
Office of Inspector General

Audit Report

WEAKNESSES IN MARAD'S MANAGEMENT CONTROLS FOR RISK MITIGATION, WORKFORCE DEVELOPMENT, AND PROGRAM IMPLEMENTATION HINDER THE AGENCY'S ABILITY TO MEET ITS MISSION

Maritime Administration

Report Number: ST-2016-011

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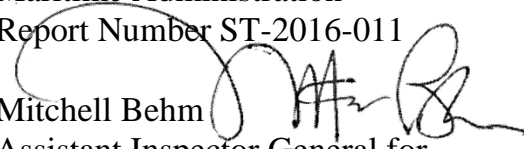


Memorandum

**U.S. Department of
Transportation**
Office of the Secretary
of Transportation
Office of Inspector General

Subject: **ACTION:** Weaknesses in MARAD's
Management Controls for Risk Mitigation,
Workforce Development, and Program
Implementation Hinder the Agency's Ability To
Meet Its Mission
Maritime Administration
Report Number ST-2016-011

Date: December 10, 2015

From: Mitchell Behm 
Assistant Inspector General for
Surface Transportation Audits

Reply to
Attn. of: JA-30

To: Maritime Administrator

The mission of the Department of Transportation's (DOT) Maritime Administration (MARAD) is to improve the U.S. marine transportation system to meet the Nation's economic, environmental, and security needs. To meet its mission, MARAD received over \$341 million for fiscal year 2015 to support operations and administer its programs—including the U.S. Merchant Marine Academy, shipbuilding, port infrastructure, and water and land transportation services. In fiscal year 2015, MARAD also received over \$375 million from the U.S. Department of Defense (DOD), on a reimbursable basis, for its National Defense Reserve Fleet (NDRF) program to provide sealift or ocean transportation for DOD and other Federal agencies during peacetime and war.

In recent years, MARAD has restructured its organization to better coordinate programs that have a direct impact on the Agency's Federal and commercial sealift missions. MARAD has also taken on oversight for a significant number of Transportation Investment Generating Economic Recovery (TIGER) grant funds for port development projects—amounting to over \$489 million from 2009 through 2014. These significant changes point to the need for enhanced attention to MARAD's management controls—including its plans, policies, and procedures used to fulfill the Agency's mission, strategic plan, and objectives. These controls

are intended to help managers achieve desired results through effective stewardship of public resources.

Accordingly, we initiated this audit to assess MARAD's management controls for (1) planning, performance measurement, and risk management; (2) organizational structure and workforce development; and (3) program implementation, monitoring, and oversight.

We conducted this review in accordance with generally accepted Government auditing standards. To conduct our work, we assessed MARAD's management controls¹ organization-wide and for five specific program areas: (1) NDRF Reserve Fleet Operations, (2) Historic Preservation Program, (3) Ship Disposal Program, (4) Vessel Transfer Office (VTO), and (5) TIGER Grant Oversight. These program areas were selected based on MARAD's risk assessments, congressional interest, and input from Office of Inspector General (OIG) investigators or previous audits. Exhibit A describes our scope and methodology, exhibit B describes criteria for this audit, and exhibit C lists the entities we visited or contacted.

RESULTS IN BRIEF

MARAD's strategic plan and performance measures are aligned with Federal standards, but the Agency did not thoroughly document its risk mitigation strategies. MARAD engaged in strategic planning activities in line with management control standards—including developing a Strategic Plan for 2012 through 2015 and collaborating with DOT on three separate planning efforts. MARAD also established performance measures for each major activity in the organization and its senior executive service (SES) employees, and the Agency works with the Department and the Office of Management and Budget (OMB) to annually re-evaluate performance measures through the budget process. To comply with Federal risk management standards, MARAD thoroughly documented risks for most of its assessable units (AU)² in its risk profiles for fiscal years 2014 and 2015 but did not thoroughly document risk mitigation strategies to address the identified risks.³ For example, the 2015 risk profile for the Federal Ship Financing Program⁴ identified risks, including poor documentation

¹ The Government Accountability Office (GAO) standards refer to "internal controls"; in this report, we use the equivalent term "management controls."

