



Audit Report



OIG-15-004

RESTORE ACT: Treasury Has Made Progress in Establishing the RESTORE Act Grants Program

October 9, 2014

Office of
Inspector General

Department of the Treasury

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Abbreviations and Acronyms

HHS	Department of Health and Human Services
OGAM	Office of Grants and Asset Management
OGCR	Office of Gulf Coast Restoration
RESTORE Act	Resources and Ecosystems Sustainability, Tourist Opportunities, and Revived Economies of the Gulf Coast States Act of 2012

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*The Department of the Treasury
Office of Inspector General*

October 9, 2014

David A. Lebryk
Fiscal Assistant Secretary

This report presents the results of our audit of the Department of the Treasury's (Treasury) stand-up of the grants program to administer the Direct Component and the Centers of Excellence Research Grants Program Component (hereinafter referred to as Centers of Excellence Component) in accordance with requirements set forth in Sections 1603 and 1605 of the *Resources and Ecosystems Sustainability, Tourist Opportunities, and Revived Economies of the Gulf Coast States Act of 2012* (RESTORE Act).¹ We performed this audit as part of our ongoing oversight of programs and activities funded under the RESTORE Act. Our audit objective was to assess Treasury's progress in establishing a grants program and the necessary processes for administering and overseeing grants awarded under the act. Appendix 1 provides more detail of our audit objective, scope, and methodology.

In brief, we found that Treasury has made progress in establishing a grants program for administering RESTORE Act funds. That is, Treasury established the Office of Gulf Coast Restoration's (OGCR) organizational infrastructure and a program charter,² drafted grants policies and procedures, and acquired the information technology necessary to administer and oversee the grants program. Upon publication of the Treasury RESTORE Act regulations on August 15, 2014, OGCR continues to refine the program's

¹ Public Law 112-141, 126 Stat. 588-607 (July 6, 2012)

² A program charter is a document that outlines key aspects of the project, such as its rationale, goals, deliverables, key dates, team structure, and budget.

organizational and operational infrastructure and finalize grant policies and procedures.³

With the publication of the RESTORE Act regulations, we encourage OGCR to proceed promptly to complete all tasks outlined in the program charter. We make no recommendations in this report.

In a written response, Treasury management expressed its overall commitment to continuously improve its RESTORE Act Grants Program. Recognizing the importance of expanding the OGCR's organizational and operational infrastructure, there are plans to hire and train more staff as well as refine policies and procedures. Furthermore, management noted that it will work with the Gulf Coast States regarding program requirements, grant applications, and readiness to receive funds. Management's response is provided in appendix 2.

Background

The RESTORE Act established the Gulf Coast Restoration Trust Fund (Trust Fund) within Treasury to provide funds for environmental and economic restoration of the Gulf Coast region⁴ that was damaged by the 2010 Deepwater Horizon oil spill. Deposits into the Trust Fund will be comprised of 80 percent of all civil and administrative penalties paid after July 6, 2012, under the Federal Water Pollution Control Act.⁵ While the total amount that will eventually be deposited into the Trust Fund is unknown at this time, the Trust Fund received approximately \$653 million as a

³ On August 15, 2014 OGCR published the *Direct Component Guidance and Application to Receive Federal Financial Assistance* and its *Center of Excellence Research Grants Program Guidelines and Application to Receive Federal Financial Assistance*. OGCR is continuing to draft the remaining policies and procedures for the program.

⁴ As defined in the Treasury RESTORE Act regulations, the term Gulf Coast region means (1) in the Gulf Coast States, the coastal zones defined under section 304 of the Coastal Zone Management Act of 1972 (Public Law 92-583; Oct. 27, 1972) that border the Gulf of Mexico; (2) land within the coastal zones described in paragraph (1) of this definition that is held in trust by, or the use of which is by law subject solely to the discretion of, the Federal Government or officers or agents of the Federal Government; (3) any adjacent land, water, and watersheds, that are within 25 miles of the coastal zone described in paragraphs (1) and (2) of this definition; and (4) all Federal waters in the Gulf of Mexico.

