



Audit Report



OIG-19-010

GULF COAST RESTORATION

Florida Institute of Oceanography's Centers of Excellence
Research Grants Program

November 7, 2018

Office of
Inspector General

Department of the Treasury

This Page Intentionally Left Blank



OFFICE OF
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

November 7, 2018

MEMORANDUM FOR DAVID A. LEBRYK
FISCAL ASSISTANT SECRETARY

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

SUBJECT: *Florida Institute of Oceanography's Centers of Excellence Research Grants Program*

We are pleased to transmit the attached audit report, *Florida Institute of Oceanography's Centers of Excellence Research Grants Program* (OIG-19-010; dated November 6, 2018). Under a contract monitored by our office, the certified independent public accounting firm, McConnell & Jones LLP (McConnell & Jones), performed an audit of the Florida Institute of Oceanography's (FIO) Centers of Excellence Research Grants Program (Centers of Excellence) under the *Resources and Ecosystems Sustainability, Tourist Opportunities and Revived Economies of the Gulf Coast States Act of 2012* (RESTORE Act).

In its audit report, McConnell & Jones found no matters in FIO's administration of its Centers of Excellence subawards as it related to areas of compliance with allowable costs and cost principles; activities allowed or unallowed; cash management; financial and performance reporting; financial management; environmental requirements; records retention requirements; "Special Award Conditions" contained in the Notice of Award; and "Program-Specific Terms and Conditions" contained in *Treasury's RESTORE Act Financial Assistance Standard Terms and Conditions and Program-Specific Terms and Conditions*. However, McConnell & Jones found that FIO's subrecipient monitoring was insufficient. Specifically, McConnell & Jones found that FIO did not ensure that subrecipients who make subawards carry out all the responsibilities of a pass-through entity as described in the Office of Management and Budget's *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 2 CFR Part 200 (Uniform Guidance). That is, FIO did not request and review copies of lower tier subaward agreements from the subrecipients. Accordingly, McConnell & Jones recommended that the Fiscal Assistant Secretary considers FIO's need to strengthen its subrecipient

monitoring procedures over Centers of Excellence subawards as part of Treasury's oversight and administration of FIO's Centers of Excellence award as well as risk assessments required by the Uniform Guidance for future awards. Treasury management agreed with the audit results and recommendation.

Our contract required that the audit be performed in accordance with generally accepted government auditing standards. In connection with our contract, we reviewed McConnell & Jones' report and related documentation and inquired of its representatives. Our review, as differentiated from an audit performed in accordance with generally accepted government auditing standards, was not intended to enable us to conclude on FIO's administration of its Centers of Excellence. McConnell & Jones is responsible for the attached auditor's report and the conclusions expressed therein. Our review found no instances in which McConnell & Jones did not comply in all material respects, with generally accepted government auditing standards.

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

Attachment

TABLE OF CONTENTS

AUDIT REPORT

Background	2
Audit Results	3
FIO’s Subrecipient Monitoring Was Insufficient	8
FIO Did Not Ensure Subrecipients Applied Treasury’s Standard Terms and Conditions to Lower Tier Subawards	9
Recommendation	9

APPENDICES

Appendix 1: Objective, Scope, and Methodology	11
Appendix 2: Florida Institute of Oceanography Management Response	14
Appendix 3: Treasury Management Response	15
Appendix 4: Report Distribution	17

ABBREVIATIONS

Centers of Excellence	Centers of Excellence Research Grants Program
CFDA	Catalog of Federal Domestic Assistance
FIO	Florida Institute of Oceanography
FLRACEP	Florida RESTORE Act Centers of Excellence Program
NOAA	National Oceanic and Atmospheric Administration
OIG	Office of Inspector General
RESTORE Act	<i>Resources and Ecosystems Sustainability, Tourist Opportunities, and Revived Economies of the Gulf Coast States Act of 2012</i>
Science Program	Gulf Coast Ecosystem Restoration Science, Observation, Monitoring, and Technology Program
Treasury's terms and conditions	<i>RESTORE Act Financial Assistance Standard Terms and Conditions and Program-Specific Terms and Conditions</i>
Treasury	Department of the Treasury
Trust Fund	Gulf Coast Restoration Trust Fund
Uniform Guidance	Office of Management and Budget's <i>Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, 2 CFR Part 200</i>
USF	University of South Florida



November 6, 2018

David A. Lebryk
Fiscal Assistant Secretary
Department of the Treasury

This report presents the results of our audit of the Florida Institute of Oceanography's (FIO) Centers of Excellence Research Grants Program (Centers of Excellence) authorized by the *Resources and Ecosystems Sustainability, Tourist Opportunities, and Revived Economies of the Gulf Coast States Act of 2012* (RESTORE Act).¹ Our audit objective was to assess FIO's administration of Centers of Excellence subawards for compliance with the RESTORE Act and applicable Federal statutes, regulations, and award agreements. The scope of our audit comprised FIO's internal control over the administration of RESTORE Act subawards for the period September 1, 2015 through March 31, 2017, which comprised 11 subawards totaling \$3,651,724. We used a nonstatistical sampling methodology, as applicable, to select samples for testing certain compliance requirements, which included \$1,468,031 charged to FIO's Centers of Excellence award. **Appendix 1** provides more detail of our audit objective, scope, and methodology.