² MARAD AUs are programmatic or functional divisions.

³ A risk profile is intended to provide a detailed evaluation of an AU to determine if it has implemented adequate control activities.

⁴ The Federal Ship Financing Program (Title XI) provides loan guarantees to promote growth and modernization of the U.S. merchant marine fleet and shipyards.

and inter-office coordination on monitoring loans, but it did not document any mitigation strategies to address these risks, which could impact the effectiveness of its program operations, as well as the Agency's reputation and public trust. Without appropriately documenting risks and mitigation strategies, MARAD cannot be assured it is prepared to address risks to meet its mission.

MARAD assessed its organizational structure but has not fully implemented workforce plans and development policies. MARAD conducted a workforce analysis in 2012 to assess its organizational structure and developed several workforce plans, including a Strategic Human Capital Plan (SHCP) intended to provide actionable strategies responsive to findings in MARAD's 2012 Workforce Analysis. However, MARAD has not fully implemented its workforce plans. For example, MARAD has not fully implemented competency models for its mission-critical positions—which are important for making fully informed hiring and training decisions to close identified competency gaps. While the SHCP included improvement strategies to address the lack of competency models, the plan did not include implementation timelines or assign responsible parties to ensure timely implementation of the strategies. In addition, MARAD has established some key workforce development policies related to recruiting and hiring employees, but policies in the areas of onboarding, training, and addressing misconduct are incomplete, out-of-date, or not fully implemented. For example, MARAD has not established adequate processes for onboarding new employees—resulting in onboarding programs that lack uniformity and, in some cases, do not provide critical information, such as training in ethics or the Department's drug and alcohol policy.

MARAD's controls for program implementation, monitoring, and oversight are deficient. Specifically, MARAD's policies and procedures—which provide management controls for program implementation—are largely outdated Agency-wide, and incomplete or outdated in four of the five program areas we reviewed. For example, in October 2014, we found that 132 of the Agency's 226 Maritime Administrative Orders (MAO), which are the internal directives by which MARAD documents its policies and procedures, were over 10 years old. Without sufficient policies and procedures, MARAD lacks comprehensive controls for program implementation; compliance with legislative requirements; continuity of operations; and prevention of fraud, waste, and abuse. Moreover, although MARAD developed mechanisms that could enable it to regularly monitor performance in the five program areas we reviewed, weaknesses in two areas—NDRF Reserve Fleet Operations and VTO—inhibit the effectiveness of performance monitoring. For example, NDRF Reserve Fleet Operations' key performance indicators (KPI) are not consistently calculated due to differences in fleet practices and system limitations. As a result, the KPIs do not produce reliable assessments of fleet performance. Finally, MARAD has not established

comprehensive mechanisms for overseeing implementation of corrective actions. Specifically, MARAD does not maintain information on all management control deficiencies in its tracking system. As a result, MARAD may not be resolving these deficiencies—potentially missing opportunities for program improvement and exposing its programs to ongoing risk.

We are making recommendations to improve MARAD’s management controls.

BACKGROUND

The Federal Financial Managers’ Act of 1982 (FMFIA)⁵ requires ongoing evaluations and reports of the adequacy of internal accounting and administrative control systems for each executive agency. FMFIA also requires GAO to issue standards for Government management control. GAO’s Standards for Internal Control in the Federal Government⁶ provide the overall framework for establishing and maintaining management control, and for identifying and addressing major performance and management challenges and areas at greatest risk for fraud, waste, abuse, and mismanagement. OMB Circular A-123 provides the specific requirements for executive agencies to implement these standards.

GAO’s Internal Control Management and Evaluation Tool, which is derived from its Standards for Internal Control in the Federal Government, served as the primary source of criteria for our review (see exhibit B). Table 1 describes the management control areas we reviewed at MARAD.

