



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

October 26, 2016

The Honorable Thomas Vilsack
Secretary, U.S. Department of Agriculture
Chairperson, Gulf Coast Ecosystem Restoration Council
1400 Independence Ave, SW
Washington, DC 20250

Re: 2016 Management and Performance Challenges (OIG-CA-17-004)

Dear Chairperson Vilsack:

As required by the Reports Consolidation Act of 2000, I am providing you, as Chairperson for the Gulf Coast Ecosystem Restoration Council (Council), an annual perspective of the most serious management and performance challenges facing the Council. In assessing the most serious challenges, we are mindful that the Council is still a relatively new Federal entity with many responsibilities under the Resources and Ecosystems Sustainability, Tourist Opportunities, and Revived Economies of the Gulf Coast States Act of 2012 (RESTORE Act). This year, we continue to report one challenge from prior year and present two new challenges:

- Implementing an Infrastructure to Administer Gulf Coast Restoration Activities (repeat challenge)
- Stakeholder Coordination and Outreach (new challenge)
- Federal Statutory and Regulatory Compliance (new challenge)

While challenges still lay ahead, I want to begin by acknowledging some of the Council's more notable accomplishments over the past year. In December 2015, the Council approved the Funded Priorities List, as well as the Spill Impact Component Final Rule, which established the formula allocating funds made available from the Gulf Coast Restoration Trust Fund. Council also installed its Restoration Assistance and Award Management System (RAAMS) to administer grants. Furthermore, the Council underwent its second financial statement audit covering fiscal years 2014 and 2015. Working under the oversight supervision of my office, an independent certified public accountant issued unmodified opinions (also referred to as "clean opinions") on the Council's financial statements. The auditor also downgraded the material weakness reported in the prior year concerning the Council's lack of documented and implemented internal controls to a significant deficiency. That said, there is still work to be done in completing the Council's organizational infrastructure. New and existing Federal requirements have created a need for additional specialized staff. With reliance on a variety of contracted services to support the Council's lean foundation, suitable oversight is necessary.

We are also cognizant of the upcoming change in Presidential administration and the transition to new leadership that may bring to the Council. We believe that continuing in its path toward completing its original organization infrastructure will better position the Council to address the new challenges we have reported as well as any uncertainty a change in leadership might bring.

Challenge 1: Implementing an Infrastructure to Administer Gulf Coast Restoration Activities

Over the course of the past year, the Council has made significant progress in developing its organization infrastructure by filling critical administrative and programmatic positions, as well as, solidifying many policies and procedures supporting internal control. However, staff and skill gaps remain in the area of information technology that are critical to the success of the Council's operations and meeting the requirements of the Federal Information Security Modernization Act of 2014. Staff with specialized training and qualifications are necessary for providing a reliable and secure information technology environment and to support the Council in carrying out its RESTORE Act activities. Although the Council has interim measures such as contractor support to address its gaps in information technology, a permanent solution is needed to establish a long-term information technology plan with consistent personnel with the requisite expertise.

This challenge should be considered in context with the Office of Management and Budget's update to Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. Effective fiscal year 2017, agencies must implement an Enterprise Risk Management (ERM) capability to integrate strategic planning and review processes established by the Government Performance and Results Act Modernization Act, and internal control processes required by the Federal Managers' Financial Integrity Act and the Government Accountability Office's *Standards for Internal Control in the Federal Government* (Green Book). Although the Council is not a large entity, ERM implementation will require close collaboration across all affected parties in order to meet the June 2017 deadline for completing its initial risk profile.

Furthermore, for those risks for which formal internal controls have been identified as part of the initial risk profile in fiscal year 2017, the Council must provide assurances on internal control processes in its Fiscal Year 2017 Agency Financial Report. The Council has determined that a dedicated staff member will be needed to focus on risk management. However, it may be difficult to have such personnel on board timely enough to become informed of the Council's current operations. As such, there is risk that the Council will not meet its initial ERM requirements. In addition, addressing the information technology staff and skill gap in its organizational structure is crucial to identifying and addressing risks.