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

In brief, we found no matters in FIO's administration of its Centers of Excellence subawards as it related to areas of compliance with allowable costs and cost principles; activities allowed or unallowed; cash management; financial and performance reporting; financial management; environmental requirements; records retention requirements; "Special Award Conditions" contained in the Notice of Award; and "Program-Specific Terms and Conditions" contained in Treasury's *RESTORE Act Financial Assistance Standard Terms and Conditions and Program-Specific Terms and Conditions* (hereinafter referred to as Treasury's terms and conditions). However, we found that FIO's subrecipient monitoring was insufficient. While we noted that FIO performed subrecipient monitoring, it did not ensure that subrecipients who make subawards carry out all the responsibilities of a pass-through entity as described in the Uniform Guidance. That is, we noted that FIO did not request and review copies of lower tier subaward agreements from the subrecipients. Accordingly, we recommend that the Fiscal Assistant Secretary considers FIO's need to strengthen its subrecipient monitoring procedures over Centers of Excellence

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

subawards as part of Treasury's oversight and administration of FIO's Centers of Excellence award as well as risk assessments required by the Uniform Guidance for future awards.

As part of our reporting process, we provided FIO an opportunity to comment on a draft of this report. In a written response, FIO management stated that it did not dispute our finding and noted that corrective actions were taken. Actions included the Program Management Team's approval to update programmatic documents (i.e. program rules and policies, standard terms and conditions, subagreement templates, and other) to incorporate additional lower tier subrecipient monitoring requirements. Revisions are expected to be completed by December 31, 2018, and approved by the [Program] Management Team in its June 2019 meeting. Other corrective actions noted were increased quarterly fiscal reporting requirements for subrecipients to include back-up documentation for reported expenses and staff training in federal grants management and monitoring. See appendix 2 for FIO management's response in its entirety.

After incorporating FIO's response into a draft of this report, we provided the draft to Treasury management for comment. In a written response, Treasury management acknowledged the results of this audit. Management stated that it will consider FIO's need to strengthen its subrecipient monitoring procedures over Centers of Excellence subawards to align with the Uniform Guidance requirements, and pursuant to grants management procedures, will continue to engage in oversight and administration of grant awards, including risk assessment. Management also agreed with FIO's management response and its planned actions and stated that it will review FIO's documents as part of Treasury's administration and oversight of awards. Treasury management's response, in its entirety, is included as appendix 3 of this report.

BACKGROUND

The RESTORE Act established the Gulf Coast Restoration Trust Fund (Trust Fund) within Treasury to provide funds for environmental and economic restoration of the Gulf Coast region that was damaged by the 2010 Deepwater Horizon oil spill. Deposits into the Trust Fund will be comprised of 80 percent of all civil and administrative penalties paid after July 6, 2012, under the Federal Water Pollution Control Act.² Approximately \$5.3 billion is expected to be deposited into the Trust Fund as a result of the Federal Government's settlements with Transocean, Anadarko Petroleum Corporation, and BP Exploration & Production Inc. defendants. As of April 9, 2018, the Trust Fund received approximately \$1.4 billion, including related interest.

The RESTORE Act allocates money in the Trust Fund among five components as follows: (1) 35 percent will be made available to the Gulf Coast States (Alabama, Florida, Louisiana, Mississippi, and Texas) in equal shares under the Direct Component; (2) 30 percent plus 50 percent of interest earned on the Trust Fund will be made available for awards under the Comprehensive Plan Component; (3) 30 percent will be made available for awards under the Spill Impact Component; (4) 2.5 percent plus 25 percent of interest earned on the Trust Fund will be made available to the National Oceanic and Atmospheric Administration (NOAA) RESTORE Act Gulf Coast Ecosystem Restoration Science, Observation, Monitoring, and Technology Program (Science Program) Component; and (5) 2.5 percent plus 25 percent of

² 33 U.S.C. §1321 et seq.

interest earned on the Trust Fund will be made available to the Centers of Excellence program. Treasury's Office of the Fiscal Assistant Secretary is responsible for administering the Direct Component and the Centers of Excellence program. The Gulf Coast Ecosystem Restoration Council is responsible for administering the Comprehensive Plan Component and the Spill Impact Component. NOAA is responsible for administering the Science Program Component.