⁵ 31 U.S. Code (U.S.C.) 3512(c) & (d).

⁶ GAO/AIMD-00-21.3.1, *Standards for Internal Control in the Federal Government*, Nov. 1999, which was in effect for the duration of this review; GAO-01-1008G, *Internal Control Management and Evaluation Tool*, Aug. 2001.

Table 1. Management Control Areas Reviewed

Management Control Area	Description
Planning, performance measurement, and risk management	The Government Performance and Results Act requires agencies to set strategic goals, measure performance, and report on the degree to which goals were met. Strategic plans are the starting point for agencies to set annual program goals and measure performance in achieving those goals. Risk assessment is the identification and analysis of risks to achieving the objectives, and forms a basis for determining how to manage risks through control activities to address or mitigate those risks.
Organizational structure and workforce development	Strategic workforce planning addresses two critical needs: (1) aligning an organization's human capital program with its mission and programmatic goals and (2) developing long-term strategies for acquiring, developing, and retaining staff to achieve programmatic goals. Agencies use a formal code of conduct and other policies communicating appropriate ethical and moral behavioral standards to set a positive and supportive attitude toward internal control and conscientious management.
Program implementation, monitoring, and oversight	Program implementation includes the policies, procedures, and mechanisms that help achieve program goals and objectives. Agency management is responsible for monitoring management controls to assess their performance over time, identify poorly designed or ineffective controls, evaluate and report on results, ensure that findings from audits and other reviews are promptly resolved, and provide oversight to remediate any internal control deficiencies on a timely basis.

Source: OIG analysis

We assessed MARAD's controls both organization-wide and for the following five specific program areas:

- **NDRF Reserve Fleet Operations.** MARAD's three reserve fleet sites maintain NDRF retention vessels in selected states of readiness and store obsolete vessels until the Ship Disposal Program disposes of them. NDRF vessels provide ocean transportation for DOD and other Federal agencies. The fleet sites also provide vessel storage capacity to other Government agencies.
- **Historic Preservation Program.** This program documents, preserves, and interprets MARAD's history, including identifying and maintaining heritage assets⁷ and performing vessel histories prior to ship disposal, while ensuring compliance with Federal historic preservation laws, regulations, and orders. MARAD's heritage assets consist mainly of artwork, ship models, and obsolete equipment from non-retention NDRF vessels, such as wheels, engine order telegraphs, and clocks.

⁷ Heritage assets are property retained for historic, cultural, educational, artistic, or archaeological value and are generally preserved indefinitely.

- **Ship Disposal Program.** This program contracts with domestic shipbreaking firms to dismantle Federal merchant-type vessels totaling 1,500 gross tons or greater in accordance with U.S. Environmental Protection Agency guidelines.
- **Vessel Transfer Office.** This program authorizes the transfer of ownership, registry, and flags for U.S. documented vessels of 1,000 gross tons or more.
- **TIGER Grant Oversight.** MARAD Headquarters staff and Gateway Directors⁸ evaluate TIGER applications and recommend projects to DOT's Office of the Secretary. MARAD oversees its TIGER grants at the project level, relying on its Gateway Directors to provide on-site grant oversight.

MARAD'S STRATEGIC PLAN AND PERFORMANCE MEASURES ALIGN WITH FEDERAL STANDARDS, BUT RISK MITIGATION STRATEGIES ARE NOT THOROUGHLY DOCUMENTED

MARAD engaged in strategic planning activities and established performance measures in line with Federal management control standards. However, MARAD did not thoroughly document its risk mitigation strategies.

