# Exxon Valdez Oil Spill Trustee Council

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## MEMORANDUM

TO: Trustee Council

FROM: Molly McCammor Executive Director

**DATE:** April 24, 2001

RE: FY 2000 Audit

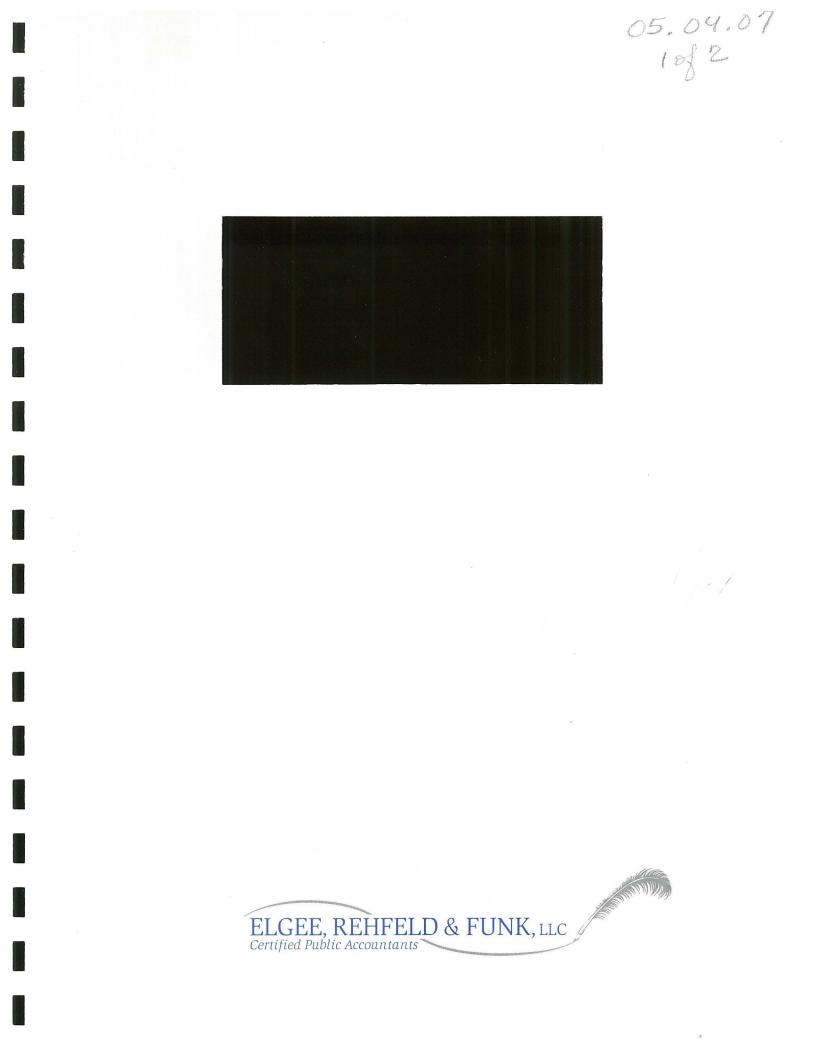
Attached is your copy of the FY 2000 external audit. Consistent with the previous years, the audit included a review of the internal control structure used to administer the Trust Funds and a review of the financial statements.

The document titled EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL, Internal Control and Operation Comments, February 9, 2001, is often referred to as the management letter. The management letter summarizes the auditor's comments and suggestions regarding opportunities to strengthen internal controls and operate more efficiently. Incorporated in the document are responses from the agencies which received comments.

The document titled EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL TRUST FUNDS FINANCIAL STATEMENTS and SUPPLEMENTARY RESTORATION PROJECTS INFORMATION, Fiscal Year Ended September 30, 2000, TOGETHER WITH INDEPENDENT AUDITORS' REPORT, is often referred to as the financial statements. This document is organized into three sections. The first section is a presentation of the cash balance associated with the individual Trust Funds. The second section is organized by agency and includes the Schedule of Expenditures and Obligations (by project) – Budget to Actual, for the Fiscal Year ending September 30, 2000. The third section includes the Independent Auditors' Report on Compliance and Internal Control.

If you have any questions regarding the external audit, please do not hesitate to give me a call.

cc: Agency Liaisons



# EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL TRUST FUNDS FINANCIAL STATEMENTS

and

SUPPLEMENTARY RESTORATION PROJECTS INFORMATION Fiscal Year Ended September 30, 2000 TOGETHER WITH INDEPENDENT AUDITORS' REPORT

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## TRUST FUNDS FINANCIAL STATEMENTS and SUPPLEMENTARY RESTORATION PROJECTS INFORMATION

Fiscal Year Ended September 30, 2000

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# TRUST FUNDS STATEMENTS



ELGEE, REHFELD & FUNK, LLC

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#### INDEPENDENT AUDITORS' REPORT

# Members, *Exxon Valdez* Oil Spill Trustee Council, Anchorage, Alaska:

We have audited the financial statements of the *Exxon Valdez* Oil Spill Trustee Council, Trust Funds as of and for the year ended September 30, 2000, as listed in the accompanying table of contents. These financial statements are the responsibility of the *Exxon Valdez* Oil Spill Trustee Council's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 2, the financial presentation for the Court Registry Investment System (CRIS), *Exxon Valdez* Oil Spill Settlement Account (Joint Trust Account - CRIS) is of this account only and is not intended to present the financial position of CRIS or the United States District Court for the Southern District of Texas and the results of their operations, in conformity with generally accepted accounting principles.

As discussed in Note 2, the financial presentation for the U.S. Department of the Interior, Fish and Wildlife Service, Natural Resources Damage Assessment and Restoration Fund (NRDA&R) is of the amounts related to the *Exxon Valdez* Oil Spill Trustee Council only and is not intended to present the financial position of NRDA&R or the U.S. Department of Interior Fish and Wildlife Service and the results of their operations, in conformity with generally accepted accounting principles.

As discussed in Note 2, the financial presentation for the State of Alaska, *Exxon Valdez* Oil Spill Settlement Trust (Settlement Trust) is of the Settlement Trust only and is not intended to present the financial position of the State of Alaska or any of its component units and the results of their operations.

As discussed in Note 2, the financial statements for the Joint Trust Account - CRIS and NRDA&R are prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash balances of the Joint Trust Account - CRIS and NRDA&R and the financial position of the Settlement Trust as of and for the year ended September 30, 2000, and the results of their operations for the year then ended on the basis of accounting described in Note 2 for the Joint Trust Account - CRIS and NRDA&R, and in conformity with generally accepted accounting principles for the Settlement Trust.

In accordance with *Government Auditing Standards*, we have also issued our reports dated February 9, 2001, on our consideration of the *Exxon Valdez* Oil Spill Trustee Council, Trust Funds' internal control over financial reporting and our tests of their compliance with certain provisions of laws, regulations and contracts.

Elger, Kichfald & Funk, LLC

February 9, 2001

## UNITED STATE DISTRICT COURT - FIFTH CIRCUIT COURT REGISTRY INVESTMENT SYSTEM EXXON VALDEZ OIL SPILL SETTLEMENT ACCOUNT

## STATEMENT OF ASSETS, LIABILITIES AND JOINT TRUST ACCOUNT BALANCES ARISING FROM CASH TRANSACTIONS September 30, 2000

## ASSETS:

Cash and Investments	\$ 127,097,189
Total Assets	\$ 127,097,189
LIABILITIES AND JOINT TRUST ACCOUNT BALANCES:	
Liabilities	\$ -
Joint Trust Account Balance - Liquidity Account Joint Trust Account Balance - Reserve Account	 74,803,937 52,293,252
Total Liabilities and Joint Trust Account Balances	\$ 127,097,189

The accompanying notes to trust fund financial statements are an integral part of this statement.

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## UNITED STATE DISTRICT COURT - FIFTH CIRCUIT COURT REGISTRY INVESTMENT SYSTEM EXXON VALDEZ OIL SPILL SETTLEMENT ACCOUNT

## STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN JOINT TRUST ACCOUNT BALANCES For the Fiscal Year Ended September 30, 2000

## Receipts:

Receipts	\$ 66,250,000
Investment Income - Liquidity Account	2,300,939
Investment Income - Reserve Account	2,484,046
Total Receipts	71,034,985
Disbursements:	
State of Alaska, Exxon Valdez Settlement Trust:	
Natural Resource Damage Assessment and	
Restoration Projects	(672,500)
Fiscal 2000 Archeological Repository	(203,500)
Land Acquisition Disbursements	(27,652,633)
Total Disbursements to State of Alaska	(28,528,633)
U.S. Department of Interior, Natural Resources Damage Assessment and Restoration Fund: Fiscal 1999 Natural Resource Damage Assessment	
and Restoration Projects Fiscal 2000 Natural Resource Damage Assessment	(15,000)
and Restoration Projects	(397,000)
Land Acquisition Disbursements	(5,227,854)
Total Disbursements to United States	(5,639,854)
Court Registry Fees	(259,635)
Total Disbursements	(34,428,122)
Excess of Receipts Over Disbursements	36,606,863
Joint Trust Account Balances, Beginning of Year	90,490,326
Joint Trust Account Balances, End of Year	\$ 127,097,189

The accompanying notes to trust fund financial statements are an integral part of this statement.

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## UNITED STATE DEPARTMENT OF THE INTERIOR, FISH AND WILDLIFE SERVICE NATURAL RESOURCES DAMAGE ASSESSMENT AND RESTORATION FUND

## STATEMENT OF ASSETS, LIABILITIES AND TRUST FUND BALANCE ARISING FROM CASH TRANSACTIONS September 30, 2000

ASSETS:

Cash and Investments	\$ 3,785,549
Total Assets	\$ 3,785,549
LIABILITIES AND FUND BALANCE:	
Liabilities	\$ -
Trust Fund Balance	 3,785,549
Total Liabilities and Trust Fund Balance	\$ 3,785,549

The accompanying notes to trust fund financial statements are an integral part of this statement.

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## UNITED STATE DEPARTMENT OF THE INTERIOR, FISH AND WILDLIFE SERVICE NATURAL RESOURCES DAMAGE ASSESSMENT AND RESTORATION FUND

## STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN TRUST FUND BALANCE For the Fiscal Year Ended September 30, 2000

## Receipts:

Contributions - Court Registry Investment System, Joint Trust Account	_\$	5,639,854
Unobligated Balances Returned to NRDA&R: U.S. Department of Interior:		
Bureau of Indian Affairs		5,900
National Park Service	<u> </u>	38,421
		44,321
Investment Income		444,390
Total Receipts	<u> </u>	6,128,565
Disbursements:		
U.S. Department of Interior:		
Fish and Wildlife Service		(1,184,050)
United States Geological Survey		(1,146,700)
National Park Service		(17,550)
Office of the Secretary		(34,900)
Bureau of Land Management		(47,900)
U.S. Department of Agriculture, United States		
Forest Service		(5,350,254)
U.S. Department of Commerce, National Oceanic		
and Atmospheric Administration		(2,816,400)
State of Alaska		(6,900)
Total Disbursements		(10,604,654)
Deficiency of Receipts Over Disbursements		(4,476,089)
Trust Fund Balance, Beginning of Year		8,261,638
Trust Fund Balance, End of Year	\$	3,785,549

The accompanying notes to trust fund financial statements are an integral part of this statement.

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# *EXXON VALDEZ* OIL SPILL TRUSTEE COUNCIL STATE OF ALASKA - *EXXON VALDEZ* OIL SPILL SETTLEMENT TRUST

## BALANCE SHEET September 30, 2000

ASSETS:		
Cash and Investments	\$	33,266,492
Total Assets	\$	33,266,492
LIABILITIES AND FUND BALANCES:		
Liabilities: Accounts Payable Deferred Revenues	\$	1,001,998 
Total Liabilities		24,027,831
Fund Balances: Reserved for Encumbrances Unreserved		2,279,595 6,959,066
Total Fund Balances	·	9,238,661
Total Liabilities and Fund Balances	\$	33,266,492

The accompanying notes to trust fund financial statements are an integral part of this statement.