⁵ Public Law 92-500 (as amended)

result of the government's settlement with the Transocean defendants.⁶ The final payment of \$160 million plus interest is due from the Transocean defendants in February 2015. Litigation is ongoing with other defendants, most notably BP Exploration and Production Inc.

The RESTORE Act allocates money in the Trust Fund to the following 5 components: (1) 35 percent will be made available to the Gulf Coast States in equal shares under the Direct Component; (2) 30 percent plus 50 percent of interest earned on the Trust Fund will be made available for grants under the Comprehensive Plan Component; (3) 30 percent will be made available for grants under the Spill Impact Component; (4) 2.5 percent plus 25 percent of interest earned on the Trust Fund will be made available to the Centers of Excellence Component; and (5) 2.5 percent plus 25 percent of interest earned on the Trust Fund will be made available to the Science Program Component. Treasury's Office of Fiscal Operations and Policy, which reports to the Fiscal Assistant Secretary, is responsible for administering the Direct Component and the Centers of Excellence Component (the subjects of this audit report). The Gulf Coast Ecosystem Restoration Council (Council) is responsible for administering the Comprehensive Plan Component and the Spill Impact Component. The National Oceanic and Atmospheric Administration is responsible for administering the Science Program Component.

Section 1603 of the RESTORE Act requires Treasury to distribute funds under the Direct Component to the Gulf Coast States in equal shares for the following activities: (1) restoration and protection of natural resources, ecosystems, fisheries, marine and wildlife habitats, beaches, and coastal wetlands of the Gulf Coast region; (2) mitigation of damage to fish, wildlife, and natural resources; (3) implementation of a federally approved marine, coastal, or comprehensive conservation management plan, including fisheries monitoring; (4) workforce development and job

⁶ On February 19, 2013, the civil settlement between the Department of Justice and Transocean defendants (Transocean Deepwater Inc., Transocean Offshore Deepwater Drilling Inc., Transocean Holdings LLC, and Triton Asset Leasing GmbH) was approved. Among other things in the settlement, the Transocean defendants will pay a \$1 billion civil penalty plus interest. Of this amount, \$800 million plus interest will be deposited in the Trust Fund.

creation; (5) improvements to or on State parks located in coastal areas affected by the Deepwater Horizon oil spill; (6) infrastructure projects benefitting the economy or ecological resources, including port infrastructure; (7) coastal flood protection and related infrastructure; (8) planning assistance; (9) promotion of tourism in the Gulf Coast region, including recreational fishing; and (10) promotion of the consumption of seafood harvested from the Gulf Coast region.

Section 1605 of the RESTORE Act requires Treasury to distribute funds to the Gulf Coast States in equal shares for the purpose of establishing Centers of Excellence Programs. The programs must be established through competitive grants awarded to nongovernmental entities and consortia in the Gulf Coast region. Each center of excellence must focus on science, technology, and monitoring in at least one of the following disciplines: (1) coastal and deltaic sustainability, restoration and protection, including solutions and technology that allow citizens to live in a safe and sustainable manner in a coastal delta in the Gulf Coast region; (2) coastal fisheries and wildlife ecosystem research and monitoring in the Gulf Coast region; (3) offshore energy development, including research and technology to improve the sustainable and safe development of energy resources in the Gulf of Mexico; (4) sustainable and resilient growth, economic and commercial development in the Gulf Coast region; and (5) comprehensive observation, monitoring, and mapping of the Gulf of Mexico.

Audit Result

We found that Treasury has made progress in establishing a grants program for administering RESTORE Act funds. Treasury established the OGCR's organizational infrastructure and a program charter, drafted grants policies and procedures, and acquired the information technology necessary to issue grants under the Direct Component and Centers of Excellence Component. At the end of fieldwork, Treasury was continuing to refine OGCR's organizational and operational infrastructure.

