# Exxon Valdez Oil Spill Trustee Council

441 W. 5th Ave., Suite 500 • Anchorage, Alaska 99501-2340 • 907/278-8012 • fax 907/276-7178



#### **MEMORANDUM**

TO:

Trustee Council

FROM:

Mølly Magammon

Executive Director

DATE:

April 4, 2002

RE:

FY 2001 Audit

Attached is your copy of the FY 2001 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 8, 2002, 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, 2001, 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, 2001. 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



ELGEE, REHFELD & FUNK, LLC
Certified Public Accountants

Internal Control and Operating Comments

February 8, 2002

# INTERNAL CONTROL AND OPERATING COMMENTS AND RECOMMENDATIONS

### **Table of Contents**

	Page
LETTER TO THE TRUSTEE COUNCIL	1_
CURRENT YEAR COMMENTS	
GENERAL COMMENTS	
Determine Allowability of Bonus Awards Improve Peer Review Results Reporting	2 2
UNITED STATES DEPARTMENT OF INTERIOR, FISH AND WILDLIFE SERVICE	
Improve Monitoring of General and Administration Costs	2
UNITED STATES DEPARTMENT OF INTERIOR, UNITED STATES GEOLOGICAL S	URVEY
Unallowable Direct Project Costs	3
UNITED STATES DEPARTMENT OF COMMERCE, NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION	
Unallowable Direct Project Costs Return Unspent Funds From Prior Year Projects Improve Controls Over Payroll	3 3 4
UNITED STATES DEPARTMENT OF AGRICULTURE, UNITED STATES FOREST SERVICE	
Return Unspent Funds from Prior Year Projects Improve Monitoring of General Administration Costs	4 5
UNITED STATES DEPARTMENT OF INTERIOR, OFFICE OF THE SECRETARY	5
COURT REGISTRY INVESTMENT SYSTEM - JOINT TRUST ACCOUNT	5
UNITED STATES, NATURAL RESOURCES DAMAGE ASSESSMENT AND RESTORATION FUND	, 5
STATE OF ALASKA, EXXON VALDEZ OIL SPILL INVESTMENT FUND	5
STATE OF ALASKA, <i>EXXON VALDEZ</i> OIL SPILL SETTLEMENT TRUST ALASKA DEPARTMENT OF NATURAL RESOURCES	6 6
ALASKA DEPARTMENT OF FISH AND GAME	6
ALASKA DEPARTMENT OF ENVIRONMENTAL CONSERVATION	6

# INTERNAL CONTROL AND OPERATING COMMENTS AND RECOMMENDATIONS

## Table of Contents (Continued)

	Page
STATUS OF PRIOR YEAR COMMENTS	
GENERAL COMMENTS	7
UNITED STATES DEPARTMENT OF INTERIOR, FISH AND WILDLIFE SERVICE	7
UNITED STATES DEPARTMENT OF INTERIOR, UNITED STATES GEOLOGICAL	
SURVEY	7
UNITED STATES DEPARTMENT OF COMMERCE, NATIONAL OCEANIC AND	
ATMOSPHERIC ADMINISTRATION	7
UNITED STATES DEPARTMENT OF AGRICULTURE, UNITED STATES FOREST	
SERVICE	7
COURT REGISTRY INVESTMENT SYSTEM - JOINT TRUST ACCOUNT	7
UNITED STATES, NATURAL RESOURCES DAMAGE ASSESSMENT AND	
RESTORATION FUND	8
STATE OF ALASKA, EXXON VALDEZ OIL SPILL INVESTMENT FUND	
STATE OF ALASKA, EXXON VALDEZ OIL SPILL SETTLEMENT TRUST	8
ALASKA DEPARTMENT OF NATURAL RESOURCES	8
ALASKA DEPARTMENT OF FISH AND GAME	8
ALASKA DEPARTMENT OF ENVIRONMENTAL CONSERVATION	
UNITED STATES DEPARTMENT OF INTERIOR, OFFICE OF THE SECRETARY	8
TRUSTEE AGENCY RESPONSES	APPENDIX 1

9309 Glacier Highway, Suite B-200 · Juneau, Alaska 99801 Phone: 907-789-3178 · FAX: 907-789-7128

February 8, 2002

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, 2001, 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 8, 2002, 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 2000 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,
Elgee, Kelifeld & Fronk, LLC

#### **GENERAL COMMENTS**

#### **Determine Allowability of Bonus Awards**

#### Finding-

During our 2000 audit of FWS 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-the-spot' 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 Operating Procedures (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. In a letter dated March 30, 2001, FWS requested the Restoration Office allow the bonuses. The Restoration Office has not yet reviewed the request.

#### Recommendation -

We recommend that the Restoration 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.

#### Improve Peer Review Results Reporting

#### Finding-

During our audit of United States Department of Interior, United States Geological Survey Project #01423, Patterns and Processes of Population Change in Selected Nearshore Vertebrate Predators, we noted that a report of project #99423 was submitted for peer review during April 2000. The peer review was not received until June 2001. The suggested changes could not be implemented due to the lateness of the report from peer review. A report of project #00423 was submitted for peer review during April 2001. The peer review response was not received as of our fieldwork in January 2002. The peer review process needs to be timely to provide for continuity of projects and to allow suggested procedural changes to be implemented.

#### Recommendation -

We recommend that project reports submitted for peer review be reviewed and the review forwarded to the submitting agency in a timely manner to allow review comments to be addressed.

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

### Improve Monitoring of General Administrative Expenditures

#### 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 the GA portion of each project's budget is separated in FWS's accounting system. This enables it to be monitored as projects are expended. Due to

inadequate training of new personnel, the monitoring of the recoverable GA didn't take place. As a result, GA recovered was over earned amount by \$1,984. Project #01630 did not have any direct expenditures, yet recovered GA of \$900.

#### Recommendation -

We recommend that the costs in excess of amounts allowable by the OPs be returned to NRDA&R. In addition, we recommend that FWS 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 OPs.

# UNITED STATES DEPARTMENT OF INTERIOR, UNITED STATES GEOLOGICAL SURVEY

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

#### Finding-

During our audit of Project #01423, Patterns and Processes of Population Change in Selected Nearshore Vertebrate Predators, we noted that bonuses and 'on-the-spot' awards were awarded to project personnel in the amount of \$2,796, with corresponding general administration (GA) of \$419. 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-USGS policy, they do not pass the 'necessary cost' test of project expenditures.

#### Recommendation -

We recommend that the Restoration 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. See also our comment on page 2 "Determine Allowabiltiy of Bonus Awards."

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

#### Improve Contract Management

#### Finding -

The NOAA Contracting Officer Technical Representatives (COTR) who review and approve contractor invoices did not have sufficient knowledge of the progress or purpose of the projects to critically review the detail support submitted with the invoice. They were unable to provide information regarding the status of contract deliverables or the reason that some contracts have been granted extensions.

#### Recommendation –

We recommend that the NOAA COTRs responsible for approving contract payment and monitoring contract status have an adequate understanding of each of the contracts they are responsible for monitoring.

