Audit Report

OIG-18-016

FINANCIAL MANAGEMENT

Audit of the Gulf Coast Ecosystem Restoration Council's Financial Statements for Fiscal Years 2017 and 2016

November 15, 2017

Office of Inspector General
Department of the Treasury

Agency Financial Report
Fiscal Year 2017

GULF COAST ECOSYSTEM RESTORATION COUNCIL

AGENCY FINANCIAL REPORT

FISCAL YEAR 2017

This Agency Financial Report for fiscal year 2017 provides the financial and performance information for the Gulf Coast Ecosystem Restoration Council (Council), enabling the President, Congress, and the American people to 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 (IPERIA);*
- *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; and*
- *Digital Accountability and Transparency Act of 2014 (DATA Act).*

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

Cover photos courtesy of: National Oceanic and Atmospheric Administration

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MESSAGE FROM THE ACTING EXECUTIVE DIRECTOR
GULF COAST ECOSYSTEM RESTORATION COUNCIL
NOVEMBER 15, 2017

I am pleased to submit the Agency Financial Report (AFR) for the Gulf Coast Ecosystem Restoration Council (Council) for fiscal year 2017. The AFR provides an assessment of the Council's financial information and outlines the Council's administrative accomplishments in implementing the *Resources and Ecosystems Sustainability, Tourist Opportunities, and Revived Economies of the Gulf Coast States Act of 2012* (RESTORE Act).

The RESTORE Act dedicates 80% of all Clean Water Act administrative and civil penalties arising from the *Deepwater Horizon* (DWH) oil spill to the Gulf Coast Restoration Trust Fund (Trust Fund) and established the Council as a new independent entity within the Federal government.

The Council was formally established in 2012 with a clear mission to implement a long-term, comprehensive plan for the ecological and economic recovery of the Gulf Coast region. The Council, consisting of the five Gulf Coast states (States) directly impacted by the DWH oil spill and six Federal agencies, is 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.

In fiscal year 2017, the Council approved the first update to the Comprehensive Plan to improve Council decisions by ensuring consistency with the Priority Criteria referenced in the Act; setting forth a Ten-Year Funding Strategy, increasing collaboration among Council members and partner restoration programs; and refining the process for ensuring that the Council's decisions are informed by the best available science.

In accordance with guidance from Office of Management and Budget (OMB), I have determined, to the best of my knowledge and belief, that the performance and financial data included in this report are 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 are operating effectively.

The Council looks forward to serving the people of the Gulf through its efforts to carry out comprehensive ecosystem restoration to preserve and enhance long-term environmental health and economic prosperity of the Gulf Coast region.

Ben Scaggs
Acting Executive Director

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

OVERVIEW

This Agency Financial Report (AFR) presents financial management performance of the Gulf Coast Ecosystem Restoration Council (Council) for fiscal year 2017. The Council has chosen to publish a fiscal year 2018 Annual Performance Report and will publish it on its website at www.restorethegulf.gov concurrent with the release of the fiscal year 2019 President's Budget Request.

Background

Building on prior efforts to help ensure the long-term restoration and recovery of the Gulf Coast region and spurred by the 2010 *Deepwater Horizon* (DWH) oil spill, in 2012 Congress passed and the president signed the *Resources and Ecosystems Sustainability, Tourist Opportunities, and Revived Economies of the Gulf Coast States Act of 2012* (RESTORE Act or Act) (codified at 33 U.S.C § 1321(t) and *note*).

The Act provides for planning and resources for a regional approach to the long-term health of the natural ecosystems and economy of the Gulf Coast region. The Act dedicates 80% of all administrative and civil penalties paid under the Clean Water Act (CWA), after the date of enactment, by responsible parties in connection with the DWH oil spill, to the Gulf Coast Restoration Trust Fund (Trust Fund) for ecosystem restoration, economic recovery, and tourism promotion in the Gulf Coast region. This effort is in addition to the restoration of natural resources injured by the spill that is being accomplished through a separate Natural Resource Damage Assessment (NRDA) under the Oil Pollution Act. A third and related Gulf restoration effort is being administered by the National Fish and Wildlife Foundation (NFWF) using funds from the settlement of criminal charges against BP and Transocean Deepwater, Inc.

The Council has oversight of the expenditure of 60 percent of the funds made available from the Trust Fund. Under the Council-Selected Restoration Component, 30 percent of available funding is administered for Gulf-wide ecosystem restoration and protection according to the Initial Plan developed by the Council. The remaining 30 percent is allocated to the states under the Spill Impact Component, according to a formula and regulation approved by the Council in December 2015 and spent according to individual State Expenditure Plans (SEPs) which contribute to the overall economic and ecological recovery of the Gulf. The SEPs must adhere to criteria set forth in the RESTORE Act and are subject to approval by the Council chair in accordance with those criteria.

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 in relation to their conduct in the Deepwater Horizon oil spill. In accordance with the consent decree, Transocean has paid all three of its installments of civil penalties plus interest to the U.S. Department of Justice. The U.S. Department of Justice has transferred 80 percent of these funds to Treasury for deposit into the Gulf Coast Restoration Trust Fund, totaling $816 million. On November 20, 2015 a federal court in New Orleans ordered Anadarko Petroleum Corporation to pay a $159.5 million civil fine; of this amount, $128 million, including interest, has been deposited in the Trust Fund. In July 2015, BP announced that it had reached Agreements in Principle with the United States and the five Gulf States for settlement of civil claims arising from the Deepwater Horizon oil spill. Subsequently, on April 4, 2016, a federal court in New Orleans entered a consent decree resolving civil claims against BP arising from the Deepwater Horizon oil spill. This historic settlement resolves, among other things, the U.S. government's civil and administrative claims under the Clean Water Act, the governments' claims for natural resources damage claims under the Oil Pollution Act, and also involves a related settlement of economic damage claims of the Gulf States and local governments.

Taken together this resolution of civil claims totals more than $20 billion and is the largest civil penalty ever paid by any defendant under any environmental statute, and the largest recovery of damages for injuries to natural resources. Under the consent decree, over a fifteen-year period, BP will pay a Clean Water Act civil penalty of $5.5 billion (plus interest), $8.1 billion in natural resource damages (this includes $1 billion BP already paid for early restoration), up to an additional $700 million (some of which is in the form of accrued interest) for adaptive management (including planning activities or to adapt, enhance, supplement, or replace existing restoration projects selected by the Trustees) or to address injuries to natural resources that were unknown to the Trustees as of July 2, 2015, and $600 million for other claims, including claims under the False Claims Act, royalties, and reimbursement of NRDA costs and other expenses due to this incident.

The Council is comprised of the Governors of Alabama, Florida, Louisiana, Mississippi and Texas (States), the Secretaries of the U.S. Departments of Agriculture, the Interior, Army, Commerce, and Homeland Security, and the Administrator of the U.S. Environmental Protection Agency. The Chair is currently vacant.

In December 2015, the Council approved and adopted the initial Funded Priorities List (FPL) of initial projects to be funded and prioritized by the Council based on the Comprehensive Plan. The FPL consisted of forty-five projects totaling $156.6 million and identified an additional twelve projects totaling $26.6 million as candidates for consideration for future funding (Category 2 Projects). Since that time, the Council has amended the initial FPL to incorporate and fund three of the twelve category 2 projects. Thus far, the Louisiana and Mississippi SEPs, and the Texas, Mississippi and Florida Planning SEPs have been approved.

In July 2016 the Council completed and adopted its first enterprise risk assessment and completed the documentation of a suite of internal controls and administrative policies and procedures. The assessment, controls and procedures were instituted in order to ensure that the Council diligently exercises its fiduciary responsibilities with respect to Trust Fund expenditures and other responsibilities under the Act. In fiscal year 2017, the Council submitted its Tribal Communication, Collaboration, Coordination and Consultation Policy in collaboration with federally recognized Indian tribes to the tribes for approval by their membership.

Pursuant to the requirements of the Act, in fiscal year 2017, the Council approved its first update to the Comprehensive Plan on December 16, 2016. The Comprehensive Plan Update is intended to improve Council decisions by ensuring consistency with the Priority Criteria referenced in the Act; reinforcing the Council's goals, objectives and commitments; setting forth a Ten-Year Funding Strategy, including a Council vision for ecosystem restoration; increasing collaboration among Council members and partner restoration programs; refining the process for ensuring that the Council's decisions are informed by the best available science; and improving the efficiency, effectiveness and transparency of Council actions.

MISSION AND ORGANIZATION

The Council is charged with helping to restore the ecosystem and economy of the Gulf Coast region by developing and overseeing Trust Fund expenditures in implementation of the Comprehensive Plan and approval of SEPs, and carrying out other responsibilities. In March, 2016 the president appointed the Secretary of Agriculture as the Chairperson of the Council. Currently the position of Chair is vacant.

The Council includes the Governors of the States of Alabama, Florida, Louisiana, Mississippi and Texas, and the Secretaries of the U.S. Departments of Agriculture, the Army, Commerce, Homeland Security and the Interior, and the Administrator of the U.S. Environmental Protection Agency.

Chair
Vacant

State of Alabama
Kay Ivey
Governor

State of Florida
Rick Scott
Governor

State of Louisiana
John Bel Edwards
Governor

State of Mississippi
Phil Bryant
Governor

State of Texas
Greg Abbott
Governor

Department of Agriculture
Sonny Perdue
Secretary

Department of the Army
Ryan D. McCarthy (acting)
Secretary

Department of Commerce
Wilbur Ross
Secretary

Environmental Protection Agency
Scott Pruitt
Administrator

Department of Homeland Security
Elaine C. Duke (acting)
Secretary

Department of the Interior
Ryan Zinke
Secretary

DISCUSSION OF PERFORMANCE

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[1] *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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[1] 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.

In May 2016, the Council signed its first Council-Selected Restoration Component federal interagency agreement award to the Department of Interior for the first stage of an $8 million Youth Conservation Corps Gulf-wide habitat restoration project and in September 2016, the Council made its first grant award to Louisiana for a $7.26 million West Grand Terre Beach restoration project. In fiscal year 2017, the Council made awards for twenty one FPL projects totaling $81.65 million, one of which was a project moved from Category 2 to Category 1, and approved by the Council. The charts on the next page illustrate the current status of the December 2015 FPL.