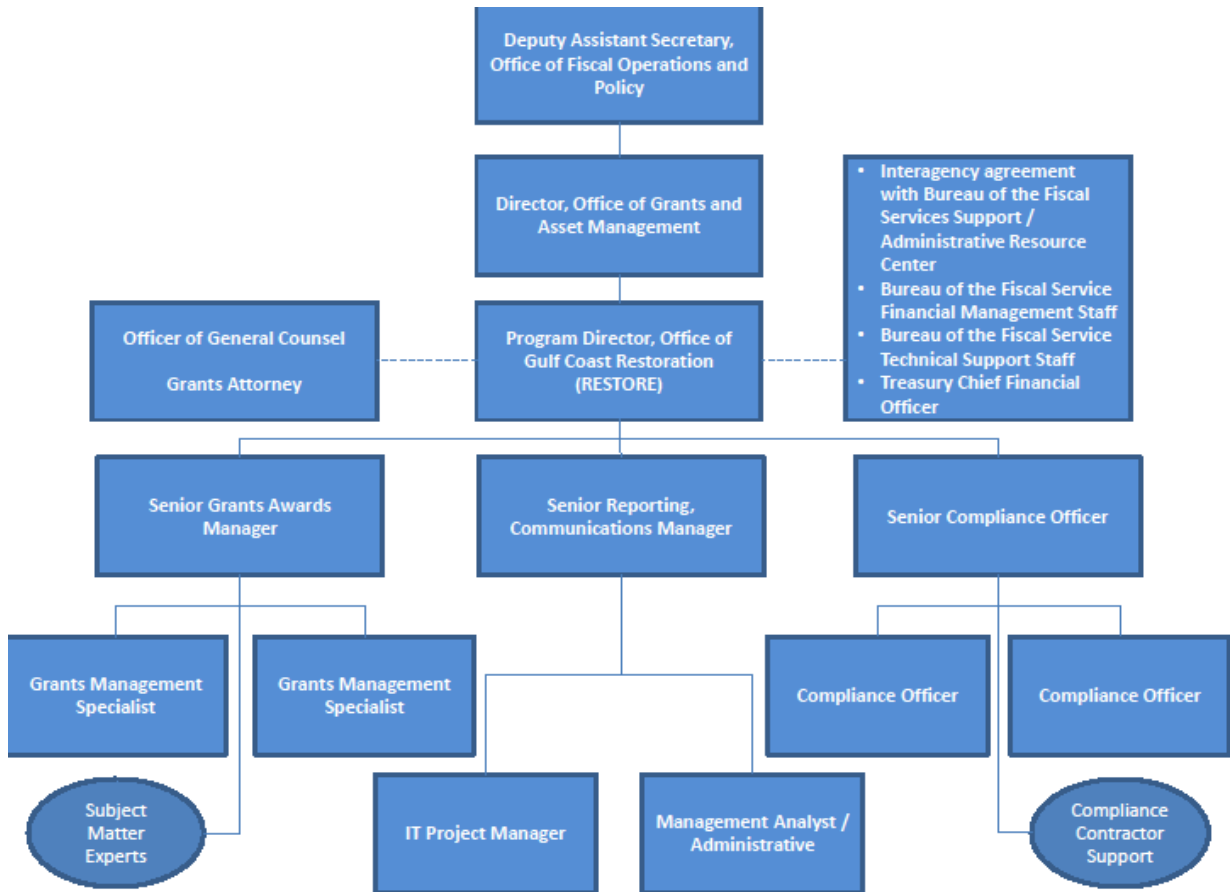
Organizational Infrastructure

Prior to the RESTORE Act, Treasury's Departmental Offices did not have an infrastructure capable of handling a large grant program. Given the lack of a grant program infrastructure and specific funding, Treasury was faced with challenges in establishing a new program office to administer RESTORE Act grants. To address these challenges, personnel were detailed from other Treasury programs until January 2014 at which time Treasury was appropriated two-year funding of \$7.4 million for fiscal years (FY) 2014 and 2015.

Through a realignment within the Office of Fiscal Operations and Policy, Treasury created the Office of Grants and Asset Management (OGAM). OGCR, which will administer funds under the RESTORE Act, is housed within OGAM, along with the Office of Financial Agents and the Office of Housing & Energy⁷ as part of the aforementioned realignment. As shown in Figure 1, OGAM is overseen by a Director who reports to the Deputy Assistant Secretary, Fiscal Operations and Policy.