Section 1605 of the RESTORE Act authorizes 2.5 percent of the Trust Fund monies to be made available to the Gulf Coast States in equal shares for establishing Centers of Excellence to conduct research in the Gulf Coast Region. Each Centers of Excellence must focus on science, technology, and monitoring in at least one of the following disciplines: (1) coastal and deltaic sustainability, restoration, and protection, including solutions and technology that allow citizens to live in a safe and sustainable manner in a coastal delta in the Gulf Coast Region; (2) coastal fisheries and wildlife ecosystem research and monitoring in the Gulf Coast Region; (3) offshore energy development, including research and technology to improve the sustainable and safe development of energy resources in the Gulf of Mexico; (4) sustainable and resilient growth, economic and commercial development in the Gulf Coast Region; and (5) comprehensive observation, monitoring, and mapping of the Gulf of Mexico.

The duties of each Gulf Coast State must be carried out by the applicable Gulf Coast State entity or task force, as defined in the RESTORE Act. In the case of Florida, the FIO is the State entity responsible for carrying out the duties as administrator for the Centers of Excellence for the State of Florida. FIO operates as an Academic Infrastructure Support Organization.³ The University of South Florida (USF) acts in the capacity of the host university, providing FIO administrative and logistical support. FIO has prioritized three of the five eligible disciplines for its Centers of Excellence: (1) coastal fisheries and wildlife ecosystem research and monitoring in the Gulf Coast Region; (2) comprehensive observation, monitoring, and mapping of the Gulf of Mexico; and (3) coastal sustainability, restoration, and protection, including solutions and technology that allow citizens to live in a safe and sustainable manner.

Treasury issued FIO a Notice of Award dated August 20, 2015, which specified an award of \$4,036,238, covering the project period September 1, 2015 through February 28, 2018. Furthermore, Treasury issued an amended Notice of Award dated January 11, 2017 which increased the awarded amount to \$4,707,093 and extended the project period through February 28, 2019. Of the awarded amount, Florida RESTORE Act Centers of Excellence Program (FLRACEP) awarded the sum of \$3,651,724 to eleven subawardees.

AUDIT RESULTS

³ FIO is an Academic Infrastructure Support Organization established by the State University System of Florida Board of Governors. As defined, an Academic Infrastructure Support Organization provides underlying technology, equipment, facilities, services, and resources for academic programs and research in the State University System. FIO is comprised of 27 academic institutions and government agencies across the State of Florida, including the Florida Department of Environmental Protection and the Florida Fish and Wildlife Conservation Commission. Currently, the University of South Florida is the designated host institution for FIO and provides administrative and logistical support, including, but not limited to, office space, utilities, personnel services, and financial, legal, and accounting services.

We performed tests of FIO's compliance with the applicable provisions of the Uniform Guidance, the Notice of Award, and Treasury's terms and conditions as it related to FIO's administration of the Centers of Excellence subawards. Among those provisions, "the non-federal entity must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award." As part of our audit, we also performed tests of controls as they related to the administration of FIO's subawards. We reviewed FIO's general ledger activities from inception of the Centers of Excellence program on September 1, 2015 through March 31, 2017.

We found no matters in FIO's administration of its Centers of Excellence subawards as it related to areas of compliance with allowable costs and cost principles; activities allowed or unallowed; cash management; financial and performance reporting; financial management; environmental requirements; records retention requirements; "Special Award Conditions" contained in the Notice of Award; and "Program-Specific Terms and Conditions" contained in Treasury's terms and conditions. However, we identified one area of non-compliance with the Uniform Guidance and the "Standard Terms and Conditions" contained in Treasury's terms and conditions in FIO's administration of its Centers of Excellence subawards. As described in detail below, we found that FIO's subrecipient monitoring was insufficient. The following summarizes the results of our testing.

Allowable Costs/Costs Principles: We tested a sample of \$245,522 in payroll, non-payroll, and travel transactions charged to the Centers of Excellence award for compliance with the criteria contained in the Uniform Guidance ("Basic Considerations" 2 CFR §200.402 through §200.411 and "General Provisions for Selected Items of Cost" §200.420 through §200.475) and Treasury's "Program-Specific Terms and Conditions" (Section B "Allowable Costs" and Section C "Financial Requirements").

Based on the results of procedures performed, we noted that costs charged to the Centers of Excellence award were reasonable, necessary, allowable, and determined in accordance with the cost principles outlined in the Uniform Guidance and Treasury's "Program-Specific Terms and Conditions."

Activities Allowed or Unallowed: We reviewed project activities related to the sample of \$245,522 funded by the Centers of Excellence award, detailed budget support, and other documentation to confirm that the Federal award was expended only for allowable activities in accordance with the criteria contained in the Uniform Guidance ("Basic Considerations" 2 CFR §200.402 through §200.411 and "General Provisions for Selected Items of Cost" §200.420 through §200.475) and Treasury's "Standard Terms and Conditions" (Section C "Financial Requirements"). We tested a sample of payroll, non-payroll, and travel expenses associated with the activities that were charged to the Centers of Excellence award.