Chart 1 Status of the December 2015 FPL by Percent of Dollars

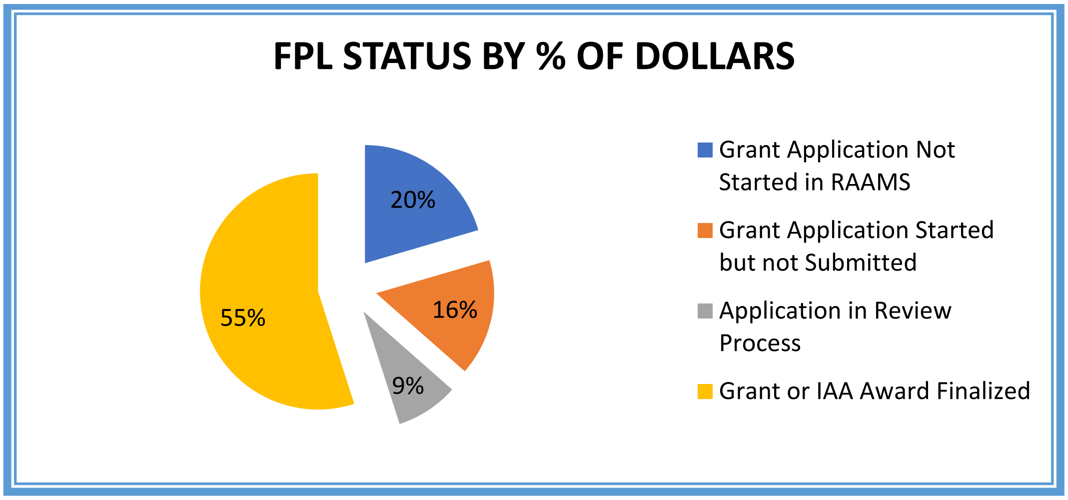
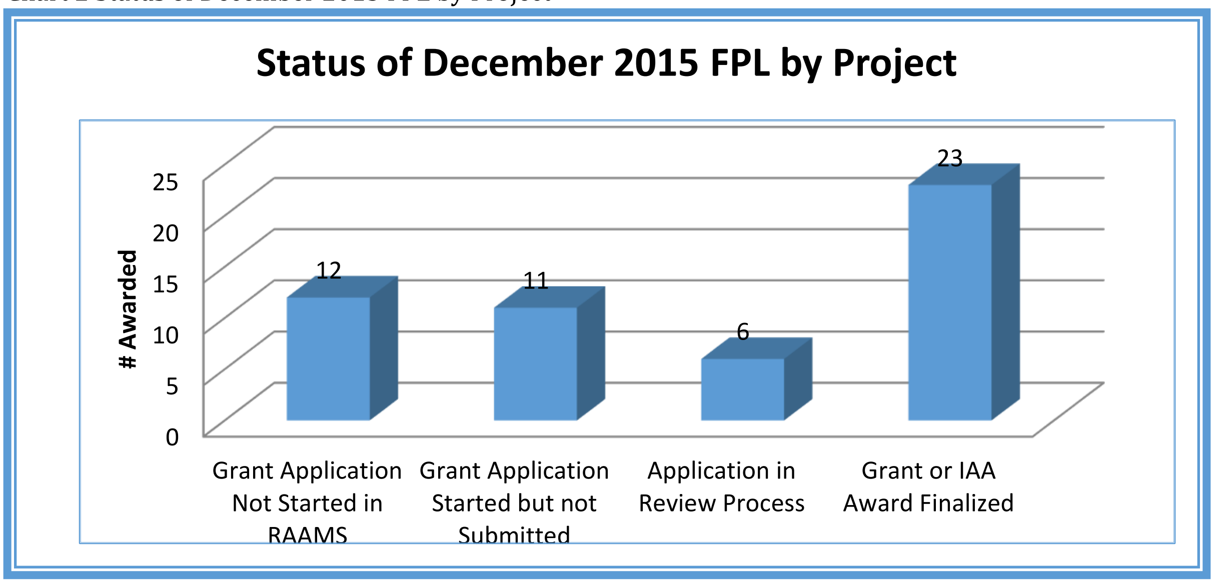


Chart 2 Status of December 2015 FPL by Project[2]



In fiscal year2017, the Texas Planning State Expenditure Plan grant (PSEP) was awarded and the Mississippi and Louisiana SEPs were approved by the Council. The first award for an SEP implementation project was made to Louisiana in August 2017. The two Spill Impact Component grants awarded in fiscal year 2017 totaled $19.76 million.

In fiscal year 2017, the Council also developed the Comprehensive Plan Commitment and Planning Support FPL (or "CPS FPL"). The CPS FPL is designed to provide the Council members with the resources needed to meet the commitments set forth in the Comprehensive Plan, and ultimately to develop highly effective project and programs for

[2] Although the original FPL identified 45 projects, some projects have resulted in more than one grant or interagency agreement

future funding under the Council-Selected Restoration Component. Under the CPS FPL, each of the eleven Council members can apply for up to $500,000 per year for up to 3 years and up to $300,000 per year for 2 years thereafter, equaling up to $23.1 million, or 1.44% of the total funds available (not including interest) in the Council-Selected Restoration Component. As with the initial FPL, the CPS FPL includes a clause that incentivizes savings and efficiency by enabling the Council to apply unused planning funds to projects and programs sponsored by the member that achieves the savings. The Council anticipates finalizing the CPS FPL in fiscal year 2018.

A summary of performance will be available in the Council Agency Report to Congress (with a detailed discussion available on the Council's website), to be published in January 2018, and the Agency Performance Report, which will be published concurrently with the fiscal year 2019 President's Budget Request in February 2018.

ANALYSIS OF THE FINANCIAL STATEMENTS

The Council financial statements should be viewed in light of the status of the funds available to and used by the Council. Table 1 below shows the current status of the Council managed trust fund components, the Council-Selected funds and the Oil Spill Impact funds, and the apportionments of the funds by fiscal year. The chart demonstrates that as the Council Programs have developed, program funding requirements increased commensurately while after the initial start-up in fiscal years 13 and 14, administrative funding requirements have been more consistent.

Table 1 Trust Fund Summary

Trust Fund Balance (After Sequestration)	Council Selected Administrative Funds	Council-Selected Program Expense Fund	Council-Selected Projects and Programs Funds	Total Council-Selected Program Funds	Total Council-Selected Funds	Spill Impact Funds
TRUST FUND AMOUNTS DEPOSITIED	**$ 11,079,737**			**$ 358,244,844**	**$ 369,324,581**	**$ 367,905,689**
Apportionments FY13	$ 360,000			$ -	$ 360,000	
Apportionments FY14	$ 896,214	$ 1,067,950		$ 1,067,950	$ 1,964,164	
Apportionments FY15	$ 1,241,229	$ 2,307,158		$ 2,307,158	$ 3,548,387	
Apportionments FY16	$ 1,107,649	$ 3,157,558	$ 156,553,618	$ 160,818,825	$ 160,818,825	$ 6,400,000
Apportionments FY17	$ 1,375,568	$ 4,078,906		$ 4,078,906	$ 5,454,474	$ 70,800,000
Total Apportionments To the Council	$ 4,980,660	$ 10,611,572	$ 156,553,618	$ 168,272,839	$ 172,145,850	$ 77,200,000
Balance Available in Trust Fund	**$ 6,099,077**			**$ 189,972,005**	**$ 197,178,731**	**$ 290,705,689**

To best serve the communities of the Gulf Coast region, the Council carries out its activities to implement the Comprehensive Plan and accomplish the requirements of the RESTORE Act in an effective and efficient manner, at the minimum cost possible to maximize the dollars available for restoration projects and programs. The Council has managed its fiscal resources through a strategy of incremental growth to correspond to the development of its Council-Selected Restoration Component and the Spill Impact Component programs. As Chart 3 on the next page shows, the Council has achieved steady-state operations, while a significant amount of non-reimbursed support was provided to the Council staff by many of its members in the first several years of existence.

The increase in cost from fiscal year 2013 through 2015 reflects the development of the Council's administrative and programmatic infrastructure; establishment of its headquarters office in New Orleans; the development and deployment of its core administrative systems; the acquisition and deployment of its website and automated grants management system; and implementation of its grant, science, and environmental compliance programs.

Chart 3 Annual Total Cost of Operations

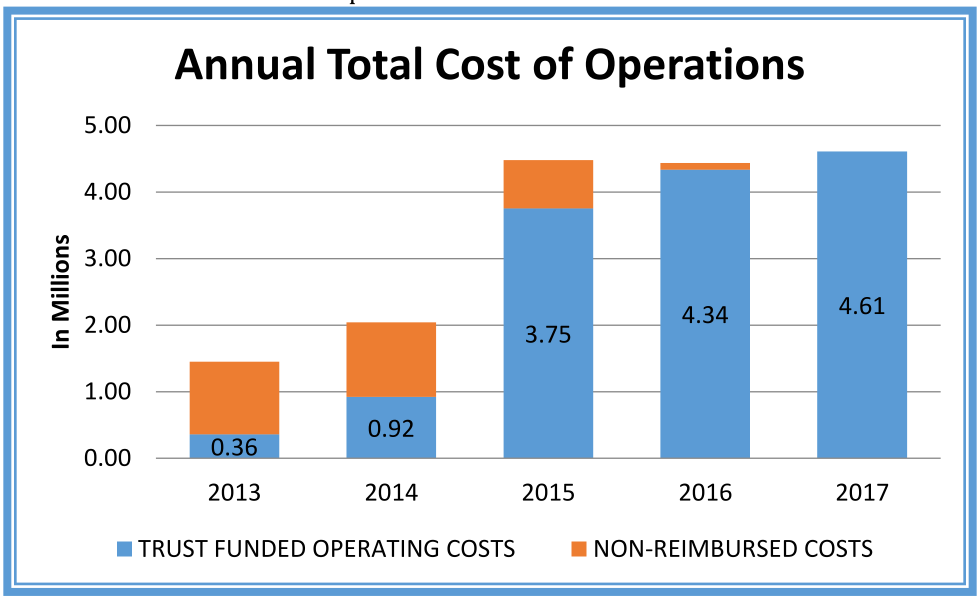
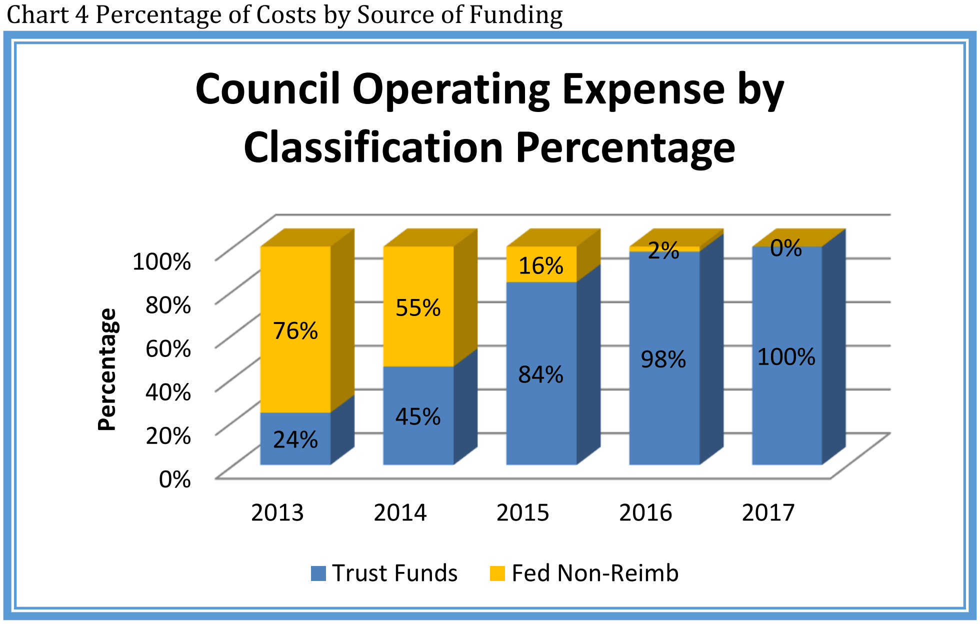


Chart 4 Percentage of Costs by Source of Funding



The table on the following page (Table 2) provides the Council funding and operational cost history. The imputed revenue column identifies the value of the services provided by Council members, offset by non-reimbursed costs incurred. The table also identifies the funds apportioned each year, recoveries from reduced or cancelled obligations, and the unspent funds carried forward to each subsequent year. Carry-forward funds were primarily a result of under-executing in the salaries and benefits and travel categories, and have been carried forward to support unexpected but exigent requirements. Use of carry-forward funds requires Council approval if the proposed expense exceeds a certain threshold.

