



Audit Report



OIG-19-045

GULF COAST RESTORATION

Audit of Subsea Systems Institute Center of
Excellence's Use of RESTORE Act Funds

September 11, 2019

Office of
Inspector General

Department of the Treasury

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Abbreviations

Centers of Excellence effort report	Centers of Excellence Research Grants Program <i>Effort Form Status</i>
GAO	Government Accountability Office
NASA	National Aeronautics and Space Administration
PI	Principal Investigator
RESTORE Act	<i>Resources and Ecosystems Sustainability, Tourist Opportunities, and Revived Economies of the Gulf Coast States Act of 2012</i>
SSI	Subsea Systems Institute Center of Excellence
Terms and Conditions	Treasury - <i>RESTORE Act Financial Assistance Standard Terms and Conditions and Program-Specific Terms and Conditions</i>
TCEQ	Texas Commission on Environmental Quality
Treasury	Department of the Treasury
Trust Fund	Gulf Coast Restoration Trust Fund
UH	University of Houston
Uniform Guidance	<i>Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (2 CFR Part 200)</i>

*The Department of the Treasury
Office of Inspector General*

September 11, 2019

David A. Lebryk
Fiscal Assistant Secretary

This report presents the results of our audit of Subsea Systems Institute Center of Excellence's (SSI) use of funds awarded under the *Resources and Ecosystems Sustainability, Tourist Opportunities, and Revived Economies of the Gulf Coast States Act of 2012* (RESTORE Act)¹ Centers of Excellence Research Grants Program (Centers of Excellence). We performed this audit as part of our ongoing oversight of programs, projects, and activities funded under the RESTORE Act. The objective of our audit was to assess whether SSI used RESTORE Act funds in compliance with applicable Federal statutes, regulations, and its Center of Excellence subaward agreement with the Texas Commission on Environmental Quality (TCEQ).² The scope of our audit was comprised of \$344,457 of costs invoiced by SSI to TCEQ for the period September 2015 through August 2016. Appendix 1 provides more detail of our audit objective, scope, and methodology.

Results in Brief

In brief, we determined that only \$320,622 of the \$344,457 of costs invoiced for the period of September 2015 through August 2016 were allowable³ in accordance with SSI's subaward agreement with TCEQ. The remaining \$23,835 of unallowable

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

² The TCEQ/SSI subaward agreement is under the Centers of Excellence grant awarded by the Department of the Treasury to TCEQ on June 9, 2015.

³ Uniform Guidance §200.403(a) and (b) defines allowable costs as follows: "Except where otherwise authorized by statute, costs must meet the following general criteria in order to be allowable under Federal awards: (a) be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles (b) conform to any limitations or exclusions set forth in these principles or in the Federal award as to types or amount of cost items." See Uniform Guidance §200.403(c)-(g) for other general criteria.

costs were subsequently corrected. That is, TCEQ rejected one invoice that contained \$11,213 of unallowable pre-award costs. SSI also adjusted a second invoice to reduce estimated labor costs by \$12,622 to reflect actual labor costs for the month of August 2016. After such corrections, we determined that SSI used the remaining \$320,622 of allowable funds in compliance with applicable requirements of Office of Management and Budget's *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 2 CFR Part 200 (Uniform Guidance), and its subaward agreement with TCEQ, which incorporated the Department of the Treasury's (Treasury) *RESTORE Act Financial Assistance Standard Terms and Conditions and Program-Specific Terms and Conditions* (Terms and Conditions).

While we found no matters in SSI's use of RESTORE Act funds, we noted a deficiency⁴ in SSI's certification of the *Effort Form Status* (effort report). Specifically, SSI reviewed and certified effort reports beyond the 180 day deadline established by the University of Houston's (UH) guidelines. As described in this report, UH provides accounting and payroll services to SSI. Accordingly, we recommend that the Fiscal Assistant Secretary considers the deficiencies identified in SSI's effort reporting as part of its oversight of TCEQ's current and future subawards to SSI, as required by the Uniform Guidance.

As part of our reporting process, we provided SSI management an opportunity to comment on a draft of this report. In a written response, SSI management agreed with the report's finding regarding late effort certification and the conclusion that unallowable pre-award labor costs and credited labor expenses were rectified, in keeping with UH and federal guidelines. SSI management also reiterated the specifics of the report's results related to the pre-award labor costs and credited labor expenses. As for the matter of late effort certification, SSI management responded that the interface issues between UH's payroll system

⁴ Government Accountability Office (GAO), Government Auditing Standards, 6.21, "A deficiency in operation exists when a properly designed control does not operate as designed, or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively." (GAO-12-331G; December 2011).