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# EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL STATE OF ALASKA - EXXON VALDEZ OIL SPILL SETTLEMENT TRUST

## STATEMENT OF REVENUES , EXPENDITURES AND CHANGES IN FUND BALANCES For the Fiscal Year Ended September 30, 2000

## Revenues:

Contributions - Court Registry Investment System, Joint Trust Account Interest and Investment Income	\$ 32,861,990 964,015
Total Revenues	 33,826,005
Expenditures:	
Current Operating:	
Natural Resources Damage Assessment and Restoration Projects	
Department of Fish and Game	4,391,172
Department of Environmental Conservation	202,366
Department of Natural Resources	 915,420
Total Current Operating	5,508,958
Capital Outlay:	
Research Infrastructure Improvements - Alaska	
Department of Fish & Game	835,956
Land Acquisitions - Alaska Department of Natural Resources	 27,543,815
Total Expenditures	 33,888,729
Deficiency of Revenues Over Expenditures	(62,724)
Fund Balances, Beginning of Year	 9,301,385
Fund Balances, End of Year	\$ 9,238,661

The accompanying notes to trust fund financial statements are an integral part of this statement.

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## NOTES

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#### Fiscal Year Ended September 30, 2000

#### 1. EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL

#### Formation of the Exxon Valdez Oil Spill Trustee Council

- The United States of America (United States) and the State of Alaska (State) entered into a Memorandum of Agreement and Consent Decree (MOA) on August 28, 1991. The MOA was made to maximize the funds available for restoration of natural resources and to resolve the governments' claims against one another relating to the T/V *Exxon Valdez* Oil Spill (Oil Spill), which occurred on the night of March 23-24, 1989 in Prince William Sound, Alaska. Upon entering into the MOA, the United States and the State believed that the terms of the MOA were in the public interest and would best enable them to fulfill their duties as trustees to assess injuries and to restore, replace, rehabilitate, enhance, or acquire the equivalent of the natural resources injured, lost, or destroyed as a result of the Oil Spill.
- Pursuant to the MOA and federal laws, the United States and State act as co-trustees in the collection and joint use of all natural resource damage recoveries for the benefit of natural resources injured, lost or destroyed as a result of the Oil Spill. To manage the co-trustee relationship, the *Exxon Valdez* Oil Spill Trustee Council (Council) was formed.

#### Exxon Valdez Oil Spill Trustee Council Structure

- The Council consists of six trustees, three trustees represent the United States and three trustees represent the State. The United States' trustees are the Secretaries of the United States Departments of Interior and Agriculture and the Administrator of the National Oceanic and Atmospheric Administration (a bureau of the United States Department of Commerce). The State's trustees consist of the Commissioners of the State Departments of Environmental Conservation and Fish and Game, and the Attorney General of the State of Alaska. The MOA allows the President of the United States or the Governor of the State of Alaska to transfer trustee status from one official to another official of their respective governments.
- All decisions of the Council must be made by the unanimous agreement of the trustees. The decisions of the United States' trustees must be made in consultation with the United States Environmental Protection Agency. If the trustees cannot reach unanimous consent, either the United States or the State may resort to litigation in the United States District Court for the District of Alaska (Court).

### Restoration Office

- The Council has established a Restoration Office, which is responsible for the coordination and supervision of the activities of the Council. The Restoration Office is managed by an Executive Director who reports directly to the Council. Since the Council exists through the MOA, it and the Restoration Office operate within the framework of the Trustee Agencies. During fiscal 2000, most activities of the Restoration Office were conducted through the Alaska State Departments of Fish and Game and Natural Resources.
- The Restoration Office develops an annual budget, which, upon approval by the Council, sets forth the anticipated expenditures of the Restoration Office. The Council makes an annual contribution to the State agencies equal to the budget for the Restoration Office. The contributions are made using the disbursements procedures discussed in Note 6.

#### Termination of the Exxon Valdez Oil Spill Trustee Council

The MOA shall terminate when the United States and the State certify to the Court, or when the Court determines on application by either government, that all activities contemplated under the MOA have been completed.

## NOTES TO TRUST FUNDS FINANCIAL STATEMENTS

#### Fiscal Year Ended September 30, 2000

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Joint Trust Account - CRIS - Court Registry Investment System

- As further discussed in Note 5, amounts paid by Exxon Corporation are made directly to the United States and the State for reimbursement of certain costs incurred by them in connection with the Oil Spill. In accordance with the MOA and as ordered by the presiding Court and pending disburments to the Federal and State trust funds, money that is not directly paid to the United States and the State is placed in an interest-bearing account in the Court Registry Investment System (CRIS) administered through the United States District Court for the Southern District of Texas. An account entitled "Exxon Valdez Oil Spill Settlement Account" (Liquidity Account) was established in CRIS specifically for the Exxon settlement proceeds. A second account (Reserve Fund) was established in fiscal 1995 and is intended to be an investment mechanism for funds pertaining to the settlement with Exxon, which are anticipated to be held for longer periods of time (see additional discussion in Note 9). Together, the Liquidity and Reserve Accounts are referred to as the Joint Trust Account CRIS.
- CRIS is a cash management system developed by the United States District Court for the Southern District of Texas. All amounts placed with the CRIS liquidity account are maintained in United States government treasury securities with maturities of 100 days or less, and are held in the name of the Clerk, U.S. District Court, Southern District of Texas at the Federal Reserve Bank. Amounts placed with the CRIS reserve fund are maintained in United States government treasury securities with maturity dates ranging from fiscal 1999 through fiscal 2004, and are held in the name of the Clerk, U.S. District Court, Southern District of Texas at the Financial presentation for the Joint Trust Account CRIS is of the Joint Trust Account CRIS only and is not intended to present the financial position of CRIS or the United States District Court for the Southern District of Texas and the results of their operations.
- Upon unanimous approval of the Trustee Council, funds are disbursed to the United States and the State to be expended by the Trustee Agencies in accordance with the Council's wishes. The accompanying financial statements for the Joint Trust Account CRIS reflect the intent of the disbursements as to natural resource damage assessment and restoration, or the acquisition of land or research infrastructure improvements to further protect the natural resources. The financial statements also reflect the fiscal year which the disbursements are to be expended by the Trustee Agencies.
- As allowed under 28 USC 1913, 1914 (b) and 1930(b), the Clerk of the Court for the United States Courts is allowed to charge a registry fee for administering investment holdings of funds held in their registry accounts. During the year ended September 30, 1999, the registry fee charged to the Joint Trust Account CRIS was ten percent of investment income as determined on a cash basis until April 21, 1999; thereafter it was adjusted to five percent in accordance with registry fee regulations. In addition, CRIS has entered into a contract with a Houston, Texas based financial institution to provide investment advisory information, securities trading services, and accounting services at a fee of .025 percent added to the cost of securities purchased by CRIS.

#### U.S. Department of the Interior, Natural Resources Damage Assessment and Restoration Fund

Disbursements which are made from the Joint Trust Account - CRIS to the United States are deposited in the U.S. Department of the Interior, Fish and Wildlife Service, Natural Resources Damage Assessment and Restoration Fund (NRDA&R). NRDA&R was established pursuant to Public Law 102-154, and is administered by the U.S. Department of Interior, Fish and Wildlife Service. It is a trust fund which was established to hold natural resources damage assessment and restoration settlement proceeds of the United States Government. Public Law 120-229 requires that federal proceeds from the Agreement and Consent Decree (see additional discussion in Note 4) be deposited in NRDA&R, and that all interest earned on these proceeds be available to the Federal Trustees for necessary expenses for assessment and restoration of areas affected by the Oil Spill. Public Law 120-229 also calls for amounts in NRDA&R to be invested by the U.S. Secretary of the Treasury in interest bearing obligations of the United States.

#### Fiscal Year Ended September 30, 2000

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

U.S. Department of the Interior, Natural Resources Damage Assessment and Restoration Fund (Continued)

- Disbursements from NRDA&R are made pursuant to the directions of the Council and as approved by the Court. At the beginning of each fiscal year, the Department of Interior, Fish and Wildlife Service communicates with each of the United States Trustee Agencies to determine the timing of disbursements from NRDA&R to each Federal Trustee Agency. Investments are purchased in order to earn interest on available balances within NRDA&R, with scheduled maturity dates coincident with the scheduled date of disbursement.
- The financial presentation for NRDA&R is of the amounts related to the Council only and is not intended to present the financial position of NRDA&R or the Department of Interior, Fish and Wildlife Service and the results of their operations.

#### State of Alaska, Exxon Valdez Oil Spill Settlement Trust

- Disbursements which are made from the Joint Trust Account CRIS to the State are deposited in the State of Alaska, *Exxon Valdez* Oil Spill Settlement Trust (Settlement Trust). The Settlement Trust is established pursuant to AS 37.14.400. Pursuant to State law a state agency may not expend money from the Settlement Trust unless the expenditure is in accordance with an appropriation made by law. Expenditures of funds are made upon properly approved requests for payment. The total of expenditures and encumbrances (obligations) may not exceed the appropriations to which they pertain.
- The Settlement Trust is an expendable trust fund of the State. Expendable trust funds account for assets held by the State in a trustee capacity where the principal and income may be expended in the course of the fund's designated operations.
- Upon approval by the Council, the Court, and the State of Alaska, State Trustee Agencies make expenditures directly against the Settlement Trust.
- The financial presentation for the Settlement Trust is of the Settlement Trust only and is not intended to present the financial position of the State of Alaska or any of its component units and the results of their operations.

#### Basis of Accounting

- Basis of accounting refers to when revenues, expenditures and the related assets and liabilities are recorded in the accounts and financial statements. Specifically, it relates to the timing of the financial measurements made, regardless of the measurement focus applied.
- The basis of accounting used by the Joint Trust Account CRIS, NRDA&R and the Settlement Trust are as follows:
  - <u>Joint Trust Account CRIS</u> The financial statements of the Joint Trust Account CRIS are prepared on a cash basis of accounting. As such, revenues are recognized when received, and disbursements are recognized when paid.
  - <u>NRDA&R</u> The financial statements of NRDA&R are prepared on a cash basis of accounting. As such, revenues are recognized when received, and disbursements are recognized when paid.

#### Fiscal Year Ended September 30, 2000

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- <u>Settlement Trust</u> The financial statements of the Settlement Fund are accounted for using a current financial resources measurement focus on the modified accrual basis. The Settlement Fund recognizes revenues when the source is measurable and available, and intended for the fiscal year. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Assets are recorded when measurable and due.
- Expenditures are recorded when the related liability is incurred. Encumbrance accounting, under which purchase orders and contracts for the expenditure of moneys are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of the formal budgetary integration of the Settlement Trust. Encumbrances outstanding at year-end are reported as reservations of fund balance since they do not constitute expenditures or liabilities.
- Until June 30, 1997, interest and investment income was allocated to the Settlement Trust as agreed to under a Memorandum of Understanding (MOU) by and between the State Departments of Revenue and Administration effective July 1, 1993. Under the MOU, interest was credited daily to the Settlement Trust by determining the Settlement Trust's daily cash balance and applying the current weekly 180-day Treasury Bill Rates based on the Treasury Bill auctions. Effective July 1, 1997, a new MOU, dated November 26, 1997, superceded the original MOU and modified the method of determining interest income earned by the Settlement Trust. Under the new method, interest income is allocated daily based on actual earnings of the cash management pool of which the Settlement Trust is a part.

