



Audit Report



OIG-18-009

RESTORE ACT

MDEQ's Compliance with Its Use of the Planning Assistance Award to Develop the Multiyear Implementation Plan

November 7, 2017

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 7, 2017

MEMORANDUM FOR **DAVID A. LEBRYK**
FISCAL ASSISTANT SECRETARY

FROM: Cecilia K. Howland /s/
Director, Gulf Coast Restoration Audits

SUBJECT: *MDEQ's Compliance with Its Use of the Planning Assistance Award to Develop the Multiyear Implementation Plan*

We are pleased to transmit the attached audit report, *MDEQ's Compliance with Its Use of the Planning Assistance Award to Develop the Multiyear Implementation Plan* (OIG 18-009; dated October 24, 2017). Under a contract monitored by our office, the certified independent public accounting firm, McConnell & Jones LLP (McConnell & Jones), performed an audit of the Mississippi Department of Environmental Quality's (MDEQ) Direct Component award for planning assistance to develop its Multiyear Implementation Plan (MYIP) under the *Resources and Ecosystems Sustainability, Tourist Opportunities and Revived Economies of the Gulf Coast States Act of 2012* (RESTORE Act).

In its audit report, McConnell & Jones did not identify non-compliance in MDEQ's use of the MYIP Planning Assistance award. However, areas were identified where the MDEQ's policies and procedures did not reflect all *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 2 CFR Part 200 (Uniform Guidance) requirements related to equipment management and personally identifiable information. Accordingly, McConnell & Jones recommended that the Fiscal Assistant Secretary considers MDEQ's need to further develop and strengthen documentation of its policies and procedures to align with the Uniform Guidance requirements as part of Treasury's oversight and administration of MDEQ's MYIP Planning Assistance award as well as risk assessments required by the Uniform Guidance for future awards. Treasury management agreed with the audit results and recommendation.

Our contract required that the audit be performed in accordance with generally accepted government auditing standards. In connection with our contract, we reviewed McConnell & Jones' report 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 conclude on MDEQ's compliance with its MYIP. McConnell & Jones is responsible for the attached auditor's report and the conclusions expressed therein. Our review found no instances in which McConnell & Jones did not comply in all material respects, with generally accepted government auditing standards.

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We appreciate the courtesies and cooperation provided to McConnell & Jones and our staff during the audit. If you have any questions or require further information, you may contact me at (202) 927-8782.

Attachment

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ABBREVIATIONS

Green Book	Government Accountability Office’s Standards for Internal Control in the Federal Government
MDEQ	Mississippi Department of Environmental Quality
MYIP	Multiyear Implementation Plan
OIG	Office of Inspector General
PII	Personally Identifiable Information
RESTORE Act	Resources and Ecosystems Sustainability, Tourist Opportunities, and Revived Economies of the Gulf Coast States Act of 2012
Treasury	Department of the Treasury
Trust Fund	Gulf Coast Restoration Trust Fund
Uniform Guidance	Office of Management and Budget’s Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, 2 CFR Part 200

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October 24, 2017

David A. Lebryk
Fiscal Assistant Secretary
Department of the Treasury

This report presents the results of our audit of the State of Mississippi's Direct Component award for planning assistance to develop its Multiyear Implementation Plan (MYIP). The plan, which was developed by the Mississippi Department of Environmental Quality (MDEQ), is a requirement for Direct Component funding under the Resources and Ecosystems Sustainability, Tourist Opportunities, and Revived Economies of the Gulf Coast States Act of 2012 (RESTORE Act).¹ Our audit objective was to assess whether MDEQ has used awarded funds in compliance with applicable Federal statutes, regulations, and its award agreement with the Department of the Treasury (Treasury). Appendix 1 provides more details of our audit objective, scope, and methodology.

Section 1608 of the RESTORE Act authorizes the Treasury Office of Inspector General (OIG) to conduct, supervise, and coordinate audits of projects, programs, and activities funded by the act. In this regard, the Treasury OIG engaged our firm, McConnell & Jones LLP, Certified Public Accountants, to perform this audit.

In brief, we did not identify any areas of non-compliance in the use of the MYIP Planning Assistance award. Specifically, we found MDEQ to be compliant with applicable provisions of the Office of Management and Budget's Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, 2 CFR Part 200 (Uniform Guidance), Notice of Award, and Treasury's RESTORE Act Financial Assistance Standard Terms and Conditions (hereinafter referred to as Treasury's terms and conditions) in its use of the award, to include the establishment and maintenance of internal control. However, we did identify areas where MDEQ's policies and procedures did not reflect all Uniform Guidance requirements related to equipment management and personally identifiable information (PII). With that, we recommend that the Fiscal Assistant Secretary considers MDEQ's need to further develop and strengthen documentation of its policies and procedures to align with Uniform Guidance requirements. This consideration should be part of Treasury's oversight and administration of MDEQ's MYIP Planning Assistance award as well as risk assessments required by the Uniform Guidance for future awards. We discussed specific areas of opportunity for MDEQ to strengthen existing policies and procedures, and have included our results in this report. Furthermore, at our end of site visit briefing, MDEQ officials stated that they would strengthen the MDEQ's policies and procedures.