Table 2 Operational Cost History (dollars in thousands)

Council Operational Cost History	carry-forward from prior year	new apportion-ment	recoveries from prior year obligations	current year trust fund revenue	imputed revenue	TOTAL REVENUE	funded obligations incurred	non-reimbursed costs incurred	Total Cost of Operations	Unobligated Balance
FY13 Operational Costs	$ -	$ 360	$ -	$ 360	$ 1,089	$ 1,503	$ 360	$ 1,089	$ 1,503	$ -
FY14 Operational Costs	$ -	$ 1,964	$ 79	$ 2,043	$ 1,120	$ 3,163	$ 920	$ 1,120	$ 2,040	$ 1,123
FY15 Operational Costs	$1,123	$ 3,548	$ 2	$ 4,673	$ 728	$ 5,401	$ 3,751	$ 728	$ 4,479	$ 922
FY16 Operational Costs	$ 922	$ 4,265	$ 374	$ 5,561	$ 101	$ 5,738	$ 4,337	$ 101	$ 4,514	$ 1,224
FY17 Operational Costs	$1,224	$ 5,454	$ 19	$ 6,697	$ -	$ 6,697	$ 4,608	$ -	$ 4,608	$ 2,089

The category of services provided by Council members is presented in Table 3 below. Non-reimbursed support from other agencies ended December 2015 (other than costs incurred for pension and post-retirement benefits costs applicable to all agencies so costs for fiscal year 2017 are not shown).

Table 3 Non-Reimbursed Services Provided by Council Members

NON-REIMBURSED SERVICES				
CATEGORY	**FY 13**	**FY 14**	**FY 15**	**FY 16**
SALARIES/BENEFITS	$ 771,032	$ 609,892	$ 208,124	$ 76,099
SALARIES: GRANT SYSTEM			$ 182,295	$ 26,093
TRAVEL	$ 73,715	$ 70,623		
WEBSITE	$ 218,596	$ 218,596		
WEBSITE MIGRATION		$ 167,896		
OFFICE SPACE/EQUIP	$ 48,847	$ 51,109		
PUBLIC MEETINGS	$ 16,710			
GRANT SYSTEM			$ 337,500	$ 75,000

GRANT SYSTEM			$ 337,500	$ 75,000
MISCELLANEOUS	$ 13,748	$ 2,211		
TOTAL	$ 1,142,648	$ 1,120,327	$ 727,919	$ 177,192

The following charts present the Council's budgetary operating costs (obligations) for each fiscal year by cost category (*see also the Schedule of Spending on page 44 for fiscal year 2017 expenditures*). Chart 5 illustrates the annual cost of operations funded by the trust fund, while Chart 6 illustrates the total cost to operate including non-reimbursed costs. In fiscal year 2015, total operating costs equaled $4.48 million, fiscal year 2016 showed a slight reduction to $4.44 million, while fiscal year 17 showed an increase of 5% to $4.61 million due primarily to the increasing cost of salary and benefits costs demonstrating that the Council has achieved steady-state operations.

Chart 5 Comparison of Funded Annual Obligations by Cost Category

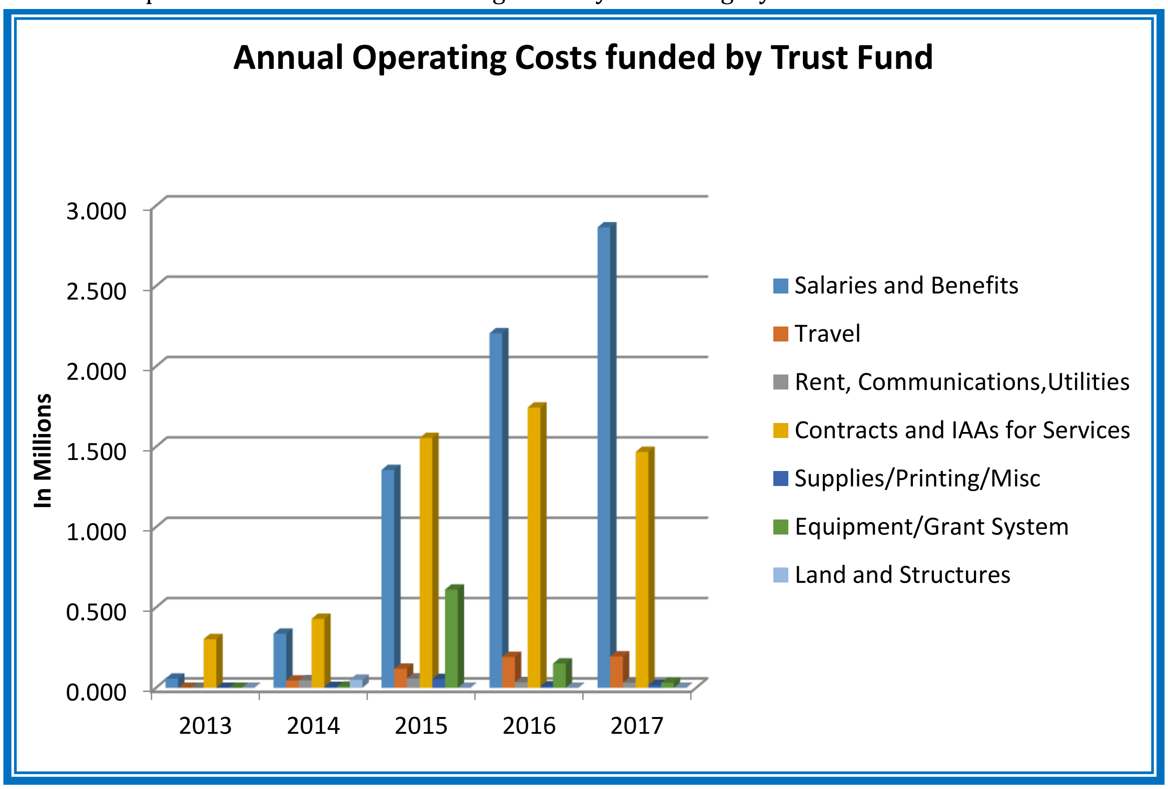
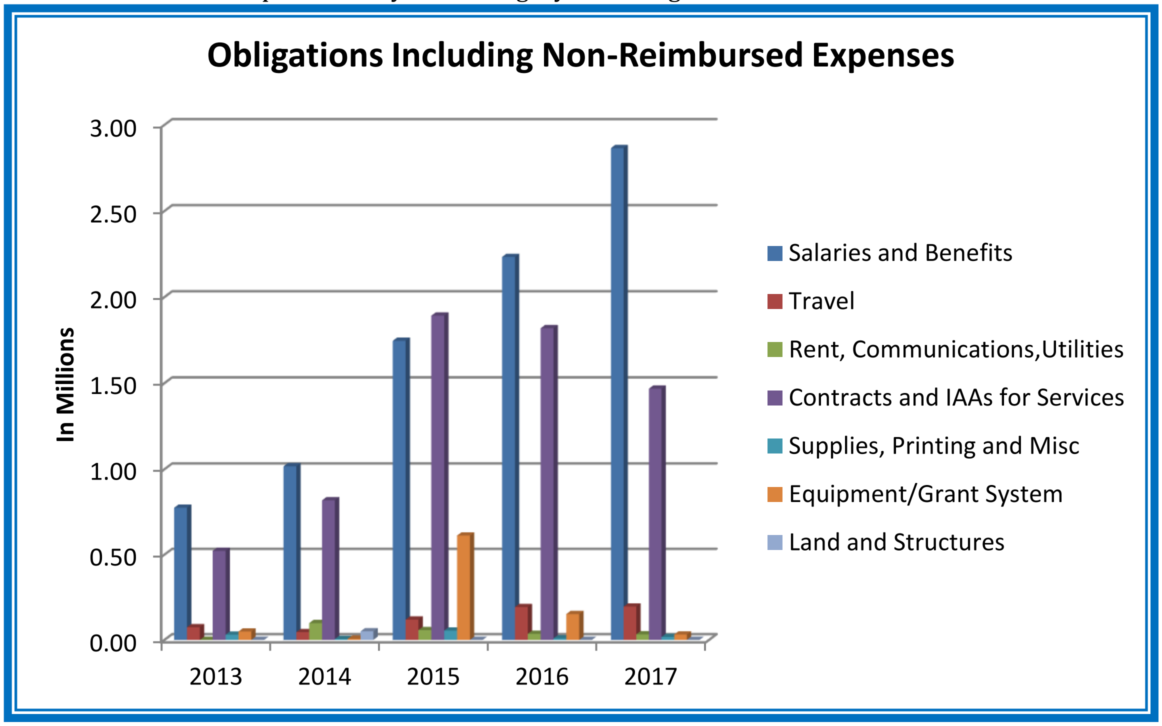


Chart 6 Total Cost of Operations by Cost Category Including Non-Reimbursed Costs



The three cost drivers are personnel compensation and benefits costs, contracts and agreements for services, and the cost of an automated grant system. fiscal year 2017 expenses included for the costs for Restoration Assistance and Awards Management System (RAAMS) hosting, system support and helpdesk services. Information Technology (IT) costs increased to enable compliance with the Federal Information Security Modernization Act of 2014 (FISMA) and the stand-up of the Council's administrative IT infrastructure and audit costs continue to increase as grants and Inter Agency Agreements (IAAs) are awarded and managed. Programmatic cost increases included a contract for best available science reviews and land acquisition appraisal reviews. At the end of fiscal year 2017, the Council had vacancies for the Executive Director, IT manager and Enterprise Risk Management (ERM) specialist. An applicant has been identified, and the IT position will be filled in November 2017, the ERM specialist vacancy will undergo a second recruitment effort, and the Council will recruit for the Executive Director as early as possible in fiscal year 2018.

In fiscal year 2016 the contracts and agreements for services category included accounting, human resources, RAAMS hosting by National Technical Information Service (NTIS), RAAMS transition costs NTIS to United States Geological Service (USGS), RAAMS IT and helpdesk support, and an agreement to develop the requirements and propose a solution for the Council's administrative IT infrastructure. Travel cost also increased commensurate with the increase in staff and the implementation of the FPL and Spill Impact programs. Land and structures in fiscal year 2014 were the costs of modifying the office space to an open office design to allow improved space utilization. The equipment and grant system category includes the costs for RAAMS, both capitalized and non-capitalized, as well as the costs for systems furniture, computer equipment and cellular equipment.