#### **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 unspent or unobligated funds have been returned for fiscal 1999 or 2000.

#### 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.

#### **Improve Controls Over Payroll**

#### Finding -

Our procedures with respect to restoration projects included the selection and testing of payroll transactions charged to the projects. NOAA's payroll system allows for employees' work effort to be presdesignated. In other words, employees' payroll charges can be charged to a specific project, or projects, without the need for the payroll clerk to input the appropriate task codes each pay period. For employees who work on a single project for several consecutive pay periods, this process is appropriate. However, there are numerous employees who work on several projects during a single pay period. These employees' time is charged to specified projects based on the predesignation of budget amounts established in the payroll system. As a result, the employees' work efforts are not accurately represented by the actual amount of their payroll charged to each project.

#### Recommendation -

We recommend that account coding for employees working on several restoration projects at once not be predesignated within the payroll system. For such employees, time should be accurately maintained by project on a daily basis. Employee's time should be recorded daily on the employees Time and Attendance Reports, which should be used for reporting time to the payroll system.

# UNITED STATES DEPARTMENT OF AGRICULTURE, UNITED STATES FOREST SERVICE

#### **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. Through our audits, it does not appear that all unspent or unobligated funds have been identified and returned for fiscal 1995-2000. In addition, it appears that unspent funds arising before our audit has not been identified and returned for fiscal 1992-1994.

#### 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.

#### **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 the GA portion of each project's budget is recovered by each project based on the total project expenditures to date. This method does not monitor recoverable GA based on actual personnel and contractual expenditures. As a result, USFS recovered GA of \$1,253 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 USFS 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 OPs.

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

We have no comments with respect to the United States Department of Interior, Office of the Secretary.

#### 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 INVESTMENT FUND

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

Internal Control and Operating Comments - Current Year Comments	Page 6
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	nia en el control en escalación de minima de m
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.	

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

Page 7

Prior Year Caption

Current Status

#### **GENERAL COMMENTS**

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

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

Unallowable Direct Project Costs

See our comment General section in the Current Year

Comments section of this letter.

Compliance with annual reporting requirements

This issue was resolved in the current fiscal year.

Return unspent funds from prior year projects

This issue was resolved in the current fiscal year.

# UNITED STATES DEPARTMENT OF INTERIOR, UNITED STATES GEOLOGICAL SURVEY

Return unspent funds from prior year projects

This issue was resolved in the current fiscal year.

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

Unallowable direct project costs

See our comment in the Current Year Comments section of

this letter.

Improve Monitoring of General Administration Costs

This issue was resolved in the current fiscal year.

Return unspent funds from prior year projects

See our comment in the Current Year Comments section of

this letter.

Compliance With Annual Reporting Requirements

This issue was resolved in the current fiscal year.

# UNITED STATES DEPARTMENT OF AGRICULTURE, UNITED STATES FOREST SERVICE

Provide Quarterly Project Reports

This issue was resolved in the current fiscal year.

Return Unspent Funds from Prior Year

See our comment in the Current Year Comments section of

this letter.

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

We had no comments with respect to the United States, Court Registry Investment System – Join Trust Account in our prior audit.

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

Page 8

Prior Year Caption

Current Status

# 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 INVESTMENT FUND

We had no comments with respect to the State of Alaska, Exxon Valdez Oil Spill Settlement Trust 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, OFFICE OF THE SECRETARY

Use of project Management funds

This issue was resolved in the current fiscal year.

Return unspent funds from prior year projects

This issue was resolved in the current fiscal year.

# Exxon Valdez Oil Spill Trustee Council

441 W. 5th Ave., Suite 500 • Anchorage, Alaska 99501-2340 • 907/278-8012 • fax 907/276-7178 March 15, 2002



**Max Mertz** Elgee, Rehfeld and Funk 9309 Glacier Highway, Suite B-200 Juneau, Alaska 99801

Dear Max:

On behalf of the Trustee Council, I am submitting responses to the general comments contained in the Exxon Valdez Oil Spill Trustee Council, Internal Control and Operating Comments, dated February 8, 2002.

Comment: DETERMINE ALLOWABILITY OF BONUS AWARDS

#### Response:

We agree that a policy regarding bonus awards should be established and that the policy should be detailed in the Operating Procedures. At the February 25, 2002 Trustee Council meeting the Council voted to disallow use of EVOS funds for fiscal year 2000 and 2001 bonus awards. A policy on the use of bonus awards will be developed and included in the upcoming revision to the Operating Procedures.

Comment: IMPROVE PEER REVIEW RESULTS REPORTING

#### Response:

We agree that project reports submitted for peer review should be reviewed and the review forwarded to the submitting agency in a timely manner to allow review comments to be addressed.

We also feel strongly that project reports should be prepared and submitted in a timely manner. We have established a thorough system for tracking the submittal, review, and finalization of project reports and make a concerted effort on a regular basis to see that work is performed timely-by report authors as well as report reviewers. We review report status monthly with the Chief Scientist (who oversees the corps of peer reviewers) and quarterly with all principal investigators. The Trustee Council has adopted a policy prohibiting release of project funds to any investigator who has an overdue report, and we routinely withhold funds for this reason.

Despite these efforts, some principal investigators and some peer reviewers fail to meet their commitments for various reasons, which is perhaps inexcusable but also not

unexpected. This is not necessarily a failure of Trustee Council policy, but rather a failure by some individuals to comply with the policy. That said, we are aware of very few instances in which peer review arrived too late to be effectively addressed by the principal investigator.

In regard to your specific comments on projects 99423 and 00423, please note:

- The peer review of the 99423 report was dated February 16, 2001. Neither the submitting agency nor the Restoration Office, for reasons unknown, received the review until August 13, 2001. In other words, the extreme tardiness of the peer review was due in part to a delivery error.
- The peer review of the 00423 report, addressed to the submitting agency (Dede Bohn) and cc'd to the three Pls (Bodkin, Dean, and Esler), was dated July 5, 2001 and received by Bohn, the Pls and the Restoration Office July 12, 2001. In other words, peer review of this report was completed timely. (Your finding indicates the peer review had still not been received as of January 2002.)

Sincerely,

Molly McCardmon Executive Director



# United States Department of the Interior

#### FISH AND WILDLIFE SERVICE

1011 E. Tudor Rd. Anchorage, Alaska 99503-6199

MAR 18 2002

FWS/RD

Ms. Molly McCammon, Executive Director Exxon Valdez Oil Spill Trustee Council 441 West 5th Avenue, Suite 500 Anchorage, Alaska 99501

Dear Molly:

In response to the Fiscal Year 2001 Draft Audit document, *Internal Control and Operating Comments*, dated February 8, 2002, we offer the following comments:

### Determine Allowability of Bonus Awards

In FY 2000, the U.S. Fish and Wildlife Service presented awards totaling \$7,500 that were not identified in the DPDs for Projects 00159 and 00163. In a letter to you, dated March 30, 2001, we requested ratification of this expenditure by the Trustee Council. The Council finally acted on this issue at the February 2002 meeting and turned the request down. The Service will redistribute the charges associated with the bonus awards and will return those funds to the NRDA&R.