As part of our reporting process, we provided MDEQ management an opportunity to comment on drafts of this report. This report incorporates management's feedback on those drafts that were appropriate and fully supported. In its written response to this report, MDEQ management acknowledged that there were no areas of non-compliance in the use of the MYIP Planning

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¹ Pub. L. 112-141, 126 Stat. 588-607 (July 6, 2012)

Assistance Award, and the recommendations [to Treasury] related to strengthening policies and procedures regarding 2 CFR §200.312 and 2 CFR §200.303(e). The response also included some concerns raised by MDEQ management from its review of the previous draft report that management believed warranted reconsideration. There were two matters that were procedural in nature, which after reconsideration, we determined to be addressed. First, MDEQ management cited a March 2017 discussion regarding the combination of our audit and another Treasury OIG audit of MDEQ's internal controls over the administration of Federal awards (Internal Controls Audit). We followed up with the Treasury OIG on this matter and were informed that there was a misunderstanding at the March 2017 meeting as it was communicated to MDEQ management that the reports would not be combined. There were subsequent discussions and correspondence between Treasury OIG and MDEQ management clarifying that the Internal Controls Audit was a separate audit, and as such, would not be combined with our audit report. According to Treasury OIG, it also informed MDEQ management that it was terminating its Internal Controls Audit under a separate letter as it was not part of this audit. We confirmed that Treasury OIG terminated its Internal Controls Audit in a letter provided to MDEQ management on September 13, 2017.

MDEQ's management response also raised a procedural concern regarding the scope of our audit objective. Management believed that our finding, "Policies and Procedures Did Not Reflect All Uniform Guidance Requirements," exceeded the original objective to assess whether MDEQ has used awarded funds in compliance with applicable Federal statutes, regulations, and its award agreement with Treasury. Citing the Government Accountability Office's (GAO) generally accepted government auditing standards [GAGAS section 7.19] regarding the auditor's discretion in communicating internal control deficiencies that are either significant or not significant to the audit objectives, management stated that our "recommendation" was not significant to the objective of our audit. Management requested that we remove it from the report and present it in a separate memorandum or letter. In adhering to GAGAS 7.19² in its entirety, it was within our professional judgment to include our finding and recommendation. We did so based on our concern over future awards.

In response to the recommendation, MDEQ management referred to Treasury's technical guidance, *Technical Assistance Written Policy & Procedure Requirements in 2 CFR 200*, with respect to which citations from Uniform Guidance require written policies and procedures. While equipment management and personally identifiable information were not cited, we included them in our finding as they relate to the Uniform Guidance requirement that a non-Federal entity's internal controls should be in compliance with the GAO's *Standards for Internal Control in the Federal Government* (Green Book). Treasury also noted in its technical guidance that "policies and procedures are part of your organization's internal controls for meeting program objectives, and as such, will be requested by oversight bodies, including Treasury's Office of the

² GAO, *Government Auditing Standards*, 7.19 "Auditors should include in the audit report (1) the scope of their work on internal control and (2) any deficiencies in internal control that are significant within the context of the audit objectives and based upon the audit work performed. When auditors detect deficiencies in internal control that are not significant to the objectives of the audit but warrant the attention of those charged with governance, they should include those deficiencies either in the report or communicate those deficiencies in writing to audited entity officials. Auditors should refer to that written communication in the audit report if the written communication is separate from the audit report. When auditors detect deficiencies that do not warrant the attention of those charged with governance, the determination of whether and how to communicate such deficiencies to audited entity officials is a matter of professional judgment."

Inspector General, and your external auditor during audits and reviews of your program.” MDEQ management did note that it will work with Treasury to provide policies and procedures regarding these sections of Uniform Guidance.

After considering all of MDEQ’s management concerns as included in its written response, we concluded that all matters were appropriately addressed for Treasury’s consideration. Appendix 2 provides MDEQ’s management response in its entirety.

We also provided a draft of this report with MDEQ’s response incorporated to Treasury management. In its response, Treasury management acknowledged the results of this audit. Management stated that it will consider MDEQ’s need to further develop and strengthen documentation of its policies and procedures to align with the Uniform Guidance requirements, and, pursuant to Treasury’s grants management procedures, it will continue to engage in oversight and administration of grant awards, including risk assessments. Specific to Equipment Management, Treasury management stated that it does not plan to provide federally-owned property but will work with MDEQ to institute policies and procedures associated with §200.312 of Uniform Guidance if the situation arises. Regarding PII, Treasury management noted that MDEQ is assessing the completeness of its PII policies and procedures for potential updates, and that it will review MDEQ’s updated policies and procedures as part of its administration of future awards. Treasury management’s response, in its entirety, is included as appendix 3 of this report.

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 region 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.³ Approximately \$5.3 billion is expected to be deposited into the Trust Fund as a result of the Federal Government’s settlements with Transocean, Anadarko Petroleum Corporation, and BP Exploration & Production Inc. defendants. As of April 17, 2017, the Trust Fund received approximately \$1.2 billion, including related interest.

The RESTORE Act allocates money in the Trust Fund among five components, as follows: (1) 35 percent will be made available to the Gulf Coast States (Alabama, Florida, Louisiana, Mississippi, and Texas) 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 NOAA RESTORE Act Science Program Component; and (5) 2.5 percent plus 25 percent of interest earned on the Trust Fund will be made available to the Centers of Excellence Research Grants Program. Treasury’s Office of the Fiscal Assistant Secretary is responsible for administering the Direct Component and the Centers of Excellence Component. The Gulf Coast Ecosystem Restoration 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 in equal shares under the Direct Component to the Gulf Coast States for the following activities: (1) restoration and

³ 33 U.S.C. §1321 et seq.

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 creation; (5) improvements to or on State parks located in coastal areas affected by the Deepwater Horizon oil spill; (6) infrastructural projects benefitting the economy or ecological resources, including port infrastructure; (7) coastal flood protection and related infrastructure; (8) planning assistance; (9) administrative costs; (10) promotion of tourism in the Gulf Coast region, including recreational fishing; and (11) promotion of the consumption of seafood harvested from the Gulf Coast region.

The State of Mississippi's Multiyear Implementation Plan

The Direct Component requires the State of Mississippi, through MDEQ, to prepare a MYIP describing each activity, project, or program for which the State of Mississippi seeks funding under the Direct Component. MDEQ, as determined by the RESTORE Act, will receive 20 percent of the 35 percent allocation under the Direct Component. MDEQ prepared its draft MYIP and kept it open for a 45-day period for public comments. The MYIP was initially submitted to the Department of the Treasury on March 2, 2016. Revisions to the MYIP were submitted on April 1, 2016 and May 10, 2016. Treasury requested changes in the MYIP to split one project into two and also to incorporate slight changes to the narrative to clarify the project scope. Treasury accepted the revised MYIP on May 19, 2016.