MARAD Engaged in Strategic Planning Activities and Established Performance Measures in Line With Federal Standards

MARAD's most recent Strategic Plan (2012–2015) met Federal management control standards, such as describing its mission, goals, and objectives. MARAD is also participating in three ongoing planning efforts: (1) the Department's National Freight Strategy, mandated by the Moving Ahead for Progress in the 21st Century Act (MAP-21)⁹; (2) the Secretary of Transportation's 30-year transportation plan, Beyond Traffic 2045, which is currently in draft; and (3) a National Maritime Strategy, which is currently being reviewed by the Office of the Secretary. According to a senior MARAD official, the Agency's strategic goals and objectives will change due to these planning efforts. Therefore, MARAD is waiting to update its Strategic Plan until these planning efforts are finalized.

In addition, MARAD established performance measures organization-wide, for each major activity and for its SES employees, in line with Federal management control standards. For example, to measure the performance of its Ship Disposal

⁸ Gateway Directors are MARAD employees located across the country who provide technical assistance to port stakeholders on matters that impact ports, including applying for grants or loans.

⁹ Pub. L. 112-141 (July 6, 2012).

Program, MARAD reports on the number of obsolete vessels removed from its fleet sites for disposal. MARAD also works with its managers, the Department, and OMB to annually re-evaluate its performance measures through the budget process. Further, MARAD tracks certain operational and administrative mission support performance measures, such as average days it takes MARAD to hire a new DOT employee, and reports them to departmental leadership through the Department's quarterly performance management review.

MARAD Documented Risks but Did Not Thoroughly Document Related Risk Mitigation Strategies

To comply with Federal risk management standards, MARAD thoroughly documented risks for most of its AUs in its risk profiles for fiscal years 2014 and 2015 but did not thoroughly document risk mitigation strategies to address the identified risks (see table 2). The risk profile provides a systematic process to identify risks that can undermine the achievement of AU goals and objectives, and its effectiveness depends on thoroughly documenting risk mitigation strategies to address those risks. In fiscal year 2014, MARAD developed risk profiles for all 46 of its AUs, using a tool required by the Department. In fiscal year 2015, MARAD improved the tool by better linking the risk profiles to funding, accounting codes, performance measures, and information systems and implemented its fiscal year 2015-2017 Internal Control Program Plan, which called for assessing approximately one-third of its AUs every year instead of all AUs every 3 years.

Table 2. MARAD's Documentation of Risks and Mitigation Strategies

Fiscal Year	Total No. of Risk Profiles Reviewed	No. of Profiles With Thoroughly Documented Risks	No. of Profiles Without Thoroughly Documented Risk Mitigation Strategies
2014	46	40 (87%)	25 (54%)
2015	16	9 (56%)	9 (56%)

Source: OIG analysis of risk profiles for fiscal years 2014 and 2015.

Based on our review of these risk profiles, the majority thoroughly documented risks; however, over half only partially identified risk mitigation strategies or reported that risk mitigation strategies were not implemented to address identified risks. For example, the Deepwater Ports Program identified potential risks and risk mitigation activities to address its program risks. In contrast, the 2015 risk profile for the Federal Ship Financing Program identified risks, including poor documentation and inter-office coordination on monitoring existing loans but did not document any mitigation strategies to address these risks, which could impact

the effectiveness of its program operations, as well as the Agency's reputation and public trust.

The inconsistencies in the risk profiles indicate that MARAD Program and Performance Office staff did not provide sufficient oversight or training to the AU managers and Internal Control Officers, who are program staff responsible for ensuring risks and mitigation strategies are thoroughly documented in risk assessments. Without thoroughly documented mitigation strategies, MARAD cannot be assured it is prepared to address risks to meeting its mission.

MARAD ASSESSED ITS ORGANIZATIONAL STRUCTURE BUT HAS NOT FULLY IMPLEMENTED WORKFORCE PLANS AND DEVELOPMENT POLICIES

MARAD assessed its organizational structure through a 2012 workforce analysis and developed several workforce plans in response. However, the Agency has not fully implemented its workforce plans. In addition, although MARAD has established development policies and processes to recruit and hire employees in line with Federal standards, the Agency's policies related to onboarding new employees, training, and addressing employee misconduct are incomplete, out-of-date, or not fully implemented.