We would again like to point out that although we did not specify monetary awards in the DPDs for these projects, the awards are consistent with Service policies and procedures, and therefore seem to meet the test of a reasonable expenditure in the Trustee Council's procedure manual, dated August 3, 2000. It is our understanding that you are reviewing the procedures manual and recommend you clarify the issue of awards.

### Improve Monitoring of General Administrative Expenditures

The audit noted that the monitoring of the recoverable General Administration did not occur and as a result GA was "overearned." The Service will redistribute the incorrect charges and will return those funds to NRDA&R.

If you have any questions regarding our response, please contact Tony DeGange of my staff at 786-3492.

Sincerely,

David B. Allen Regional Director



# United States Department of the Interior

#### U.S. GEOLOGICAL SURVEY BIOLOGICAL RESOURCES DIVISION Alaska Science Center

1011 E. Tudor Road Anchorage, Alaska 99503

March 15, 2001

IN REPLY REFER TO:

Molly McCammon
Executive Director
EVOS Trustee Council
645 G Street, Suite 401
Anchorage, AK 99501-3451

Dear Ms. McCammon,

We have completed our review of the two documents you sent us relating to the Draft Fiscal Year 2001 external audit developed by Elgee, Rehfeld and Funk for the EVOS Trustee Council. Here are our comments:

Internal Control and Operating Comments dated February 8, 2002

U.S. Department of the Interior, USGS

The auditors question \$3215 in award expenses, and recommend that the Restoration Office determine whether this amount should be disallowed and returned to NRDAA&R

USGS response: USGS would appreciate written guidance in the Procedures Manual for future management of this issue. Under normal agency management, USGS treats bonus awards as salary costs, and project chiefs, following DOI guidance, are encouraged to make use of them when warranted by outstanding employee performance. However, because the Trustee Council disallowed these award expenses at its meeting Feb. 25, 2002, USGS must return the questioned amount to the NRDAA&R fund.

Schedule of Expenditures and Obligations for the USGS, Fiscal Year Ending September 30, 2001
At the project level, we are unable to corroborate the audit report with USGS financial expenses because four projects in the audit report have been combined with other DOI amounts listed under the Office of the Secretary. However, for the 11 projects listed under USGS, the underexpended balance reported in the audit approximates the unexpended total for these projects in USGS financial records.

Thank you for the opportunity to review the Fiscal Year 2001 Draft Audit.

Sincerely,

Dr. Joy Geiselman

Office Chief for Biology

USGS Alaska Science Center

Cc: Cindy Gilder, AO

Mark Stevenson, Budget Analyst



# UNITED STATES DEPARTMENT OF COMMERCE National Oceanic and Atmospheric Administration

National Marine Fisheries Service P.O. Box 21668 Juneau, Alaska 99802-1668

March 28, 2002

MEMORANDUM FOR:

Molly McCammon

Executive Director

FROM:

Peter Hagen

NOAA Liaison

Stacy Masters

Senior Budget Analyst

SUBJECT:

Response to Internal Control and Operating

Comments, February 8, 2002

The Internal Control and Operating Comments prepared by our auditors highlighted three areas in which NOAA could improve internal controls: return unspent funds from prior year projects, improve controls over payroll, and improve contract management. Following are our responses to each finding:

#### Return unspent funds from prior year projects

Nothing in FY01 Alaska Region/Center budget documents indicate that unspent funds from prior years are being captured and/or used, except where authorized to cover prior year transactions which were not recorded before the close of the fiscal year. The return of unspent funds to NRDA&R happens between NMFS HQ in Maryland and the National Ocean Service (Kathy Salter) upon the close of each fiscal year. The Alaska Region/Center has the responsibility of monitoring activity on prior year projects and deobligating or terminating projects which are no longer active; however, those funds are not returned to Alaska. If the audit finding is in reference to activity which may no longer be active, then we concur and will take appropriate action to deobligate or terminate that activity.

#### Improve controls over payroll

We concur with the issue verbally identified by the auditors that an employee who was on a research cruise for a specific project and was paid overtime on another was project not appropriate. That was an oversight on our part due to the difficulties in managing multiple contracts at the same time working with an agency-wide method of payroll accounting that does not adapt well to the inevitable changes in field plans. We intend to work more closely with the employees and their respective time and attendance clerks to ensure this does not



happen again. Regarding the auditors recommendations, there are, unfortunately, structural problems that would make it very difficult to develop a new payroll accounting system to accommodate the limited cases where an individual may be working on more than one project during a pay period. When considered as an aggregate however, the payroll charges accurately reflect the time and effort spent by individuals as specified in the contracts. What is not reflected is the time and effort of the project managers and others who helped produce the contract deliverables. This was done as a means to keep the costs down. For any new proposals we will explore the option of seeking funds to cover these costs directly and address ways to meet the auditors suggestions regarding payroll accounting.

#### Improve Contract Management

We concur with the recommendation as it applies to the EVOS Program. When Mr. Wright left in May last year, NMFS was left without a subject-matter expert on the contracts. One of us (Hagen) was hired February 19 to fill this gap and after training will be serving as the new COTR for contracts remaining this year.

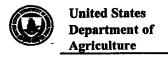
cc: J.Balsiger

J.Gorman

W.Hines

J. Rice

B.Nelson



Forest Service

Chugach National Forest 3301 'C' Street Suite 300

Anchorage, AK 99503-3998

File Code: 1590

Date: March 13, 2002

Molly McCammon Executive Director EVOS Restoration Office 441 W. 5th Ave., Suite 500 Anchorage, AK 99501-2340

### **Dear Molly McCammon**

In response to the February 8, 2002 memorandum from Elgee, Rehfeld, and Funk, for the 2001 EVOS audit we have the following comments.

Finding #1. Identify and return unobligated funds for Fiscal 1995-2000.

Response. We are continuing to investigate prior year EVOS projects to determine whether additional funds need to be returned to the NRDA&R. We are working with the Restoration Office and our Regional Office on this and plan to complete this investigation as soon as possible.

Finding #1. Identify and return unobligated funds for Fiscal 1992-1994.

Response. We are looking at these balances but there is no evidence at this time to suggest that there are any unobligated funds from fiscal 1992-1994.

Finding #2. It was noted that the GA portion of each project's budget is recovered by each project based on the total project expenditures to date. This method does not monitor recoverable GA based on actual personnel and contractual expenditures. As a result, USFS recovered GA of \$1,253 in excess of the allowable amount.

Response. The USFS has been consistent in the process used to calculate GA since the settlement, long before an operational procedure manual was in place. We have calculated recoverable GA based on the total project funds expended. It was noted in the 1995 audit that only ADNR and USFS expended GA in proportion to actual direct costs incurred. We recommend that we be allowed to continue using this process, as it has been acceptable for 9 of the last 10 years.

If you have any questions please call Ken Holbrook at 743-9519.