In fiscal year 2015, the Council entered into and fully funded a three year agreement in the amount of $565,211 for website hosting, support and security, plus geographic information system (GIS) and data mapping services. The Council also entered into an agreement to acquire and host the RAAMS system, and awarded a contract to perform an enterprise-wide risk assessment and draft the Council's administrative and financial policies and procedures thus generating a significant increase in the contracts/agreements for services and equipment cost categories.

The Act specifies that of the [Comprehensive Plan] amounts received by the Council, not more than 3% of the funds may be used for administrative expenses, including staff; and § 34.204(b) Limitations on administrative costs and administrative expenses (as amended September 28, 2016) states that "Of the amounts received by the Council under the Comprehensive Plan Component, not more than three percent may be used for administrative expenses. The three percent limit is applied to the amounts it receives under the Comprehensive Plan Component before termination of the Trust Fund. Amounts used for administrative expenses may not at any time exceed three percent of the total of the amounts received by the Council and the amounts in the Trust Fund that are allocated to, but not yet received by, the Council under § 34.103."

Administrative Costs

The Council worked with OMB to segregate administrative funds through the apportionment process. A Treasury Interim Final Rule implementing the RESTORE Act provides a definition of administrative expenses that guides the Council in properly classifying expenses as administrative and the remaining categories of expenses as programmatic.

Since the Council must oversee projects and programs during the post-completion operations and maintenance phase (which in some cases could take as long as twenty years), the Council has forecast its administrative and operational expenses through the projected closeout of all grants. Based on the Consent Decree payment schedule, Council operations have been projected through 2040 to ensure operational costs are fiscally prudent and well managed through the life of the program. This analysis projects that the cumulative administrative expense will be approximately $43.2 million which is significantly less than the more than $48 million that will be available from the Transocean, Anadarko and BP settlements (not including accrued interest). Table 4 below shows that the Council's apportionments for administrative expense are well below the administrative funds available in the Trust Fund.

Table 4 3% Analysis

STATUS OF 3% ADMINISTRATIVE EXPENSE FUNDS		
as of 09/30/2017		
Trust Funds-Comprehensive Plan		
Amount Available	$ 375,605,960.00	
Sequestration for 2017	$ (6,281,379.00)	
Total amount available		$ 369,324,581.00
Administrative Expense Funds availabllel: 3%		$ 11,079,737.43
FY2013 admin budget	$ 360,000.00	
FY2014 admin budget	$ 896,214.00	
FY2015 admin budget	$ 1,241,229.00	
FY2016 admin budget	$ 1,107,649.00	
FY2017 admin budget	$ 1,375,568.00	
Total Administrative Funds Apportioned through 2017		$ 4,980,660.00
Balance of Administrative Funds Remaining in the Trust Fund		$ 6,099,077.43

Other Financial Statements Discussion

The balance of funds drawn from the Trust Fund as shown on the Balance Sheet (p30) but not yet used to pay for operating expense costs and to reimburse states for costs incurred under their grants and federal agencies for costs incurred under their interagency agreements (IAAs) for projects and programs. At the end of fiscal year 2016 the Council had a fund balance of $7.8 million, and at the end of fiscal year 2017 the Council has a fund balance of $30.8 million. Funds are drawn down quarterly based on the cash requirement needs schedules in every grant and IAA. The funds remaining in the trust fund but available for drawn down equal $196.5 million, which is shown on the Balance Sheet as the Expenditure Transfers Receivable.

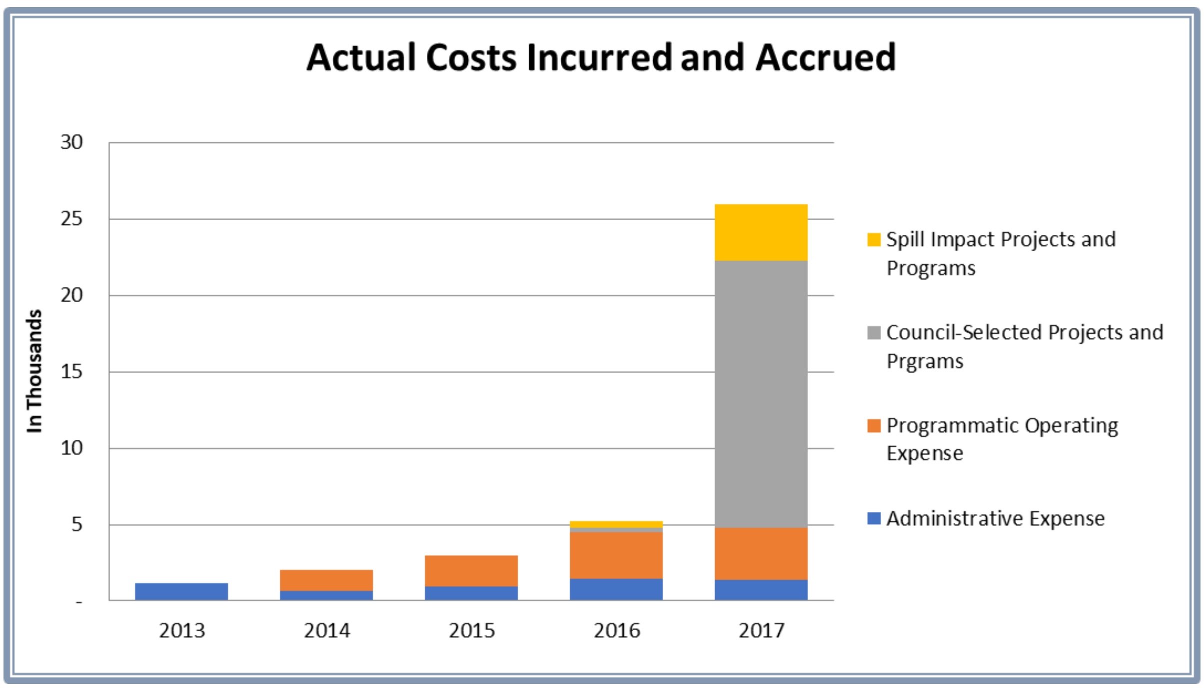
The Statement of Net Cost (p31) presents costs incurred, and is equivalent to a proprietary statement of costs for the year. The chart on page 18 presents the Council's annual cost data by cost classification. Costs include accrued costs, non-reimbursed costs and actual costs. Non-reimbursed costs from other federal agencies do not count against the 3% limitation.

Table 5 Actual Costs

Incurred Cost	2013	2014	2015	2016	2017	TOTAL
Administrative Expense	1,193,648	631,716	938,937	1,467,244	1,382,651	5,614,196
Programmatic Operating Expense		1,398,281	2,030,196	3,061,711	3,408,642	9,898,830
Council-Selected Projects and Prgrams				226,400	17,439,961	17,666,361
Spill Impact Projects and Programs				496,553	3,716,366	4,212,919
TOTAL COST	1,193,648	2,029,997	2,969,133	5,251,908	25,947,620	37,392,306

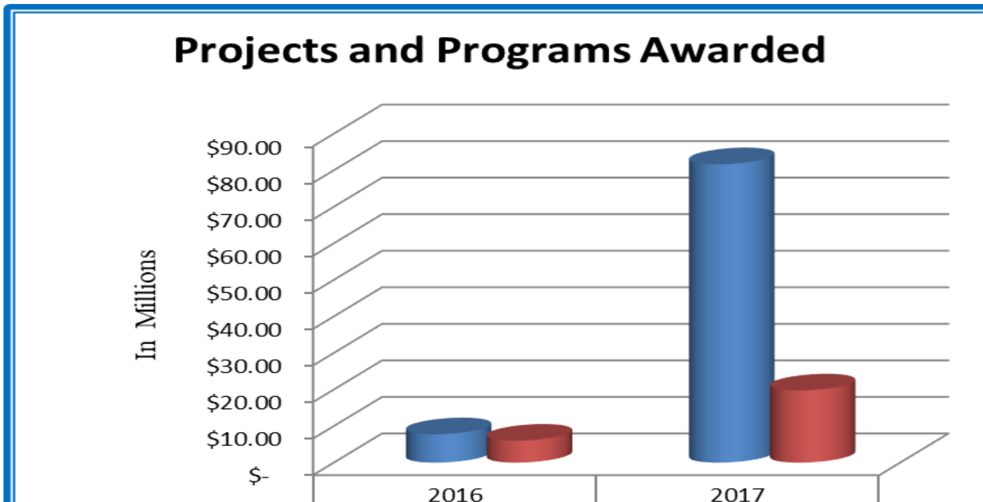
Chart 7 shows this breakdown in a stacked chart format.

Chart 7 Actual Costs



fiscal year 2016 marked the first year the Council awarded grants and IAAs. The Council awarded two planning SEP planning grants, one FPL interagency agreement and one FPL grant. During fiscal year 2017, the Council awarded thirteen FPL grants, eight FPL IAAs, one planning SEP and one SEP grant which is shown in Chart 8.

Chart 8 Projects and Programs Awarded



	2016	2017
FPL Project Awards	$7.76	81.65
SEP Awards	$6.02	19.76

The focus of fiscal year 2018 and beyond will be to engage in collaborative efforts to select projects and programs for future FPLs, develop and/or implement State Expenditure Plans and award and administer grants and interagency agreements in both programs.

Summary Financial Condition

The changes reflected in the financial statements are a reasonable and accurate reflection of the Council's implementation of its programs and administrative infrastructure. The Council approved the first FPL, published the Oil Spill final rule and has approved the Louisiana and Mississippi State Expenditure Plans. Twenty-three grants or interagency agreements have been awarded to implement the December 2015 FPL, and four grants have been awarded under the Spill Impact Program. The Council has implemented a sound administrative infrastructure that includes an Enterprise Risk Management Program. In support of the Council-Selected Projects and Programs and the Spill Impact programs, the Council successfully deployed an automated grants system in early December 2015 that is integrated with the Council's GIS and accounting system. RAAMS has rigorous technical, best available science, financial, and compliance controls that correlate financial data with functional milestones through the life of a project. The system collects robust financial and programmatic data for every project, including cash flow projections for better cash management by the Council. However, the Council is facing a new challenge in that the commercial owner of Easygrants (the software COTS software underlying RAAMS) has announced they will no longer support the program beyond a reasonable transition period to select and move to a new system. The Council does not expect any impact to its operations during the transition period, (expected to be one to two years) or as a result of a migration of its data to a new system.

The Council's financial condition as of September 30, 2017 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 completed an enterprise-wide risk assessment in accordance with OMB Circular A-123, and has in place documented and implemented internal control policies and procedures to ensure that the Council is exercising sound fiduciary management of the Trust Funds for which it is responsible.