MARAD Assessed Its Organizational Structure but Has Not Fully Implemented Its Workforce Plans

In accordance with Federal management control standards, MARAD assessed its organizational structure through a 2012 workforce analysis and developed several workforce plans in response to that analysis, including a Strategic Human Capital Plan and a Leadership Succession Plan. In addition, the Agency launched a Position Enrichment and Realignment (PEAR) initiative in 2013, designed to transform the Agency's top-heavy organizational structure by replacing higher graded positions with lower grades as attrition occurs.

However, MARAD has yet to fully implement its workforce plans. MARAD's SHCP noted that the Agency was lacking competency models for certain mission-critical occupations, including leadership, human resources (HR), and transportation specialist positions. After we completed our review, MARAD provided evidence that the Agency had since identified competency models developed by DOT and the Office of Personnel Management (OPM) for most of its mission-critical positions. However, MARAD has yet to fully implement them. For example, the Agency identified OPM's Leadership Framework as a competency model for its leadership positions but has not developed key

components—such as the definition, key behaviors, and proficiency levels—for each competency in the framework. While the SHCP included improvement strategies to address the lack of competency models, the plan did not include implementation timelines or assign responsible parties to ensure timely implementation of the strategies. Without fully implemented competency models, MARAD cannot make informed hiring, training, or promotion decisions to close identified competency gaps.

MARAD Has Not Fully Implemented Key Workforce Development Policies

MARAD established some key workforce development policies, including HR policies and processes to recruit and hire employees in line with Federal best practices. However, MARAD’s workforce development policies in other areas are incomplete, out-of-date, or not fully implemented—especially in the areas of onboarding, training, and addressing misconduct.

MARAD lacks policies and oversight processes for consistent onboarding of new employees. According to MARAD staff and officials, MARAD employees who complete their onboarding at DOT Headquarters participate in the One DOT new hire orientation, which is available to all Operating Administrations. Although employees in MARAD’s field offices may participate in this orientation remotely, not all field employees do so—due to time zone differences or lack of awareness of this option. The three NDRF fleet sites we visited developed their own onboarding procedures, but MARAD Headquarters lacks policies or procedures for reviewing field onboarding procedures for consistency or completeness. As a result, the three NDRF fleet sites’ onboarding content lacks uniformity and, in some cases, omits critical information, such as initial ethics training and drug and alcohol policy materials (see table 3). Providing such information to all new employees is critical because Federal employees are prohibited from using illegal drugs, whether on or off duty.

Table 3. Inconsistencies in Fleet Sites’ Onboarding Procedures

Fleet Site Location	Initial Ethics Training	Drug & Alcohol Policy
Suisun Bay, CA	Yes	Yes
James River, VA	No	No
Beaumont, TX ^a	Yes	No

^a This fleet site reported not having any new hires since about 2010.