(PeopleSoft) and its Effort Reporting System (MAXIMUS)⁵, as noted in this report, have been rectified and effort forms were available for certification in accordance with the UH effort reporting guidelines and Uniform Guidance. SSI management also noted that UH created a new position with a dedicated staff to oversee effort reporting. The staff is responsible for managing the system interfaces as well as generating reports in a timely manner for certification and verification that the charges, and any related corrections, are accurate, allowable and properly allocated. It should be noted that SSI management's corrective measures have not been confirmed as part of this audit. SSI management's full response is provided as appendix 2.

After incorporating SSI's response, we provided a draft of this report to Treasury management for comment. In a written response, Treasury management agreed to consider the effort reporting deficiencies identified as part of Treasury's oversight of TCEQ's current and future subawards to SSI. Treasury management also acknowledged UH's response and its description of actions taken intended to address the certification of effort report forms. While Treasury does not specify the manner in which a recipient must monitor subrecipients, Treasury will work with TCEQ to facilitate adequate monitoring of SSI. Treasury management's response in its entirety is provided as appendix 3.

Background

RESTORE Act

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* (Clean Water Act).⁶ Additional

⁵ UH implemented the MAXIMUS web-based Effort Reporting System in fiscal year 2015. MAXIMUS interfaces with the UH accounting and payroll systems to collect the necessary data for completing the effort reporting process.

⁶ 33 U.S.C. §1251 et seq.

details of the RESTORE Act and Trust Fund are provided in appendix 4.

Under Sections 1603 and 1605 of the RESTORE Act, 2.5 percent of funds plus interest earned on the Trust Fund will be made available to the Gulf Coast States in equal shares for establishing Centers of Excellence to conduct research in the Gulf Coast Region.⁷ Each Center of Excellence must focus on science, technology, and monitoring in at least one of the following five 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.

For each of the five Gulf Coast States, the RESTORE Act designates the entity, task force, or agency responsible for carrying out that State's duties and responsibilities. The designated entity for the State of Texas is the Office of the Governor or an appointee of the Office of the Governor. In 2013, the Governor of Texas appointed one of the three TCEQ Commissioners to act as the State's representative to carry out these duties and responsibilities.

In a press release dated January 16, 2015,⁸ the designated TCEQ Commissioner announced the selections of Texas OneGulf, led by Texas A&M University-Corpus Christi, and SSI, led by the UH, as the two Centers of Excellence for the State of Texas. On June 9, 2015, Treasury issued a notice of award granting TCEQ \$4,036,238 to fund each Center of Excellence. The award was

⁷ Section 1603(1)(C)(34) of the RESTORE Act defines the term 'Gulf Coast State' to mean any of the States of Alabama, Florida, Louisiana, Mississippi, and Texas.

⁸ TCEQ, press release, "TCEQ Commissioner Announces Gulf Coast Centers of Excellence Consortia" (January 16, 2015), <https://www.tceq.texas.gov/assets/public/media/news-releases/01-15consortia.pdf>, accessed (November 1, 2017).

split equally between Texas OneGulf and SSI, with each receiving \$2,018,119.⁹

Subsea Systems Institute Center of Excellence

SSI is a consortium created by academic and Federal partners. UH acts as the lead institution and is complemented by Rice University and the National Aeronautics and Space Administration's (NASA) Johnson Space Center.

Located on the UH campus in Houston, Texas, SSI is housed within UH's Department of Energy. SSI is staffed by a Director and a Program Manager who provide research oversight on sponsored projects. As the lead institution, UH provides accounting and payroll services. Additionally, UH's Office of Contracts and Grants provides support staff for SSI's grant administration services such as budgeting, invoicing, and subrecipient awarding and monitoring.

SSI maintains academic partnerships with Lone Star Community College, Texas Southern University, and Houston Community College. SSI also collaborates with other organizations such as the Society of Petroleum Engineers and the Center for Offshore Safety. SSI leverages these relationships to lead research and develop training and educational programs to accelerate energy related workforce development for the State of Texas. SSI concentrates its efforts on the discipline of offshore energy development, including the improvement of sustainable and safe development of energy resources in the Gulf of Mexico.