Sincerely,

DAVE R. GIBBONS

Forest Supervisor





ELGEE, REHFELD & FUNK, LLC
Certified Public Accountants



# $\begin{array}{c} \textit{EXXON VALDEZ} \ \text{OIL SPILL TRUSTEE COUNCIL} \\ \text{TRUST FUNDS FINANCIAL STATEMENTS} \end{array}$

and

### SUPPLEMENTARY RESTORATION PROJECTS INFORMATION

Fiscal Year Ended September 30, 2001

TOGETHER WITH INDEPENDENT AUDITORS' REPORT

**TABLE OF CONTENTS** 

### TRUST FUNDS FINANCIAL STATEMENTS and SUPPLEMENTARY RESTORATION PROJECTS INFORMATION

## Fiscal Year Ended September 30, 2001

### TABLE OF CONTENTS

	Page
Table of Contents	i - ii
TRUST FUNDS FINANCIAL STATEMENTS	
Independent Auditors' Report	1-2
Trust Fund Financial Statements	
Balance Sheet - State of Alaska, Exxon Valdez Oil Spill Investment Fund Statement of Changes in Assets and Liabilities - State of Alaska,	3
Exxon Valdez Oil Spill Investment Fund	4
Statement of Assets, Liabilities and Trust Fund Balance Arising from	
Cash Transactions - U.S. 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 - U.S.	5
Department of the Interior, Fish and Wildlife Service, Natural Resources Damage	
Assessment and Restoration Fund	6
Balance Sheet - State of Alaska, Exxon Valdez Oil Spill Settlement Trust	7
Statement of Revenues, Expenditures and Changes in Fund Balance - State of Alaska, Exxon Valdez Oil Spill Settlement Trust	8
Statement of Assets, Liabilities and Joint Trust Account Balances Arising from Cash Transactions - Exxon Valdez Oil Spill Settlement Account with the	Ū
Court Registry Investment System	9
Statement of Receipts, Disbursements and Changes in Joint Trust Account Balances - Exxon Valdez Oil Spill Settlement Account with the Court Registry Investment System	10
Notes to Trust Funds Financial Statements	11 - 21
SUPPLEMENTARY RESTORATION PROJECTS INFORMATION	÷
Independent Auditors' Report on Supplementary Restoration Projects Information	22
Schedules of Expenditures and Obligations - Budget and Actual State of Alaska	
Department of Fish and Game	23 - 24
Department of Environmental Conservation	25
Department of Natural Resources	26
United States Government	
Department of Agriculture, United States Forest Service	27
Department of Interior, Fish and Wildlife Service	28
Department of Interior, U.S. Geological Survey	29
Department of Interior, Office of the Secretary	30
Department of Commerce, National Oceanic and Atmospheric Administration	31

## TABLE OF CONTENTS (Continued)

### SUPPLEMENTARY RESTORATION PROJECTS INFORMATION

	Page
Schedule of Fiscal 2000 Work Plan Status as of September 30, 2001 (Unaudited)	32
Notes to Supplementary Information Related to Restoration Projects	33-35
INDEPENDENT AUDITORS' REPORTS	
ON COMPLIANCE AND ON INTERNAL CONTROLS OVER FINANCIAL REP	ORTING
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	
Exxon Valdez Oil Spill Trustee Council	2.6
State of Alaska, Exxon Valdez Oil Spill Investment Fund	36
U.S. Department of the Interior, Natural Resources Damage Assessment	200
and Restoration Fund	37
State of Alaska, Exxon Valdez Oil Spill Settlement Trust	38
Court Registry Investment System, Exxon Valdez Oil Spill Settlement Account	39

TRUST FUNDS STATEMENTS

9309 Glacier Highway, Suite B-200 · Juneau, Alaska 99801 Phone: 907-789-3178 · FAX: 907-789-7128

#### 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, 2001, 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 of the United States 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 State of Alaska, *Exxon Valdez* Oil Spill Investment Fund (Investment Fund) is of the Investment Fund 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 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 of the United States.

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 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 of the United States.

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 of the Unites States.

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 Investment Fund and Settlement Trust as of and for the year ended September 30, 2001, 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 of the United States for the Investment Fund and Settlement Trust.

In accordance with Government Auditing Standards, we have also issued our reports dated February 8, 2002, 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, Keltfeld Strut, LLC

February 8, 2002

# STATE OF ALASKA - EXXON VALDEZ OIL SPILL INVESTMENT FUND (An Agency Fund of the State of Alaska)

BALANCE SHEET September 30, 2001

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Cash and Investments Interest Receivable	\$ 174,219,415 232,282
Total Assets	\$ 174,451,697
LIABILITIES AND FUND BALANCES:	
Liabilities:	
Accounts Payable	\$ 28,256
Assets Held in Custody by the State of Alaska	 174,423,441
Total Liabilities and Fund Balances	\$ 174,451,697

# STATE OF ALASKA - EXXON VALDEZ OIL SPILL INVESTMENT FUND (An Agency Fund of the State of Alaska)

# STATEMENT OF CHANGES IN ASSETS AND LIABILITIES For the Year Ended September 30, 2001

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Contributions - Court Registry Investment System, Joint Trust Account Exxon Settlement Payment Interest and Investment Loss	\$ 134,646,690 66,113,500 (10,481,237)
Total Additions	190,278,953
Deductions:	
State of Alaska	8,191,600
Exxon Valdez Oil Spill Settlement Trust Investment management fees	69,812
United States Department of the Interior, Fish and Wildlife Service,	05,512
Natural Resources Damage Assessment and Restoration Fund	7,594,100
Total Deductions	15,855,512
Net Increase in Assets	174,423,441
Assets Held in Custody by the State of Alaska, Beginning of Year	
Assets Held in Custody by the State of Alaska, End of Year	\$ 174,423,441

### 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, 2001

ASSETS:		
Cash and Investments	\$	2,229,305
Total Assets .	\$	2,229,305
LIABILITIES AND FUND BALANCE:		·
Liabilities	\$	-
Trust Fund Balance	•	2,229,305
Total Liabilities and Trust Fund Balance	_\$	2,229,305

### 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, 2001

Receipts:		
Contributions:		
Exxon Valdez Oil Spill Settlement Trust	\$	200,000
Exxon Valdez Oil Spill Investment Fund		7,594,100
		7,794,100
Unobligated Balances Returned to NRDA&R:		
U.S. Department of Interior:		
Fish and Wildlife Service		178,579
United States Geological Survey		16,827
National Park Service		4,234
Office of the Secretary		19,268
		218,908
Investment Income		146,918
Total Receipts		8,159,926
Disbursements:		·
U.S. Department of Interior:		
Fish and Wildlife Service		(786,800)
United States Geological Survey		(850,670)
National Park Service		(8,500)
Office of the Secretary		(28,300)
Bureau of Land Management		(42,000)
U.S. Department of Agriculture, United States		
Forest Service		(6,106,600)
U.S. Department of Commerce, National Oceanic		
and Atmospheric Administration	-	(1,893,300)
Total Disbursements		(9,716,170)
Deficiency of Receipts Over Disbursements		(1,556,244)
Trust Fund Balance, Beginning of Year		3,785,549
Trust Fund Balance, End of Year	\$	2,229,305