Source: OIG analysis of fleet site documentation

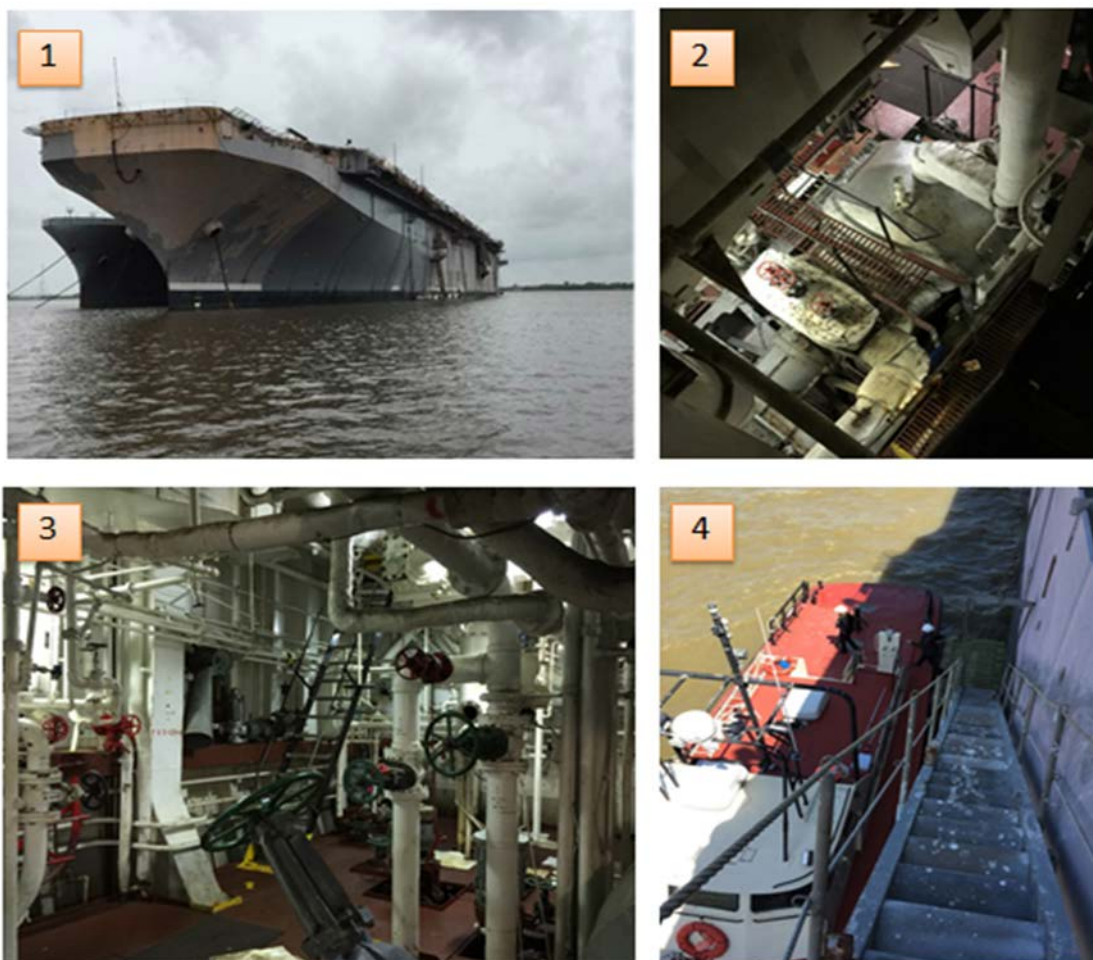
MARAD has not updated its training policy and does not follow a key program requirement to maintain a comprehensive employee training repository. MARAD has a 2009 training policy, but it has not been updated to reflect MARAD's transition from the previous training system, the Electronic Learning Management System, to DOT's current Talent Management System (TMS). In addition, although TMS is intended to be the Agency's comprehensive employee training repository, MARAD Headquarters is also using other systems to record employee training activities not recorded in TMS, including the Federal Acquisition Institute Training Application System and a separate Excel file. Some fleet sites also have their own training tracking systems. For example, although MARAD centrally tracks some fleet sites' group training, two of the three fleet sites reported that they did not notify MARAD Headquarters of individual employee training completions and instead tracked those locally. Because of these disparate training systems, MARAD Headquarters cannot readily verify that employees have taken required training. Moreover, according to MARAD's policy, having a centralized repository is necessary to fulfill OPM's Enterprise Human Resource Integration initiative, designed to standardize HR record storage, access, and sharing. Therefore, by not using TMS to track all training, MARAD is not fulfilling this initiative.