SSI's vision and objectives are to:

- support economic and workforce development in the State of Texas through collaboration between research institutions, colleges, and industry;
- (positively) impact offshore safety by bringing together NASA, industry, and academic expertise to develop best

⁹ On October 31, 2017, Treasury amended its award to TCEQ to provide additional funding of approximately \$2.2 million. Of this amount, TCEQ allocated \$2 million equally between Texas OneGulf and SSI for general operations and project grants. The remaining \$200,000 was retained by TCEQ for the oversight of the Texas Centers of Excellence program.

available technology and risk mitigation practices to the Gulf of Mexico;

- provide unbiased third party validation and establishment of best practices to build public trust in the sustainable and safe offshore drilling and production operations in the Gulf of Mexico region and beyond; and
- attract and retain talent for jobs and investments in the local, state and national economy and to reinforce Houston's and the State of Texas's reputations as the "Energy Capital of the World."

In September 2015, SSI consortium members appointed a Director and issued a "Competitive Research Program Request for Applications" for Center of Excellence projects and activities. SSI also created a volunteer Technical Advisory Committee, comprised of Principal Investigators (PI) from UH, Rice University, and NASA, as well as industry advisors and subject matter experts.¹⁰

On October 5, 2015, TCEQ approved funding of \$515,764 to support SSI's "General Operations of the Center of Excellence." From the 16 competitive project proposals received, SSI's Technical Advisory Committee reviewed and recommended 4 projects to submit to TCEQ for approval. Between May and June 2016, TCEQ approved \$728,153 to fund the following recommended projects: (1) the "Remote High Power for Subsea Emergencies" (\$300,000); (2) the "A Model-Based Real-Time Annular Blowout Preventer Monitoring System" (\$211,285); (3) the "Marine Drilling Hazard Mitigation and Production Facility Monitoring Using Seismic and Sonar Imaging" (\$124,868); and (4) the "Autonomous Underwater Vehicles for Subsea Energy Applications" (\$92,000). Of the total \$1,243,917 approved for

¹⁰ The title of Principal Investigator (PI) identifies the individual primarily responsible for the conduct of a project. This responsibility includes the intellectual conduct of the project, fiscal accountability, administrative components and the projects' compliance to relevant policies and regulations.

use, \$344,457¹¹ was invoiced for cost incurred for the period of September 2015 through August 2016.

Audit Results

We found that only \$320,622 of the \$344,457 of costs invoiced for the period of September 2015 through August 2016 were allowable in accordance with SSI's subaward agreement with TCEQ. The remaining \$23,835 of unallowable costs were subsequently corrected. That is, TCEQ rejected one invoice that contained \$11,213 of unallowable pre-award costs. SSI also adjusted a second invoice to reduce estimated labor costs by \$12,622 to reflect the actual labor costs for the month of August 2016. After such corrections, we determined that SSI used the remaining \$320,622 of allowable funds in compliance with applicable requirements of Uniform Guidance and SSI's subaward agreement with TCEQ, which incorporated Treasury's RESTORE Act Terms and Conditions. We confirmed that SSI accomplished the activities reported as completed in its performance progress reports.

The \$320,622 of allowable costs for the period September 2015 through August 2016 were comprised of salaries (\$174,238), indirect costs (\$107,584), fringe benefits (\$38,749), and supplies (\$51). We traced these costs from UH's general ledger to SSI's payroll records and supporting invoices.¹² We verified that indirect and fringe benefits costs were calculated and allocated correctly in accordance with UH's "Indirect Cost Rate Agreement" with the Department of Health and Human Services. We also verified the adjustments to correct the \$23,835 of unallowable costs as follows.

¹¹ A total of \$344,457 was invoiced for costs associated with the "General Operations of the Center of Excellence" (\$248,400), the "Remote High Power for Subsea Emergencies" (\$25,774), and the "Marine Drilling Hazard Mitigation and Production Facility Monitoring Using Seismic and Sonar Imaging" (\$70,283) projects. SSI had not expended funds associated with the "A Model-Based Real-Time Annular Blowout Preventer Monitoring System" and "Autonomous Underwater Vehicles for Subsea Energy Applications" projects between September 2015 and August 2016, and therefore, were not within the scope of this audit.

¹² UH uses Oracle's PeopleSoft software for financial accounting, reporting, and human resource management.