MDEQ was awarded \$770,378 in Planning Assistance for the development of the MYIP for the project period from September 1, 2015 through August 31, 2016. As of March 31, 2016, MDEQ expended \$247,659 of its awarded grant funds. Due to early completion and Treasury's acceptance of the MYIP, MDEQ planned to de-obligate any excess funds back to the Treasury during the 90-day grant closeout period.

AUDIT RESULTS

We performed tests of compliance with the applicable provisions of the Uniform Guidance, Notice of Award, and Treasury's terms and conditions. Among those provisions, "the non-Federal entity must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award." As such, we performed tests of internal control. We also reviewed MDEQ's general ledger activities from inception of the MYIP Planning Assistance award through March 31, 2016. We did not identify any areas of non-compliance or deficiencies in internal control but did identify areas where MDEQ policies and procedures did not reflect all Uniform Guidance requirements. The following summarizes the results of our testing.

Compliance with Uniform Guidance and Treasury's Terms and Conditions

Allowable Costs/Costs Principles: We tested a sample of payroll, non-payroll, and travel transactions charged to the MYIP Planning Assistance award for conformance with the criteria contained in the Uniform Guidance ("Basic Considerations" 2 CFR §200.402 through §200.411 and "General Provisions for Selected Items of Cost" §200.420 through §200.475) and Treasury's

terms and conditions (Section A “Program-Specific Terms and Conditions—Awards Under the Direct Component” and Section C “Financial Requirements”).

Based on the results of procedures performed, we conclude that the costs associated with this grant were proper, reasonable, allowable, and determined in accordance with the cost principles of the Uniform Guidance and Treasury’s terms and conditions.

Activities Allowed or Unallowed: We reviewed project activities under the MYIP Planning Assistance award, detailed budget support, and other documentation to confirm that the Federal award was expended only for allowable activities in accordance with the criteria contained in the Uniform Guidance (“Basic Considerations” 2 CFR §200.402 through §200.411 and “General Provisions for Selected Items of Cost” §200.420 through §200.475) and Treasury’s terms and conditions (Section A “Program-Specific Terms and Conditions—Awards Under the Direct Component” and Section C “Financial Requirements”). We tested a sample of payroll, non-payroll, and travel expenses associated with the activities and that had been charged to the MYIP Planning Assistance award. In addition, we reviewed the MYIP posted to the State of Mississippi’s RESTORE website (link: <http://msrestoreteam.com/>).

Based on the results of procedures performed, we concluded that the activities relating to these programs were allowable and that the related transactions were properly classified, accumulated, and recorded. The activities described are reasonable and correspond to the tasks listed under Allowable Costs/Cost Principles. We noted no findings of noncompliance for Activities Allowed or Unallowed.

Cash Management: We tested a sample of transactions of cash management for conformance with the criteria contained in the Uniform Guidance (“Payment” 2 CFR §200.305) and Treasury’s terms and conditions (Section E “Financial Management System and Internal Control Requirements” and Section H “Award Disbursement”). We reviewed MDEQ’s policies and procedures to ensure that MDEQ provides reasonable assurance that the time between the transfer of funds from Treasury to MDEQ and MDEQ’s payout of funds for Federal assistance is minimized, as well as limiting the funds to meet MDEQ’s actual and immediate cash needs.

Based on the results of procedures performed, we noted no findings of non-compliance in Cash Management.

Equipment Management: We reviewed MDEQ’s written policy and procedures for equipment management for compliance with the criteria contained in the Uniform Guidance (“Property Standards” 2 CFR §200.310 through §200.316) and Treasury’s terms and conditions (Section K “Property”). We conducted a review of the General Ledger noting MDEQ had only allocated a negligible amount of equipment cost to the MYIP Planning Assistance award during the period of our review. We noted no findings of non-compliance for Equipment Management.

Procurement Management: We reviewed MDEQ’s procurement management policies for compliance with the requirements of the Uniform Guidance (“Procurement Standards” 2 CFR §200.317 through §200.326) and Treasury’s terms and conditions (Section S “Procurement”).

Specific to Procurement Management, we also reviewed all the procurement files of vendors selected by MDEQ to perform services on MYIP Planning Assistance award for compliance with the criteria contained in the Uniform Guidance and Treasury's terms and conditions.

Based on the results of procedures performed, we noted no findings of non-compliance in Procurement Management.

Reporting: We tested a sample of financial and performance reporting for compliance with criteria contained in the Uniform Guidance ("Performance and Financial Monitoring and Reporting" 2 CFR §200.327 through §200.329) and Treasury's terms and conditions (Section D "Recipient Reporting and Audit Requirements"), as applicable.

Based on the results of procedures performed, we noted no findings of non-compliance for financial and performance reporting.

Subrecipient Monitoring: We reviewed MDEQ's written policies and procedures for compliance with the criteria contained in the Uniform Guidance ("Subrecipient Monitoring and Management" 2 CFR §200.330 through §200.332) and Treasury's terms and conditions (Section C.9 "Financial Requirements—Subawards"). As no subrecipients were used for the MYIP Planning Assistance award during the period of our review, we noted no findings of non-compliance for Subrecipient Monitoring.

Financial Management System: We tested a sample of transactions from the financial management system for compliance with the criteria contained in the Uniform Guidance ("Financial Management" 2 CFR §200.302) and Treasury's terms and conditions (Section E "Financial Management System and Internal Control Requirements").

Based on the results of procedures performed, we noted no findings of non-compliance for the Financial Management System.