Based on the results of procedures performed, we concluded that the activities relating to this project were allowable and that the related transactions were properly classified, accumulated and recorded. The activities described were reasonable and corresponded to the tasks listed under

Allowable Costs/Costs Principles. We noted no findings of non-compliance for Activities Allowed or Unallowed.

Cash Management: We tested a sample of 15 cash management transactions, totaling \$525,590, for compliance with the criteria contained in the Uniform Guidance (“Payment” 2 CFR §200.305) and Treasury’s “Standard Terms and Conditions” (Section H “Award Disbursement”). We performed a walkthrough of USF/FIO’s controls over RESTORE Act funds and reviewed established policies and procedures to provide reasonable assurance that FIO is compliant with the requirements applicable to non-Federal entities on a reimbursement basis.

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

Financial and Performance Reporting: We tested two financial reports and two performance reports covering the three semi-annual reporting periods within audit scope for compliance with criteria contained in the Uniform Guidance (“Performance and Financial Monitoring and Reporting” 2 CFR §200.327 through §200.329) and Treasury’s “Standard Terms and Conditions” (Section D “Recipient Reporting and Audit Requirements”), as applicable. We reviewed selected federal financial reports completed by FIO including the “Federal Financial Report,” the “Performance Progress Report,” and the “Status of Performance Report” and noted that the reports were filed timely and the contents were accurate and tied to the general ledger for the corresponding period. We also reviewed reports submitted specific to the Centers of Excellence award and program and noted that they were filed timely and the contents were accurate.

Based on the results of procedures performed, we noted no findings of non-compliance for Financial and Performance Reporting.

Financial Management: We performed procedures to verify whether FIO had expended and accounted for \$1,270,883 of award funds in compliance with the criteria contained in the Uniform Guidance (“Financial Management” 2 CFR §200.302), Treasury’s “Standard Terms and Conditions” (Section E “Financial Management System and Internal Control Requirements”), and the “Special Award Conditions.” Specifically, we reviewed the summary of program revenues and expenses from the inception of the Centers of Excellence program on September 1, 2015 through March 31, 2017 to ensure amounts agreed to the control totals/ending balances per the general ledger for the periods under review.

We verified that the funds had been expended and accounted for in accordance with all applicable Federal, State, and local requirements (including the RESTORE Act, Treasury RESTORE Act regulations), Treasury’s “Standard Terms and Conditions”, and the “Special Award Conditions” and noted that all funds used in the identified accounts qualified as allowable costs. We compared actual expenditures with the amount budgeted for each award and verified that all actual expenditures were within budget. We ensured that all the RESTORE Act awards received and expended have been tracked and identified by assigned grant number, which is the Universal Award ID (as provided by Treasury), the year the Award was made, the awarding agency (Treasury), and the program’s Catalog of Federal Domestic Assistance (CFDA) title and CFDA number (21.015). We ensured that the source and application of funds for all activities funded

by this award, as well as all awards, authorizations, obligations, unobligated balances, assets, expenditures, program income, and interest earned on federal advances, were recorded and allowed users to tie these records to source documentation such as canceled checks, paid bills, payroll and attendance records, contract and subaward agreements. Finally, we reviewed FIO/USF policies to verify that they had procedures in place to safeguard personally identifiable information consistent with applicable Federal, State, and local laws regarding privacy and obligations of confidentiality.

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

Environmental Requirements: We reviewed all 11 subaward agreements entered into by FIO to verify if they included all of the environmental statutes, regulations, and executive orders set forth in Treasury's "Standard Terms and Conditions" (Section U "Environmental Requirements") and the Uniform Guidance ("Procurement of Recovered Materials" 2 CFR §200.322). In addition, we verified if all contracts, including those with subrecipients, contained clauses that make reference to the recipients' and/or subrecipients' acceptance of Treasury's terms and conditions.

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

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

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

Special Award Conditions: We performed procedures to determine if FIO complied with the "Special Award Conditions" contained in the Treasury's Notice of Award (also included in the Notice of Award Amendment). Specifically, we obtained and reviewed the Notice of Award, "Status of Performance Report," and USF Diversity and Equal Opportunity Policy manual to verify that FIO did the following:

- 1) submitted to Treasury an updated scope of work naming and describing any new Centers of Excellence and each new Centers of Excellence project that was selected under the second "Request for Proposal;"
- 2) notified Treasury of any activities undertaken by its Centers of Excellence, as a part of its approved scope of work under the award, that will require a Federal, State, and/or local permit or other permissions;
- 3) submitted to Treasury its initial "Status of Performance Report" form stating objective(s) and one or more performance measures for each Centers of Excellence, together with the corresponding baseline, target, target date, within 90 days of the award or by the end of its first reporting period, whichever comes first;