#### Statement Presentation

Separate balance sheets and statements of receipts and disbursements or revenues and expenditures are presented for each of the Joint Trust Accounts - CRIS, NRDA&R and the Settlement Trust. This is due to the fact that ownership of the Trust Funds rests separately with each of the U.S. District Court, U.S. Department of Interior, Fish and Wildlife Service and the State of Alaska, and the different bases of accounting used by the Trust Funds.

#### Accounts Payable and Deferred Revenue - Settlement Trust

- Accounts payable in the Settlement Trust financial statements include disbursements made against the Settlement Trust subsequent to September 30, 2000, but which relate to fiscal 2000 restoration activities.
- Deferred Revenues in the Settlement Trust financial statements include amounts received or receivable at September 30, 2000, which are to be expended by the State in fiscal 2001.

#### 3. CASH AND INVESTMENTS

Cash and investments for the Joint Trust Account - CRIS, NRDA&R and the Settlement Trust are as follows:

Joint Trust Account - CRIS - All deposits and investments of the Joint Trust Account - CRIS are held in the name of the Clerk, U.S. District Court, Southern District of Texas at the Federal Reserve Bank. At September 30, 2000, the balances held in the CRIS liquidity account are held in U.S. Treasury Bills with maturities less than 100 days, and the balances held in the CRIS reserve fund are held in U.S. Treasury Bills with maturity dates on November 15, in each year from 1998 through 2004. Market values of investment securities held by CRIS approximate their cost at September 30, 1999. There are no uninsured or unregistered deposits or investments. This places all of CRIS's investments and deposits in GASB credit risk category 1 \*. As discussed in Note 10, the Trustee Council withdrew all funds from CRIS and deposited them into an Investment Fund in the Alaska Department of Revenue, Division of Treasury on October 5, 2000.

Fiscal Year Ended September 30, 2000

#### 3. CASH AND INVESTMENTS (Continued)

- <u>NRDA&R</u> All cash and investments of NRDA&R are held in the name of the U.S. Department of the Interior, Fish and Wildlife Service, Natural Resources Damage Assessment and Restoration Fund at the U.S. Department of the Treasury. At September 30, 2000, substantially all balances are held in U.S. Treasury Bills and Notes with maturities ranging from 30 to 300 days. A nominal amount of cash is also included in the balance. Market values of investment securities held by NRDA&R approximate their cost at September 30, 2000. There are no uninsured or unregistered deposits or investments. This places all of NRDA&R's investments and deposits in GASB credit risk category 1 \*.
- Settlement Trust Cash and Investments of the Settlement Trust represent cash on deposit in banks, and cash invested in various investments as a part of the State's short-term cash management pools. By law, all deposits and investments relating to the Settlement Trust are under the control of the Commissioner of the State Department of Revenue. The State's cash is invested pursuant to State laws which mandate that investments shall be made with the judgment and care exercised by an institutional investor of ordinary professional prudence, discretion and intelligence. Investments of the State are stated at fair value in accordance with GASB Statement No. 31. All investments are stated at fair value, which approximates market value. Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. All deposits are insured or collateralized with securities held by the State or by its custodian in its name. All investments are insured or registered in the State's name and are held by the State or its custodian. This places all of the State's General Investment Fund deposits and investments, of which the Settlement Trust cash and investments are a part, in GASB credit risk category 1 \*. Additional investment information on the various pools and investments, as well as the Funds, may be obtained from the Department of Revenue, Treasury Division, P.O. Box 110405, Juneau, Alaska 99811-0405.
  - \* GASB Statement No. 3 requires deposits and investments to be categorized to indicate the level of risk assumed by an entity. For investments, category 1 consists of investments that are insured or registered for which the securities are held by the entity or its custodian in the entity's name, category 2 consists of uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the entity's name, and category 3 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the entity's name, and category 3 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent not in the entity's name.

#### 4. CONTRIBUTIONS BY EXXON CORPORATION

#### Agreement and Consent Decree

On October 8, 1991, the United States, the State, Exxon Corporation (Exxon) and Exxon Shipping Company, and Exxon Pipeline Company entered into an Agreement and Consent Decree (Agreement). The Agreement principally stipulates that Exxon make certain payments, and that all parties release and covenant not to sue or to file any administrative claim against the other parties or specifically identified third parties.

#### NOTES TO TRUST FUNDS FINANCIAL STATEMENTS

#### Fiscal Year Ended September 30, 2000

## 4. CONTRIBUTIONS BY EXXON CORPORATION (Continued)

#### Agreement and Consent Decree (Continued)

Pursuant to the Agreement Exxon is to pay the United States and the State a total of \$900 million as follows:

Date Payment Due	 Amount
Ten days after the Agreement	\$ 90,000,000
became effective	
December 1, 1992	150,000,000
September 1, 1993	100,000,000
September 1, 1994	70,000,000
September 1, 1995	70,000,000
September 1, 1996	70,000,000
September 1, 1997	70,000,000
September 1, 1998	70,000,000
September 1, 1999	70,000,000
September 1, 2000	70,000,000
September 1, 2001	 70,000,000
	\$ 900,000,000

During fiscal 2000, Exxon Corporation made the contribution to the Joint Trust Account - CRIS as required by the Agreement. As further discussed in Note 5, \$3,750,000 of the \$70,000,000 contribution was paid directly to the State of Alaska. The balance of \$66,250,000 was placed with the Joint Trust Account - CRIS.

## Reopener for Unknown Injury

- In addition to the payment terms discussed above, the Agreement also has a reopener provision that allows the governments to claim an additional \$100 million from Exxon between September 1, 2002, and September 1, 2006, as required for the performance of restoration projects in Prince William Sound and other areas affected by the Oil Spill to restore one or more populations, habitats, or species which, as a result of the Oil Spill, suffered substantial loss or substantial decline in the areas affected by the Oil Spill.
- The cost of the restoration projects must not be grossly disproportionate to the magnitude of the benefits obtained, and the reopener is available only for any losses or declines that could not reasonably have been known or anticipated from information available at the time of the Agreement.

#### 5. REIMBURSEMENTS TO THE UNITED STATES AND THE STATE

Under the terms of the Agreement, certain amounts paid by Exxon are to be made directly to the United States and the State. These payments are to be used solely to reimburse them for the following purposes:

- 1. Response and clean-up costs incurred by either of them on or before December 31, 1990 in connection with the Oil Spill;
- 2. Natural resource damages assessment costs incurred by either of them on or before March 12, 1991 in connection with the Oil Spill;
- 3. (State only) Attorneys fees, experts' fees, and other costs incurred by the State on or before March 12, 1991 in connection with litigation arising from the Oil Spill;
- 4. Response and clean-up costs incurred by either of them after December 31, 1990 in connection with the Oil Spill;

#### NOTES TO TRUST FUNDS FINANCIAL STATEMENTS

#### Fiscal Year Ended September 30, 2000

## 5. REIMBURSEMENTS TO THE UNITED STATES AND THE STATE (Continued)

- 5. To assess injury resulting from the Oil Spill and to plan, implement, and monitor the restoration, rehabilitation, or replacement of natural resources, natural resource services, or archaeological sites and artifacts injured, lost or destroyed as a result of the Oil Spill, or the acquisition of equivalent resources or services after March 12, 1991; and
- 6. (State only) Reasonable litigation costs incurred by the State after March 12, 1991.

The Agreement states that the amounts to be reimbursed to the United States for items one and two above are not to exceed \$67 million. The amounts to be reimbursed to the State for items one, two and three above are not to exceed \$75 million. The agreement does not place a cap on items four and five. The amounts paid to the State for item six above are not to exceed \$1 million per month.

During fiscal 2000, \$3,750,000 was paid to the State of Alaska as a reimbursement pursuant to the Agreement. There were no other reimbursements made to the United States or the State during fiscal 2000 under the Agreement.

#### 6. DISBURSEMENTS FROM JOINT TRUST ACCOUNT - CRIS

#### Approved Payment Uses

Under the terms of the MOA, amounts paid by Exxon, excluding the reimbursements discussed in the preceding Note, are deposited into the Joint Trust Account - CRIS. These payments are to be used solely to assess injury resulting from the Oil Spill and to plan, implement, and monitor the restoration, rehabilitation, or replacement of natural resources, natural resource services, or archaeological sites and artifacts injured, lost or destroyed as a result of the Oil Spill, or the acquisition of equivalent resources or services.

#### Project Approval

The Council has developed a solicitation and review process for projects to address the purposes stated above. The outcome of the process is the development of a fiscal year Work Plan, which approves the funding for all projects to be conducted during the fiscal year. For the fiscal year ending September 30, 2000, the following project solicitation and review process was used by the Council:

- 1. In February 1999, the Council published an *Invitation to Submit Restoration Proposals for Federal Fiscal Year 2000.* As part of the requirements, proposers developed and submitted detailed project descriptions and project budgets for review.
- 2. In May 1999, the Council's Chief Scientist and core reviewers coordinated a preliminary scientific and technical review of the proposals. The Council's Executive Director also discussed proposals with Trustee agencies, Chief Scientist and representatives of the Public Advisory Group (the Public Advisory Group consists of members of the public and concerned groups and was appointed by the Secretary of Interior based on the Council's recommendations in accordance with the MOA to help provide meaningful public participation in the injury assessment and restoration process) and drafted preliminary recommendations.
- 3. In June 1999, all proposals and the results of the reviews were published in the *Draft Fiscal Year* 2000 Work Plan and distributed for public comment.
- 4. In July 1999, a public hearing was held on the FY'00 Draft Work Plan and the Public Advisory Group met to advise Trustee Council on the final work plan.
- 5. The majority of approved projects, received funding from the Council in August 1999. In addition to the public review many proposals underwent further technical, budget, policy, and legal review.
- In addition to the process outlined above, the Council has also identified and acquired several tracts of land as permitted by the MOA. The land acquisition support costs are funded through the Work Plan. Land acquisitions are separately approved by the Council.

#### NOTES TO TRUST FUNDS FINANCIAL STATEMENTS

#### Fiscal Year Ended September 30, 2000

## 6. DISBURSEMENTS FROM JOINT TRUST ACCOUNT – CRIS (Continued)

#### Interest Income Recovery - NRDA&R and the Settlement Trust

The governments are to report to the Council the amount of interest earned on net available balances in NRDA&R and the Settlement Trust. When appropriate, the Council then recovers the interest reported by reducing subsequent disbursements from the Joint Trust Fund for future projects. During fiscal 2000, disbursements to the United States and the State were not reduced for such interest earnings.

#### Unobligated Balance Recovery - NRDA&R and the Settlement Trust

Actual project costs are frequently less than the original project budgets. When this occurs, the United States and the State retain the unspent or unobligated balances. When appropriate, the Council then recovers these balances by reducing subsequent disbursements for new projects. During fiscal 2000, disbursements to the United States and the State were reduced by \$2,288,400 and \$4,349,900 for such interest earnings, respectively.

#### Disbursements from the Joint Trust Account - CRIS

During fiscal 2000, the Council disbursed \$34,168,487 for restoration projects and land acquisition pursuant to the MOA as follows:

Restoration Projects Authorized By the Council

For 1999 and 2000:

1.01 1999 and 2000.	
To be conducted by the United States	\$ 412,000
To be conducted by the State	672,500
Total	1,084,500
Land Acquisitions and Research Infrastructure	
Improvements Authorized By The Council	
For 1999 and 2000:	
To be acquired by the United States	5,227,854
To be acquired by the State	27,856,133
Total	33,083,987
Disbursements from the Joint Trust Account - CRIS	<u>\$ 34,168,487</u>

#### 7. DEFERRED REVENUE

- In August 2000, the Court approved the initial funding for restoration projects to be conducted by the Trustee Agencies in fiscal 2001 and land acquisition disbursements to be made in fiscal 2001. A disbursement relating to this activity was made from the Joint Trust Account CRIS on September 7, 2001, and of the amount disbursed to the State Trustee Agencies', \$23,025,833 has been recorded as deferred revenue for fiscal 2001 land acquisitions.
- NRDA&R has not received any disbursement for the United States' relating to the initial funding for restoration projects to be conducted by the Trustee Agencies in fiscal 2001 prior to September 30, 2000. NRDA&R continues to hold approximately \$414,000 related to closing of certain small tracts which were part of the fiscal 1998 English Bay large parcel acquisition. These funds are expected to be disbursed in fiscal 2001.