Unallowable Pre-award Labor Costs

In September 2016, TCEQ rejected a \$22,092 invoice for including \$11,213 of unallowable pre-award labor costs related to SSI's *Remote High Power for Subsea Emergencies* project. Under the subaward agreement, TCEQ will not fund grant activities performed by a sub-awardee prior to the effective date of the subaward unless specifically authorized. In the case of SSI's pre-award costs, TCEQ did not authorize them. We verified that SSI's resubmitted invoice was properly adjusted to reflect \$10,879 of allowable and properly allocated labor costs.

Credited Labor Costs

In September 2016, under the *Marine Drilling Hazard Mitigation and Production Facility Monitoring using Seismic and Sonar Imaging* project, SSI invoiced for the labor costs of one Researcher and one Research Scientist at an estimated 100 percent level of effort for the month of August 2016. Uniform Guidance §200.430(i)(1)(viii) allows for the invoicing of labor costs based on predetermined budget estimates, provided that "the non-Federal entity's system of internal controls includes processes to review after-the-fact interim charges made to Federal awards based on budget estimates. All necessary adjustment must be made such that the final amount charged to the Federal award is accurate, allowable, and properly allocated."

After invoicing for the August 2016 labor costs, SSI found that the actual level of effort was significantly less than the original estimate invoiced to TCEQ (20 percent and 50 percent for each individual respectively). In November 2016, SSI submitted a credit invoice to TCEQ to correct the excess labor charged to the project. We confirmed that the credit invoice totaling \$12,622 reflected appropriate credits due and was processed timely. We also confirmed that the certified effort reports for August 2016 supported the actual level of effort expended.

Although we found no matters in SSI's use of RESTORE Act funds, we noted deficiencies in SSI's timeliness in certifying effort reports.

Finding

Effort Reports Were Not Certified Timely

We found that SSI was not timely in certifying effort reports as required by UH's *Effort Reporting Guidelines*. The guidelines require employees to certify their effort reports in accordance with a quarterly schedule. The guidelines also require all effort reports to be reviewed and certified by the project's PI no later than 180 days from the end of the quarterly reporting period and implements applicable provisions of the Uniform Guidance, §200.430 *Compensation – Personal Services*.

For the period September 2015 through August 2016, we reviewed all 11 effort reports that SSI was required to certify. We found that final certifications for 10 of the 11 effort reports, (91 percent), supporting \$175,762 in payroll and fringe benefits costs, were not completed within the required 180 day period. Moreover, five of these effort reports were certified approximately one to two years late.

UH's *Effort Reporting Guidelines* require the following:

- As a recipient of external funding, UH is required to demonstrate that the payment of salary and wages from external funds is consistent with records which accurately reflect the work performed.
- UH's effort reporting system tracks after-the-fact total activities, not to exceed 100 percent of the compensated activities covered by the Institutional Base Salary, for all employees working on Federal and other sponsored projects. This system demonstrates to external sponsors that funding expended on the designated portion of an individual's salary charged to a funded project is no greater than the individual's effort spent on that project.
- The PI must confirm for themselves and all others working on their project that salaries charged to sponsored projects are consistent with the effort that was contributed.
- UH issues effort reports on a quarterly basis for all PI and other employees paid on sponsored projects or contributing effort towards it.

-
- Within 180 days after the close of the reporting period, the PI has to review and certify effort forms. During this time, if there are any reallocations, the PI must work with the business office to make the necessary changes before certification can take place.

Additionally, Uniform Guidance §200.430(i)(1) requires that “(1) charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must: (i) be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated; and (ii) be incorporated into the official records of the non-Federal entity.”

According to the Executive Director and the Assistant Director of UH’s Office of Contract and Grants, UH began experiencing problems with the interface between PeopleSoft and MAXIMUS in late fiscal year 2016 and early fiscal year 2017.¹³ As a result, the effort reports were incorrect and the normal online reviews and effort report certification process was put on hold until the errors could be identified and corrected. At the same time, employee turnover caused further delays.

A prolonged time period between the end of the effort reporting period and certification may decrease the accuracy of Federal grant financial and performance reporting. Untimely effort reporting certification can also delay invoice adjustments which result from variances in invoiced labor costs based on budget estimates and after-the-fact certified costs. Significant delays in certification such as those noted above can also jeopardize and prevent a Federal or pass-through entity from completing the timely closeout of awards as required under Uniform Guidance §200.343 – *Closeout*.