- 4) reviewed the approved scope of work to determine that activities and costs associated with education of the general public are not included in the approved scope of work;
- 5) submitted to Treasury an updated “Status of Performance Report” form, stating objective(s) and one or more performance measures for the Centers of Excellence’s project selected under the second “Request for Proposal,” together with the corresponding baseline, target, and target date, no later than April 30, 2017; and
- 6) reviewed the USF Diversity and Equal Opportunity Policy and noted that it satisfied Treasury Title IX regulations, 31 CFR Part 28.⁴

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

Program-Specific Terms and Conditions: We verified that FIO complied with the “Program-Specific Terms and Conditions” contained in the Treasury’s terms and conditions for all eleven RESTORE Act awards under the Centers of Excellence. Specifically, we verified that FIO:

- 1) disallowed the following unallowable costs for: (a) construction, including the alteration, repair, or rehabilitation of existing structures, and (b) acquisition of land or interest in land;
- 2) informed Treasury promptly of the following: (i) the name of the Centers of Excellence and the entity selected to administer it, including the names of member organizations if the entity is a consortium, (ii) the DUNS⁵ [Data Universal Numbering System] number of the entity, (iii) the location of the entity, (iv) the discipline or disciplines assigned to the Centers of Excellence, (v) the description of the actual public input process undertaken, including a summary of any comments received and a description of how they were addressed, and (vi) the estimated budget for the Center of Excellence, including the total allocation of funded dollars for the Center of Excellence;
- 3) notified Treasury that FIO anticipated selecting a new entity or consortium to serve as a Centers of Excellence, or making other changes to the initial selection of Centers of Excellence described in the scope of work;
- 4) submitted an annual report to the Gulf Coast Ecosystem Restoration Council (“Council”), with a copy to Treasury, in a form prescribed by the Council that

⁴ Treasury Title IX regulations, 31 CFR Part 28, “Nondiscrimination on the basis of sex in education programs or activities receiving Federal financial assistance.” The purpose of these Title IX regulations is to effectuate Title IX of the Education Amendments of 1972, as amended, which is designed to eliminate discrimination on the basis of sex in any education program or activity receiving Federal financial assistance, whether or not such program or activity is offered or sponsored by an educational institution as defined in these Title IX regulations.

⁵ A Dun & Bradstreet D-U-N-S® number is a unique number used to identify an organization. The Federal government uses the DUNS number to track how Federal money is allocated.

included information on subrecipients, subaward amounts, disciplines addressed, and any other information required by the Council; and

- 5) submitted to Treasury a description of its competitive process for selecting Centers of Excellence to comply with RESTORE Act regulations (31 CFR 34.703(a)).

Based on our review of FIO's project records for all 11 subawards, which contained various documentation related to the Centers of Excellence competitive procurement process and procedures performed, we noted no findings of non-compliance with Treasury's "Program-Specific Terms and Conditions."

FIO's Subrecipient Monitoring Was Insufficient

We tested a sample of 4 of 8 subrecipients that were funded under FIO's 11 Centers of Excellence subawards, totaling \$1,174,763, for compliance with the criteria contained in the Uniform Guidance ("Requirements for Pass-through Entities" 2 CFR §200.331) and Treasury's "Standard Terms and Conditions" (Section C.9 "Financial Requirements—Subawards").

Per 2 CFR §200.331(b), FIO's subrecipients must undergo a risk assessment to "evaluate each subrecipient's risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring." In accordance with 2 CFR §200.331(b), FIO performed the required pre-award risk assessment of the Centers of Excellence, as detailed in FIO's "FLRACEP Procedures Handbook." To assess risk of the subrecipients in our sample, FIO performed the following: (i) ensured that subrecipients submitted conflict of interest forms for all paid participants; (ii) verified that documentation existed of safety procedures for any dive operations, where applicable; (iii) ensured that subrecipients completed an "Audit Certification and Financial Status Questionnaire"; (iv) utilized www.sam.gov to ensure no debarment or other issues existed for subrecipients; and (v) completed a subrecipient information and compliance checklist. Furthermore, FIO and subrecipients in our sample completed the "Federal Funding Accountability and Transparency Act Data Collection Form." FIO also obtained subrecipients' single audit reports, on an annual basis, and reviewed and documented findings for any issues that may affect subrecipients' grants. USF verified that FIO's risk assessment was complete. In accordance with FIO's procedures, the results of the risk assessment performed will determine what terms and conditions to include in the subaward agreements prior to being executed. Based on FIO's risk assessment, no subrecipients were identified as high risk. As such, FIO determined the appropriate monitoring plan for each subrecipient, which was detailed in FIO's subaward agreement and the "FLRACEP Procedures Handbook."