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 the Council 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 and results of operations of the entity, 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 Generally Accepted Accounting Principles (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 the section "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
November 14, 2017

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 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 2017 Statement on Standards for Attestation Engagements (SSAE) Number 18, *Report on Controls at a Service Organization Relevant to User Entities' Internal Control over Financial Reporting* 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 2017.

The information presented on the Council's Statement of Budgetary Resources is reconcilable to the information submitted on the Council's year-end Report on Budget Execution and Budgetary Resources (SF 133). This information will be used as input for the fiscal 2017 actual column of the Program and Financing Schedules reported in the fiscal year 2019 Budget of the U. S. Government. Such information is supported by the related financial records and related data.

In fiscal year 2017, the Council documented and initiated a comprehensive Federal Information Security Modernization Act (FISMA) program for its information systems. This program included the implementation of a defined Risk Management Framework that implements National Institute of Standards and Technology (NIST) defined security controls and requirement for periodic audits. This has resulted in the Council's ability to manage organizational risk and maintain an effective information security program.

For fiscal year 2017, the Council provides unqualified assurance that the objectives of Section 2 and Section 4 of FMFIA have been achieved. The Council is responsible for establishing and maintaining effective internal control over financial reporting and provides assurance that internal control over financial reporting as of June 30, 2017 was operating effectively.

The Council has implemented a process of continuous improvement of the controls and documentation for its financial and grants management and continues to develop its risk management program to be in compliance with the requirements and deadlines of OMB Circular A-123.

Ben Scaggs
Executive Director (Acting)
Gulf Coast Ecosystem Restoration Council

FINANCIAL SECTION
MESSAGE FROM THE CHIEF FINANCIAL OFFICER
November 14, 2017

I am pleased to present our financial statements for fiscal year 2017. This report demonstrates our commitment to fulfill our fiduciary responsibilities to our constituents in the Gulf Coast region and to the American public.

The audit has resulted in an unmodified (or "clean") opinion. The audit reported November 14, 2017.

In fiscal year 2017 the Council completed its Information Management Strategic Plan, and defined and documented its IT security policies and procedures implementing a Risk Management Framework as defined in NIST standards and guidelines. This Risk Management Framework ensures the Council's information systems comply with the Federal Information Security Modernization Act (FISMA) program through information security controls and periodic audits.

Internal controls have been and continues to be a major consideration in the development and continued refinement of the Council's policies and procedures and automated systems. Administrative, finance, accounting, grants and interagency agreement policies and procedures have been developed and documented and continue to be refines as staff gains experience. Post-award grants management and oversight procedures have been developed to mitigate the risk of improper payments and address risks identified in the enterprise-wide risk assessment while also garnering information that will enhance the Council's ability to forecast cash requirements and manage the awards to ensure positive outcomes.

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

Mary C. Pleffner
Chief Financial Officer

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

November 15, 2017

Ben Scaggs, Acting Executive Director
Gulf Coast Ecosystem Restoration Council
500 Poydras Street
Suite 1117
New Orleans, LA 70130

Dear Acting Executive Director Scaggs:

Under a contract monitored by our office, RMA Associates, LLC (RMA), an independent certified public accounting firm audited the financial statements of the Gulf Coast Ecosystem Restoration Council (Council) as of September 30, 2017 and 2016, and for the years then ended, provided a report on internal control over financial reporting, and a report on compliance with laws, regulations, contracts, and grant agreements tested. The contract required that the audit be performed in accordance with government auditing standards and Office of Management and Budget (OMB) Bulletin No. 17-03, *Audit Requirements for Federal Financial Statements*.

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.

In its audit of the Council, RMA found:

- the financial statements were fairly presented, in all material respects, in accordance with accounting principles generally accepted in the United States of America;

- no deficiencies in internal control over financial reporting that are considered material weaknesses; and

- no instances of reportable noncompliance with laws, regulations, contracts, and grant agreements 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 U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express an opinion on the Council's 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 14, 2017, and the conclusions expressed in the report. However, our review disclosed no instances where RMA did not comply, in all material respects, with U.S. generally accepted government auditing standards and OMB Bulletin No. 17-03.

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 Deborah Harker, Assistant Inspector General for Audit, at (202) 927-5400.

Sincerely,

/s/

Eric M. Thorson
Inspector General, Department of the Treasury

Enclosure

RMA | Associates
Auditors. Consultants. Advisors.

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Arlington, VA 22201
Phone : (571) 429-6600
www.rmafed.com

Independent Auditors' Report

Inspector General
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, 2017 and 2016, 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 audit. We conducted our audit 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. 17-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 17-03 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 over the account balances 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

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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, 2017 and 2016, 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 United States of America 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 audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The *Message from the Executive Director* 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 audit 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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, regulations, contracts, and grant agreements, and certain provisions of other laws and regulations specified in OMB Bulletin No. 17-03, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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. 17-03.

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

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effectiveness of the Council's internal control or on compliance. The section is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Council's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RMA Associates

Arlington, VA
November 14, 2017

GULF COAST ECOSYSTEM RESTORATION COUNCIL

FINANCIAL STATEMENTS
FOR THE YEARS ENDED
SEPTEMBER 30, 2017 AND 2016

GULF COAST ECOSYSTEM RESTORATION COUNCIL
FINANCIAL STATEMENTS
FOR THE YEARS ENDED
SEPTEMBER 30, 2017 AND 2016

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GULF COAST ECOSYSTEM RESTORATION COUNCIL BALANCE SHEET
AS OF SEPTEMBER 30, 2017 AND 2016
(In Dollars)

	2017	2016
Assets:		
Intragovernmental		
Fund Balance With Treasury	$ 30,753,961	$ 7,792,004
Expenditure Transfers Receivable	196,525,619	158,071,376
Total Intragovernmental	227,279,580	165,863,380
Accounts Receivable, Net	-	1,644
Property, Equipment, and Software, Net	587,647	715,927
Total Assets	$ 227,867,227	$ 166,580,951
Liabilities:		
Intragovernmental		
Accounts Payable	$ 509,687	$ 628,620
Grants Payable	4,717,331	-
Employer Contribution On Payroll Taxes Payable	21,230	20,263
Total Intragovernmental	5,248,248	648,883
With the Public		
Accounts Payable	$ 15,416	$ 223,098
Grants Payable	7,039,162	552,000
Other Liabilities	357,695	342,196
Total Liabilities With the Public	7,412,273	1,117,294
Total Liabilities	$ 12,660,521	$ 1,766,177
Net Position:		
Cumulative Results of Operations - Funds from Dedicated Collections	215,206,706	164,814,774
Total Net Position	$ 215,206,706	$ 164,814,774
Total Liabilities and Net Position	$ 227,867,227	$ 166,580,951

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GULF COAST ECOSYSTEM RESTORATION COUNCIL
STATEMENT OF NET COST
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016
(In Dollars)

	2017	2016
Program Costs:		
Comprehensive Plan - Administrative Expenses:		
Gross Costs	$ 1,382,651	$ 1,467,244
Net Comprehensive Plan - Administration Expenses	$ 1,382,651	$ 1,467,244
Comprehensive Plan - Programmatic Expense:		
Gross Costs	$ 3,408,642	$ 3,061,711
Total Comprehensive Plan Programmatic Expenses	$ 3,408,642	$ 3,061,711
Comprehensive Plan Projects & Programs (grants)		
Gross Costs	$ 17,439,961	$ 226,400
Total Comprehensive Plan Projects and Programs (grants)	$ 17,439,961	$ 226,400
Net Comprehensive Plan - Programmatic Expense Costs	$ 20,848,603	$ 3,288,111
Spill Impact - State Expenditure Plan (grants)		
Gross Costs	$ 3,716,366	$ 496,553
Net Spill Impact Costs (grants)	$ 3,716,366	$ 496,553
Net Cost of Operations	$ 25,947,620	$ 5,251,908

GULF COAST ECOSYSTEM RESTORATION COUNCIL
STATEMENT OF CHANGES IN NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016
(In Dollars)

		2017 Dedicated Collections		2016 Dedicated Collections
Cumulative Results of Operations:				
Beginning Balances	$	164,814,775	$	2,670,665
Beginning Balances, as Adjusted		164,814,775		2,670,665
Budgetary Financing Sources:				
Transfers In/Out Without Reimbursement		76,254,474		167,218,825
Other Financing Sources (Non-Exchange):				
Imputed Financing Sources		85,077		177,192
Total Financing Sources		76,339,551		167,396,017
Net Cost of Operations		(25,947,620)		(5,251,908)
Net Change		50,391,931		162,144,109
Cumulative Results of Operations	$	215,206,706	$	164,814,774
Net Position	$	215,206,706	$	164,814,774

GULF COAST ECOSYSTEM RESTORATION COUNCIL
STATEMENT OF BUDGETARY RESOURCES
FOR THE MONTHS ENDED SEPTEMBER 30 2017 AND 2016
(In Dollars)

	2017	2016
Budgetary Resources:		
Unobligated Balance Brought Forward, October 1	$ 150,403,142	$ 922,055
Adjustment to Unobligated Balance Brought Forward, October 1	-	-
Unobligated Balance Brought Forward, October 1, as adjusted	150,403,142	922,055
Recoveries of Prior Year Unpaid Obligations	18,717	373,964
Other changes in unobligated balance	371	-
Unobligated balance from prior year budget authority, net	150,422,230	1,296,019
Appropriations	-	-
Borrowing authority	-	-
Contract Authority	-	-
Spending authority from offsetting collections	76,254,475	167,218,826
Total Budgetary Resources	$ 226,676,705	$ 168,514,845
Status of Budgetary Resources:		
Obligations Incurred	$ 106,022,675	$ 18,111,702
Unobligated balance, end of year:		
Apportioned	120,651,233	150,029,178
Exempt from apportionment	-	-
Unapportioned	2,797	373,964
Total unobligated balance, end of year	120,654,030	150,403,142
Total Budgetary Resources	$ 226,676,705	$ 168,514,844
Change in Obligated Balance		
Unpaid Obligations:		
Unpaid Obligations, Brought Forward, October 1	$ 15,460,237	$ 2,242,462
Adjustment to unpaid obligations	-	-
Obligations Incurred	106,022,675	18,111,702
Outlays (gross)	(14,838,646)	(4,519,962)
Actual transfers, unpaid obligations	-	-
Recoveries of Prior Year Unpaid	(18,717)	(373,964)
Unpaid obligations, end of year	106,625,550	15,460,237
Uncollected payments:		
Uncollected payments from Federal sources, brought forward, October 1	(158,071,376)	(2,052,551)
Change in uncollected payments from Federal Sources	(38,454,242)	(156,018,825)
Actual transfers, uncollected payments from Federal Sources	-	-
Uncollected payments from Federal sources, end of year	(196,525,618)	(158,071,376)
Memorandum entries:		
Obligated balance, start of year	$ (142,611,139)	$ 189,911
Obligated balance, start of year, as adjusted	(142,611,139)	189,911
Obligated balance, end of year	$ (89,900,068)	$ (142,611,139)
Budget Authority and Outlays, Net:		
Budget authority, gross	$ 76,254,475	$ 167,218,826
Actual offsetting collections	(37,800,232)	(11,200,000)
Change in uncollected payments from Federal sources	(38,454,243)	(156,018,825)
Anticipated offsetting collections	-	-
Budget Authority, net, (total)	$ -	$ -
Outlays, gross	$ 14,838,646	$ 4,519,962
Actual offsetting collections	(37,800,603)	(11,200,000)
Outlays, net, (total)	(22,961,957)	(6,680,038)
Distributed Offsetting Receipts	-	-
Agency outlays, net	$ (22,961,957)	$ (6,680,038)

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. Certain prior year amounts have been adjusted to conform with the current year presentation. 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. Property, Equipment and Software

Property, equipment and software represent furniture, fixtures, equipment, and information technology hardware and software which are recorded at original acquisition cost and are depreciated or amortized using the straight-line method over their estimated useful lives.