#### Fiscal Year Ended September 30, 2000

#### 8. REAL PROPERTY ACQUISITIONS

In order to protect the habitat of resources and services injured by the oil spill, the Council directed its staff to establish a process for the evaluation and acquisition of real property that was imminently threatened by development, or had habitat value. This process was divided into two phases; large parcels, generally those over 1,000 acres, and small parcels, generally those smaller than 1,000 acres.

Large Parcel Acquisitions

The large parcel phase of the land evaluation and acquisition process was initiated in 1992. This evaluation process led to the consideration of numerous parcels for acquisition by Trustee Agencies. As of September 30, 2000, the Council funded the acquisition, through either the purchase of the property or the acquisition of a limited term conservation easement, for 635,770 acres, with a total purchase cost of \$397,648,124. Of the total purchase cost, \$341,654,778 is being provided from the Joint Trust Account - CRIS, and \$55,993,346 from other sources.

During fiscal 2000, no large parcel acquisitions were completed.

Three of the acquisitions completed to date are to be paid on an installment basis through fiscal 2002. The following is a summary of the remaining commitments (excluding interest) due from the Joint Trust Account - CRIS as of September 30, 2000:

Fiscal Year Ending September 30: 2001

2001	\$	32,000,000
2002		18,805,734
	\$ <u></u>	50,805,734

#### Pending Large Parcel Acquisitions

Negotiations continue on one other large parcel acquisition. The area under negotiation includes approximately 55,402 acres that are now under a limited term conservation easement, which will expire, in fiscal 2001.

#### Small Parcel Acquisitions

- The small parcel phase of the land evaluation and acquisition process was initiated in 1994. The nomination period is open ended, and the Council continues to receive and evaluate nominations. The Council's staff evaluate, score, and rank the parcels, taking into account the resource value of the parcel, adverse impacts from human activity, and potential benefits to management of public lands.
- Through September 30, 2000, the Trustee Council has completed the acquisition on 63 parcels containing 6,395 acres with a total cost of \$20,417,900. One of the acquisitions also contained a provision in which the seller relinquished remaining selections totaling 1,207 acres under their entitlement pursuant to the Alaska Native Claims Settlement Act (ANCSA). In addition, offers have been accepted by sellers on 13 parcels that closed during the first part of fiscal 2001. These parcels contain 320 acres and have a total cost of \$472,800. All of the small parcels are purchased under fee simple title, and cash is paid on these parcels at closing. Most of these acquisitions are purchased through the Alaska Department of Natural Resources or the U.S. Department of the Interior, Fish and Wildlife Service. Of the total purchase cost on the parcels acquired to date, \$19,933,900 is being provided from the Joint Trust Account CRIS, and \$484,000 from other sources.

#### NOTES TO TRUST FUNDS FINANCIAL STATEMENTS

Fiscal Year Ended September 30, 2000

#### 8. REAL PROPERTY ACQUISITIONS (Continued)

#### Alaska Sea Life Center

- During fiscal 1997, the Council approved additional funding, totaling \$545,600, for the construction of the Fish Pass at the Alaska Sea Life Center in Seward, Alaska. The Sea Life Center is affiliated with the University of Alaska, School of Fisheries and Ocean Sciences, Institute of Marine Science. Through September 30, 2000, substantially all of the funds had been expended.
- Also during fiscal 1997, the Council approved funding for the acquisition of research equipment for the Alaska Sea Life Center totaling \$724,000. The additional funds are also being expended by the Alaska Department of Fish and Game. As of September 30, 2000, \$680,436 of the additional funds had been expended, and the balance remained encumbered. The Alaska Department of Fish and Game will retain none of these funds for contract administration. It is anticipated that all of these additional funds will be expended during fiscal 2001.

#### Kodiak Island Borough Master Waste Management Plan

During fiscal 1999, the Trustee Council approved the expenditure of \$1,857,100 for capital improvement to various waste management systems of the remote communities of Kodiak Island. Specifically, this project will upgrade and improve landfills, disposal sites and solid waste management, and will construct and install used oil and hazardous waste storage and disposal facilities and equipment, and provide for systems maintenance and repairs for seven communities on Kodiak Island. The Alaska Department of Environmental Conservation (DEC) will expended the funds principally through contracts to be initiated in fiscal 2001 with anticipated completion by September 30, 2003. Of the total funding for the project, \$48,700 will be retained by DEC for contract administration.

#### Port Graham Hatchery Reconstruction

During fiscal 1999, the Trustee Council approved the expenditure of \$781,300 for capital improvement to help rebuild the Port Graham Hatchery that was destroyed by fire on January 30, 1998. Of the total approved, \$777,500 was allocated to the Alaska Department of Fish and Game to fund reconstruction efforts and \$3,800 was allocated to the United States Forest Service for National Environmental Policy Act (NEPA) compliance work. The Department of Fish and Game expended the funds through a Reimbursable Services Agreement (RSA) with the Alaska Department of Community and Economic Development during fiscal 2000.

#### Archeological Repository

During fiscal 1998, the Trustee Council approved the concept of a single regional archeological repository in one of eight communities in the Chugach and lower Cook Inlet regions to house and display spillrelated artifacts at a cost not to exceed \$1 million, the construction of new or renovated community facilities in the remaining seven communities to display spill-related archeological resources at a total cost not to exceed \$1.6 million, and the development of traveling exhibits of spill-related archeological materials for display in community facilities in the spill area at a total cost not to exceed \$200,000. During fiscal 1999, the Trustee Council resolved to provide \$2.8 million (plus a reasonable amount of funding for project management and general administration to be approved by the Council) to the Alaska Department of Natural Resources (DNR) to administer a grant award to Chugachmiut. Through fiscal 2000, the Trustee Council also approved \$102,580 for project management and general administration making the total approved \$2,902,580. As of September 30, 2000, \$181,506 has been expended on the project.

#### NOTES TO TRUST FUNDS FINANCIAL STATEMENTS

Fiscal Year Ended September 30, 2000

#### 9. RESTORATION RESERVE

- The Restoration Reserve Fund was established in fiscal 1995. Subsequent to the Reserve's establishment, the Council considered the restoration mission, past restoration program efforts and accomplishments, and obtained input from a variety of public sources to determine whether long-term restoration work needed to continue. It also obtained the most current information regarding the status of recovery of the resources and services injured by the oil spill in order to identify whether there was substantial and continuing long-term restoration needs. As a result of this process, the Trustee Council determined that full recovery of many injured resources and services is not yet complete, and that further scientific research and monitoring, and a continuing commitment to habitat protection is needed.
- By October 2002, as a result of the past and anticipated future deposits into the Reserve, it is estimated that the total balance in the Reserve and other remaining unobligated settlement funds will be \$170 million, unless, prior to that time, on-going negotiations concerning potential habitat acquisitions obligates some of these funds. The Trustee Council resolved on March 1, 1999, that \$55 million of the funds would be managed as a long-term funding source, with a significant proportion of these funds to be used for small parcel habitat protection. It was further recognized that any funding that may be authorized for purchase of lands along or adjacent to the Karluk or Sturgeon rivers or other potential habitat acquisitions would be managed so that the annual earnings, adjusted for inflation, would be used to fund annual work plans that include a combination of research, monitoring and general restoration.
- As discussed in Note 10, the Trustee Council withdrew all funds from CRIS, including the Restoration Reserve, and deposited them into to an Investment Fund in the Alaska Department of Revenue, Division of Treasury on October 5, 2000.

#### **10. SUBSEQUENT EVENTS**

The Trustee Council withdrew all funds from CRIS, including the Restoration Reserve, and deposited them into to an Investment Fund in the Alaska Department of Revenue, Division of Treasury on October 5, 2000. The total amount deposited in the Investment Fund was \$134,697,905. The balance reflected on the accompanying balance sheet for CRIS on page 2 of \$127,097,189 was adjusted for registry fees and interest accrued on account balances at the time of transfer.

## SUPPLEMENTARY INFORMATION

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ELGEE, REHFELD & FUNK, LLC

Certified Public Accountants

#### INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY RESTORATION PROJECTS INFORMATION

Members, *Exxon Valdez* Oil Spill Trustee Council, Anchorage, Alaska:

We have audited the financial statements of the *Exxon Valdez* Oil Spill Trustee Council, Trust Funds as of and for the year ended September 30, 2000, as listed in the accompanying table of contents, and have issued our report thereon dated February 9, 2001. These financial statements are the responsibility of the *Exxon Valdez* Oil Spill Trustee Council's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Because of the inadequacy of accounting records for the Department of Agriculture, United States Forest Service, we were unable to form an opinion regarding expenditures for the Fiscal 2000 *Work Plan* with respect to the Department of Agriculture, United States Forest Service.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the *Exxon Valdez* Oil Spill Trustee Council, Trust Funds, taken as a whole. The accompanying Schedules of Expenditures and Obligations - Budget and Actual, and Schedule of Fiscal 1999 *Work Plan* Status as of September 30, 2000 on pages 21 through 31, are presented for purposes of additional analysis and are not a required part of the financial statements. With the exception of the Department of Agriculture, United States Forest Service Schedule of Expenditures and Obligations - Budget and Actual on page 25, described above, and the Schedule of Fiscal 1999 *Work Plan* Status as of September 30, 2000, on page 31 on which we express no opinion and which are marked "unaudited," the information in these schedules has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Elger, Keltfeld & Fink, LLC

February 9, 2001

### Exxon Valdez Oil Spill Trustee Council Alaska Department of Fish and Game Schedule of Expenditures and Obligations - Budget and Actual Fiscal Year Ending September 30, 2000

Project Number	Project Title	Budg	;et	Exp	Actual cenditures bligations		ver) Under xpended
00025-CLO	Mechanisms of Impact and Potential Recovery of Nearshore Vertebrate Predators (NVP)	\$2	2,200	\$	22,197	\$	3
00052	Community Involvement/Traditional Ecological Knowledge	20	1,500		201,500		-
00064-CLO	Monitoring, Habitat Use, and Trophic Interactions of Harbor Seals in Prince William Sound		9,400		127,486		1,914
00100	Administration, Science Management, and Public Information	1,37	4,000		1,168,478		205,522
00126	Habitat Protection and Acquisition Support	1	5,800		15,764		36
00127	Tatitlek Coho Salmon Release	1	1,400		11,400		-
00139A2	Port Dick Creek Tributary Restoration and Development	4	6,600		47,577		(977)
00163L	APEX: Historical Data Review		8,300		8,280		20
00163T	APEX: Aerial Surveys	9	1,000		90,310		690
00190	Construction of Linkage Map for the Pink Salmon Genome	33	1,000		331,000		-
00210	Youth Area Watch	12	2,000		122,000		-
00225	Port Graham Pink Salmon Subsistence Project		5,000		75,000		-
00245	Community-Based Harbor Seal Management and Biological Sampling		6,500		56,456		44
00247	Kametolook River Coho Salmon Subsistence Project	2	3,200		15,156		8,044
00250	Project Management		4,900		140,457		14,443
00256B	Sockeye Salmon Stocking at Solf Lake		9,100		28,492		10,608
00263	Assessment, Protection and Enhancement of Salmon Streams in Lower Cook Inlet		3,400		23,400		-
00273	Surf Scoter Life History and Ecology: Linking Satellite Technology with Traditional Knowledge to Conserve the Resource	20	5,400		205,188		212
00278	Development of an Ecological Characterization and Site Profile for Kachemak Bay/Lower Cook Inlet	4	4,100		42,074		2,026
00320-BAA	Sound Ecosystem Assessment (SEA): Publishing the Integrated Final Report and a Program Synthesis		6 <u>,2</u> 00		6,200		-
00327	Pigeon Guillemot Restoration Research at the Alaska SeaLife Center	2	0,400		20,400		-
00340	Toward Long-Term Oceanographic Monitoring of the Gulf of Alaska Ecosystem	6	5,900		63,635		2,265
00341	Harbor Seal Recovery: Controlled Studies of Health and Diet	21	6,100		214,565		1,535
00348-CLO	Response of River Otters to Oil Contamination: A Controlled Study of Biological Stress Markers	5	0,600		50,482		118
00366	Improved Salmon Escapement Enumeration Using Remote Video and Time-Lapse Recording Technology	4	6,500		44,040		2,460
00371	Effects of Harbor Seal Metabolism on Stable Isotope Ratio Tracers	16	3,100		163,100		-
00374	Coordination and Planning for Herring Research	3	5,500		35,500		-
00375-CLO	Effect of Herring Egg Distribution and Ecology on Year-Class Strength and Adult Distribution		8,000		48,000		-
00379-CLO	Assessment of Risk Caused by Residual Oil in Prince William Sound Using P450 Activity in Fishes		9,000		29,000		-
00389	3-D Ocean State Simulations for Ecosystem Applications from 1995-98 in Prince William Sound		25,300		124,938		362
00391	CIIMS: Cook Inlet Information Management/Monitoring System	2	26,000		19,955	(a)	6,045
						(Contin	ued)

See Independent Auditors' Report on Supplementary Restoration Project Information and Notes Thereto.