Environmental Requirements: We reviewed MDEQ's documentation to verify if awards, agreements, and contracts entered into by the MDEQ include all of the environmental statutes, regulations, and executive orders set forth in Section U "Environmental Requirements" of Treasury's terms and conditions and in accordance with the Uniform Guidance ("Procurement of Recovered Materials" §200.322). In addition, we verified if all contracts, including those with subcontractors, included clauses that make reference to the contractors' and/or subcontractors' acceptance of Treasury's terms and conditions.

Based on the results of procedures performed, we noted no findings of non-compliance for Environmental Requirements.

Records Retention Requirements: We reviewed MDEQ's records retention policies and procedures for compliance with the criteria contained in the Uniform Guidance ("Record Retention and Access" 2 CFR §200.333 through §200.337) and Treasury's terms and conditions (Section F "Records Retentions Requirements").

Based on the results of procedures performed, we noted no findings of non-compliance for Record Retention.

Special Award Conditions: We performed procedures to verify if MDEQ complied with the Special Award Conditions contained in the Treasury's Notice of Award, which include (1) prior to Treasury's disbursement of \$438,322.00, of the total \$770,378.39 award, to fund MDEQ's contract with Covington Civil & Environmental, LLC (Covington), MDEQ must deliver to Treasury evidence, in form and substance satisfactory to Treasury, that MDEQ has entered into a written amendment to its contract with Covington, signed by Covington's authorized official, in which Covington agrees to comply with the Treasury's terms and conditions for the portion of its work under the contract for multiyear plan preparation; (2) funds under this award may not be used for the preparation of any grant application because preparation of a grant application is not within the approved scope of work for this award; and (3) funds under this award may not be used for the preparation of other RESTORE Act or Deepwater Horizon-related plans or projects because preparation of other plans is not within the approved scope of work for this award.

Based on the results of procedures performed, we noted no findings of non-compliance with the Special Award Conditions contained in the Treasury's Notice of Award.

Policies and Procedures Did Not Reflect All Uniform Guidance Requirements

Overall, MDEQ has policies and procedures in place to administer RESTORE Act funds. However, certain policies and procedures did not fully reflect requirements of the Uniform Guidance for the following processes: equipment management and PII.

Equipment Management: MDEQ did not make any significant equipment purchases under the MYIP Planning Assistance award during the period under audit. However, we noted that MDEQ's policy and procedures for property, which cover inventory management and reporting, need to include the following Uniform Guidance requirement related to federally-owned property in the event future equipment purchases are made using RESTORE Act funds.

- a. §200.312 Title to federally-owned property remains vested in the Federal Government: The non-Federal entity must submit annually an inventory listing of federally-owned property in its custody to the Federal awarding agency. Upon completion of the Federal award or when the property is no longer needed, the non-Federal entity must report the property to the Federal awarding agency for further agency utilization.

Personally Identifiable Information: MDEQ's current policies and procedures for the safeguarding of PII need to include all elements of PII to be compliant with the following Uniform Guidance requirement as MDEQ will receive future RESTORE Act awards.

- a. §200.82 *Protected PII* means an individual's first name or first initial and last name in combination with any one or more of types of information, including, but not limited to, social security number; passport number; credit card numbers; clearances; bank numbers; biometrics; date and place of birth; mother's maiden name; criminal, medical and financial records; and educational transcripts. This does not include PII that is required by law to be disclosed.

- b. §200.303(e) Internal Controls. The non-Federal entity must take reasonable measures to safeguard protected PII and other information the Federal awarding agency or pass-through entity designates as sensitive or the non-Federal entity considers sensitive consistent with applicable Federal, State, local, and tribal laws regarding privacy and obligations of confidentiality.

Under 2 CFR, §200.303(a), the non-Federal entity must establish and maintain effective internal control over Federal awards and these internal controls should be in compliance with the GAO's Green Book or the COSO Internal Control Integrated Framework. The Green Book details three principles for control activities, one of them being implementing control activities through policies. The Green Book defines control activities as the policies, procedures, techniques, and mechanisms that enforce management's directives to achieve the entity's objectives and address related risks. Furthermore, the Green Book states that documentation is a necessary part of an effective internal control system, provides a means to retain organizational knowledge, and mitigates the risk of having that knowledge limited to a few personnel, as well as a means to communicate that knowledge as needed to external parties, such as external auditors.

MDEQ is required to implement the Uniform Guidance that became effective December 26, 2014. Accordingly, implementing, updating, and incorporating such requirements into MDEQ policies and procedures is an ongoing process. In the absence of clear documentation and communication of policies and procedures, the following issues may be encountered: fraud, waste and abuse of grant funds; inconsistent training of new staff; ineffective job performance, especially for staff who are unfamiliar with the requirements and less experienced; inability to cross-train employees; and lack of an effective continuity of operations.

RECOMMENDATION

We recommend that the Fiscal Assistant Secretary considers MDEQ's need to further develop and strengthen documentation of its policies and procedures to align with the Uniform Guidance requirements. This consideration should be part of Treasury's oversight and administration of MDEQ's MYIP Planning Assistance award as well as risk assessments required by the Uniform Guidance for future awards.

Management Response

In a written response, Treasury management acknowledged the results of this audit. Management stated that it will consider MDEQ's need to further develop and strengthen documentation of its policies and procedures to align with the Uniform Guidance requirements, and, pursuant to Treasury's grants management procedures, management will continue to engage in oversight and administration of grant awards, including risk assessments. Specific to Equipment Management, Treasury management stated that it does not plan to provide federally-owned property but will work with MDEQ to institute policies and procedures associated with §200.312 of Uniform Guidance if the situation arises. Regarding PII, Treasury management noted that MDEQ is assessing the completeness of its PII policies and procedures for potential updates, and that it will review MDEQ's updated policies and procedures as part of its administration of future awards. Treasury management's response, in its entirety, is included as appendix 3 of this report.

OIG Comment

Management's response meets the intent of our recommendation.