⁷ The Office of Housing & Energy oversees Treasury's programs under Sections 1602 and 1603 of the American Recovery and Reinvestment Act of 2009 (Public Law 111-5; Feb. 17, 2009) and is comprised of the 1602 Program: Payments to States for Low-Income Housing Projects in Lieu of Low-Income Housing Tax Credits and the 1603 Program: Payments for Specified Energy Property in Lieu of Tax Credits.

Figure 1 - Office of Gulf Coast Restoration's Organizational Structure



(Source: Treasury, Office of Grants and Asset Management)

OGCR is administered by a Program Director who is supported by a Senior Grants Award Manager, a Senior Reporting and Communications Manager, and a Senior Compliance Officer. As of June 30, 2014, the office was headed by an Interim Program Director with the Senior Grants Awards Manager and Senior Compliance Officer in place. Recruitment activities were underway to hire a permanent Program Director and there were also plans to hire a Senior Reporting and Communications Manager in FY 2015. Additionally, there were four full-time employees and four part-time employees in the OGCR. The Director of OGAM told us that he anticipates that OGCR will eventually grow to 11 full-time employees. In addition to its own staffing, OGCR also plans to utilize the expertise of other Federal agencies, subject matter

experts, and contractors to evaluate the “best available science”⁸ required by the RESTORE Act to review grant applications.

OGCR receives financial management and information technology support from the Bureau of the Fiscal Service (Fiscal Service) and the Treasury’s Office of the Deputy Chief Financial Officer. Furthermore, OGCR plans to use the GrantSolutions.gov⁹ information technology system to administer grants awarded under the Direct and Centers of Excellence Components. GrantSolutions.gov is available to all Federal grant-making agencies as part of the Office of Management and Budget’s Grants Management Line of Business¹⁰ initiative. The system services all types of grants and operates over the entire grant lifecycle.

Program Charter

Project management is an organizational strategy that ties project results to goals in order to improve operational effectiveness and efficiency. Since standing up OGCR, the Interim Program Director implemented project management techniques and a program charter to help promote effectiveness and efficiency. The charter established milestones for the following six workflows: (1) program requirements and regulations, (2) transparency, (3) training, (4) information technology, (5) awards, and (6) compliance requirements. Under the transparency workflow, OGCR is also working closely with Fiscal Service to establish procedures to comply with the recently enacted Digital Accountability and Transparency Act.¹¹

⁸ As defined in the RESTORE Act Section 1603 (1)(C), “the term ‘best available science’ means science that (A) maximizes the quality, objectivity, and integrity of information, including statistical information; (B) uses peer-reviewed and publicly available data; and (C) clearly documents and communicates risks and uncertainties in the scientific basis for such projects.”

⁹ GrantSolutions.gov is administered by the Department of Health and Human Services.

¹⁰ In 2004, the Office of Management and Budget established the *Grants Management Line of Business* (GMLOB) to support awards management disciplines, including policy, grant award and management, performance and financial monitoring, and technology. In addition, GMLOB supports federal government grants management streamlining and creating a common solution for grants management that promotes increased citizen access, customer service, and agency financial and technical stewardship. GMLOB works with 26 grant-making agencies to balance their grant-making needs with government-wide goals of efficiency, standardization, streamlining, and transparency.

¹¹ Public Law 113-101 (May 9, 2014)

Draft Grant Policies and Procedures

OGCR personnel and contractors drafted operating policies and procedures to administer both the Direct and the Centers of Excellence Components. In drafting the documents, OGCR ensured alignment with the requirements set forth in the RESTORE Act and the Office of Management and Budget's *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*,¹² as well as Treasury's draft RESTORE Act regulations. In addition, OGCR also ensured alignment of its draft policies and procedures with GrantSolutions.gov to ensure efficiency and to minimize costs. Treasury published its *Direct Component Guidance and Application to Receive Federal Financial Assistance* and its *Center of Excellence Research Grants Program Guidelines and Application to Receive Federal Financial Assistance* on August 15, 2014. OGCR continues to work on finalizing other policies and procedures to administer the grants program.

