October 30, 2015

The Honorable Penny Pritzker  
Secretary, U.S. Department of Commerce  
Chairperson, Gulf Coast Ecosystem Restoration Council  
1401 Constitution Ave., NW  
Washington, D.C. 20230

Re: 2015 Management and Performance Challenges (OIG-CA-16-003)

Dear Chairperson Pritzker:

The Reports Consolidation Act of 2000 requires that I provide you, as 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 still a relatively new 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 are reporting the following challenge, which is repeated from the prior year.

Challenge: Implementing an Infrastructure to Administer Gulf Coast Restoration Activities

One of the more formidable initial tasks required by the RESTORE Act was to stand up the Council, including its operating framework and infrastructure. The Council is charged with administering two critical RESTORE Act components: the Council-Selected Restoration Component and the Spill Impact Component. Together, these components will receive 60 percent of all funds deposited into the Gulf Coast Ecosystem Restoration Trust Fund (Trust Fund) plus 50 percent of total interest earned on Trust Fund deposits.

The Council faces challenges on many levels as it must operate in an environment where its actions are subject to RESTORE Act mandates, including high levels of scientific review, environmental regulatory oversight, and public transparency. Not only must the Council ensure it has the organizational infrastructure to complete its stand-up, but it must also be prepared to distribute funds and ensure they are used appropriately to support economic and environmental restoration efforts in the Gulf Coast.

In view of its broad responsibilities, the Council made notable achievements over the past year that included meeting two key mandates. In December 2014, the Council submitted its first Annual Report to Congress that outlined actions taken since passage of the Act. The Council also underwent its first financial statement audit covering fiscal years 2013 and 2014. Performing the
audit under the supervision of my office, an independent public accountant issued unmodified opinions (also referred to as “clean opinions”) on the Council’s financial statements. Similar to the challenge discussed in this letter, the auditor reported a material weakness concerning the Council’s lack of sufficient implemented and documented internal controls related to its financial reporting, which was attributed to the lack of staff resources.

The Council made significant progress to fill critical staff positions but has not yet achieved its planned permanent staffing structure. Sufficient and able staff is essential to completing the overall organizational infrastructure that is comprised of strong internal controls and a reliable and secure information technology environment to support financial management and grant activities.

To date, the Trust Fund received approximately $816 million as a result of the Federal Government’s settlement with the Transocean defendants. Going forward, the Council must also consider the impact of the recently proposed settlement with BP Exploration & Production Inc. (BPXP). In July 2015, BP agreed to settle with the Federal Government and the Gulf Coast States resulting in approximately $4.4 billion plus interest expected to be deposited into the Trust Fund over a 15-year period. Now that a more definitive amount has been determined, the Council, along with the Gulf Coast States and local governments, will need to ensure that existing plans and internal processes meet the expected funding levels as well as timing of payments.

The breadth and depth of the Council’s responsibilities under the RESTORE Act are far-reaching and many parties are dependent on its success. As such, we continue to meet with the Council’s staff and provide our perspectives on internal controls as they are being developed. We remain actively engaged with affected Federal, State, and local government entities to ensure effective oversight of programs established by the RESTORE Act. The appropriate disbursement and use of grant funds will be a focus of our work going forward.

We would be pleased to discuss our views on this management and performance challenge and the other matters expressed in this letter in more detail.

Sincerely,

/s/

Eric M. Thorson
Inspector General, Department of the Treasury

cc: Teresa Christopher, Chairperson Designee
    Justin Ehrenwerth, Executive Director