We appreciate the courtesies and cooperation extended by your staff as we inquired about these matters. If you have any questions, you may contact me at (713) 968-1610 or Gilbert Hopkins, Director, at (713) 968-1624.



Ira Wayne McConnell
Managing Partner

APPENDIX 1 OBJECTIVE, SCOPE, AND METHODOLOGY

Section 1608 of the Resources and Ecosystems Sustainability, Tourist Opportunities, and Revived Economies of the Gulf Coast States Act of 2012 (RESTORE Act) authorizes the Department of the Treasury (Treasury) Office of Inspector General (OIG) to conduct, supervise, and coordinate audits of projects, programs, and activities funded by the act. In this regard, the Treasury OIG engaged our firm, McConnell & Jones LLP, Certified Public Accountants, to audit Mississippi Department of Environmental Quality's (MDEQ) use of the Direct Component Planning Assistance award to develop its Multiyear Implementation Plan. The objective of this audit was to assess whether MDEQ has used awarded funds in compliance with applicable Federal statutes, regulations, and its award agreement with the Department of the Treasury.

To accomplish our objective, we conducted audit work at MDEQ's offices in Jackson, Mississippi, and at our office in Houston, Texas. We performed tests of internal control and also reviewed MDEQ's general ledger activities from inception of the MYIP Planning Assistance award through March 31, 2016. Due to the small population size of the MYIP Planning Assistance award, we applied a judgmental non-statistical sampling method to select samples for the purpose of our testing. We performed our fieldwork between January and July 2016, which comprised the following steps.

- We reviewed applicable Federal laws, regulations, and procedures, relating to Treasury's RESTORE Act grant program, including:
 - RESTORE Act requirements;
 - RESTORE Act Financial Assistance Standard Terms and Conditions and Program-Specific Terms and Conditions dated January 2015;
 - Treasury Interim Final Rule for RESTORE Act and Preamble, 31 CFR Part 34, effective October 14, 2014;
 - Treasury Final Rule for RESTORE Act and Preamble, 31 CFR Part 34, effective February 12, 2016;
 - Office of Management and Budget's Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards, 2 CFR Part 200;
 - Government Accountability Office's Standards for Internal Control in the Federal Government, September 10, 2014; and
 - Treasury's "Planning assistance for the development of the required Multiyear Implementation Plan" Notice of Award/Grant Agreement.
- We reviewed MDEQ's website and key documents, including:
 - MDEQ's organizational charts;
 - Payroll, non-payroll, and travel documentation;
 - Procurement files;
 - Indirect costs proposal and rate agreements;
 - Federal financial report (SF-425) and performance progress report (SF-PPR) filed for the period ended March 31, 2016;
 - Multiyear Implementation Plan;
 - MDEQ's policies and procedure to include Mississippi Manual for Administrative Policies and Procedures, Mississippi Office of the State Auditor's Property Manual, Mississippi State Personnel Board Rules and Regulations, Mississippi Department of Finance and Administration's Policy for Treatment of Social Security Numbers, and Mississippi Public Records Act (Miss Code Ann. § 25-61-1 et seq.); and
 - MDEQ's annual financial statements and compliance reports, fiscal years 2012

through 2014.

- We interviewed MDEQ personnel to gain an understanding of MDEQ's use of the Federally-awarded funds, including:
 - Director, Office of Restoration-MDEQ;
 - Accounting Director, Office of Restoration-MDEQ;
 - Program Director, Office of Restoration-MDEQ;
 - Chief Operating Office-Covington Civil & Environmental; and
 - Consultant-V. Wilson Consulting, LLC.

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

APPENDIX 2
MISSISSIPPI DEPARTMENT OF ENVIRONMENTAL QUALITY MANAGEMENT
RESPONSE



STATE OF MISSISSIPPI
PHIL BRYANT
GOVERNOR
MISSISSIPPI DEPARTMENT OF ENVIRONMENTAL QUALITY
GARY C. RIKARD, EXECUTIVE DIRECTOR

July 11, 2017

Ms. Cecilia K. Howland
Department of the Treasury
Washington, D. C. 20220

Dear Sir or Madam:

Thank you for your consideration of the Mississippi Department of Environmental Quality's ("MDEQ") response and additional information submitted to your office on April 10, 2017 and July 11, 2017. MDEQ acknowledges there were no areas of non-compliance in the use of the MYIP Planning Assistance Award and your recommendations to strengthen the policies and procedures regarding 2 C.F.R. § 200.312 and 2 C.F.R. § 200.303(e).

Please find enclosed MDEQ's response to the Treasury Office of the Inspector General's ("OIG") Revised Draft Audit Report which we received on June 16, 2017. MDEQ further provides this response to clearly and completely set forth its position on the specific recommendations.

Should you have any questions concerning this response, please feel free to contact me.

Sincerely,

A handwritten signature in blue ink that reads "Gary C. Rikard".

Gary C. Rikard
Executive Director

APPENDIX 2
MISSISSIPPI DEPARTMENT OF ENVIRONMENTAL QUALITY MANAGEMENT
RESPONSE

RESPONSE OF MISSISSIPPI DEPARTMENT OF ENVIRONMENTAL QUALITY

TO

**AUDIT OF STATE OF MISSISSIPPI'S DIRECT COMPONENT AWARD FOR PLANNING
ASSISTANCE TO DEVELOP ITS MULTIYEAR IMPLEMENTATION PLAN**

July 11, 2017

The Mississippi Department of Environmental Quality ("MDEQ") takes exception to the procedures and findings of the audit conducted by the U.S. Treasury ("Treasury"), Office of the Inspector General ("OIG"). The following constitutes the State's response to the specific issues raised in the audit.