¹³ UH’s fiscal year is September 1 through August 31 of the following calendar year.

Recommendation

We recommend that the Fiscal Assistant Secretary considers the deficiencies identified in SSI's effort reporting as part of its oversight of TCEQ's current and future subawards to SSI, as required by the Uniform Guidance.

Treasury Management Response

Management stated that it will consider the effort reporting deficiencies identified as part of its oversight of TCEQ's current and future subawards to SSI, as required by the Uniform Guidance.

Office of Inspector General 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. Major contributors to this report are listed in appendix 5. A distribution list for this report is provided as appendix 6. If you have any questions, you may contact me at (202) 927-8782 or Jeffrey Hawkins, Audit Manager at (202) 927-9648.

/s/

Cecilia K. Howland
Director, Financial Assistance and International Programs Audit

As part of our ongoing oversight of programs, projects, and activities funded under the *Resources and Ecosystems Sustainability, Tourist Opportunities, and Revived Economies of the Gulf Coast States Act of 2012* (RESTORE Act), we initiated an audit of Subsea Systems Institute Center of Excellence's (SSI) use of funds awarded under the RESTORE Act Centers of Excellence Research Grants Program (Centers of Excellence). The objective of our audit was to assess whether SSI used RESTORE Act funds in compliance with applicable Federal statutes, regulations, and its Center of Excellence subaward agreement with the Texas Commission on Environmental Quality (TCEQ).

As of June 2016, TCEQ approved \$1,243,917 to fund four SSI recommended projects and SSI's administrative costs. The scope of our audit was comprised of \$344,457 of costs invoiced by SSI to TCEQ under its subaward agreement with TCEQ for the period September 2015 through August 2016. Invoiced costs consisted of salaries (\$187,951), indirect costs (\$115,582), fringe benefits (\$40,873), and supplies (\$51). As part of our audit, we reviewed controls over accounting, payroll, billing, and effort reporting relevant to our audit objective.

To meet our audit objective, we performed the following procedures.

- We reviewed applicable Federal laws, regulations, and guidelines as follows:
 - RESTORE Act, Pub. L. 112-141, July 6, 2012;
 - Office of Management and Budget's, *Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Awards*, 2 CFR Part 200, December 26, 2014 (Uniform Guidance);
 - Government Accountability Office's *Standards for Internal Control in the Federal Government*, September 10, 2014;
 - Department of the Treasury (Treasury), *Regulations for the Gulf Coast Restoration Trust Fund Interim Final Rule*, 31 CFR Part 34, October 14, 2014 and *Regulations for the Gulf Coast Restoration Trust Fund Final Rule*, 31 CFR Part 34, February 12, 2016;

- Treasury, *RESTORE Act Centers of Excellence Research Grants Program Guidelines and Application to Receive Federal Financial Assistance*, November 2014; and
 - Treasury, *RESTORE Act Financial Assistance Standard Terms and Conditions and Program-Specific Terms and Conditions*, January 2015.
- We reviewed the following award agreements:
 - Treasury and TCEQ award agreement, “RESTORE Act Centers of Excellence,” executed June 9, 2015;
 - TCEQ and SSI subaward agreement, “RESTORE Center of Excellence” executed August 1, 2015;
 - Proposal for Grant Activities No. #1-582-15-57794, “General Operations of the Center of Excellence,” issued October 5, 2015;
 - Proposal for Grant Activities No. #2-582-16-62404, “Remote High Power for Subsea Emergencies,” issued May 3, 2016;
 - Proposal for Grant Activities No. #3-582-16-62406, “A Model-Based Real-Time Annular BOP Monitoring System,” issued May 3, 2016;
 - Proposal for Grant Activities No. #4-582-16-62408, “Marine Drilling Hazard Mitigation and Production Facility Monitoring using Seismic and Sonar Imaging,” issued May 3, 2016; and
 - Proposal for Grant Activities No. #5-582-16-62412, “Autonomous Underwater Vehicles for Subsea Energy Applications,” issued June 8, 2016.
 - We reviewed University of Houston’s (UH) policies, procedures and documents as follows:
 - UH’s university-wide administrative policies and procedures contained on its online portals (1) *System Administrative Memoranda*, and (2) *Manual for Administrative Policies and Procedures*;
 - Office of Contracts and Grants policies, procedures and workflow documents including:
 - “Effort Reporting Guidelines;”

