Master File are end dated in Oracle; matches from the System for Award Management (SAM) Excluded Party List System (EPLS) are provided to the customer care branch for research and consultation with the customer for instructions.

<b>DO NOT PAY</b>	
Number of conclusive vendor matches	0
Number of payments reviewed	0
Number of payments stopped	0
Number of improper payments	0

The Council has determined that it is not necessary to perform a recapture audit for payments made in fiscal year 2014.

## **FREEZE THE FOOTPRINT**

As a new agency established by the Resources and Ecosystems Sustainability, Tourist Opportunities, and Revived Economies of the Gulf Coast States Act of 2012, the Council had no fiscal year 2012 baseline office or warehouse space. The Council entered into its first lease for office space in September 2014. The Council has staff assigned to and working from this office space, while other staff members work remotely from home offices or parent agency offices, throughout the Gulf Coast, thereby minimizing the amount of square footage required for office space and minimizing the footprint of the Council.



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