Per 2 CFR §200.331(d), FIO must "monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and terms and conditions of the subawards; and that subaward performance goals are achieved." As part of its subrecipient monitoring, FIO requires the submission of a "Quarterly Report and Invoice Form," which provides an update on each project's progress and a request for expenses incurred for the prior quarter. FIO reviews the "Quarterly Report and Invoice Form" to ensure that (1) projects are on track, (2) appropriate deliverables are submitted, (2) charges are within budget, and necessary, and (3) conflict of interest forms and environmental checklists

are in place. Furthermore, subrecipients are required to attend a webinar on the “Quarterly Report and Invoice Form” due dates and to share updates with FIO, USF, and other grantees. In addition, FIO may elect to conduct site visits. We verified that FIO performed these monitoring procedures for the subrecipients in our sample. FIO also elected to conduct site visits to three of its subrecipients.

We concluded that FIO performed subrecipient risk assessments in accordance with 2 CFR §200.331(b), and as a result, developed a performance monitoring plan for each recipient in accordance with 2 CFR §200.331(d). However, FIO’s “FLRACEP Procedures Handbook” and the monitoring plans for subrecipients in our sample did not ensure that subrecipients who make subawards carry out all the responsibilities of a pass-through entity as described in Treasury’s “Standard Terms and Conditions” as follows.

FIO Did Not Ensure Subrecipients Applied Treasury’s Standard Terms and Conditions to Lower Tier Subawards

FIO did not ensure that subrecipients who make subawards carry out all the responsibilities of a pass-through entity as described in the Uniform Guidance. Specifically, FIO did not request and review lower tier subaward agreements from the subrecipients.

Under Treasury’s “Standard Terms and Conditions,” Section C. Financial Requirements, Number 9(f), “if lower tier subawards are authorized, the recipient must ensure that a subrecipient who makes a subaward applies the terms and conditions of the RESTORE Act award, including any Special Award Conditions, to all lower tier subawards, and that a subrecipient who makes a subaward carries out all the responsibilities of a pass-through entity described in the Uniform Guidance.”

FIO did not verify that flow-through provisions are properly applied to subrecipient subawards. FIO management stated that it believed reliance on the policies adopted by its Centers of Excellence as State and private universities would be sufficient to ensure subrecipients’ subawards apply the appropriate terms and conditions. As a result, FIO does not ensure that subrecipients carry out all of the responsibilities of a pass-through entity as described in the Uniform Guidance as well as satisfied the Treasury’s “Standard Terms and Conditions.”

Without verifying flow-through provisions are adhered to by subrecipients who make subawards, FIO is unable to ensure that funds are used in accordance with Federal requirements and are not mismanaged and/or misappropriated by lower tier subawardees.

RECOMMENDATION

We recommend that the Fiscal Assistant Secretary considers FIO’s need to strengthen its subrecipient monitoring procedures over Centers of Excellence subawards as part of Treasury’s oversight and administration of FIO’s Centers of Excellence award as well as risk assessments required by the Uniform Guidance for future awards.

Management Response

In a written response, Treasury management acknowledged the results of this audit. Management stated that it will consider FIO's need to strengthen its subrecipient monitoring procedures over Centers of Excellence subawards to align with the Uniform Guidance requirements, and pursuant to grants management procedures, will continue to engage in oversight and administration of grant awards, including risk assessment. Management also agreed with FIO's management response and its planned actions and stated that it will review FIO's documents as part of Treasury's administration and oversight of awards. Treasury management's response, in its entirety, is included as appendix 3 of this report.

OIG Comment

Management's response meets the intent of our recommendation.

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



Ira Wayne McConnell
Managing Partner

APPENDIX 1 OBJECTIVE, SCOPE, AND METHODOLOGY

Section 1608 of the *Resources and Ecosystems Sustainability, Tourist Opportunities, and Revived Economies of the Gulf Coast States Act of 2012* (RESTORE Act) authorized the Department of the Treasury (Treasury) Office of Inspector General (OIG) to conduct, supervise, and coordinate audits of projects, programs, and activities funded by the RESTORE Act. In this regard, the Treasury OIG engaged our firm, McConnell & Jones LLP, Certified Public Accountants, to audit Florida Institute of Oceanography's (FIO) RESTORE Act Centers of Excellence Research Grants Program (Centers of Excellence). The objective of this audit was to assess FIO's administration of Centers of Excellence subawards for compliance with the RESTORE Act and applicable Federal statutes, regulations, and award agreements. As part of our audit, we assessed FIO's internal control related to the FIO's administration of RESTORE Act subawards.