MARAD has addressed some instances of employee misconduct in recent years but has not effectively dealt with suspected drug use at one of its fleet sites. MARAD has a code of conduct and an Agency-wide policy to guide disciplinary and adverse actions. The Agency has also addressed some individual instances of employee misconduct in recent years, such as removing an employee for time and attendance fraud. However, managers at one fleet site reported longstanding concerns with suspected drug use that remain unresolved, describing this issue as one of the site's primary risk factors. MARAD Headquarters officials stated that each reported instance of suspected drug use was addressed immediately and that MARAD Headquarters will continue to encourage fleet sites to report suspected drug use.

DOT's drug and alcohol policy¹⁰ provides MARAD with several avenues to address suspected drug use—such as allowing random drug testing of employees in testing-designated positions. However, only a limited number of MARAD's fleet site positions are currently testing designated—even though fleet sites are maritime industrial areas with inherent safety risks (see figure 1).

¹⁰ DOT Order 3910.1D, Drug and Alcohol-Free Departmental Workplace Program, Oct. 1, 2010.

Figure 1. Fleet Site Industrial Areas



Key: (1) Fleet sites are maritime industrial areas on open water and exposed to the elements. Safety hazards at fleet sites include (2) open spaces to the deck below; (3) steep stairs or ladders to the interior spaces, which contain trip hazards, sharp corners, low ceilings, protruding pipes and machinery, and slippery metal floors; (4) steep access from the deck level of the vessel to the water and when boarding a transfer boat.

Source: OIG observations at MARAD's three fleet site locations in California, Virginia, and Texas

All fleet managers we spoke to support expanding random drug testing to deter fleet employees' drug use. MARAD is currently working with the Department's Drug Office and the U.S. Department of Health and Human Services (HHS) to expand the number of testing designated positions at fleet sites. However, MARAD officials noted that the process is lengthy, and approvals are not guaranteed. MARAD expects that HHS will take at least another 1.5 years to approve expanding the roster of testing designated positions, after which MARAD will need time to implement the expanded testing program with its unions and employees.

DOT's drug and alcohol policy also allows drug testing of non-testing designated positions when there is "reasonable suspicion" of illegal drug use, whether on or

off duty.¹¹ Some fleet managers indicated a need for more assistance with obtaining drug testing for their non-testing designated employees, yet MARAD has not provided any written, Agency-specific policies and procedures—such as procedures to help managers determine when to apply the reasonable suspicion provision. MARAD also has not provided required training on this subject. The DOT drug and alcohol policy requires that new supervisors complete mandatory drug and alcohol awareness training no later than 1 year after becoming a supervisor. This training must also cover DOT’s and the Operating Administration’s testing procedures in cases of reasonable suspicion. However, HR officials said they were unaware of these training requirements. Without documented guidance and training, MARAD has no assurance that its managers are equipped to address this critical health and safety issue.

MARAD’S CONTROLS FOR PROGRAM IMPLEMENTATION, MONITORING, AND OVERSIGHT ARE DEFICIENT

MARAD’s policies and procedures—which provide management controls for program implementation—are out of date or incomplete. In addition, MARAD has weaknesses in some aspects of its performance monitoring and does not provide sufficient oversight of the Agency’s implementation of corrective actions.

MARAD’s Policies and Procedures Are Outdated or Incomplete

The majority of MARAD’s policies and procedures—which provide management controls for program implementation—are out of date. MARAD’s policy states all MAOs should be reviewed on an ongoing basis to determine their adequacy and identify when new directives are needed. MARAD subsequently defined review on an “ongoing basis” as reviewing any MAO older than 2 years old. However, our review of the Agency’s 226 MAOs¹² identified 211 that were more than 2 years old. Moreover, 132 of these MAOs were over 10 years old. For example, MARAD’s Freedom of Information Act directive from 1986 has not been updated to reflect the Agency’s current processes, which incorporate changes in law, DOT policies, and technological advances.

These policies have not been regularly updated because MARAD has not assigned any staff or office the responsibility of monitoring implementation to ensure MAOs are reviewed and updated on an ongoing basis. In an effort to address this

¹¹ According to DOT’s policy, the suspicion must be based on specific and timely observations concerning the appearance, behavior, speech, and/or body odors of the employee, or information provided by either a reliable and credible source (independently corroborated) or by the employee’s own admission.