The Council's capitalization threshold for general property and equipment is $50,000. For leasehold improvements and software, the capitalization threshold is $50,000.
Property, equipment, and software acquisitions that do not meet the capitalization criteria are expensed upon receipt. Applicable standard governmental guidelines regulate the

disposal and convertibility of agency property, equipment, and software. The useful life classifications for capitalized assets are as follows:

Description	Useful Life (years)
Software	5
Equipment	5

E. 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.

F. 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.

G. 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.

H. 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 and support services. The Council recognized imputed costs and financing sources in fiscal years 2017 and 2016 to the extent directed by accounting standards.

NOTE 3. FUND BALANCE WITH TREASURY

Fund Balance with Treasury account balances as of September 30, 2017 and 2016 were as follows:

FUND BALANCE WITH TREASURY (CASH)
ACCOUNT BALANCES

	2017	2016
Fund Balances (General Fund):		
Comprehensive Plan - Administration Costs	$ 108,683	$ 279,128
Comprehensive Plan - Program Costs		
Programmatic Expense	617,833	983,829
Projects and Programs (grants)	25,076,418	300,000
Spill Impact Program (grants)	4,951,027	6,229,047
Total	$ 30,753,961	$ 7,792,004

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

STATUS OF FUND BALANCE WITH TREASURY

	2017	2016
Status of Fund Balance with Treasury:		
Unobligated Balance		
Available	$ 120,651,233	$ 150,029,178
Unavailable	2,797	373,964
Unpaid Obligations, End of Year	106,625,550	15,460,237
Total	$ 30,753,961	$ 7,792,004

The available unobligated fund balances represent the current-period amount available for obligation or commitment. Since the Council has no-year funds, at the start of the next fiscal year, this amount, along with recoveries not yet apportioned will be reapportioned.

The unavailable unobligated fund balances represent the amount of appropriations which have been recovered from prior year obligations. These balances are available for reapportionment.

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 4. EXPENDITURE TRANSFERS RECEIVABLE

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

EXPENDITURE TRANSFERS RECEIVABLE

	2017	2016
Funds Apportioned	$ 76,254,475	$ 167,218,825
Funds Received	(37,800,232)	(11,200,000)
Prior Year Receivable Carry Forward	158,071,376	2,052,551
Balance Expenditure Transfers Receivable	$ 196,525,619	$ 158,071,376

NOTE 5. PROPERTY, EQUIPMENT, AND SOFTWARE

Schedule of Property, Equipment, and Software as of September 30, 2017 and 2016.

MAJOR CLASS

Internal Use Software	2017	2016
Acquisition Cost	$ 789,868	$ 492,936
Accumulated Depreciation	(202,221)	(73,940)
In Development	-	296,932
Netbook Value	$ 587,647	$ 715,927

NOTE 6. 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 on the following page provides additional detail.

INTRAGOVERNMENTAL LIABILITIES - ACCOUNTS PAYABLE

	2017	2016
United States Department of Agriculture	$ 15,012	$ -
United States Coast Guard	34,476	-
United States Department of Commerce	175,362	153,277
DHS/ICE/Federal Protective Service	1,267	1,267
General Services Administration	49	-
United States Department of Geological Survey	241,759	272,505
The National Protection And Programs Directorate	18	-
National Technical Information Services	-	159,117
Treasury Franchise Fund	2,948	-
Government Publishing Office	38,796	42,454
Total Intragovernmental Liabilities	$ 509,687	$ 628,620

NOTE 7. Other Liabilities

Other Liabilities as of September 30, 2017 and 2016 were as follows:

OTHER LIABILITIES		
	2017	**2016**
Other Liabilities		
Accrued Payroll and Leave	$ 354,119	$ 338,853
Employer Taxes Payable	3,576	3,343
Total Other Liabilities	$ 357,695	$ 342,196

NOTE 8. Grants Payable

Grants Payable as of September 30, 2017 was as follows:

GRANTS PAYABLE		
	2017	**2016**
Intragovernmental Grants Payable	$ 4,717,331	$ -
Grants Payable With the Public	7,039,162	522,000
Total Grants Payable	$ 11,756,493	$ 522,000

NOTE 9. INTRAGOVERNMENTAL COST

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		
	2017	**2016**
Intragovernmental Costs	$ 6,581,872	$ 1,396,855
Public Costs	19,365,748	3,855,053
Total Net Cost	$ 25,947,620	$ 5,251,908

NOTE 10. IMPUTED COSTS

The Council received support totaling $85,077 in fiscal year 2017 and $177,192 in fiscal year 2016. The table that follows identifies the level of support provided by agency/organization.

IMPUTED COSTS		
	2017	**2016**
Department of Commerce	$ -	$ 101,093
Office of Personnel Management	85,077	76,099
Total	$ 85,077	$ 177,192

NOTE 11. BUDGETARY RESOURCE COMPARISONS TO THE BUDGET OF THE UNITED STATES GOVERNMENT

The 2017 Budget of the United States Government, with the "Actual" column completed for 2016, has been reconciled to the Statement of Budgetary Resources and there were no material differences.

NOTE 12. UNDELIVERED ORDERS AT THE END OF THE PERIOD

For the periods ended September 30, 2017 and 2016, budgetary resources obligated for undelivered orders amounted to $80,270,968 and $12,104,137, respectively.

NOTE 13. 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.

RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET		
	2017	
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	$ 106,022,676	$ 18,111,701
Spending Authority from Offsetting Collections and Recoveries	(76,273,563)	(167,592,789)
Obligations Net of Offsetting Collections and Recoveries	29,749,113	(149,481,088)
Net Obligations	29,749,113	(149,481,088)
Other Resources		
Imputed Financing From Costs Absorbed by Others	85,077	177,192
Net Other Resources Used to Finance Activities	85,077	177,192
Total Resources Used to Finance Activities	29,834,190	(149,303,896)
Resources Used to Finance Items Not Part of the Net Cost of Operations:		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered But Not Yet Provided	(80,270,968)	(12,104,137)
Funds Transferred In	76,254,474	167,218,827
Resources That Finance the Acquisition of Assets	128,280	(557,243)
Total Resources Used to Finance Items Not Part of Net Cost of Operations	(3,888,214)	154,557,447
Total Resources Used to Finance Net Cost of Operations	25,945,976	5,253,552
Components Not Requiring or Generating Resources	1,644	(1,644)
Net Cost of Operations	$ 25,947,620	

NOTE 14. 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 Council entered their fourth year of occupancy effective October 1, 2017. The Council may relinquish space upon four months' notice. Thus, the Council's financial obligation will be reduced to four months of rent.

OTHER INFORMATION (UNAUDITED)

SCHEDULE OF SPENDING AND EXPLANATORY NOTES

GULF COAST ECOSYSTEM RESTORATION COUNCIL
SCHEDULE OF SPENDING
FOR THE MONTHS ENDED SEPTEMBER 30 2017 AND 2016
(In Dollars)

		2017		2016
What Money is Available to Spend?				
Total Resources	$	226,676,703	$	168,514,845
Less Amount Not Agreed to be Spent		(120,651,233)		(150,029,178)
Less Amount Not Available to be Spent		(2,797)		(373,964.41)
Total Amounts Agreed to be Spent	$	106,022,673	$	18,111,702
How was the Money Spent?				
Personnel Compensation	$	2,189,384	$	1,709,560
Personnel Benefits		675,532		496,707
Benefits for Former Personnel		-		-
Travel and transportation of persons		195,091		192,184
Transportation of things		607		428
Rent, Communications, and utilities		32,179		35,217
Printing and reproduction		1,692		3,857
Other contractual services		1,467,699		1,743,738
Supplies and materials		14,615		4,451
Equipment		31,290		151,056
Grants, subsidies and contributions		101,414,586		13,774,503
Other		-		-
Total Spending		106,022,675		18,111,702
Total Amounts Agreed to be Spent	$	106,022,675	$	18,111,702
Who did the Money go to?				
Federal	$	31,659,797	$	2,076,008
Non-Federal		74,362,878		16,035,694
Total Amounts Agreed to be Spent	$	106,022,675	$	18,111,702

In fiscal year 2017, the Council received a total of $37,800,232 in funds from the Gulf Coast Restoration Trust Fund. Funds were disbursed to pay for salaries and benefits, travel, rent, communications, training, IT and office equipment, and services for human resources, security, website and grant system hosting and services, accounting, and auditing.

In fiscal year 2017, the Council received a total of $76,254,475 in new authority, carried forward $150,403,142 from fiscal year 2016, and obligated $106,022,675 in total. This Funding covered salary and benefits costs for 12.9 Full Time Equivalent (FTE). IAA's for accounting, procurement, travel, legal, audit, payroll, building security, website hosting and GIS support services, grant system hosting and support services, were entered into with ARC, the Department of Commerce, Department of the Treasury Office of Inspector General, the USDA National Finance Center, Department of Homeland Security Immigration and Citizenship Service, Department of the Interior US Geological Service, and the Department of Commerce National Technical Information Services, respectively comprise "other contractual services." Rent, communications and utilities costs included a lease for office space and cell phone equipment and service. Equipment consisted of RAAMS Grant Management Software and office and IT equipment. Two planning grants were awarded from Oil Spill Impact funding, and one grant and one IAA were awarded from the Funded Priorities List approved in December 2015. $120,651,233 remained unobligated at the end of the fiscal year; and of that amount, $67,769,126 is committed to the remaining Category 1 projects on the FPL. Certain prior year amounts have been adjusted to conform with the current year presentation.

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 2018 Management and Performance Challenges (OIG-CA-18-003) Report and the Council's response are as follows.

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

October 16, 2017

Ben Scaggs, Acting Executive Director for the
Chairperson, Gulf Coast Ecosystem Restoration Council

Re: 2018 Management and Performance Challenges Facing the Gulf Coast Ecosystem Restoration Council (OIG-CA-18-003)

Dear Acting Executive Director Scaggs:

As required by the Reports Consolidation Act of 2000, I am providing you as representative for the 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 a relatively small 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 on two of the three challenges noted from the prior year and present one new challenge:

- Implementing an Infrastructure to Administer Gulf Coast Restoration Activities
- Federal Statutory and Regulatory Compliance
- Grant and Interagency Agreement Compliance Monitoring (New Challenge)

We removed the prior year challenge, "Stakeholder Coordination and Outreach," because we believe the Council has sufficiently addressed it through improved coordinated efforts with its Federal and State partners, along with communication with other interested parties (i.e. other Gulf Coast Restoration groups, not-for-profit organizations, Indian tribal governments, and the public at large).