# STATE OF ALASKA - EXXON VALDEZ OIL SPILL SETTLEMENT TRUST (An Expendable Trust Fund of the State of Alaska)

### BALANCE SHEET September 30, 2001

ASSETS:		
Cash and Investments		11,337,818
Total Assets	\$	11,337,818
LIABILITIES AND FUND BALANCES:		
Liabilities:		
Accounts Payable	\$	887,324
Deferred Revenues		4,191,600
Total Liabilities		5,078,924
Fund Balances:		
Reserved for Encumbrances		3,142,990
Unreserved		3,115,904
Total Fund Balance		6,258,894
Total Liabilities and Fund Balance	_\$_	11,337,818

# STATE OF ALASKA - EXXON VALDEZ OIL SPILL SETTLEMENT TRUST (An Expendable Trust Fund of the State of Alaska)

# STATEMENT OF REVENUES , EXPENDITURES AND CHANGES IN FUND BALANCE

For the Fiscal Year Ended September 30, 2001

Contributions - State of Alaska	
Exvon Valdez Investment Fund	

Exvon Valdez Investment Fund \$ 27,025,833
Interest and Investment Income 1,633,007
Total Revenues 28,658,840

#### Expenditures:

Revenues:

# Current Operating: Natural Resources Damage Assessment

and Restoration Projects - Alaska

Department of Fish and Game 3,501,601

Department of Environmental Conservation 105,389

Department of Natural Resources 879,107

Total Current Operating 4,486,097

# Capital Outlay: Research Infrastructure Improvements - Alaska

Department of Fish & Game	43,564
Department of Environmental Conservation	122,634
Department of Natural Resources	275,038

Department of Natural Resources 275,038

Land Acquisitions - Alaska

Department of Natural Resources 26,511,274

26,952,510

United States Department of the Interior, Fish and Wildlife Service,
Natural Resources Damage Assessment and Restoration Fund 200

Natural Resources Damage Assessment and Restoration Fund

200,000

Total Expenditures

31,638,607

Deficiency of Revenues Over Expenditures

(2,979,767)

Fund Balance, Beginning of Year 9,238,661

Fund Balance, End of Year \$ 6,258,894

#### 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, 2001

ASSETS:	-	
Cash and Investments	\$	_
Total Assets	\$	
LIABILITIES AND JOINT TRUST ACCOUNT BALANCES:		
Joint Trust Account Balance - Liquidity Account Joint Trust Account Balance - Reserve Account		
Total Liabilities and Joint Trust Account Balances	\$	-

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, 2001

Receipts:	

Investment Income - Liquidity Account Investment Income - Reserve Account	\$ 106,302 26,825
Total Receipts	 133,127
Disbursements:	
State of Alaska, Exxon Valdez Investment Fund:	
Market Value of Investments	\$ (134,646,690)
Unrealized Gain on Date of Transfer	 9,050,792
Cost Basis of Disbursed Investments	(125,595,898)
Court Registry Fees	(1,634,418)
Total Disbursements	(127,230,316)
Deficiency of Receipts Over Disbursements	(127,097,189)
Joint Trust Account Balances, Beginning of Year	 127,097,189
Joint Trust Account Balances, End of Year	\$ -

**NOTES** 

#### NOTES TO TRUST FUNDS FINANCIAL STATEMENTS

Fiscal Year Ended September 30, 2001

#### 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 2001, 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, 2001

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### State of Alaska, Exxon Valdez Oil Spill Investment Fund

As requested by the Council and order by the Court, the Council withdrew all funds and securities from CRIS, including the Restoration Reserve, and deposited them into the State of Alaska Exxon Valdez Investment Fund (Investment Fund) established by the Alaska Department of Revenue, Division of Treasury. The transfer occurred October 5, 2000. The total amount deposited in the Investment Fund was \$134,697,905. As further discussed in Note 5, amounts paid by Exxon Corporation after October 5, 2000 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, public law 106-113 and as order by the presiding Court pending disbursements to the Federal and State trust funds, money that is not directly paid to the United States and the State is placed in this interest bearing Investment Fund.

The Investment Fund is an agency fund within the State. Agency funds are custodial in nature (i.e. assets equal liabilities) and do not measure the results of operations.

Upon unanimous approval of the Trustee Council, funds are disbursed to the United States NRDA&R Fund and the State Settlement Trust to be expended by the Trustee Agencies in accordance with the Council's wishes. The accompanying financial statements for the Investment Fund 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 that the disbursements are to be expended by the Trustee Agencies

The financial presentation for the Investment Fund is of the Investment Fund 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.

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

Disbursements which are made from the Investment Fund 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.

Disbursements from NRDA&R are made pursuant to the directions of the Council and as notified to 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.

#### NOTES TO TRUST FUNDS FINANCIAL STATEMENTS

Fiscal Year Ended September 30, 2001

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

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

Disbursements which are made from the Investment Fund 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.

#### 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 disbursements to the Federal and State trust funds, until October 5, 2000, money that was not directly paid to the United States and the State was 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. Beginning October 5, 2000, as further discussed in State of Alaska Exxon Valdez Oil Spill Investment fund, funds are placed in the Investment Fund.

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 Federal Reserve Bank. 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.

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.

#### NOTES TO TRUST FUNDS FINANCIAL STATEMENTS

Fiscal Year Ended September 30, 2001

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

#### **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 Investment Fund, NRDA&R, Settlement Trust and the Joint Trust Account - CRIS are as follows:

<u>Investment Fund</u> - The financial statements of the Investment Fund are accounted for using a current financial resources measurement focus on the modified accrual basis. The Investment 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.

<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.

Settlement Trust - 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.

<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.

#### NOTES TO TRUST FUNDS FINANCIAL STATEMENTS

Fiscal Year Ended September 30, 2001

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

#### **Statement Presentation**

Separate balance sheets and statements of receipts and disbursements or revenues and expenditures are presented for each of the Investment Fund, NRDA&R, the Settlement Trust and the Joint Trust Accounts - CRIS. 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, 2001, but which relate to fiscal 2001 restoration activities.

Deferred Revenues in the Settlement Trust financial statements include amounts received or receivable at September 30, 2001, which are to be expended by the State in fiscal 2002.

#### 3. CASH AND INVESTMENTS

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

Investment Fund - Cash and investments of the Investment Fund represent cash on deposit in banks, and cash invested in various investments as a part of the Council's long-term investment needs. By law, all deposits and investments relating to the Investment Fund 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

NRDA&R - 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, 2001, 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, 2001. 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

#### NOTES TO TRUST FUNDS FINANCIAL STATEMENTS

Fiscal Year Ended September 30, 2001

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

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.

<u>Joint Trust Account - CRIS</u> - 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.

\* 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 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, 2001

#### 4. CONTRIBURIONTS 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 2001, Exxon Corporation made the contribution to the Investment Fund as required by the Agreement. As further discussed in Note 5, \$3,886,500 of the \$70,000,000 contribution was paid directly to the State of Alaska. The balance of \$66,113,500 was placed with the Investment Fund.