Challenges and Next Steps

The Interim Program Director of OGCR informed us that going forward, the office's efforts will focus on: (1) staffing the office and developing a staff training plan; (2) refining the draft grant policies and procedures; and (3) training staff and grantees on GrantSolutions.gov.

With the recent publication of Treasury's RESTORE Act regulations, we encourage OGCR to proceed expeditiously to complete all tasks outlined in the program charter, including finalizing the organizational and operational infrastructure for the program office, and the policies and procedures for administering the grants program.

¹² 78 FR 78590 (Dec. 26, 2013)

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We appreciate the courtesies and cooperation extended by your staff as we inquired about these matters. Major contributors to this report are listed in appendix 3. A distribution list for this report is provided as appendix 4. If you have any questions, you may contact me at (202) 927-5762 or Eileen Kao, Audit Manager, at (202) 927-8759.

/s/

Deborah L. Harker
Director, Gulf Coast Restoration Audits

As part of our oversight of programs and activities authorized by the *Resources and Ecosystems Sustainability, Tourist Opportunities, and Revived Economies of the Gulf Coast States Act of 2012* (RESTORE Act), we initiated an audit of the Department of Treasury's (Treasury) activities to stand up a grants program for administering and overseeing funds for the Direct Component and the Centers of Excellence Research Grants Program Component in accordance with requirements set forth in Sections 1603 and 1605 of the act. The objective of our audit was to assess Treasury's progress in establishing a grants program and the necessary processes for administering and overseeing grants awarded under the act.

To accomplish our objective, we conducted fieldwork at Treasury's Offices in Washington, D.C., from December 2013 to June 2014, which comprised the following steps.

- We reviewed applicable laws, regulations, and procedures relating to Treasury's RESTORE Act grants program, including:
 - RESTORE Act requirements;
 - draft Treasury RESTORE Act regulations (31 CFR Part 34) dated September 6, 2013;
 - draft Treasury RESTORE Act Interim Final Rule and Preamble (31 CFR Part 34) dated May 2014;
 - Office of Management and Budget, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* dated December 26, 2013; and
 - Treasury's draft policies and procedures for the grants program.

- We reviewed applicable project management and internal control guidance and best practices, including:
 - Government Accountability Office, Green Book, *Standards for Internal Controls in the Federal Government*, dated November 1999;
 - Office of Management and Budget, Circular A-11, *Preparation, Submission, and Execution of the Budget* Section 200.21, dated July 2013; and
 - Project Management Institute's website (www.pmi.org), *What is Project Management?*, April 2014.

- We interviewed Treasury personnel responsible for establishing the grants program including:
 - former Deputy Assistant Secretary, Fiscal Operations and Policy;
 - Director, Office of Grants and Asset Management and Interim Program Director, Office of Gulf Coast Restoration;
 - Senior Compliance Officer, Office of Gulf Coast Restoration; and
 - Bureau of the Fiscal Service Counsel.

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



ASSISTANT SECRETARY

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

September 29, 2014

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

Dear Ms. Harker:

Thank you for the opportunity to comment on the draft audit report, *Treasury Has Made Progress in Establishing the RESTORE Act Grants Program*. We appreciate your office's review of Treasury's programs and activities under the RESTORE Act.

Treasury recognizes the importance of expanding the Office of Gulf Coast Restoration's organizational and operational infrastructure. During the next several months, Treasury will be hiring additional staff and training OGCR staff and continuing to refine our policies and procedures. At the same time, Treasury will be working closely with grant applicants in the Gulf Coast states to instruct them on program requirements, assess their readiness to receive funds, and assist them as they develop grant applications.

We are committed to the continuous improvement of Treasury's RESTORE Act grant program, and we look forward to working with you to achieve that goal.

Sincerely,

/s/ David A. Lebryk

David A. Lebryk
Fiscal Assistant Secretary

Appendix 3
Major Contributors to This Report

Eileen J. Kao, Audit Manager
Marco T. Uribe, Auditor-in-Charge
Michael A. Levin, Auditor
John N. Tomasetti, Referencer

Department of the Treasury

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Fiscal Assistant Secretary
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