While challenges exist, I want to acknowledge some of the Council's more notable accomplishments over the past year. In July 2017, the Council made its "Draft 2017 Funded Priorities List: Comprehensive Commitment and Planning Support," a supplement to the Initial Funded Priorities List (2015), available to the public. In this document, the Council pledged commitment to efficient use of restoration funds in support of carrying out the "Comprehensive Plan− Restoring the Gulf Coast's Ecosystem and Economy" (Comprehensive Plan), which was updated in December 2016. The Council also successfully met its first reporting requirement under the Digital Accountability and Transparency Act of

2014 (DATA Act) by reporting available and expended funds on USAspending.gov[1] by the May 9, 2017 deadline. Furthermore, the Council underwent its third financial statement audit covering fiscal years 2016 and 2015. Working under the oversight of my office, a certified independent public accounting (IPA) firm issued unmodified opinions (also referred to as "clean opinions") on the Council's financial statements. For the first time, no material weaknesses or significant deficiencies were reported.[2]

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

While Council made progress in filling critical administrative and programmatic positions and solidified many policies and procedures supporting internal control, problems still exist in filling key positions necessary to complete an organizational infrastructure. Most notable, the Executive Director departed on January 26, 2017, leaving this position vacant over the past eight months. Furthermore, the Acting Executive Director dedicates about 50 percent of his time to the Council and must rely heavily on the senior executive staff. The search for a permanent Executive Director has been delayed since the priority has been to appoint new members to the Council. As such, recruitment efforts have only recently started.

Key positions remain vacant in other operational areas. The Chief Information Officer position was initially filled in January 2017, but became vacant again in July 2017. Only until quite recently has a person been identified and selected for the position. However, inconsistent staffing has impeded the Council's ability to address Information Technology (IT) related challenges and risks as identified in our recent audit that assessed whether the Council is positioned to oversee the environmental and economic recovery of the Gulf Coast[3]. This matter was also identified by the IPA in its Management Letter to the financial statement audit for fiscal years 2016 and 2015.[4] Specifically, the IPA noted, among other things, there were incomplete implementation of safeguards and countermeasures in the areas of management, operational, and technical security resulting from a *Federal Information Security Modernization Act of 2014* review. This included the Council's challenges in recruiting IT personnel. I would add that recruiting and retaining skilled cyber and IT personnel is a systemic problem government-wide as these are highly competitive and hard to fill positions.

Infrastructure challenges should also 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 had to implement an Enterprise Risk Management (ERM) capability to integrate strategic planning and review processes established by the Performance and Results Modernization Act of 2010, and internal control processes required by the Federal Managers' Financial

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1 In May 2017, Treasury launched a new version of USAspending.gov, currently referred to as Beta.USAspending.gov, which is being run parallel to USAspending.gov to minimize disruptions to users' access and add system enhancements. Treasury intends to retire the legacy USAspending.gov in fall 2017.

2 OIG, *Audit of the Gulf Coast Ecosystem Restoration Council's Financial Statements for Fiscal Years 2016 and 2015* (OIG-17-015; issued November 15, 2016).

3 OIG, *Council Faces Challenges in Establishing Its Organizational Infrastructure* (OIG-17-011; issued November 16, 2016).

4 OIG, *Management Letter for the Audit of the Gulf Coast Ecosystem Restoration Council's Financial Statements for Fiscal Year 2016* (OIG-17-028; issued December 16, 2016).

Integrity Act and the Government Accountability Office's *Standards for Internal Control in the Federal Government* (Green Book). The Council completed its initial risk management profile in May 2016. One of the key recommendations was to create an Enterprise Risk Management staff function. Accordingly, the Council determined that a dedicated Enterprise Risk Management Specialist position will be created to manage and implement ERM. To date, the Council has not filled this critical position.

In consideration of other challenges cited in this letter, the absence of key decision makers may impact the Council's ability to address the more significant matters at hand.

Challenge 2: Federal Statutory and Regulatory Compliance

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. That said, the Council must also ensure its own compliance with applicable laws and regulations as a Federal entity. In addition to OMB's ERM requirements noted above, the following compliance requirements will continue in fiscal year 2018.

DATA Act

The DATA Act requirements for Federal agencies and entities receiving Federal funds are to report spending data in accordance with the data standards established by the Department of the Treasury (Treasury) and OMB. Following its comprehensive DATA Act implementation plan, the Council successfully met its first mandate to report funds made available or expended on USAspending.gov by the May 9, 2017 deadline. However, there are challenges to sustaining DATA Act compliance.[5]

It should be noted that, even with the automated interfaces between the Council's Restoration Assistance and Award Management System (RAAMS), the Bureau of the Fiscal Service Administrative Resource Center's financial systems, and the DATA Act Broker, the Council still relies on a manual review and reconciliation process with limited staff to comply with all DATA Act requirements. Complicating this situation is the recent decision of the RAAMs' contractor to no longer support the RAAMs application. Although the contractor has a different cloud-based product for research grants, this does not meet the Council's needs. The contractor has allowed for a reasonable transition period for the Council to migrate to a new grants management system, however, the timeline remains uncertain. As such, the Council will need to acquire and migrate its financial assistance award and interagency agreement data to a new system and ensure all Federal information system and security requirements are met. As the Council continues to grow and anticipates the volume of reportable data to significantly increase, a more automated process will be necessary to ensure complete and accurate data is reported on USAspending.gov.

Improper Payments Elimination and Recovery Act of 2010 (IPERA)

IPERA requires 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. For fiscal year 2016, it was

[5] OIG, *DATA Act Readiness: Council is Making Progress in Meeting DATA Act Reporting Requirements Despite Challenges* (OIG-17-045; issued June 2, 2017).

determined that the Council did not have programs and activities susceptible to significant improper payments. We expect that in the upcoming years as grant activity increases that the Council will be above the threshold and reporting requirements. Additionally, the Council faces expanded risk in screening for improper payments as RAAMS is still a newly operational grants system and detecting improper payments will become more difficult in the future as funds awarded increase.

Challenge 3: Grant and Interagency Agreement Compliance Monitoring

Now that the Council has established the Initial Comprehensive Plan (2013) and the Initial Funded Priorities List (2015), staff are transitioning into the tasks of awarding funds. As such, the Council must now begin to conduct the necessary monitoring of projects and award recipients' progress, reporting, and compliance with their award agreements. As of this writing, the Council has awarded over 20 grants and interagency agreements valued at approximately $70 million under the Council Selected Restoration Component ($64 million) and the Spill Impact Component ($6 million). During fiscal year 2017, awarded amounts totaling approximately $53 million more than tripled the $17 million awarded in fiscal year 2016. Current staffing levels may be sufficient to ensure the proper oversight of grants for this volume of awards. However, a significant increase in grant activity could potentially overwhelm a new and developing grants management staff.

Additionally, compliance monitoring of grants, contracts, and interagency agreements should be considered in the context of the ERM requirements and the related staffing challenges noted in Challenge 1. Specifically, of the seven top risks identified resulting from the Council's initial ERM risk management profile, five of them relate to the oversight and monitoring of grants. The continued vacancy of the Enterprise Risk Management Specialist, identified as a key position, jeopardizes the implementation of policies, procedures, and processes for ensuring the Council is performing adequate oversight in accordance with Federal statutory and regulatory requirements.

A matter of note is the Council's future migration from RAAMs to a new grants management system as noted in Challenge 2. While there is a low volume of grants and interagency agreements in place at this time, RAAMs will need to be replaced with a fully functioning grants management system as the volume grows and compliance monitoring increases.

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: Dan Jiron, Acting Chairperson Designee

Gulf Coast Ecosystem Restoration Council

November 6, 2017

Eric M. Thorson
Inspector General, U.S. Department of the Treasury
Washington, DC 20022

Re: Response to the OIG Report, 2018 Management and Performance Challenges Facing the Gulf Coast Ecosystem Restoration Council (OIG-CA-18-003)

Dear Inspector General Thorson,

Thank you for the opportunity to review the Office of Inspector General's (OIG) report 2018 Management and Performance Challenges Facing the Gulf Coast Ecosystem Restoration Council (OIG-CA-18-003). As you have pointed out, the Council is a relatively small 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). We concur with your report that two of the previous major challenges identified in the letter, e.g., to "Implement an Infrastructure to Administer Gulf Coast Restoration Activities," and "Federal Statutory and Regulatory Compliance" are not yet fully addressed. We further agree with the new challenge, Grant and Interagency Agreement Compliance Monitoring.

We appreciate your recognition of the Council's accomplishments to include the development of the "Draft 2017 Funded Priorities List: Comprehensive Commitment and Planning Support'' to be voted on in fiscal year 2018; meeting our planning and reporting requirements under the Digital Accountability and Transparency Act of 2014 (DATA Act); obtaining our third unmodified opinion on our financial statements with no material weaknesses or significant deficiencies; and that we sufficiently addressed the 2017 Stakeholder Coordination and Outreach challenge. Discussion of this year's challenges follows.

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

The Council successfully recruited a Deputy CFO to manage the Council's Enterprise Risk Management (ERM) program. The Council met the June 2017 deadline for completing its initial risk profile, published the GCERC Risk Profile Update and Critical Risk Mitigation July 2017, and conducted testing of agency controls with statistically significant samples of financial transactions. The Council also recruited a CIO, completed its Information Management Strategic Plan, and defined and documented its IT security policies and procedures to implement a

Risk Management Framework as defined in NIST standards and guidelines. The CIO left the Council in July 2017, but is returning to the Council in November 2017.

At this time, the position of Chairperson of the Council is vacant and will be filled upon the nomination of a new Chair by the States and appointment by the President. Two other key positions remain vacant, that of the Executive Director and the Enterprise Risk Management Specialist. The Council will recruit for a permanent Executive Director upon appointment of the new Chair. The Council is recruiting for the ERM specialist for the second time as there were no suitable candidates in the first attempt.

Challenge 2: Federal Statutory and Regulatory Compliance

The Council successfully met the first quarter reporting requirements of the DATA Act, developed management controls over its DATA Act submission, reconciliation, and certification process that were reasonably designed, implemented and operating effectively, and properly implemented, and used the 57 financial data standard elements established by the Office of Management and Budget and Treasury. The Council recognizes that the limited number of staff and manual processes pose a risk as volume increases, and will work to mitigate this risk through automated interfaces in the new grant system needed to replace RAAMS.

Challenge 3: Grant and Interagency Agreement Compliance Monitoring

The Council has followed a practice of incrementally increasing its staffing levels to be commensurate with the level of work being performed, starting with two FTE in fiscal year 2014 and increasing to an authorized level of 21.5 FTE in fiscal year 2017. The Council will continue to monitor workload and required resources as the volume of awards and activity increases.