#### 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, 2001

#### 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 2001, \$3,886,500 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 2001 under the Agreement.

#### 6. DISBURSEMENTS FROM INVESTMENT FUND

#### 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 Investment Fund. 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, 2001, the following project solicitation and review process was used by the Council:

- 1. In February 2000, the Council published an *Invitation to Submit Restoration Proposals for Federal Fiscal Year 2001*. As part of the requirements, proposers developed and submitted detailed project descriptions and project budgets for review.
- 2. In May 2000, 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 2000, all proposals and the results of the reviews were published in the *Draft Fiscal Year* 2001 Work Plan and distributed for public comment.
- 4. In July 2000, a public hearing was held on the FY'01 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 2000. 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. The Council separately approves land acquisitions.

#### NOTES TO TRUST FUNDS FINANCIAL STATEMENTS

Fiscal Year Ended September 30, 2001

#### 6. DISBURSEMENTS FROM INVESTMENT FUND (Continued)

#### Interest Income and Unobligated Balance 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. In addition, 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 2001, disbursements to the United States and the State were reduced by \$3,126,600 and \$328,700 for such Interest income and unspent or unobligated balances, respectively.

#### Disbursements from the Investment Fund

During fiscal 2001, the Council disbursed \$15,785,700 for restoration projects, land acquisition and other Council Authorizations pursuant to the MOA as follows:

Resto	ration Projects	Authorized	l By the	Council
_				

Restoration 1 rojects Authorized By the Council	
For 2002	
To be conducted by the United States	\$ 1,594,100
To be conducted by the State	3,210,400
Total	4,804,500
Land Acquisitions and Research Infrastructure Improvements Authorized By The Council For 2002:	
To be acquired by the United States	6,000,000
To be acquired by the State	4,920,000
Total	10,920,000
Other Authorizations by the Council	61,200
Investment Management Fees	69,812
Disbursements from the Investment Fund	<u>\$ 15,855,512</u>

#### 7. DEFERRED REVENUE

In August 2001, the Court was notified of the initial funding for restoration projects to be conducted by the Trustee Agencies in fiscal 2002 and land acquisition disbursements to be made in fiscal 2002. A disbursement relating to this activity was made from the Investment Fund on September 7, 2001, and of the amount disbursed to the State Trustee Agencies', \$4,191,600 has been recorded as deferred revenue for fiscal 2002 restoration projects, land acquisition and other Council Authorizations.

NRDA&R received the United States' disbursement relating to the initial funding for restoration projects to be conducted by the Trustee Agencies in fiscal 2002 prior to September 30, 2001. The amount received of \$1,594,100 has been recorded as Receipts – Investment Fund in the NRDA&R financial statements since NRDA&R is accounted for using the cash basis of accounting. NRDA&R also 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 2002.

#### NOTES TO TRUST FUNDS FINANCIAL STATEMENTS

Fiscal Year Ended September 30, 2001

#### 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 lead to the consideration of numerous parcels for acquisition by Trustee Agencies. As of September 30, 2001, 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 \$386,018,124. Of the total purchase cost, excluding interest, \$330,024,778 is being provided from Joint Trusts, and \$55,993,346 from other sources.

During fiscal 2001, 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 remaining commitments (excluding interest) due for these acquisitions, all payable in the year ended September 30, 2002, are \$18,805,734.

#### **Pending Large Parcel Acquisitions**

A large parcel acquisition offer for 55,402 acres that are now under a limited term conservation easement, which will expire in Fiscal 2002, is pending. The offer has been accepted and is expected to close during fiscal 2002.

#### **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 evaluates, scores, and ranks 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, 2001, the Trustee Council has completed the acquisition on 98 parcels containing 6,658 acres with a total cost of \$20,464,700. 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, sellers on 5 parcels have accepted offers. These parcels contain 50 acres and have a total cost of \$67,750. 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, \$20,464,700 is being provided from the Exxon Valdez Oil Spill Trust Funds, and \$484,000 from other sources.

#### 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. As of September 30, 2001, \$122,634 has been expended. Of the total funding for the project, \$48,700 will be retained by DEC for contract administration.

#### NOTES TO TRUST FUNDS FINANCIAL STATEMENTS

Fiscal Year Ended September 30, 2001

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

#### **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 spill-related 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 2002, the Trustee Council also approved \$157,200 for project management and general administration making the total approved \$2,902,580. As of September 30, 2001, \$265,728 has been expended on the project.

#### 9. SUBSEQUENT EVENTS

- On October 17, 2001, the Council approved a disbursement of \$150,000 for the administration and implementation of the grant for small parcel habitat protection efforts in the Exxon Valdez oil spill area. The funds were disbursed from interest earned on available balances in NRDA&R and prior year recovery of unexpended project funds.
- On December 28, 2001, the council approved disbursements of \$702,800 from the Settlement Fund and \$724,000 from NRDA&R related to its fiscal 2002 *Work Plan* for restoration projects to be conducted by the Trustee Agencies. The funds were disbursed from interest earned on available balances in NRDA&R and prior year recovery of unexpended project funds.

SUPPLEMENTARY INFORMATION

### 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, 2001, as listed in the accompanying table of contents, and have issued our report thereon dated February 8, 2002. 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.

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 2001 Work Plan Status as of September 30, 2001 on pages 23 through 32, are presented for purposes of additional analysis and are not a required part of the financial statements. With the exception of the Schedule of Fiscal 2000 Work Plan Status as of September 30, 2001, on page 32 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.