Challenge 2: Stakeholder Coordination and Outreach

The Council's responsibilities for funding the economic and environmental restoration of the Gulf Coast are far-reaching and involve many parties and stakeholders. With that comes the challenge of communicating key decisions and coordinating activities to ensure funds are used in the most effective and efficient way possible. This is a formidable task given that the Council is charged with administering two critical and large RESTORE Act components: the Council-Selected Restoration Component and the Spill Impact Component. Together, these components will receive 60 percent of the Gulf Coast Restoration Trust Fund (Trust Fund) deposits plus 50 percent of the total interest earned on the Trust Fund receipts. To date, the Trust Fund received approximately \$936 million as a result of the Federal Government's settlement with the Transocean and Anadarko defendants as well as interest payments. The Trust Fund is expected to receive additional deposits of approximately \$4.4 billion plus interest from the Federal

Government's settlement with BP Exploration & Production Inc. Payments will cover a 15-year period beginning in April 2017.

With the number of other funding sources available for Gulf Coast restoration, managing restoration activities will be difficult as there is no statutory requirement for all affected parties to coordinate restoration activities. Additionally, there is no central authority to identify potential overlaps. The Council must strive to maintain transparency and communicate with other Federal, State, and local governments as well as non-profit entities to ensure restoration activities and projects are conducted efficiently, while also working to reduce the risk for duplicating funds on proposed activities.

Challenge 3: Federal Statutory and Regulatory Compliance

While the Council must ensure that activities and projects funded by the RESTORE Act meet all environmental laws and regulations at the Federal and State level, the Council must also ensure its compliance with applicable laws and regulations as a Federal entity. The following are key mandates that the Council will face in fiscal year 2017.

Digital Accountability and Transparency Act of 2014 (DATA Act)

The DATA Act requires Federal agencies and entities receiving Federal funds to report spending data in accordance with new data standards established by the Department of the Treasury (Treasury) and OMB by May 2017. Inspectors General of each Federal agency are required by the act to perform three biennial reviews of a statistically valid sample of spending data submitted by its agency and the implementation of data standards by the agency. Given an anomaly identified in the law, the first report was extended from November 2016 to November 2017. In the meantime, the Inspector General community was encouraged to perform "readiness reviews" of their respective agencies.

The Council recently installed its newly developed grants management system, RAAMS, to process its application and award information. The Council has also contracted with the Treasury's Bureau of the Fiscal Service's Administrative Resource Center (ARC), for financial management services. ARC's services include, among other things, processing award files from the Council's grants management system and processing and reporting financial data. ARC also provides the DATA Act reporting solution which will collect, map, transform, validate, and submit agency data into a format consistent with Treasury's proposed DATA Act information model schema. Because the Council's grants interface and ARC's DATA Act reporting solution are both new, and have not been fully tested, we believe that Council officials are challenged with ensuring timely and accurate reporting under the new DATA Act standards.

Improper Payments Elimination and Recovery Act of 2010 (IPERA)

IPERA requires that the head of the agency or Federal entity to periodically review all programs and activities that are administered and identify all programs and activities that may be susceptible to significant improper payments. The Council faces expanded risk to screening for improper payments as RAAMS is still a newly operational grants system and the Council has only recently funded its first grants and agreements. However, we believe that detecting improper payments will become more difficult in the future as funds begin to flow.

Although the challenges highlighted in this letter are the most serious from my office's perspective, we communicate regularly with the Council's leadership on existing and emerging issues. In addition, we remain actively engaged with affected Federal, State, and local government entities to ensure effective oversight of programs established by the RESTORE Act. Now that grants are being awarded, the disbursements and use of funds will be the central focus of our work going forward.

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

Sincerely,

/s/

Eric M. Thorson
Inspector General, Department of the Treasury

cc: Robert Bonnie, Chairperson Designee
Justin Ehrenwerth, Executive Director