- “Sponsored Research Invoice and Financial Reporting Checklist;” and
 - “Invoice and Financial Reporting Procedure.”
- We interviewed the following officials to gain an understanding of SSI’s structure and relationship with UH:
 - Director, SSI;
 - Principal Investigators with UH, Rice University, and National Aeronautics and Space Administration;
 - UH Office of Contracts and Grants;
 - Executive Director;
 - Assistant Director of Contracts and Grants;
 - Assistant Director of Research Financial Services;
 - Senior Financial Analyst; and
 - UH Department of Energy Business Administrator.
- We performed walkthroughs of controls over UH’s processes for accounting, payroll, billing, and effort reporting for SSI timekeeping with the UH Office of Contracts and Grants personnel.
- We tested 100 percent of the costs invoiced (\$344,457) for the period of September 2015 through August 2016 as follows:
 - reconciled all costs between SSI’s monthly invoices, “Financial Status Reports,” and UH’s PeopleSoft general ledger to verify that costs were recorded accurately;
 - reconciled labor costs (\$187,951) between SSI’s invoices, “Financial Status Reports,” and “Research Time & Effort” reports in UH’s general ledger (PeopleSoft), and the certified *Effort Form Status* (MAXIMUS);
 - reviewed SSI’s semiannual performance progress reports to confirm that SSI accurately reported on the program activities established in its subaward agreement with TCEQ;
 - verified that fringe benefits costs (\$40,873) were recorded and allocated in accordance to UH’s “Indirect

Cost Rate Agreement” with the Department of Health and Human Services;

- verified that SSI’s indirect costs (\$115,582) were calculated at the 50.5 percent rate and allocated in accordance to UH’s “Indirect Cost Rate Agreement”;
- verified supply costs (\$51) to supporting invoices to determine if costs were charged at actual prices;
- evaluated all costs for allowability as required in Uniform Guidance *Subpart E- Cost Principles* and SSI’s subaward agreement with TCEQ;
- reviewed SSI’s invoice rejected by TCEQ for unallowed pre-award costs and SSI’s adjusted invoice to verify that only actual and allowable costs were included and properly calculated; and
- reviewed SSI’s credit invoice that reduced estimated labor costs to verify that final actual labor costs were supported and properly calculated.

We performed our audit fieldwork from June 2016 through October 2018 at the UH’s offices in Houston, Texas, and at the Treasury Office of Inspector General office in Washington, D.C.

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.

UNIVERSITY of
HOUSTON

Division of Research

July 1, 2019

Cecilia Howland
Director Financial Assistance and International Programs
U.S. Department of the Treasury
Office of the Inspector General
875 15th Street, NW
Washington, DC 20005

RE: Audit Report: Subsea Systems Institute Center of Excellence's Use of RESTORE Act Funds.

Greetings Ms. Howland,

Thank you for the opportunity to review the draft Audit Report of the Subsea Systems Institute (SSI) Center of Excellence's use of RESTORE Act Funds. Below we have provided responses to both the audit results and the finding. SSI Management is in agreement with the report's finding regarding late effort certification and would like to provide additional feedback on the audit results. Management agrees with the report's conclusion that unallowable pre-award labor costs and credited labor expenses were rectified appropriately, in keeping with the university and federal guidelines.

Audit Results

1. **Unallowable Pre-Award Labor Cost:** Project 582-15-57593 (G111525); invoice #4 for the period 8/1/2016 – 8/31/2016, contained payroll expenses for period 2/1/2016 – 4/30/2016, a period 90 days before the Notice to Commence (NTC).

UH Response:

The research project under the UH award was proposed to commence on October 15, 2015. The proposal was submitted to the Texas Commission on Environmental Quality (TCEQ) for review and was approved on February 2, 2016 in the form of an executed Proposal for Grant Activities (PGA). Subsequently, the University of Houston (UH) received the

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executed Notice to Commence effective May 3, 2016. UH included payroll expenses for a period that was 90 days prior to the NTC date without prior approval on the August invoice. The August invoice was submitted to TCEQ for payment on September 16, 2016. TCEQ promptly reviewed and returned the invoice unpaid on September 23, 2016. UH promptly revised the invoice to remove the payroll expenses and resubmitted it on September 26, 2016. The expenditures were never paid by TCEQ. This demonstrates the high quality of monitoring and prompt responses provided by TCEQ throughout the project and on the award overall.