DISCUSSION

On June 1, 2015, OIG issued notice that it was initiating an audit of MDEQ, with an overall audit objective to assess MDEQ's internal controls over the administration of federal awards in accordance with federal laws, regulations, and Treasury's application requirements (the "Internal Controls Audit"). The entrance conference was held on June 18, 2015. On July 23, 2015, an exit conference for the audit was held, at which time MDEQ received an Exit Briefing Memorandum. To date, no discussion draft has been received, no final report has been completed, and the audit remains open as to MDEQ.

On January 28, 2016, OIG issued notice that it was initiating an audit of MDEQ, with an overall audit objective to assess whether the State of Mississippi has used awarded funds in compliance with applicable federal statutes, regulations, and its award agreement with Treasury (the "Direct Component Audit"). The entrance conference was held on February 26, 2016. On February 17, 2017, MDEQ received a Discussion Draft Audit Report, and February 22, 2017, MDEQ received a revised Discussion Draft Audit Report. On March 3, 2017, a teleconference was had between OIG, Treasury and MDEQ regarding the Discussion Draft Audit Report.

During the March 3, 2017 conference call, Deborah Harker, Treasury OIG's Assistant Inspector General for Audit, announced that the reports for the two audits would be combined. However, the Discussion Draft Audit Report references the Direct Component Audit and does not include any reference whatsoever to the Internal Controls Audit. Further, the recommendations found in the Direct Component Audit are not the items of concern noted in the Exit Briefing Memorandum from the Internal Controls Audit. Finally, the Discussion Draft Audit Report for the Direct Component Audit does not expressly include language which would terminate the Internal Controls Audit on finalization of the report.

On April 10, 2017, MDEQ provided a response to the revised Discussion Draft Audit Report. On June 16, 2017, MDEQ received a Revised Draft Audit Report. There are still some concerns that MDEQ believes warrants reconsideration. These concerns are as detailed below.

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Procedural Concerns

Termination of Internal Controls Audit

As detailed in MDEQ's previous response, dated April 10, 2017, MDEQ has still not received an audit report for the Internal Controls Audit that began in June 2015. This open audit remains a concern for MDEQ. Every day that this Internal Controls Audit remains open, it continues to remain a liability for the agency since the open audit must be reported upon inquiry for each subsequent audit that MDEQ is under. As previously mentioned, Deborah Harker, Treasury OIG's Assistant Inspector General for Audit, indicated that the reports for the Internal Controls Audit and the Direct Component Audit would be combined. The Revised Draft Audit Report does not combine these two audits. A clear statement is needed in the Revised Draft Audit Report to indicate clearly whether or not these audits and respective results are combined. Without a clear statement of that information, there is insufficient information for an independent third party to discern that these two audits have been combined. Again, MDEQ respectfully requests the Direct Component Audit Revised Draft Audit Report expressly state that the report includes any recommendations for the Internal Controls Audit, that the recommendations included in the Revised Draft Audit Report pertaining to the Internal Controls Audit and the Direct Component Audit be clearly delineated for each respective audit, and that the report include a statement in the final report to note the termination of both audits.

Findings Beyond the Objective of the Direct Component Audit

The recommendations as stated in the Revised Draft Audit Report exceed the scope of the audit objective. The objective of the Direct Component Audit, as stated in the engagement letter of January 28, 2016, and in the Entrance Conference Agenda of February 26, 2016, is to assess whether the State used awarded funds in compliance with applicable federal statutes, regulations, and its award agreement with the Treasury. The audit results as identified under the section "Compliance with Uniform Guidance and Treasury's Terms and Conditions" noted no findings of non-compliance with any applicable federal statute, regulation, or the award agreement with Treasury. The subsequent recommendations identified under the section "Policies and Procedures Did Not Reflect All Uniform Guidance Requirements" were beyond the objective of this Direct Component Audit.

According to *Generally Accepted Government Auditing Standards*, when auditors detect deficiencies in internal controls that are not significant to the objectives of the audit, but which warrant the attention of those charged with governance, they have the discretion to whether and how to communicate those deficiencies to audited entity officials. The auditors further have the option to communicate those deficiencies in writing to audited entity officials, outside of the audit report. Because the recommendations in the Direct Component Audit are not significant to the objectives of the Direct Component Audit, and were not included in the Exit Briefing Memorandum of the Internal Controls Audit, MDEQ respectfully requests that the recommendations be removed from the Direct Component Audit Revised Draft Audit Report and instead be presented in the form of a Memorandum or Letter of Management Concerns.

Response to Recommendations as Stated in the Direct Component Audit Revised Draft Audit Report

During the March 3, 2017, conference call, MDEQ was informed that other states subject to the RESTORE Act and Treasury regulations had received technical guidance on 2 C.F.R. Pt. 200's requirements, except for Mississippi. MDEQ requested and received the technical guidance provided to

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the other states. MDEQ has reviewed all technical assistance provided by Treasury regarding the requirements of 2 C.F.R. Pt. 200, and particularly notes Treasury's statement regarding that technical assistance:

Although you are not required to document every provision of 2 C.F.R. 200 in your policies and procedures, there are specific citations that require written procedures or specific contract inclusions. We have provided a listing of those citations in this document.¹

A review of the document reveals that none of the sections on which OIG relied in its recommendations are included in Treasury's technical assistance documents. In order to clarify the requirements of the sections cited by OIG in its Discussion Draft Audit Report for the Direct Component Audit, MDEQ sought additional technical assistance from Treasury for the specific sections cited by OIG, and will continue to work with Treasury to ensure that MDEQ's Policies and Procedures comply with all of Treasury's requirements. *See Exhibit A.*

To the extent that these recommendations are not removed from the Revised Draft Audit Report, MDEQ provides the following responses regarding the specific recommendations in the Report:

Equipment Management: MDEQ did not make any significant equipment purchases under the MYIP Planning Assistance award during the period under audit. However, we noted that MDEQ's related policy and procedures for property, which cover inventory management and reporting, need to include the following Uniform Guidance requirement related to federally-owned property in the event future equipment purchases are made using RESTORE Act funds.