To accomplish our objective, we conducted audit work at FIO and the University of South Florida's (USF) offices in St. Petersburg, Florida and at our office in Houston, Texas. The scope of our audit comprised FIO's internal control over its administration of Centers of Excellence subawards covering the period September 1, 2015 through March 31, 2017, which comprised 11 subawards totaling \$3,651,724. We reviewed FIO's general ledger activities to assess compliance with the following compliance requirements as determined in our risk assessment: (1) allowable costs/cost principles, (2) activities allowed or unallowed, (3) cash management, (4) financial and performance reporting, (5) financial management, (6) environmental requirements, (7) records retention requirements, (8) "Special Award Conditions" contained in the Notice of Award; (9) "Program-Specific Terms and Conditions" contained in Treasury's *RESTORE Act Financial Assistance Standard Terms and Conditions and Program-Specific Terms and Conditions*; and (10) subrecipient monitoring. We used a nonstatistical sampling method based on the composition of the population of each of the following compliance requirements: (1) allowable costs/cost principles, (2) activities allowed or unallowed, (3) cash management, (4) financial and performance reporting, and (5) financial management. The population consisted of activities occurring between September 1, 2015 through March 31, 2017, which included \$1,468,031 charged to FIO's Centers of Excellence award. Sample sizes varied for each compliance requirement and were based on guidance contained in the "AICPA Government Auditing Standards/Single Audits Audit Guide." Our sample selections were comprised of the following:

- a sample of 40 items totaling \$245,522 were selected to test (1) allowable costs/cost principles, and (2) activities allowed or unallowed covering payroll, fringe benefits, travel, indirect costs, sub-contracts, and tuition expenses;
- a sample of 15 drawdowns totaling \$525,590 from a population of 42 drawdowns (\$1,467,621) were selected to test cash management activities;
- sample of 2 financial reports and performance reports were selected to cover the first and last reports submitted to the grantor [Treasury] within the 3 semiannual reporting periods within the audit scope;
- summary revenues and expenses (\$1,270,883) were reviewed to ensure amounts agreed to the control totals/ending balances per the general ledger for the period September 1, 2015 through March 31, 2017 to test financial management compliance requirements;
- all 11 subaward agreements were reviewed for compliance with environmental requirements of Uniform Guidance and Treasury's "Standard Terms and Conditions;"

- FIO’s policy and procedures were reviewed for compliance with records retention requirements of Uniform Guidance and Treasury’s “Standard Terms and Conditions;”
- all 11 subaward agreements were reviewed to determine compliance with the “Special Award Conditions;”
- FIO’s project records for all 11 subawards were reviewed to determine compliance with the “Program-Specific Terms and Conditions;” and
- a sample of 4 of 8 entities under 11 Centers of Excellence were selected (totaling \$1,174,763) to test subrecipient monitoring.

We performed our fieldwork between May and September 2017, which comprised the following steps.

- We reviewed applicable Federal laws, regulations, and procedures, relating to Treasury’s RESTORE Act grant program, including:
 - RESTORE Act requirements;
 - RESTORE Act Financial Assistance Standard Terms and Conditions and Program-Specific Terms and Conditions dated January 2015 and amended October 2016;
 - Treasury Final Rule for RESTORE Act and Preamble, 31 CFR Part 34, effective February 12, 2016;
 - Office of Management and Budget’s Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards, 2 CFR Part 200;
 - Treasury RESTORE Act Centers of Excellence Research Grants Program Guidelines and Application to Receive Federal Financial Assistance, August 2014;
 - Treasury RESTORE Act Compliance Technical Assistance Written Policies & Procedure Requirements in 2 CFR 200;
 - Government Accountability Office’s *Standards for Internal Control in the Federal Government*, September 10, 2014; and
 - Florida RESTORE Act “Centers of Excellence Program” Notice of Award issued August 20, 2015 and Amendment dated January 11, 2017.
- We reviewed FIO and USF websites and key documents, including:
 - Florida RESTORE Act Centers of Excellence Program (FLRACEP) Rules & Policies;
 - USF Sponsored Research Administration of Subawards Policy;
 - USF Checklist for Subrecipients;
 - FLRACEP Procedures Handbook;
 - FLRACEP Competitive Selection Files;
 - Payroll, non-payroll, and travel documentation;
 - Indirect Cost Rate Agreement;
 - FIO Organizational Charts;
 - Federal Financial Report (SF-425) and Performance Progress Report (SF-PPR) files for the periods ended March 31, 2016 and March 31, 2017; and
 - FIO Annual Report for fiscal year 2015-2016 (July 1, 2015 - June 30, 2016).
- We interviewed key officials to gain an understanding of FIO’s use of the Federally-

awarded funds, including:

- FIO Director;
- FIO Assistant Director;
- FIO Program Director;
- USF Director, Sponsored Research;
- USF Assistant Director, Sponsored Research;
- USF Grant Compliance & Financial Analyst, Sponsored Research;
- USF Grant Financial Administration Manager, Sponsored Research;
- USF Administrator, Sponsored Research;
- USF Grant Financial Administrator, Sponsored Research;
- USF Assistant Director, University Audit and Compliance; and
- USF Associate Director, University Audit and Compliance.