The Council acknowledges that the vacancy for the ERM specialist reduces the Council's capacity to exercise adequate oversight and as indicated in Challenge 1, the Council is recruiting for this position. However, in addition to the compliance oversight that will be the responsibility of the ERM specialist, the Council has other procedures to help mitigate the risks of inadequate compliance monitoring. The Council requires a comprehensive Organizational Assessment from each applicant, performs an organizational risk assessment of each recipient, and completes an in-depth pre-award review of all applications. The Council is implementing a cross-functional post-award oversight program that includes procedures to relate a recipient's risk level to required oversight procedures. The Council also recognizes the importance of its future migration from RAAMS to a new fully functioning system and has initiated a requirements definition effort to support the selection of a new system.

We appreciate the ongoing cooperation and support we receive from your staff. Their expertise has been invaluable and will be particularly important as we continue to fund projects. We look forward to working with you to address the challenges identified in this 2018 Management and Performance Challenges report.

Sincerely,

Ben Scaggs
Acting Executive Director
Gulf Coast Ecosystem Restoration Council

SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

The following tables show that there were no material weaknesses or significant deficiencies in fiscal year 2017. The significant deficiency identified in fiscal year 2015 was resolved in fiscal year 2016. This information is consistent with the Council's FMFIA Statement of Assurance.

Table 6 – Summary of Financial Statement Audit					
Audit Opinion	**Unmodified**				
Restatement	**No**				
Material Weakness	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Total Material Weaknesses	0	0	0	NA	0

Table 7 – Summary of Management Assurances						
Effectiveness of Internal Control over Financial Reporting (FMFIA - § 2)						
Statement of Assurance	**Unmodified**					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Material Weaknesses	0	0	0	NA	NA	0
Effectiveness of Internal Control over Operations (FMFIA - § 2)						
Statement of Assurance	**Unmodified**					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Material Weaknesses	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
Total Non-Conformances	0	0	NA	NA	NA	0

PAYMENT INTEGRITY

Background

The Improper Payments Elimination and Recovery Act (IPERA) of 2010 (Pub. L. 111-204, 31 U.S.C. 3301 *note*) as amended, requires agencies to periodically review all programs and activities and identify those that may be susceptible to significant improper payments, take multiple actions when programs and activities are identified as susceptible to significant improper payments, and annually report information on their improper payments monitoring and minimization efforts. Office of Management and Budget (OMB) Circular A-123, Appendix C, *Requirements for Effective Remediation of Improper Payments* (OMB-M-15-02) ("Appendix C"), provides guidance to agencies to comply with IPERA and for agency improper payments remediation efforts. An improper payment is any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative or other legally applicable requirements. See also https://paymentaccuracy.gov/ for additional detailed information on improper payments.

In compliance with A-123 Appendix C, Part I.A.9, the Council used a systematic method to review all programs and activities to identify those susceptible to significant improper payments. In doing so, the Council considered the results of the payment recapture audit performed, and then used a qualitative method to further evaluate its programs. During fiscal year 2017, the Council did not have any programs or activities susceptible to significant improper payments. Although the total amount of all program and activity payments exceeded $10,000,000, the total estimate for improper payments was less than 1.5 percent.

Programs of the Council Assessed for Risk

1. Council-Selected Projects and Programs, including expenses to administer
2. Oil Spill Impact Program

Risk Assessment Determination

1. Council-Selected Projects and Programs, Council expenditures for non-Federal persons, non-federal entities and federal employees totaled $12,327,449 in fiscal year 2017. Of those disbursements, 18% were payments for salary, benefits and travel reimbursements to Council employees, 5.6% were payments to eight commercial vendors, and 74% were payments to five grant recipients.

   The payment recapture audit, performed by the Council's financial services provider, the Bureau of Fiscal Services, Department of the Treasury, identified 3 out of 916 payments as overpayments, for a rate of 0.31%. The total dollar value of improper payments was $320.50, a rate of 0.0026% of total payments made. Payments recaptured totaled $520.50 and no erroneous or improper payments were outstanding at the end of the fiscal year.

2. Qualitative Assessment: The following risk factors were considered in determining if the programs in the Council were likely to exceed 1.5% of all payments.

    a. The Council had a very small number of contracts and contractors, e.g., seven, and a small number of payments, e.g., 233 totaling $700,062.

    b. The Council had a very small number of grant recipients, e.g., five, and a small number of payments, e.g., 55 payments equaling $9,164,862, both programs combined. Four of the grant recipients are states, and one recipient is a state governmental entity.

    c. The Council requires every recipient of financial assistance to complete an Organizational Assessment, which is then evaluated and rated by the Council. The Council had one high risk recipient due to the immature financial and management infrastructure of that entity.

    d. For those recipients determined to be high risk, a 100% pre-audit of all payment requests prior to disbursement is required. Six payments totaling $745,065 were pre-audited -- 11% of grant payments made and 6% of the dollar amount of all grant payments. No improper payments were made.

    e. As part of the risk review of each recipient, past audit reports are screened for significant deficiencies, findings or relevant management findings, and none were found for any grant recipient.

I. Payment Reporting

Table 8
Improper Payment Reduction Outlook
($ in millions)

Program or Activity	PY Outlays	PY IP%	PY IP$	CY Outlays	CY IP%	CY IP$
Council Selected Projects	$2.8	.07%	$.002	11.0	.003%	$.0003
Spill Impact	$.2	0	0	1.3	0	0
Total	$3.0	.07%	$.002	12.3	.003%	$.0003

a. Improper Payment Root Cause Categories

Root cause for improper payments was administrative or process error made by staff in processing their travel vouchers.

Table 9
Improper Payment Root Cause Category Matrix

Reason for Improper Payment	Council-Selected Projects and Programs		Oil Spill Impact Program	
	Overpayments	Underpayments	Overpayments	Underpayments
Administrative Or Process Error	3	0	0	0

II. Recapture of Improper Payments Reporting

a. The Payment Recapture Audit was an internal review and analysis of the Council's accounting and financial records, supporting documents, and other pertinent information supporting its payments specifically designed to identify overpayments.
   i. All required program and activity types were included in the Program.
   ii. No Payment Recapture Audit Programs for any program or activity have been deemed not cost effective.
   iii. No class of contract has been excluded.
   iv. Number and amount of improper payments: 3 for a total of $320.50.
   v. Amount of improper payments recaptured: $520.50.
   vi. Recaptured payments were no-year funds and returned to their original purpose.
   vii. There are no unrecovered improper payments.

b. Overpayments Recaptured Outside of Payment Recapture Audits
   No overpayments were recaptured as a result of pre-auditing grant payment requests or post-award monitoring.

III. Agency Improvement of Payment Accuracy with the Do Not Pay Initiative

The Department of the Treasury (Treasury) Fiscal Services Vendor Supplier Group (VSG) submits a file of active vendors on a daily basis through the Do Not Pay Business Center's Continuous Monitoring system. The results are received the following day and any matches are reviewed, including matches from the Social Security Administration (SSA) Death Master File and/or the System for Award Management (SAM) Excluded Party List System (EPLS). Matches from the SSA Death Master File are end-dated in the Oracle accounting system and the Travel Office is notified so that the travel record can be end dated in the Concur Government Edition travel system as well. When hits are identified for EPLS, the information is provided to the appropriate Treasury customer care branch for research. As a result of a match, the matched vendor will then be flagged as an active exclusion in SAM. The Treasury customer care branch consults with the Council to determine how to proceed. Options may include deactivating the vendor, de-obligating all open orders with the vendor, recovering payments made to the vendor, or the like.

Table 10
Results of the Do Not Pay Initiative in Preventing Improper Payments

	Number of Payments reviewed for possible improper payments	Dollars ($) of payments reviewed for possible improper payments	Number (#) of payments stopped	Dollars ($) of payments stopped	Number (#) of potential improper payments reviewed and determined accurate	Dollars ($) of potential improper payments reviewed and determined accurate
Reviews with the Do Not Pay databases	611	$899,002	0	0	0	$0
Reviews with databases not listed in IPERIA as Do Not Pay Databases	0	0	0	0	0	0

IV. Barriers

None

V. Accountability

Agency managers, accountable officers, and program officials are held accountable for establishing and maintaining sufficient internal controls that effectively prevents IPs from being made and promptly detect and recapture IPs that are made.

VI. Agency Information Systems and Other Infrastructure

With respect to Council grant recipients and subrecipients, the Council has a detailed monitoring and oversight protocol. The protocol requires that all high risk grant recipients will have every request for reimbursement manually reviewed, along with copies of all paid invoices, in addition to furnishing semi-annual financial reporting to the Council. The protocol includes a requirement the Council to reconcile recipient semi-annual reports to their cash draws and cash drawdown projections. The Council will review recipients' time & attendance and labor hour reporting systems and associated payrolls and other supporting material (e.g., invoices and receipts) as part of site visits and desk reviews.

The Council has developed an enterprise risk management program, and conducted tests of the financial controls for travel claims, purchase card purchases, purchase requests and grant obligations to ensure that published agency controls were followed, and no deviations were found.

VII. Sampling and Estimation

Due to the rate of IPs, sampling and estimation are not applicable at this time.

FRAUD REDUCTION REPORT

The Council enterprise risk management assessment, profile, control activities, testing and monitoring include the Council's efforts at fraud prevention. The Council had implemented rigorous financial and administrative controls, with particular focus on controls and monitoring of its two financial assistance programs, the Council-Selected Projects and Programs, and the Spill Impact Program. The enterprise risk management profile identifies insufficient monitoring risk of fraud, waste and abuse as a critical program risk, and is designing its grant oversight and monitoring program and risk management activities to address this risk. There is not an agency-specific statutorily required report to Congress or OMB.

REDUCE THE FOOTPRINT

a. The Council entered into a ten year occupancy agreement (lease) with GSA for 2,399 sf of office space in New Orleans in September 2014. The amount of square footage leased has not changed.
b. The Council has no direct lease facilities that are subject to the Reduce the Footprint policy and thus has no operating costs to report.
c. The Council has an authorized level of 22.5FTE. Council staff who are local to the New Orleans metropolitan area work in the Council's office space, while other staff members work remotely from home offices throughout the Gulf Coast. The distributed workforce reduces the amount of square footage required for office space and minimizes to the greatest extent possible the footprint of the Council. The Council is not undertaking a reduction to the office space it currently occupies.
d. The Council does not own any buildings, therefore, we have not disposed of owned buildings, nor have any such reduction targets.

GONE ACT

The Council issued its first grant agreement in fiscal year 2016. The Council does not have any grants that have completed their period of performance.

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REPORT WASTE, FRAUD, AND ABUSE

Treasury OIG Hotline: 1-800-359-3898
Hotline@oig.treas.gov

Gulf Coast Restoration Hotline: 1-855-584.GULF (4853)
gulfcoastrestorationhotline@oig.treas.gov

Access Treasury OIG reports and other information online:
www.treasury.gov/about/organizational-structure/ig