## Exxon Valdez Oil Spill Trustee Council Alaska Department of Fish and Game Schedule of Expenditures and Obligations - Budget and Actual Fiscal Year Ending September 30, 2000

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Project Number	Project Title	Budget	Actual Expenditures & Obligations	(Over) Under Expended
(Continued)				
00407	Harlequin Duck Population Dynamics	63,800	63,862	(62)
00423	Patterns and Processes of Population Change in Selecteed Nearshore Vertebrate Predators	36,800	36,764	.36
00441	Harbor Seal Recovery: Effects of Diet on Lipid Metabolism and Health	191,600	191,599	1
00462	Effects of Disease on Pacific Herring Population Recovery in Prince William Sound	74,600	70,357	4,243
00478	Testing Satellite Tags as a Tool for Identifying Critical Habitat	29,100	29,050	50
00481	Documentary Film on the Oil Spill Impacts on Subsistence Use of Intertidal Resources	8,600	8,600	-
00493	Statistically-Based Sampling Strategies for Gulf of Alaska Ecosystem Trawl Survey Monitoring	1,200	-	1,200
00509	Long-Term Monitoring of Harbor Seal Populations: Development of an Experimental Design	51,800	51,359	441
00510-BAA	Recovery on Intertidal Communities and Recommendations for Future Monitoring	9,100	9,002	98
00530	Lessons Learned: Evaluating Scientific Sampling of Oil Spill Effects	11,800	6,880	4,920
00605	Information Transfer to Resource Managers, Stakeholders, and General Public	19,800	-	19,800
00610	Kodiak Island Youth Area Watch	61,800	61,800	-
00630	Planning for Long-Term Research and Monitoring Program	20,500	19,416	1,084
	Alaska Department of Fish and Game Totals	\$ 4,387,900	\$ 4,100,719	<u>\$ 287,181</u>

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## Exxon Valdez Oil Spill Trustee Council Alaska Department of Environmental Conservation Schedule of Expenditures and Obligations - Budget and Actual Fiscal Year Ending September 30, 2000

Project Number	Project Title	Budget		Ex	Actual Expenditures & Obligations		(Over) Under Expended	
00100	Administration, Science Management and Public Information	\$	44,800	\$	39,285	\$	5,515	
00250	Project Management		27,900		19,714		8,186	
00391	Cook Inlet Information Management/Monitoring System		100,900		98,360		2,540	
00530	Lessons Learned: Evaluating Scientific Sampling of Oil Spill Effects		31,000		31,000			
00567	Monitoring Environmental Contaminants in the Northern Gulf of Alaska		41,400		26,968		14,432	
	Alaska Department of Environmental Conservation Totals	\$	246,000	\$	215,327	\$	30,673	

See Independent Auditors' Report on Supplementary Restoration Project Information and Notes Thereto.

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## Exxon Valdez Oil Spill Trustee Council Alaska Department of Natural Resources Schedule of Expenditures and Obligations - Budget and Actual Fiscal Year Ending September 30, 2000

Project Number	Project Title	Budget		Budget		Budget		Budget		Budget		Actual Expenditures Budget & Obligations		(Over) Under Expended	
00007A-CLO	Archaeological Index Site Monitoring	\$ 68,500		\$	67,923	\$	577								
00100	Administration, Science Management and Public Information		404,600		400,066		4,534								
00126	Habitat Protection and Acquisition Support		163,000		161,960		1,040								
00180-CLO	Kenai Habitat Restoration & Recreation Enhancement		10,800		7,982		2,818								
00250	Project Management		25,500		25,380		120								
00391	Cook Inlet Information Management/Monitoring system		187,500		186,922		578								
00530	Lessons Learned: Evaluating Scientific Sampling of Oil Spill Effects		8,300		7,688		612								
00630	Planning for Long-Term Research and Monitoring Program	<u></u>	64,200		64,180		20								
	Alaska Department of Natural Resources Totals		932,400	\$	922,101		10,299								

See Independent Auditors' Report on Supplementary Restoration Project Information and Notes Thereto.

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## Exxon Valdez Oil Spill Trustee Council Department of Agriculture, United States Forest Service Schedule of Expenditures and Obligations - Budget and Actual Fiscal Year Ending September 30, 2000 (Unaudited)

Project Number	Project Title	Budget		Actual Expenditures & Obligations		(Over) Under Expended	
00007A	Archeological Index Site Monitoring	\$	9,800	\$	-	\$	-
00100	Administration, Science Management, and Public Information		37,400		-		-
00126	Habitat Protection and Acquisition Support		110,200		-		-
00250	Project Management		21,400		-		-
00256B	Sockeye Salmon Stocking at Solf Lake		120,400		-		-
00339-CLO	Western Prince William Sound Human Use and Wildlife Disturbance Model		14,000		-		-
00391	Cook Inlet Information Management/Monitoring System		7,200		~		-
	Department of Agriculture, United States Forest Service Totals	\$	320,400	\$	-	\$	-

See Independent Auditors' Report on Supplementary Restoration Project Information and Notes Thereto.

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## Exxon Valdez Oil Spill Trustee Council Department of Interior, Fish and Wildlife Service Schedule of Expenditures and Obligations - Budget and Actual Fiscal Year Ending September 30, 2000

Project Number	Project Title	Budget		Actual Expenditures Budget & Obligations		(Over) Under Expended	
00007A-CLO	Archaeological Index Site Monitoring	\$ 11,900		\$	7,614	\$	4,286
00144A-CLO	Common Murre Population Monitoring		15,400		13,667		1,733
00159	Surveys to Monitor Marine Bird Abundance in Prince William		233,600		239,946		(6,346)
	Sound During Winter and Summer: Report and Publication						
00163B	APEX: Seabird Interactions		90,000		81,973		8,027
00163E	APEX: Kittiwakes		92,000		92,120		(120)
00163F	APEX: Guillemots		83,100		84,122		(1,022)
00163J	APEX: Barren Islands Seabird Studies		73,800		71,017		2,783
00163K	APEX: Large Fish as Samplers		17,600		18,197		(597)
00163R	APEX: Marbled Murrelet Productivity		92,800		94,991	<u> </u>	(2,191)
	Department of Interior - Fish and Wildlife Service Totals	<u>\$</u>	710,200		703,647	\$	6,553

## *Exxon Valdez* Oil Spill Trustee Council Department of Interior, U.S. Geological Survey Schedule of Expenditures and Obligations - Budget and Actual Fiscal Year Ending September 30, 2000

Project Number	Project Title	Budget		Budget		Actual Expenditures & Obligations		(Over) Under Expended	
00025-CLO	Mechanisms of Impact and Potential Recovery of Nearshore Vertebrate Predators (NVP)	\$	151,000	\$	151,586	\$	(586)		
00163L	APEX: Barren Island Survey & Historical Data Review		8,400		7,811		589		
00163M	APEX: Response of Seabirds to Forage Fish Density		181,900		183,376		(1,476)		
00169-CLO	A Genetic Study to Aid in Restoration of Murres, Guillemots, and Murrelets in the Gulf of Alaska		19,200		19,153		47		
00306	Ecology and Demographics of Pacific Sand Lance in Lower Cook Inlet		20,000		20,009		(9)		
00327	Pigeon Guillemot Restoration Research at the Alaska SeaLife Center		172,400		172,377		23		
00338	Survival of Adult Murres and Kittiwakes in Relation to Forage Fish Abundance		59,700		60,876		(1,176)		
00391	Cook Inlet Information Management/Monitoring System		39,400		38,816		584		
00423	Patterns and Processes of Population Change in Selected Nearshore Vertebrate Predators		163,500		163,243		257		
00459	Residual Oiling of Armored Beaches and Mussel Beds in the Gulf of Alaska		35,700		35,598		102		
00466-CLO	Recovery Status of Barrow's Goldeneyes		14,800		14,825		(25)		
00478	Testing Satellite Tags as a Tool for Identifying Critical Habitat		77,000		66,836		10,164		
00479	Effects of Food Stress on Survival and Reproductive Performance of Seabirds		125,200		125,006		194		
00599	Evaluation of Yakataga Oil Seeps as Regional Background Hydrocarbon Sources in Benthic Sediments of the spill Area	<u>.</u>	21,800		21,039		761		
	Department of Interior - U.S. Geological Survey Totals	<u>\$</u>	1,090,000		1,080,551		9,449		

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#### Exxon Valdez Oil Spill Trustee Council Department of Interior, Office of the Secretary Schedule of Expenditures and Obligations - Budget and Actual Fiscal Year Ending September 30, 2000

Project Number	Project Title	 Budget	Actual penditures Obligations	``	er) Under (pended
00100	Administration, Science Management and Public Information	\$ 110,200	\$ 101,408	\$	8,792
00126	Habitat Protection and Acquisition Support	116,800	120,035		(3,235)
00250	Project Management	70,200	70,021		179
00501	Protocols for Long-Term Monitoring of Seabird Ecology in the Gulf of Alaska	39,900	38,656		1,244
00530	Lessons Learned: Evaluating Scientific Sampling of Oil Spill Effects	 8,200	 6,102		2,098
	Department of Interior - Office of the Secretary Totals	\$ 345,300	\$ 336,222	\$	9,078

See Independent Auditors' Report on Supplementary Restoration Project Information and Notes Thereto.