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

APPENDIX 2
FLORIDA INSTITUTE OF OCEANOGRAPHY MANAGEMENT RESPONSE



FLORIDA INSTITUTE OF OCEANOGRAPHY
830 First Street South
St. Petersburg, Florida 33701
Telephone: (727) 553-1100
Fax: (727) 553-1109



September 6, 2018

Ms. Cecilia K. Howland
Director, Gulf Coast Restoration Audits
Office of the Inspector General
Department of the Treasury
Washington, D.C. 20220

RE: Discussion Draft Audit Report: *Florida Institute of Oceanography's Center of Excellence Research Grants Program*

Dear Ms. Howland,

Thank you for the opportunity to review the discussion draft audit report of the Florida Institute of Oceanography's (FIO) Centers of Excellence Research Grants Program. We commend McConnell & Jones LLP for their thoroughness and professionalism throughout this process. FIO does not dispute the audit firm's finding relative to subrecipient monitoring, and has taken the following corrective action:

- Program Management Team approval to update programmatic documents to incorporate additional, lower-tier sub-recipient monitoring requirements aligned with audit findings
 - This includes the program rules and policies, standard terms and conditions, subagreement templates, and others as appropriate
 - These revisions will be completed by Dec 31, 2018 and approved by the Management Team at their June 2019 meeting;
- Increased quarterly fiscal reporting requirements for sub-recipients which requires inclusion of the back-up documentation for reported expenses;
- Staff training in federal grants management and monitoring.

Please feel free to contact me for additional detail about these efforts. We look forward to working with you to ensure the successful execution of this important research grants program.

Sincerely,

Dr. Philip A. Kramer
Director, Florida Institute of Oceanography
Principle Investigator, Florida RESTORE Act Centers of Excellence Program

Cc Wayne McConnell, Johnson Olatunji, Nicole Comisky; Eleanor Kang, Michael Levin, Amy Alspach Rollie, Virginia Kalil; Frederic Skinner; Cam Ngo; Elizabeth Fetherston-Resch

APPENDIX 3
TREASURY MANAGEMENT RESPONSE



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

ASSISTANT SECRETARY

OCT 17 2018

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

Dear Mr. McConnell,

Thank you for the opportunity to review and comment on McConnell & Jones LLP's draft report (report), prepared on behalf of the Office of Inspector General, titled *Florida Institute of Oceanography's Centers of Excellence Research Grants Program*. The audit objective was to assess the Florida Institute of Oceanography's (FIO) administration of Centers of Excellence subawards for compliance with the RESTORE Act and applicable Federal statutes, regulations and award agreements.


The Department of the Treasury (Treasury) is pleased that the report concluded that FIO complied with applicable provisions of the Office of Management and Budget's Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, 2 CFR Part 200 (Uniform Guidance), and Treasury's Notice of Award and RESTORE Act Financial Assistance Standard Terms and Conditions, in FIO's administration of its Centers of Excellence subawards. We note that the report found no matters in FIO's administration of its subawards related to areas of compliance with allowable costs and cost principles; activities allowed or unallowed; cash management; financial and performance reporting; financial management; environmental requirements; records retention requirements; "Special Award Conditions" contained in the Notice of Award; and "Program-Specific Terms and Conditions" contained in Treasury's RESTORE Act Financial Assistance Standard Terms and Conditions and Program Specific Terms and Conditions.

Treasury will consider FIO's need to strengthen its subrecipient monitoring procedures over Centers of Excellence subawards to align with the Uniform Guidance requirements, and pursuant to grants management procedures, will continue to engage in oversight and administration of grant awards, including risk assessment. Treasury concurs with FIO's response and its planned actions. Treasury will review the documents as part of our administration and oversight of awards.

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

APPENDIX 3
TREASURY MANAGEMENT RESPONSE (CONT'D)

Sincerely,



David A. Lebryk
Fiscal Assistant Secretary

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

**APPENDIX 4
REPORT DISTRIBUTION**

Department of the Treasury

Counselor to the Secretary

Under Secretary for Domestic Finance

Fiscal Assistant Secretary

Deputy Assistant Secretary, Fiscal Operations and Policy

Director, Office of Grants and Asset Management

Director, Office of Gulf Coast Restoration

Office of the Deputy Chief Financial Officer, Risk and Control
Group

Office of Strategic Planning and Performance Improvement

Office of Management and Budget

OIG Budget Examiner

State of Florida

Director, Florida Institute of Oceanography

Auditor General, State of Florida

United States Senate

Committee on Finance

Committee on Homeland Security and Governmental Affairs

United States House of Representatives

Committee on Oversight and Government Reform

Committee on Ways and Means



Treasury OIG Website

Access Treasury OIG reports and other information online:

<http://www.treasury.gov/about/organizational-structure/ig/Pages/default.aspx>

Report Waste, Fraud, and Abuse

OIG Hotline for Treasury Programs and Operations – Call toll free: 1-800-359-3898

Gulf Coast Restoration Hotline – Call toll free: 1-855-584.GULF (4853)

Email: Hotline@oig.treas.gov

Submit a complaint using our online form:

<https://www.treasury.gov/about/organizational-structure/ig/Pages/OigOnlineHotlineForm.aspx>