Elge, Rehteldfruk, LLC February 8, 2002

# 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, 2001

Project Number	Project Title	Budget	Actual Expenditures & Obligations	-(Over) Under- Expended
01052 01064-CLO	Community Involvement/Traditional Ecological Knowledge Monitoring, Habitat Use, and Trophic Interactions of Harbor Seals in Prince William Sound	\$ 201,900 22,600	\$ 201,766 22,600	\$ 134
01100	Administration, Science Management, and Public Information	1,087,000	1,024,043	62,957
01126	Habitat Protection and Acquisition Support	15,800	15,800	-
01131	Chugach Native Region Clam Restoration	10,500	10,500	-
01190	Construction of Linkage Map for the Pink Salmon Genome	405,200	405,200	_
01210	Youth Area Watch	107,000	107,000	-
01245	Community-Based Harbor Seal Management and Biological Sampling	40,000	39,928	72
01247	Kametolook River Coho Salmon Subsistence Project	22,700	16,232	6,468
01250	Project Management	92,200	92,147	53
01256B	Sockeye Salmon Stocking at Solf Lake	6,500	6,273	227
01273	Surf Scoter Life History and Ecology: Linking Satellite Technology with Traditional Knowledge to Conserve the Resource	50,100	37,057	13,043
01340	Toward Long-Term Oceanographic Monitoring of the Gulf of Alaska Ecosystem	72,000	72,000	-
01341	Harbor Seal Recovery: Controlled Studies of Health and Diet	82,200	82,200	-
)1366	Improved Salmon Escapement Enumeration Using Remote Video and Time-Lapse Recording Technology	11,300	10,997	303
01371	Effects of Harbor Seal Metabolism on Stable Isotope Ratio Tracers	92,900	. 92,900	-
)1385	Partnering with NOAA to Quantify and Monitor Environmental Attributes of Kachemak Bay	11,000	10,999	1
01389	3-D Ocean State Simulations for Ecosystem Applications from 1995-98 in Prince William Sound	142,500	98,707	43,793
01391	CIIMS: Cook Inlet Information Management/Monitoring System	27,100	19,810	7,290
01407	Harlequin Duck Population Dynamics	67,600	65,608	1,992
01423	Patterns and Processes of Population Change in Selecteed Nearshore Vertebrate Predators	143,300	143,287	13
01441	Harbor Seal Recovery: Effects of Diet on Lipid Metabolism and Health	93,500	93,500	•
)1455	Gulf Ecosystem Monitoring and Research Program Data System	6,600	-	6,600
01462	Effects of Disease on Pacific Herring Population Recovery in Prince William Sound	86,000	84,252	1,748
)1478	Testing Satellite Tags as a Tool for Identifying Critical Habitat	19,900	19,742	158
01481	Documentary Film on the Oil Spill Impacts on Subsistence Use of Intertidal Resources	111,800	100,092	11,708
)1513	Exxon Valdez Oil Spill Exhibit: The Continuing Legacy	50,300	50,300	-
)1535	EVOS Trustee Council Restoration Program Final Report	94,500	85,582	8,918
1538	Evaluation of Two Methods to Discriminate Pacific Herring	4,000	4,000	-
	Stocks along the Northern Gulf of Alaska			

## 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, 2001

Project Number	Project Title	Budget	Actual Expenditures & Obligations	(Over) Under Expended
(Continued)				
01543	Evaluation of Oil Remaining in the Inter tidal from the Exxon Valdez Oil Spill	2,300	2,169	131
01550	Alaska Resources Library and Information Services	86,900	87,221	(321)
01558	Harbor Seal Recovery: Application of New Technologies for Monitoring Health	280,200	280,151	49
01610	Kodiak Island Youth Area Watch	61,800	61,800	-
01630	Planning for Long-Term Research and Monitoring Program	33,300	26,305	6,995
	Alaska Department of Fish and Game Totals	\$ 3,642,500	\$ 3,470,168	\$ 172,332

## Exxon Valdez Oil Spill Trustee Council Alaska Department of Environmental Conservation Schedule of Expenditures and Obligations - Budget and Actual Fiscal Year Ending September 30, 2001

Project Number	Project Title	Budget		Project Title Bu		Ex	Actual penditures Obligations	`	er) Under opended
01100	Administration, Science Management and Public Information	\$	21,600	\$	21,561	\$	39		
01250	Project Management		19,100		14,504		4,596		
01391	Cook Inlet Information Management/Monitoring System		56,400		56,400		-		
01543	Evaluation of Oil Remaining in the Intertidal from the Exxon Valdez Oil Spill		2,300		2,072		228		
01630	Planning for Long-Term Monitoring and Research Program		9,500		9,500		-		
	Alaska Department of Environmental Conservation Totals	\$	108,900	\$	104,037	\$	4,863		

# Exxon Valdez Oil Spill Trustee Council Alaska Department of Natural Resources Schedule of Expenditures and Obligations - Budget and Actual Fiscal Year Ending September 30, 2001

Project Number	Project Title		Budget		Actual penditures Obligations	•	er) Under xpended
01100	Administration, Science Management and Public Information	\$	331,600	\$	284,998	\$	46,602
01126	Habitat Protection and Acquisition Support		108,200		105,154		3,046
01250	Project Management		17,000		16,959		41
01391	Cook Inlet Information Management/Monitoring system		142,000		140,509		1,491
01543	Evaluation of Oil Remaining in the Intertidal from the Exxon Valdez Oil Spill		36,800		36,761		39
01630	Planning for Long-Term Research and Monitoring Program		195,100		168,434		26,666
	Alaska Department of Natural Resources Totals	\$	830,700	\$	752,815	_\$	77,885

## 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, 2001

Project Number	Project Title		Budget		Budget		Actual penditures Obligations	`	er) Under spended
01100	Administration, Science Management, and Public Information	\$	19,500	\$	16,308	\$	3,192		
01126	Habitat Protection and Acquisition Support		46,200		32,300		13,900		
01250	Project Management		12,200		10,940		1,260		
01256B	Sockeye Salmon Stocking at Solf Lake		17,900		11,465		6,435		
01543	Evaluation of Oil Remaining in the Intertidal from the Exxon Valdez Oil Spill		2,300		-		2,300		
01630	Planning for Long-Term Monitoring and Research Program		8,500		5,272		3,228		
	Department of Agriculture, United States Forest Service Totals	\$	106,600	\$	76,285	\$	30,315		

### 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, 2001

Project Number	Project Title		Budget		Actual penditures obligations	•	er) Under opended
01144A	Common Murre Population Monitoring	\$	46,500	\$	45,228	\$	1,272
01159	Surveys to Monitor Marine Bird Abundance in Prince William						
	Sound During Winter and Summer		25,000		25,214		(214)
01163B	APEX: Seabird Interactions		38,500		38,358		142
01423	Patterns and Processors of Population Change in Selected Nearshore Vertebrate Predators		12,200		11,131		1,069
	Department of Interior - Fish and Wildlife Service Totals	\$	122,200	\$	119,931	\$	2,269

## 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, 2001

	Project Number	Project Title		Budget		Actual penditures Obligations	•	er) Under spended
	01163L	APEX: Barren Island Survey & Historical Data Review	\$	37,500	\$	40,183	\$	(2,683)
	01327	Pigeon Guillemot Restoration Research at the Alaska SeaLife Center		86,900		86,884		16
	01338	Survival of Adult Murres and Kittiwakes in Relation to Forage Fish Abundance		47,200		46,879		321
	01404	Testing Archival Tag Technology in Alaska Salmon		75,000		77,766		(2,766)
-	01423	Patterns and Processes of Population Change in Selected Nearshore Vertebrate Predators		349,900		341,745		8,155
ر	01478	Testing Satellite Tags as a Tool for Identifying Critical Habitat		6,900		6,387		513
•	01479	Effects of Food Stress on Survival and Reproductive Performance of Seabirds		129,600		129,577		. 23
	01534	Comparison of Cyochrome P4501A Induction in Blood and Liver Cells of Sea Otters		19,900		20,075		(175)
	01543	Evaluation of Oil Remaining in the Intertidal from the Exxon Valdez Oil Spill		2,300		2,300		-
-3	01555	Can Stress Hormones be Used as an Indication of Food Availability and Reproductive Performance? An Experimental Approach		18,900		18,967		(67)
! /	01599	Approach  Evaluation of Yakataga Oil Seeps as Regional Background  Hydrocarbon Sources in Benthic Sediments of the spill Area		3,000		2,990		10
		Department of Interior - U.S. Geological Survey Totals	\$	777,100	<u>\$</u> ·	773,753	\$	3,347