2. **Credited Labor Cost:** Project 582-15-57593 (G111526); invoice #4 for the period 8/1/2016 – 8/31/2016 contained full time payroll of two researchers for August 2016 which was later reduced to half time and the credit issued on invoice #6.

UH Response:

The monthly invoice submitted by UH to TCEQ for the period in question was based on official payroll expenses posted to the University general ledger for the month invoiced. According to UH policy and generally acceptable accounting standards, the university has 90 days to make corrections to the financial records. During the September monthly verification, it was determined that the payroll was incorrect. The individuals were to have worked half time on the grant, but the full salary was posted instead. The correction was completed within the time allowed and the credit posted in the October 2016 period. The resulting credit due to the payroll correction was recorded on invoice #6 and submitted to TCEQ on November 14, 2016. This is the standard business process for performing such an expenditure correction.

Finding

1. **Effort Reports were not Certified Timely:** We found that final certifications for 10 of the 11 effort reports, (91 percent), supporting \$175,762 in payroll and fringe benefits costs, were not completed within the required 180-day period. Moreover, five of these effort reports were certified approximately one to two years late.

UH Response:

UH uses a third party software (MAXIMUS) for effort certification. During the period under review there were problems with the interface between UH's payroll system (PeopleSoft) and its Effort Reporting System. This

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Appendix 2
Subsea Systems Institute Management Response

has since been rectified and effort forms are now available for certification in accordance with the UH effort reporting guidelines and in keeping with the Uniform Guidance 200.430(i)(1). One of the measures taken was the creation of a new position with a dedicated staff to oversee effort reporting. The staff is responsible for managing the system interfaces as well as generating reports in a timely manner for certification and verification that the charges (and any corrections) are accurate, allowable, and properly allocated.

We look forward to continuing our work with TCEQ and the U.S. Department of the Treasury to ensure that the implementation of the RESTORE Act is successful and a benefit to the Subsea Systems Institute Center of Excellence at the University of Houston.

Sincerely



Beverly Rymer
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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

ASSISTANT SECRETARY

AUG 09 2019

Ms. Cecilia K. Howland
Director, Financial Assistance and International Program Audits
Office of Inspector General
Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Dear Ms. Howland,

Thank you for the opportunity to review and comment on the draft Office of Inspector General (OIG) report titled, *Subsea Systems Institute Center of Excellence's Use of RESTORE Act Funds* (report). The audit objective was to assess whether Subsea Systems Institute (SSI) at the University of Houston used RESTORE Act funds in compliance with applicable Federal statutes, regulations, and its Center of Excellence subaward agreement with the Texas Commission on Environmental Quality (TCEQ).

The report finds that \$320,622 of the \$344,457 of costs invoiced during the audit period were allowable in accordance with SSI's subaward agreement with TCEQ, and the remaining \$23,835 of unallowable costs were subsequently corrected. The report also finds that the \$320,622 of allowable funds invoiced were used in compliance with applicable requirements 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 its subaward agreement with TCEQ, which incorporated the Department of the Treasury's *RESTORE Act Financial Assistance Standard Terms and Conditions and Program-Specific Terms and Conditions*.

Regarding SSI's effort reports, Treasury will consider the deficiencies identified as part of Treasury's oversight of TCEQ's current and future subawards to SSI, as required by the Uniform Guidance. Treasury acknowledges the University of Houston's response and its description of actions intended to address the certification of effort report forms. While Treasury does not specify the manner in which a recipient must monitor subrecipients, Treasury will work with TCEQ to facilitate adequate monitoring of its subrecipient, SSI.

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

Sincerely,

A handwritten signature in black ink, appearing to read "D. Lebryk".

David A. Lebryk
Fiscal Assistant Secretary

The *Resources and Ecosystems Sustainability, Tourist Opportunities, and Revived Economies of the Gulf Coast States Act of 2012* (RESTORE Act) established the Gulf Coast Restoration Trust Fund (Trust Fund) within the Department of the Treasury (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 comprise 80 percent of all civil and administrative penalties related to Deepwater Horizon paid under the Federal Water Pollution Control Act (Clean Water Act) after July 6, 2012.