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#### Exxon Valdez Oil Spill Trustee Council U.S. Department of Commerce, National Oceanic and Atmospheric Administration Schedule of Expenditures and Obligations - Budget and Actual Fiscal Year Ending September 30, 2000

Project Number	Project Title	Budget	Actual Expenditures & Obligations	(Over) Under Expended
00012A-BAA	Photographic and Acoustic Monitoring of Killer Whales in	\$ 82,900	\$ 83,514	\$ (614)
	Prince William Sound and Kenai Fjords	<b>22</b> 000	01.54	(1.064)
00025-CLO	Mechanisms of Impact and Potential Recovery of Nearshore Vertebrate Predators (NVP)	22,800	24,764	(1,964)
00048-BAA	Publication: Historical Analysis of Sockeye Salmon Growth Among Populations Affected by the Oil Spill and Large Spawning Escapements	10,300	10,345	(45)
00090-CLO	Monitoring of Oiled Mussel Beds in Prince William Sound	64,000	61,571	2,429
00100	Administration, Science Management and Public Information	62,900	63,000	(100)
00163A	APEX: Forage Fish Assessment	113,500	113,448	52
00163G	APEX: Seabird Energetics	86,200	86,854	(654)
001631	APEX: Seaond Energenes APEX: Project Management	42,600	42,888	(288)
00163L	APEX: Historical Data Review	31,900	26,651	5,249
	APEX: Statistical Review	29,700	29,957	(257)
001630				(681)
00163Q	APEX: Modeling	92,100	92,781	
00163S	APEX: Jellyfish as Competitors and Predators of Fishes	95,200	95,906	(706)
00195	Pristane Monitoring in Mussels	54,900	52,420	2,480
00250	Project Management	102,000	101,837	163
00287-BAA	Seabird-Oceanographic Realtionships in the Northern Gulf of Alaska: Integration with NSF/NOAA Study GLOBEC	151,300	152,373	(1,073)
00290	Hydrocarbon Data Analysis, Interpretation, and Database Maintenance	55,500	53,876	1,624
00320-BAA	Sound Ecosystem Assessment (SEA): Publishing the Integrated Final Report and a Program Synthesis	113,800	110,022	3,778
00330-BAA	Mass-Balance Model of Trophic Fluxes in Prince William Sound	25,300	25,431	(131)
00347-CLO	Fatty Acid Profile and Lipid Class Analysis for Estimating Diet Composition and Quality at Different Trophic Levels	35,500	34,962	538
00360-BAA	The <i>Exxon Valdez</i> Oil Spill: Guidance for Future Research Activities	304,800	306,810	(2,010)
00379-CLO	Assessment of Risk Caused by Residual Oil in Prince William Sound Using P450 Activity in Fishes	3,100	-	3,100
00393-BAA	Prince William Sound Food Webs: Structure and Change	153,700	154,850	(1,150)
00396	Alaska Shark Assessment	86,000	82,841	3,159
00401	Assessment of Spot Shrimp Abundance in Prince William Sound	88,700	87,675	1,025
00414-BAA	Development of Web-Based System for Communicating Ecosystem Research Results to the public	26,800	26,940	(140)
00454	Evidence and Consequences of Persistent Oil Contamination in Pink Salmon Natal Habitats	334,100	332,366	1,734
00455-BAA	An Evaluation of the Data System for the EVOS Long-Term Monitoring Program	89,000	89,656	(656)
00459-CLO	Residual Oiling of Armored Beaches and Mussel Beds in the Gulf of Alaska	4,300	5,233	(933)
00476	Effects of Oiled Incubation Substrate on Pink Salmon Reproduction	74,800	71,194	3,606
	•		(	(Continued)

See Independent Auditors' Report on Supplementary Restoration Project Information and Notes Thereto.

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#### Exxon Valdez Oil Spill Trustee Council U.S. Department of Commerce, National Oceanic and Atmospheric Administration Schedule of Expenditures and Obligations - Budget and Actual Fiscal Year Ending September 30, 2000

Project Number	Project Title	Budget	Actual Expenditures & Obligations	(Over) Under Expended
(Continued)				
00482-BAÁ	Optimization of Rapid Diagnostic Test Kits for Paralytic Shellfish Poisoning and Amnesic Shellfish Poisoning	55,600	56,035	(435)
00493	Statistically-Based Sampling Strategies for Gulf of Alaska Ecosystem Trawl Survey Monitoring	33,300	32,963	337
00510-BAA	Recovery of Intertidal Communities and Recommendations for Future Monitoring	39,700	39,979	(279)
00516-BAA	Publication: Comparative Habitat Use by Kittlitz's and Marbled Murrelets	21,000	21,121	(121)
00530	Lessons Learned: Evaluating Scientific Sampling of Oil Spill Effects	19,100	16,974	2,126
00541-BAA	Publication: Prince William Sound Isotope Ecology	15,000	15,486	(486)
00522-BAA	Exchange Between Prince William Sound and the Gulf of Alaska	114,400	115,195	(795)
00567	Monitoring Environmental Contaminants in the Northern Gulf of Alaska	13,300	17,994	(4,694)
00598	Publication: Resolution of Mixtures Containing <i>Exxon Valdez</i> Oil and Regional Background Hydrocarbons in Subtidal Sediments	13,500	13,780	(280)
00599	Evaluation of Yakataga Oil Seeps as Regional Background Hydroocarbon Sources in Benthic Sediments of the Spill Area	53,800	51,409	2,391
	U.S. Department of Commerce, National Oceanic and Atmospheric Administration Totals	\$ 2,816,400	\$ 2,801,101	\$ 15,299

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### Exxon Valdez Oil Spill Trustee Council Schedule of Fiscal 1999 Work Plan Status as of September 30, 2000 (Unaudited)

	Budget	Actual Expenditures & Obligations as of 9/30/00	Unobligated Balance as of 9/30/00
Alaska Departments of:			
Fish & Game	\$ 7,082,300	\$ 6,602,565	\$ 479,735
Environmental Conservation	226,400	217,071	9,329
Natural Resources	1,630,400	1,345,515	284,885
Total State of Alaska	8,939,100	8,165,151	773,949
United States Departments of:			
Agriculture, United States Forest Service	669,700	538,346	131,354
Interior:			
Fish & Wildlife Service	1,077,000	1,044,224	32,776
U.S. Geological Survey	1,305,300	1,298,589	6,711
National Park Service	15,200	-	15,200
Office of the Secretary	444,500	330,088	114,412
Commerce, National Oceanic & Atmospheric			
Administration	2,461,400	2,418,314	43,086
Total United States	5,973,100	5,629,561	343,539
Totals	\$ 14,912,200	\$ 13,794,712	\$ 1,117,488

See Notes 5 and 6 of the Notes to Supplementary Information Related to Restoration Projects on Page 34 for additional discussion relating to this schedule.

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## INFORMATION

## NOTES TO SUPPLEMENTARY INFORMATION RELATED TO RESTORATION PROJECTS

#### Fiscal Year Ended September 30, 2000

#### 1. PRESENTATION

- The information presented in the accompanying Schedules of Expenditures and Obligations Budget and Actual present the budgets for each project approved by the *Exxon Valdez* Trustee Council (Council) as included in the Council's *Fiscal Year 2000 Work Plan*, and any amendments approved thereto, along with expenditures and obligations incurred by the Trustee Agencies in carrying out the Fiscal 2000 restoration projects, only. The information presented is not intended to present the results of operations of any other activities conducted by the Trustee Agencies. Expenditures incurred by the Trustee Agencies in Fiscal 2000 relating to restoration projects of prior years and to the liquidation of prior year encumbrances, are also not presented. The procedures used to develop and implement the project budgets for Fiscal 2000 are discussed in Note 6 to the Trust Fund Financial Statements.
- The schedules titled "Department Total" for each agency reflect total budgets, expenditures and obligations for each Trustee Agency.

#### 2. BASIS OF ACCOUNTING

- Basis of accounting refers to when revenues, expenditures and the related assets and liabilities are recorded in the accounts and financial statements. Specifically, it relates to the timing of the financial measurements made, regardless of the measurement focus applied.
- As discussed in Note 2 to the Trust Fund Financial Statements, the State of Alaska accounts for the expenditure of funds from the State of Alaska, Exxon Valdez Oil Spill Settlement Trust (Settlement Trust) on the modified accrual basis of accounting.
- As discussed in Note 2 to the Trust Fund Financial Statements, the United States accounts for the U.S. Department of the Interior, Fish and Wildlife Service, Natural Resources Damage Assessment and Restoration Fund (NRDA&R) on the cash basis of accounting. However, the United States Trustee Agencies use modified accrual accounting to account for the expenditure of funds within each agency. Expenditures are recorded when the related liability is incurred. Encumbrance (obligation) accounting, under which purchase orders and contracts for the expenditure of moneys are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of the formal budgetary integration of the United States Government. Encumbrances (obligations) outstanding at year-end are included in the Actual Expenditures & Obligations column in the accompanying Schedules of Expenditures and Obligations Budget and Actual.

#### 3. FINANCIAL OPERATING PROCEDURES

On September 21, 1992, the Council adopted <u>Financial Operating Procedures</u> (Procedures) to be used by the United States and State of Alaska Trustee Agencies in conducting restoration projects. The objective of the Procedures was to ensure public trust and accountability while maximizing the Council's ability to use settlement funds for approved restoration activities. On August 29, 1996, the Trustee Council adopted Procedures that supersede the Operating Procedures adopted by the Trustee Council September 21, 1992. On August 3, 2000, the Trustee Council adopted Procedures that supersede the Operating Procedures adopted by the Trustee Council August 29, 1996. The purpose of the adopted Procedures was to provide guidance regarding the authorities and responsibilities of agencies that receive Joint Trust Funds approved by the Trustee Council.

## NOTES TO SUPPLEMENTARY INFORMATION RELATED TO RESTORATION PROJECTS

#### Fiscal Year Ended September 30, 2000

#### 3. FINANCIAL OPERATING PROCEDURES (Continued)

#### Adjustments [Variable]

The Procedures allow Trustee Agencies to transfer funds into or out of projects up to the cumulative amount of \$25,000 or up to ten percent of the authorized level of funding for each affected project, whichever is less, provided that such transfers will not alter the underlying scope or objectives of the project. The Council must approve transfers in excess of this amount. The budget amounts presented include transfers made between projects by the agencies, which were approved by the Executive Director or were made in accordance with the Procedures.

#### Single Project Budget Transfers

The Procedures authorize Trustee Agencies to transfer, within a single project, budgeted funds between object classes (such as personnel, travel and contractual costs), and may change detailed items of expenditure, including specific personnel, to accommodate circumstances encountered during budget implementation, provided that such transfers will not alter the underlying scope or objectives of the project. The budget amounts presented do not include such transfers made by the agencies.

#### General Administration

- The Procedures include a provision for general administration costs to be included in the budgets of the restoration projects. Actual recovery of general administrative costs shall be in proportion to actual direct costs and is limited to:
  - 1. Fifteen percent of each project's actual personnel costs; and
  - 2. Seven percent of the first \$250,000 of each projects actual contractual costs, plus two percent of project's actual contractual costs in excess of \$250,000.
- Amounts budgeted and expended on projects for general administration are included in the personnel and contractual lines as appropriate in the accompanying Schedules of Expenditures and Obligations Budget and Actual.

#### 4. SETTLEMENT TRUST RECONCILIATION

Total Current Operating Expenditures reflected in the State of Alaska, *Exxon Valdez* Oil Spill Settlement Trust (Settlement Trust), Statement of Revenues, Expenditures and Changes in Fund Balances reconcile to Actual Expenditures and Obligations reflected in the accompanying "Department Totals" Schedules of Expenditures and Obligations - Budget and Actual for each State Trustee Agency as follows:

Actual Expenditures and Obligations, "Department Totals"		
Schedules of Expenditures and Obligations - Budget and Actual, Alaska Department of Fish and Game	\$	4,100,719
Alaska Department of Environmental Conservation		215,327
Alaska Department of Natural Resources		922,101
Total		5,238,147
Add: Prior Years' Encumbrances Liquidated During Fiscal 2000		935,672
Less: Encumbrances Outstanding at September 30, 2000 Relating to Fiscal 2000 Restoration Projects		(459,506)
Total Current Operating Expenditures, Settlement Trust Statement of Revenues, Expenditures and Changes in Fund Balances	<u>\$</u>	5,714,313

## NOTES TO SUPPLEMENTARY INFORMATION RELATED TO RESTORATION PROJECTS

#### Fiscal Year Ended September 30, 2000

### 5. CURRENT STATUS OF 1999 WORK PLAN RESTORATION PROJECTS

- Total expenditures and obligations relating to 1999 Work Plan Restoration Projects for each agency as of September 30, 2000 is presented on pages 31. This information is included in order to reflect any changes in expenditures and obligations from amounts previously reported.
- The significant changes in the amounts previously reported, are due to encumbrances existing at September 30, 1999 which, during fiscal 2000, were liquidated due to incurring less expenditures under contracts than the amounts originally anticipated by the agencies.