- a. § 200.312) Federally-owned and exempt property: Title to Federally-owned property remains vested in the Federal Government. If the Federal awarding agency has no further need for the property, it must declare the property excess and report it for disposal to the appropriate Federal disposal authority, unless the Federal awarding agency has statutory authority to dispose of the property by alternative methods. Exempt federally-owned property means property acquired under a Federal award where the Federal awarding agency has chosen to vest title to the property to the non-Federal entity without further obligation to the Federal Government, based upon the explicit terms and conditions of the Federal award. The Federal awarding agency may exercise this option when statutory authority exists.

Response: The Federal Awarding agency, not MDEQ, is required to ensure compliance with §200.312. However, MDEQ has requested technical assistance from Treasury and will work with Treasury to provide policies and procedures as required by Treasury regarding this Section of 2 C.F.R. Pt. 200.

Personally Identifiable Information: MDEQ's current policies and procedures for the safeguarding of PII need to include all elements of PII to be compliant with the following Uniform Guidance requirement as MDEQ will receive future RESTORE Act awards.

- a. §200.82 *Protected PII* means an individual's first name or first initial and last name in combination with any one or more of types of information, including, but not limited to, social security number; passport number; credit card numbers; clearances; bank numbers; biometrics; date and place of birth; mother's maiden name; criminal, medical and financial records; and education transcripts. This does not include PII that is required by law to be disclosed.

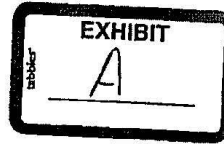
¹ Technical Assistance, Written Policy & Procedure Requirements in 2 CFR 200, August 19, 2016.

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- b. §200.303(e) Internal Controls. The non-Federal entity must take reasonable measures to safeguard protected PII and other information the Federal awarding agency or pass-through entity designates as sensitive or the non-Federal entity considers sensitive consistent with applicable Federal, State, local and tribal laws regarding privacy and obligation of confidentiality.

Response: MDEQ protects PII in accordance with state law, regulation, case law and administrative opinions, and provided all information to the auditors during the field work. MDEQ believes this information adequately addresses the concerns of 2 C.F.R. 303(e), and believes this recommendation should be removed from the audit report. Nonetheless, MDEQ has requested technical assistance from Treasury and will work with Treasury to provide policies and procedures as required by Treasury regarding this Section of 2 C.F.R. 200.

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STATE OF MISSISSIPPI
PHIL BRYANT
GOVERNOR
MISSISSIPPI DEPARTMENT OF ENVIRONMENTAL QUALITY
GARY C. RUSARD, EXECUTIVE DIRECTOR

April 10, 2017

Ms. Nicole E. Comisky
1500 Pennsylvania Ave., N.W.
Washington, DC 20220-0001

Re: Request for Technical Assistance

Dear Nicole:

As you know, the Mississippi Department of Environmental Quality ("MDEQ") is in the process of responding to an audit performed by Treasury's Office of the Inspector General ("OIG"). During a conference call on March 3, 2017, MDEQ was informed that other states subject to the RESTORE Act and Treasury regulations had received technical guidance on 2 C.F.R. Pt. 200's requirements, except for Mississippi. MDEQ then requested and received the technical guidance provided to the other states, including the following documents: Technical Assistance Written Policy & Procedure Requirements in 2 CFR 200, August 19, 2016; Initial Review Technical Assistance, Policies & Procedures for Managing Grants, Originally Issued June, 2016, Re-issued on Request, March, 2017, Checklist for Review of Procurement, 2 CFR § 200.317 – 326 Policies and Procedures; and Written Policy and Procedure Requirements in 2 CFR 200.

MDEQ has reviewed all technical assistance provided by Treasury regarding the requirements of 2 C.F.R. Pt. 200, and particularly notes Treasury's statement regarding that technical assistance:

Although you are not required to document every provision of 2 C.F.R. 200 in your policies and procedures, there are specific citations that require written procedures or specific contract inclusions. We have provided a listing of those citations in this document.¹

A review of the Written Policy and Procedure Requirements in 2 CFR 200 document reveals that none of the sections on which OIG relied in its recommendations are included in that document, except 2 C.F.R. § 200.326.² In order to clarify the requirements of the sections cited by OIG in its Discussion Draft Audit Report for the Direct Component Audit, MDEQ is

¹ Technical Assistance, Written Policy & Procedure Requirements in 2 CFR 200, August 19, 2016.

² 2 C.F.R. 200.326 addresses contract provisions. MDEQ believes it has complied with this provision by including the requisite contracts provision in all of its federal contracts, including RESTORE contracts, awards and sub-awards and requiring the same of each contractor for every recipient of RESTORE funds.

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requesting technical assistance from Treasury for the specific sections cited by OIG, so that we may ensure that we are in compliance with all federal requirements in our RESTORE grants management program. I am attaching a copy of each of the provisions cited by OIG for your convenience.

We look forward to talking with you to and continuing to work with Treasury to ensure that MDEQ's Policies and Procedures comply with all of Treasury's requirements.

Sincerely,



Melanie Green
Accounting Director, Restoration

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§ 200.310 Insurance coverage: The non-Federal entity must, at a minimum, provide the equivalent insurance coverage for real property and equipment acquired or improved with Federal funds as provided to property owned by the non-Federal entity. Federally-owned property need not be insured unless required by the terms and conditions of the Federal award.

§ 200.311 Real Property: The provisions include (1) title to real property acquired or improved under a Federal award will vest upon acquisition in the non-Federal entity, subject to the obligations and conditions set forth in this section; (2) real property will be used for the originally authorized purpose as long as needed for that purpose, during which time the non-Federal entity must not dispose of or encumber its title or other interests, except as otherwise provided by Federal statutes or by the Federal awarding agency; and (3) when real property is no longer needed for the originally authorized purpose, the non-Federal entity must obtain disposition instructions from the Federal awarding agency or pass-through entity.