## 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, 2001

Project Number	Project Title		Budget		Actual Expenditures & Obligations		(Over) Under Expended	
01100	Administration, Science Management and Public Information	\$	52,270	\$	51,066	\$	1,204	
01126	Habitat Protection and Acquisition Support		94,800		63,098		31,702	
01250	Project Management		50,600		50,494		106	
01391	CIIMMS: Cook Inlet Information/Monitoring System		13,500		13,472		28	
01550	Alaska Resources Library and Information Services		42,200		42,200		-	
01630	Planning for Long-term Research and Monitoring Program		21,000		14,687		6,313	
	Department of Interior - Office of the Secretary Totals	\$	274,370	\$	235,017	\$	39,353	

# 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, 2001

Project Number	Project Title	Budget	Actual Expenditures & Obligations	(Over) Under Expended
01012A-BAA	Photographic and Acoustic Monitoring of Killer Whales in Prince William Sound and Kenai Fjords	\$ 74,500	\$ 74,387	\$ 113
01100	Administration, Science Management and Public Information	23,100	19,540	3,560
01163-CLO	Alaska Predator Ecosystem Experiment in Prince William Sound and the Gulf of Alaska (APEX)	123,600	113,352	10,248
01195	Pristane Monitoring in Mussels	55,000	54,239	761
01250	Project Management	81,800	86,150	(4,350)
01290	Hydrocarbon Data Analysis, Interpretation, and Database Maintenance	32,500	33,367	(867)
01360-BAA	The Exxon Valdez Oil Spill: Guidance for Future Research Activities	241,600	241,329	271
01393-BAA	Prince William Sound Food Webs: Structure and Change	119,000	118,948	. 52
01396	Alaska Shark Assessment	78,000	76,918	1,082
00401	Assessment of Spot Shrimp Abundance in Prince William Sound	94,400	92,081	2,319
01452-BAA	Assessing Prey and Competitor/Predators of Pink Salmon Fry	57,600	57,500	100
01454	Evidence and Consequences of Persistent Oil Contamination in Pink Salmon Natal Habitats	96,100	94,587	1,513
01468-CLO	FEATS: Fundamental Estimations of Acoustic Target Strength	5,800	5,771	29
01476	Effects of Oiled Incubation Substrate on Pink Salmon Reproduction	94,200	92,562	1,638
01492	Were Pink Salmon Embryo Studies in Prince William Sound Biased	62,100	61,614	486
01538	Evaluation of Two Methods to Discriminate Pacific Herring Stocks along the Northern Gulf of Alaska	6,100	<b>-</b>	6,100
01543	Evaluation of Oil Remaining in the Intertidal from the Exxon Valdez Oil Spill	459,200	464,557	(5,357)
01551-BAA	Checklist and Distributional Analysis of Marine Algal Species Collected as Vouchers Under Project CH1A	65,800	65,730	70
01552-BAA	Exchange Between Prince William Sound and the Gulf Alaska	105,700	105,595	105
01599	Evaluation of Yakataga Oil Seeps as Regional Background Hydrocarbon Sources in Benthic Sediments of the Spill Area	7,500	8,231	(731)
01630	Planning for Long-Term Monitoring and Research Program	9,800	10,206	(406)
-	U.S. Department of Commerce, National Oceanic and Atmospheric Administration Totals	\$ 1,893,400	\$ 1,876,664	\$ 16,736

#### Exxon Valdez Oil Spill Trustee Council Schedule of Fiscal 2000 Work Plan Status as of September 30, 2001 (Unaudited)

	Actual Expenditures & Obligations as of Budget 9/30/2001		Unobligated Balance as of 9/30/2001	
Alaska Departments of:				
Fish & Game	\$ 4,387,900	\$ 4,014,595	\$ 373,305	
Environmental Conservation	246,000	197,383	48,617	
Natural Resources	932,400	922,844	9,556	
Total State of Alaska	5,566,300	5,134,822	431,478	
United States Departments of:				
Agriculture, United States Forest Service	320,400	279,999	40,401	
Interior:				
Fish & Wildlife Service	710,200	703,647	6,553	
U.S. Geological Survey	1,090,000	1,080,551	9,449	
Office of the Secretary	345,300	336,222	9,078	
Commerce, National Oceanic & Atmospheric				
Administration	2,816,400	2,785,701	30,699	
Total United States	5,282,300	5,186,120	96,180	
Totals	\$ 10,848,600	\$ 10,320,942	\$ 527,658	

See Note 5 of the Notes to Supplementary Information Related to Restoration Projects on Pages 35 for additional discussion relating to this schedule.

**NOTES TO SUPPLEMENTARY INFORMATION** 

#### NOTES TO SUPPLEMENTARY INFORMATION RELATED TO RESTORATION PROJECTS

Fiscal Year Ended September 30, 2001

#### 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 2001 Work Plan, and any amendments approved thereto, along with expenditures and obligations incurred by the Trustee Agencies in carrying out the Fiscal 2001 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 2001 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 2001 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, 2001

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

#### Adjustments

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.

#### 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	\$ 3,470,168
Alaska Department of Environmental Conservation	104,037
Alaska Department of Natural Resources	 752,815
Total	4,327,020
Add: Prior Years' Encumbrances Liquidated During Fiscal 2001	439,941
Less: Encumbrances Outstanding at September 30, 2001 Relating to Fiscal 2001 Restoration Projects	 (280,864)
Total Current Operating Expenditures, Settlement Trust Statement of Revenues, Expenditures and Changes in	
Fund Balances	\$ 4,486,097

#### NOTES TO SUPPLEMENTARY INFORMATION RELATED TO RESTORATION PROJECTS

Fiscal Year Ended September 30, 2001

#### 5. CURRENT STATUS OF 2000 WORK PLAN RESTORATION PROJECTS

Total expenditures and obligations relating to 2000 Work Plan Restoration Projects for each agency as of September 30, 2001 is presented on pages 32. 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, 2000 which, during fiscal 2001, were liquidated due to incurring less expenditures under contracts than the amounts originally anticipated by the agencies.

ADDITIONAL REPORTS



### 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 Investment Fund as of and for the year ended September 30, 2001, and have issued our report thereon dated February 8, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

#### 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 8, 2002.

#### 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 and its operation 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 8, 2002.

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, Kehfold & Fruk, LLC February 8, 2002



### 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, 2001, and have issued our report thereon dated February 8, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

#### 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 8, 2002.

#### 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 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 and its operation 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 8, 2002.

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, Kelikeld Strnk, LLC February 8, 2002



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, 2001, and have issued our report thereon dated February 8, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

#### 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 8, 2002.

#### 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 and its operation 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 8, 2002.

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.

Ige, Kelikeld & Frank, LLC

February 8, 2002

### 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, 2001, and have issued our report thereon dated February 8, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### 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 and its operation 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 8, 2002.

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, Reliteld & FrmK, LLC

February 8, 2002