#### 6. INADEQUATE ACCOUNTING RECORDS

Beginning August 2000 and continuing through the completion of the fiscal 2000 audit, the United States Department of Agriculture, United States Forest Service's accounting system was unable to provide reliable actual expenditures and obligations reports for any *Exxon Valdez* Oil Spill projects. As a result, the Fiscal 2000 Schedule of Expenditure and Obligations – Budget and Actual does not include actual expenditure and obligation amounts for the USFS. (See page 25.) Fiscal year 1999 actual expenditures and obligations as of September 30, 2000 were also not available. Accordingly, amounts previously reported on page 31 for fiscal year 1999 have not been updated in the Schedule of Status of Prior Year Projects for the USFS.

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ADDITIONAL REPORTS



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ELGEE, REHFELD & FUNK, LLC

Certified Public Accountants

#### INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

## Members, *Exxon Valdez* Oil Spill Trustee Council, Anchorage, Alaska:

We have audited the financial statements of the *Exxon Valdez* Oil Spill Trustee Council, Court Registry Investment System, Exxon *Valdez* Oil Spill Settlement Account as of and for the year ended September 30, 2000, and have issued our report thereon dated February 9, 2001. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Compliance

As part of obtaining reasonable assurance about whether the *Exxon Valdez* Oil Spill Trustee Council, Court Registry Investment System, *Exxon Valdez* Oil Spill Settlement Account's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the *Exxon Valdez* Oil Spill Trustee Council, in a separate letter dated February 9, 2001.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the *Exxon Valdez* Oil Spill Trustee Council, Court Registry Investment System, *Exxon Valdez* Oil Spill Settlement Account's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting that we consider to be a material weakness. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the *Exxon Valdez* Oil Spill Trustee Council in a separate letter dated February 9, 2001.

This report is intended for the information of the *Exxon Valdez* Oil Spill Trustee Council and management, and is not intended to be and should not be used by anyone other than these specified parties.

Elger, Ruhfeld & Funk, LIC

February 9, 2001



#### 9309 Glacier Highway, Suite B-200 · Juneau, Alaska 99801 Phone: 907-789-3178 · FAX: 907-789-7128 INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

## Members, *Exxon Valdez* Oil Spill Trustee Council, Anchorage, Alaska:

We have audited the financial statements of the *Exxon Valdez* Oil Spill Trustee Council, U.S. Department of the Interior, Natural Resource Damage Assessment and Restoration Fund as of and for the year ended September 30, 2000, and have issued our report thereon dated February 9, 2001. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Compliance

As part of obtaining reasonable assurance about whether the *Exxon Valdez* Oil Spill Trustee Council, U.S. Department of the Interior, Natural Resource Damage Assessment and Restoration Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the *Exxon Valdez* Oil Spill Trustee Council, in a separate letter dated February 9, 2001.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the *Exxon Valdez* Oil Spill Trustee Council, U.S. Department of the Interior, Natural Resource Damage Assessment and Restoration Fund's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect U.S. Department of Agriculture, United States Forest Service's ability to record, process, summarize, and report financial data consistent with the assertions of management in the *Exxon Valdez* Oil Spill Trustee Council, U.S. Department of the Interior, Natural Resource Damage Assessment and Restoration Fund's financial statements. The reportable condition is as follows:

*Condition:* Beginning August 2000 and continuing through the completion of the fiscal 2000 audit, the United States Department of Agriculture, United States Forest Service's accounting system was unable to provide reliable actual expenditures and obligations reports for any *Exxon Valdez* Oil Spill projects.

*Criteria:* Proper internal controls dictate that manager be able to review the results of operations for areas under their responsibility on a regular basis.

*Effect:* USFS project managers were unable to monitor expenditures and availability of budgetary funds on any *Exxon Valdez* Oil Spill projects.

*Recommendation:* Procedures should be implemented to ensure that actual expenditure and obligation information is available on a timely basis.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we consider the reportable condition described above to be a material weakness. We also noted other matters involving the internal control over financial reporting that we have reported to management of the *Exxon Valdez* Oil Spill Trustee Council in a separate letter dated February 9, 2001.

This report is intended for the information of the *Exxon Valdez* Oil Spill Trustee Council and management, and is not intended to be and should not be used by anyone other than these specified parties.

Elgel, Relited & Funk, LLC

February 9, 2001



#### 9309 Glacier Highway, Suite B-200 · Juneau, Alaska 99801 Phone: 907-789-3178 · FAX: 907-789-7128 INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

## Members, *Exxon Valdez* Oil Spill Trustee Council, Anchorage, Alaska:

We have audited the financial statements of the *Exxon Valdez* Oil Spill Trustee Council, State of Alaska, *Exxon Valdez* Oil Spill Settlement Trust as of and for the year ended September 30, 2000, and have issued our report thereon dated February 9, 2001. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Compliance

As part of obtaining reasonable assurance about whether the *Exxon Valdez* Oil Spill Trustee Council, State of Alaska, *Exxon Valdez* Oil Spill Settlement Trust's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the *Exxon Valdez* Oil Spill Trustee Council, in a separate letter dated February 9, 2001.

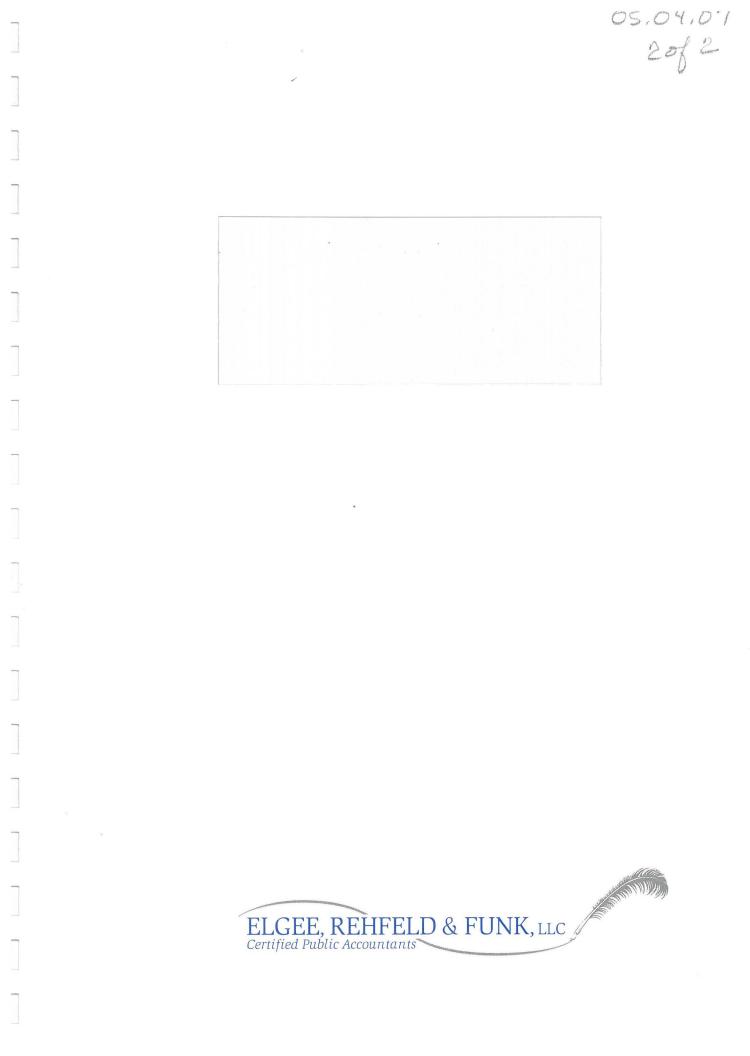
#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the *Exxon Valdez* Oil Spill Trustee Council, State of Alaska, *Exxon Valdez* Oil Spill Settlement Trust's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting that we consider to be a material weakness. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the *Exxon Valdez* Oil Spill Trustee Council in a separate letter dated February 9, 2001.

This report is intended for the information of the *Exxon Valdez* Oil Spill Trustee Council and management, and is not intended to be and should not be used by anyone other than these specified parties.

Elgee, Mehreld & Funk, LLC

February 9, 2001



Internal Control and Operating Comments

February 9, 2001

## INTERNAL CONTROL AND OPERATING COMMENTS AND RECOMMENDATIONS

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TRUSTEE AGENCY RESPONSES

**APPENDIX 1** 

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Summer and

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Certified Public Accountants

ELGEE, REHFELD & FUNK, LLC 4

February 9, 2001

Members, *Exxon Valdez* Oil Spill Trustee Council, Anchorage, Alaska:

Dear Members:

In planning and performing our audit of the financial statements of the *Exxon Valdez* Oil Spill Trustee Council Trust Funds as of and for the year ended September 30, 2000, we considered the internal control structure used to administer the Trust Funds and used to expend funds related to restoration projects conducted by the Federal and State Trustee Agencies. This was done in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. We have not considered the internal control structure since the date of our report.

However, during our audit we noted certain matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated February 9, 2001, on the financial statements of the *Exxon Valdez* Oil Spill Trustee Council, Trust Funds. Following our comments, we have listed our internal control and operating comments identified during our fiscal 1999 audit and the status of those comments as of our current year audit.

We have organized our comments by Trustee Agency. Those comments that relate to all Trustee Agencies or to other matters that came to our attention precede the individual Trustee Agency comments.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with appropriate personnel, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

We would also like to thank Molly McCammon, Debbie Hennigh and the members of the Federal and State Trustee Agencies with whom we worked for their assistance during the audit. They worked very intently to ensure that the audit was completed as smoothly and as efficiently as possible.

Sincerely,

Elgel, Ketteld & Front, LLC

### UNITED STATES DEPARTMENT OF INTERIOR, OFFICE OF THE SECRETARY

#### **Use of Project Management Funds**

#### Finding-

Project #00100, *Public Information, Science Management and Administration*, provides overall support for science management, public involvement and administration of the restoration program through the Restoration Office. This includes funding support for public involvement efforts and support for Trustee agency participation in the restoration program. At the United State Fish and Wildlife Service Project #00100 funds are budgeted by the Trustee Council for a Restoration Work Force Liaison. At other Trustee Agencies, the person budgeted to this position is actively involved in restoration activities of the Agency in support of the goals of the Trustee Council and is the person with whom we have predominant contact. At FWS it appears that this function is performed principally by Kent Wohl, Chief, Branch of Non Game Migratory Bird. Kent provides oversight of projects at FWS and performs other functions we expect of a liaison. FWS used the project #00100 funds, however, to fund the personnel costs of another individual at FWS who does not appear to perform the duties expected of a Liaison.

#### Recommendation -

We recommend that FWS consider redirecting future Liasion funding to the individual or individuals who perform project management.

#### **Return Unspent Funds from Prior Year Projects**

#### Finding -

The Trustee Council Agencies are required by the Trustee Council's Operating Procedures (OPs) to return all unspent funds from prior year projects to NRDA&R. It does not appear that all unspent / unobligated funds have been returned for fiscal year 1999.

#### **Recommendation** -

We recommend that DOI-O/S investigate its prior year EVOS projects and determine whether funds exist that should be returned to NRDA&R. Unspent or unobligated Project funding should be identified, reported to the Restoration Office and returned to NRDA&R.