§ 200.312 Federally-owned and exempt property: Title to Federally-owned property remains vested in the Federal Government. If the Federal awarding agency has no further need for the property, it must declare the property excess and report it for disposal to the appropriate Federal disposal authority, unless the Federal awarding agency has statutory authority to dispose of the property by alternative methods. Exempt federally-owned property means property acquired under a Federal award where the Federal awarding agency has chosen to vest title to the property to the non-Federal entity without further obligation to the Federal Government, based upon the explicit terms and conditions of the Federal award. The Federal awarding agency may exercise this option when statutory authority exists.

§ 200.313 Equipment: Title to equipment acquired under a Federal award will vest upon acquisition in the non-Federal entity, subject to the obligations and conditions set forth in this section. A State must use, manage and dispose of equipment acquired under a Federal award by the state in accordance with state laws and procedures.

§ 200.439 Equipment and other capital expenditures: Individual rules for allowability must be applied to equipment and other capital expenditures. Refer to the expanded guidance in the

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Uniform Guidance for specific requirements for the following categories: §200.13 Capital expenditures, 200.33 Equipment, 200.89 Special purpose equipment, 200.2 Acquisition cost, and 200.12 Capital assets.

§200.326 Contract provisions: The non-Federal entity's contracts must contain the applicable provisions described in Appendix II to Part 200 "Contract Provisions for non-Federal Entity Contracts Under Federal Awards."

§200.330 Subrecipient and contractor determinations: The non-Federal entity may concurrently receive Federal awards as a recipient, a subrecipient, and a contractor, depending on the substance of its agreements with Federal awarding agencies and pass-through entities.

§200.331 Requirements for pass-through entities: Ensure that every sub-award is clearly identified to the subrecipient as a sub-award and includes information at the time of the sub-award and if any of the data elements change. Evaluate each subrecipient's risk of noncompliance. Monitor the activities of the subrecipient. Verify that every subrecipient is audited as required.

§200.332 Fixed amount sub-awards: With prior written approval from the Federal awarding agency, a pass-through entity may provide sub-awards based on fixed amounts up to the Simplified Acquisition Threshold, provided that the sub-awards meet the requirements for fixed amount awards in §200.201 "Use of grant agreements (including fixed amount awards), cooperative agreements, and contracts."

§200.333 Retention requirement for records. Financial records, supporting documents, statistical records, and all other non-Federal entity records pertinent to a Federal award must be retained for a period of three years from the date of submission.

§200.335 Methods for collection, transmission and storage of information. Whenever practicable, collect, transmit, and store Federal award-related information in open and machine readable formats rather than in closed formats or on paper.

§200.336 Access to records. The Comptroller General of the United States, and the pass-through entity, or any of their authorized representatives, must have the right of access to any documents,

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papers, or other records of the non-Federal entity. The rights of access in this section are not limited to the required retention period but last as long as the records are retained.

§200.333(e) Internal Controls. Take reasonable measures to safeguard protected PII and other information the Federal awarding agency or pass-through entity designates as sensitive or the non-Federal entity considers sensitive consistent with applicable Federal, State, local, and tribal laws regarding privacy and obligations of confidentiality.

APPENDIX 3
TREASURY MANAGEMENT RESPONSE



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

ASSISTANT SECRETARY

OCT 23 2017

Mr. Ira Wayne McConnell, Managing Partner
McConnell & Jones, LLP
4824 Loop Central, Suite 1000
Houston, TX 77081

Dear Mr. McConnell,

Thank you for the opportunity to review and comment on McConnell & Jones LLP's draft report (Report), prepared on behalf of the U.S. Department of the Treasury's Office of the Inspector General (OIG), relating to the audit of the Mississippi Department of Environmental Quality, titled *MDEQ's Compliance with Its Use of the Planning Assistance Award to Develop the Multiyear Implementation Plan*.

The U.S. Department of the Treasury (Treasury) is pleased that the Report concluded that MDEQ complied with applicable provisions of the Office of Management and Budget's Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, 2 CFR Part 200 (Uniform Guidance), and Treasury's Notice of Award and RESTORE Act Financial Assistance Standard Terms and Conditions. We note that the Report also referenced a September 13, 2017 letter from the OIG informing MDEQ that the OIG terminated the 2015 audit of MDEQ's Internal Controls to Administer RESTORE Act Grants.

Treasury will consider MDEQ's need to further develop and strengthen documentation of its policies and procedures to align with the Uniform Guidance requirements, and, pursuant to our grants management procedures, we will continue to engage in oversight and administration of grant awards, including risk assessments. With regard to the Report recommendation on Equipment Management pertaining to federally-owned property, although Treasury does not have plans to provide federally-owned property to grant recipients, if a situation arises where MDEQ is provided with federally-owned property for a grant, Treasury will work with MDEQ to institute policies and procedures associated with §200.312 of the Uniform Guidance for its RESTORE Act grant programs. With regard to the Report recommendation on Personally Identifiable Information (PII), Treasury understands that MDEQ is assessing the completeness of its PII policies and procedures for potential updates, and will review their updated PII policies and procedures as part of our administration of future awards.

We appreciate your work on the Report and value your feedback as the program moves forward.

Sincerely,

David A. Lebryk
Fiscal Assistant Secretary

CC: Cecilia K. Howland, Director,
Gulf Coast Restoration Audits Office of the Inspector General

APPENDIX 4
REPORT DISTRIBUTION

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Under Secretary for Domestic Finance

Fiscal Assistant Secretary

Deputy Assistant Secretary, Fiscal Operations and Policy

Director of Strategic Planning and Performance Improvement

Office of Management and Budget

OIG Budget Examiner

State of Mississippi

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United States Senate

Committee on Finance

Committee on Homeland Security and Governmental Affairs

United States House of Representatives

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