Trust Fund Sources

Approximately \$5.3 billion has been designated for the Trust Fund resulting from settlement agreements between the U.S. Department of Justice and the following parties:

- approximately \$4.4 billion plus interest from BP Exploration & Production Inc.¹⁴
- approximately \$800 million plus interest from the Transocean defendants¹⁵
- approximately \$127 million plus interest from Anadarko Petroleum Corporation¹⁶

¹⁴ A \$20.8 billion civil settlement between the Department of Justice and BP Exploration & Production Inc. was approved on April 4, 2016. Of this amount, \$4.4 billion will be deposited into the Trust Fund over 15 years. BP Exploration & Production Inc. made the first Clean Water Act penalty payment to the Department of Justice on April 3, 2017, and 80 percent of that payment, or approximately \$303 million, was deposited into the Trust Fund on April 10, 2017. Subsequent annual payments of approximately \$152 million and approximately \$303 million were deposited into the Trust Fund on April 9, 2018 and on April 9, 2019 respectively.

¹⁵ On February 19, 2013, the civil settlement between the Department of Justice and Transocean defendants (Transocean Deepwater Inc., Transocean Offshore Deepwater Drilling Inc., Transocean Holdings LLC, and Triton Asset Leasing GmbH) was approved. Among other things in the settlement, the Transocean defendants paid a \$1 billion civil penalty plus interest in three installments. Of this amount, \$800 million plus interest was transferred to the Trust Fund; the final amount was deposited in the Trust Fund in February 2015.

¹⁶ On December 16, 2015, the civil settlement between the Department of Justice and Anadarko Petroleum Corporation was approved. Anadarko agreed to civil penalties of \$159.5 million. Of this amount, approximately \$127 million was deposited in the Trust Fund in March 2016.

RESTORE Act Components

The RESTORE Act allocates monies from the Trust Fund into the following five components.

- Direct Component – Treasury Administered
 - 35 percent is to be equally divided among the five Gulf Coast States for ecosystem restoration, economic development, and tourism promotion accordingly:
 - Louisiana – 30 percent to the coastal parishes based on allocation formula and 70 percent to the State
 - Florida – 75 percent to the counties most affected by the oil spill and 25 percent to the other counties based on an allocation formula
 - Mississippi – 100 percent to the Department of Environmental Equality
 - Alabama – 100 percent to the Alabama Gulf Coast Recovery Council
 - Texas – 100 percent to the State of Texas Office of the Governor
- Comprehensive Plan Component – Gulf Coast Ecosystem Restoration Council Administered
 - 30 percent plus 50 percent of interest earned from Trust Fund investments is to be used for restoration activities under the Comprehensive Plan
- Spill Impact Component – Gulf Coast Ecosystem Restoration Council Administered
 - 30 percent is to be divided among the five Gulf Coast States according to a formula to implement State Expenditure Plans, which require approval by the Gulf Coast Ecosystem Restoration Council

- National Oceanic and Atmospheric Administration’s RESTORE Act Science Program – National Oceanic and Atmospheric Administration Administered
 - 2.5 percent plus 25 percent of interest earned from Trust Fund investments is to be used for the science, observation, monitoring, and technology program
- Centers of Excellence Research Grants Program – Treasury Administered
 - 2.5 percent plus 25 percent of interest earned from Trust Fund investments is to be used for research on the Gulf Coast Region

Availability for Texas Under the Centers of Excellence Research Grants Program

As of April 9, 2019, the Trust Fund had received approximately \$1.7 billion from the Transocean, Anadarko Petroleum Corporation, and BP Exploration & Production Inc. settlements. Approximately \$9.7 million has been made available to the State of Texas under the Centers of Excellence Research Grants Program.¹⁷

¹⁷ Current Trust Fund allocations, including funds available and funds obligated or transferred by RESTORE Act component are publicly available on the U.S. Treasury Restore Act homepage: <https://home.treasury.gov/policy-issues/financial-markets-financial-institutions-and-fiscal-service/restore-act>

Appendix 5
Major Contributors To This Report

Jeffrey Hawkins, Audit Manager
Eileen Kao, Audit Manager
Lawrence Gonzalez, Auditor-in-Charge
Virginia Shirley, Referencer

Department of the Treasury

Deputy 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 Texas

Director, Subsea Systems Institute
Commissioner, Texas Commission on Environmental Quality
State Auditor, Texas State Auditor's Office

United States Senate

Committee on Finance
Committee on Homeland Security and Governmental Affairs

United States House of Representatives

Committee on Oversight and Reform
Committee on Ways and Means

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

Email: Hotline@oig.treas.gov

Submit a complaint using our online form:

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