## UNITED STATES DEPARTMENT OF INTERIOR, FISH AND WILDLIFE SERVICE

#### Unallowable Direct Project Costs

#### Finding-

During our audit of Project #00159, Surveys to Monitor Marine Bird Abundance in Prince William Sound During Winter and Summer 2000, and Project #00163R, Marbled Murrelets Distribution and Productivity Relative to Forage Fish and Other Environmental Factors in Prince William Sound, we noted that bonuses and 'on-thespot' awards were awarded to several PI's and project personnel in the amount of \$7,500, with corresponding general administration (GA) of \$1,100. The OPs require that authorization to expend personal services shall be consistent with the budgets approved by the Trustee Council (DPD). Those procedures also require that costs attributable to a project must be necessary and reasonable. From reviewing the DPD for these projects, no apparent provision was made for the payment of award bonuses. Although the bonuses were paid in accordance with DOI-FWS policy, they do not pass the 'necessary cost' test of project expenditures.

#### Recommendation -

We recommend that the Resoration Office determine whether the questioned costs should be disallowed and returned to NRDA&R. In addition, we recommend the Trustee Council set a policy or modify the current OPs to allow bonuses under appropriate circumstances.

#### **Compliance With Annual Reporting Requirements**

#### Finding –

The OPs establish a close-out period and stipulate that by January 31 <sup>st</sup> of each year, Agencies will report to the Executive Director the total expended for each project, plus any obligations relating to the fiscal year just ended. During the current year audit, we noted that FWS did not complete the close-out process prior to December 31<sup>st</sup>. As such, the agencies were unable to report on expenditures and obligations by January 31<sup>st</sup>.

#### Recommendation -

We recommend that FWS continue to be aware of the deadline for submitting project expenditures and obligations, and structure their internal policies and procedures to comply with this requirement.

#### **Return Unspent Funds From Prior Year Projects**

#### Finding –

The Trustee Council Agencies are required by the OPs to return all unspent funds from prior year projects to NRDA&R. It does not appear that all unspent or unobligated funds have been returned for fiscal 1999.

#### Recommendation -

We recommend that FWS investigate its prior year EVOS projects and determine whether funds exist that should be returned to NRDA&R. Unspent or unobligated Project funding should be identified, reported to the Restoration Office and returned to NRDA&R.

# UNITED STATES DEPARTMENT OF INTERIOR, UNITED STATES GEOLOGICAL SURVEY

#### **Return Unspent Funds From Prior Year Projects**

#### Finding -

The Trustee Council Agencies are required by the OPs to return all unspent funds from prior year projects to NRDA&R. It does not appear that all unspent or unobligated funds have been returned for fiscal 1999.

#### Recommendation -

We recommend that USGS investigate its prior year EVOS projects and determine whether funds exist that should be returned to NRDA&R. Unspent or unobligated Project funding should be identified, reported to the Restoration Office and returned to NRDA&R.

## UNITED STATES DEPARTMENT OF INTERIOR, NATIONAL PARK SERVICE

We have no comments with respect to the United States Department of Interior, National Park Service.

# UNITED STATES DEPARTMENT OF COMMERCE, NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION

#### **Unallowable Direct Project Costs**

#### Finding -

During our audit of Project #00454 Evidence and Consequences of Persistent Oil Contamination in Pink Salmon Natal Habitats, we noted a contract with Tal Air for flights to take place in FY01. This was done to get a new project underway for FY01 that had not yet received funds using FY00 funds from a project that had funds remaining. The OPs require that authorization to expend funds shall be consistent with the budgets approved by the Trustee Council (DPD). Those procedures also require that costs attributable to a project must be incurred within the fiscal year beginning October 1<sup>st</sup> and ending September 30<sup>th</sup> unless the Trustee Council has approved a different fiscal year. Expenditures for this contract are clearly outside the Operating Procedures for funds approved for Project #00454 by the Trustee Council. The total questioned costs for this contract, along with the associated GA is \$10,786.

#### Recommendation -

We recommend that the Restoration Office determine whether the questioned costs should be disallowed and returned to NRDA&R.

#### **Improve Monitoring of General Administration Costs**

#### Finding -

The OPs allow for restoration project budgets to include costs related to general administration of the projects. The general administration funds are intended to reimburse the Trustee Agencies for indirect costs such as office space, office utilities, fixed telephone charges and all normal agency services for administering the projects. The general administration budgets are calculated based on a percentage of direct project costs – 15 percent of each project's direct personnel cost, and 7 percent of the first \$250,000 of each project's contract cost, plus 2 percent of contract cost in excess of \$250,000. During our audit, we noted that GA portion of each project's budget is separated in NOAA's accounting system. This enables it to be monitored as projects are expended. Due to personnel turnover, the monitoring of the recoverable GA didn't take place, resulting in GA being recovered in excess of the allowable amount based on actual direct project spending. As a result NOAA recovered GA of \$21,162 in excess of the allowable amount.

#### Recommendation -

We recommend that the costs in excess of amounts allowable by the OPs be returned to NRDA&R. In addition, we recommend that NOAA personnel monitor the actual direct projects spending and calculate the allowable GA periodically to ensure the recovered amount is within the amount permissible by the OP's.

#### **Return Unspent Funds From Prior Year Projects**

#### Finding -

The Trustee Council Agencies are required by the OPs to return all unspent funds from prior year projects to NRDA&R. It does not appear that all unspent or unobligated funds have been returned for fiscal 1999.

#### Recommendation -

We recommend that NOAA investigate its prior year EVOS projects and determine whether funds exist that should be returned to NRDA&R. Unspent or unobligated Project funding should be identified, reported to the Restoration Office and returned to NRDA&R.

#### **Compliance With Annual Reporting Requirements**

#### Finding –

The OPs establish a close-out period and stipulate that by January 31st of each year, Agencies will report to the Executive Director the total expended for each project, plus any obligations relating to the fiscal year just ended. During the current year audit, we noted that NOAA did not complete the close-out process prior to December 31<sup>st</sup>. As such, the agencies were unable to report on expenditures and obligations by January 31<sup>st</sup>.

#### Recommendation -

We recommend that NOAA continue to be aware of the deadline for submitting project expenditures and obligations, and structure their internal policies and procedures to comply with this requirement.

## UNITED STATES DEPARTMENT OF AGRICULTURE, UNITED STATES FOREST SERVICE

#### **Provide Quarterly Project Reports**

Finding -

- The OPs establish a close-out period and stipulate that by January 31<sup>st</sup> of each year, Agencies will report to the Executive Director the total expended for each project, plus any obligations relating to the fiscal year just ended. During fiscal 2000, the United States Forest Service (USFS) did not provide a quarterly project status report for the fourth quarter to the Restoration Office as required by the OPs. In August 2000 the USFS's accounting system had problems sufficient enough that reliable actual expenditure and obligation reports were not available for the fourth quarter. Accurate reports are not expected until mid-April 2001. As a result, accounting reports were not available to USFS project managers throughout the entire fiscal year.
- Proper internal controls dictate that managers be able to review the results of operations for areas under their responsibility on a regular basis. Due to the unavailability of accounting reports during all of 2000, this was not possible for those project managers responsible for restoration Projects. Our tests of detail over expenditures and obligations charged to restoration projects, however, did not identify any deficiencies over the controls in place relative to the approval of transactions to be charged to restoration projects during the year. In addition, subsequent to September 30, 2000, USFS was unable to provide materially correct actual expenditure and obligation reports. As a result, we were unable to prepare the supplementary restoration project information in the Trust Fund Financial Statements and our opinion on the supplementary information for USFS is disclaimed in the Trust Fund Financial Statements.
- Our Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* contains a reportable condition based on the above finding

#### Recommendation -

USFS should ensure that actual expenditure and obligation information is available on a timely basis in fiscal 2001 and future years. This will help to ensure that USFS personnel are able to comply with OPs requirements of the Trustee Council, and maintain proper internal controls over their restoration projects.

#### **Return Unspent Funds from Prior Year Projects**

#### Finding –

The Trustee Council Agencies are required by the OPs to return all unspent funds from prior year projects to NRDA&R. It does not appear that all unspent or unobligated funds have been returned for fiscal 1995-1999.

#### Recommendation -

We recommend that USFS investigate its prior year EVOS projects and determine whether funds exist that should be returned to NRDA&R. Unspent or unobligated Project funding should be identified, reported to the Restoration Office and returned to NRDA&R.

## **GENERAL COMMENTS**

We have no comments with respect to the general operations of the Trustee Council.

## **COURT REGISTRY INVESTMENT SYSTEM - JOINT TRUST ACCOUNT**

We have no comments with respect to the Court Registry Investment System - Joint Trust Account

# UNITED STATES, NATURAL RESOURCES DAMAGE ASSESSMENT AND RESTORATION FUND

We have no comments with respect to the United States, Natural Resources Damage Assessment and Restoration Fund.

### STATE OF ALASKA, EXXON VALDEZ OIL SPILL SETTLEMENT TRUST

We have no comments with respect to the State of Alaska, Exxon Valdez Oil Spill Settlement Trust.

#### ALASKA DEPARTMENT OF NATURAL RESOURCES

We have no comments with respect to the Alaska Department of Natural Resources.

## ALASKA DEPARTMENT OF FISH AND GAME

We have no comments with respect to the Alaska Department of Fish and Game.

## ALASKA DEPARTMENT OF ENVIRONMENTAL CONSERVATION

We have no comments with respect to the Alaska Department of Environmental Conservation.

## Internal Control and Operating Comments -Status of Prior Year Comments

Prior Year Caption	Current Status
GENERAL COMMENTS	
General Administration Budget Recovery By Agency	This issue was resolved in the current fiscal year
Compliance with Annual Reporting Requirements	See our comment in the Current Year Comments section of this letter
Timely Close-out of Capital Projects	This issue was resolved in the current fiscal year
Improve Contract Management	This issue was resolved in the current fiscal year
Return Lapsed Funds	See our comment in the Current Year Comments section of this letter with respect to individual federal agencies.
Indirect Cost Allocation Guidance in OPs	See our comment in the Current Year Comments section of this letter with respect to NOAA.

## **COURT REGISTRY INVESTMENT SYSTEM - JOINT TRUST ACCOUNT**

**Reduce Registry Fees** 

This issue was resolved in the current fiscal year.

# UNITED STATES, NATURAL RESOURCES DAMAGE ASSESSMENT AND RESTORATION FUND

We had no comments with respect to the United States, Natural Resources Damage Assessment and Restoration Fund in our prior audit.

## STATE OF ALASKA, EXXON VALDEZ OIL SPILL SETTLEMENT TRUST

We had no comments with respect to the State of Alaska, Exxon Valdez Oil Spill Settlement Trust in our prior audit.

## ALASKA DEPARTMENT OF NATURAL RESOURCES

We had no comments with respect to the Alaska Department of Natural Resources during our prior audit.

## ALASKA DEPARTMENT OF FISH AND GAME

We had no comments with respect to the Alaska Department of Fish and Game during our prior audit.

## ALASKA DEPARTMENT OF ENVIRONMENTAL CONSERVATION

We had no comments with respect to the Alaska Department of Environmental Conservation during our prior audit.

#### UNITED STATES DEPARTMENT OF INTERIOR, FISH AND WILDLIFE SERVICE

We had no comments with respect to the United States Department of Interior, Fish and Wildlife Service during our prior audit.

## UNITED STATES DEPARTMENT OF INTERIOR, UNITED STATES GEOLOGICAL SURVEY

Unallowable Direct Project Costs

This issue was resolved in the current fiscal year.

Consistent Treatment of General Administration Budgets This issue was resolved in the current fiscal year.

## UNITED STATES DEPARTMENT OF INTERIOR, NATIONAL PARK SERVICE

We had no comments with respect to the United States Department of Interior, National Park Service in our prior audit.

## UNITED STATES DEPARTMENT OF COMMERCE, NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION

We had no comments with respect to the United States Department of Commerce, National Oceanic and Atmospheric Administration during our prior audit.

## UNITED STATES DEPARTMENT OF AGRICULTURE, UNITED STATES FOREST SERVICE

Return Unspent Funds from Prior Year

See our comment in the Current Year Comments section of this letter.