¹² We reviewed MAOs as of October 2014.

issue, MARAD developed a plan for updating its MAOs from October 2014 through 2017. The Agency identified 96 MAOs to update by July 1, 2015. However, as of July 15, 2015, MARAD reported to us that less than one-third of those MAOs had been updated or were being reviewed.

Four of the five MARAD program areas we reviewed also had incomplete or outdated policies and procedures. Program staff and officials cited a wealth of institutional knowledge as the primary reason for the lack of policies and procedures.

Ship Disposal Program. MARAD is the disposal agent for obsolete NDRF vessels and some vessels owned by other Government agencies.¹³ However, the Agency lacks policies and procedures for notifying other Federal agencies of its role as the disposal agent and identifying the universe of Government-owned vessels it is responsible for disposing. Because MARAD does not have statutory authority to enforce compliance by other Federal agencies, the Agency has established ship disposal agreements with some but not all applicable Government agencies. For example, MARAD has disposal agreements with the Navy, U.S. Coast Guard (USCG), and General Services Administration (GSA), but not with the National Oceanic and Atmospheric Administration—which, according to MARAD officials, also owns vessels under MARAD’s purview for disposal. Additionally, most of the agreements are vessel-specific and do not cover the universe of applicable vessels for which MARAD is responsible. For example, MARAD’s May 2013 agreement with the USCG covered disposal of two USCG cutters that were under 1,500 gross tons—the *Planetree* and the *Iris*—but it did not cover other USCG cutters that may have been under MARAD’s purview for disposal. Therefore, some of these agreements have not been effective to ensure MARAD always fulfills its responsibilities as the ship disposal agent. For example, even though MARAD had the agreement with USCG to dispose of two of its cutters, the USCG disposed of another cutter, the *Storis*, through GSA without consulting MARAD to determine if the *Storis* fell within the Agency’s purview. When MARAD does not dispose of vessels for which it is responsible, the Agency may not receive proceeds for its Vessel Operations Revolving Fund for MARAD and National Parks Service (NPS) programs.¹⁴

¹³ Per Title 40 U.S.C. Section 548, MARAD is the disposal agent for Government-owned vessels over 1,500 gross tons that are merchant vessels or capable of being converted to merchant use.

¹⁴ The National Maritime Heritage Act of 1994 (54 U.S.C. Section 308704) requires MARAD to allocate its ship disposal proceeds to the Vessel Operations Revolving Fund and to expend 50 percent of those funds for acquisition, maintenance, repair, reconditioning, or improvement of vessels in the National Defense Reserve Fleet; 25 percent for expenses incurred by or on behalf of State maritime academies or the U.S. Merchant Marine Academy for facility and training ship maintenance, repair, and modernization, and for the purchase of simulators and fuel; and the remaining 25 percent for the Maritime Heritage Grants or, if otherwise determined by the Maritime Administrator, for use in the preservation and presentation to the public of MARAD’s maritime heritage property.

In addition, although MARAD recently developed procedures and separate accounts to allocate and expend proceeds in accordance with the National Maritime Heritage Act of 1994,¹⁵ the procedures are incomplete. For example, MARAD's procedures do not specify the fund account code MARAD should use to deposit ship disposal proceeds. In addition, the act states that 25 percent of ship disposal proceeds can be used for the NPS' Maritime Heritage Grants or, if otherwise determined by the Maritime Administrator, to preserve and present MARAD's maritime heritage property. However, MARAD does not have procedures to describe when and how the Maritime Administrator makes this determination. In practice, MARAD stated that it has been allocating the proceeds evenly between the two purposes in accordance with a 2013 Memorandum of Agreement between MARAD and NPS, but this practice is not documented to promote consistent implementation by financial operations staff in the future.

Historic Preservation Program. In 2015, MARAD improved its policies and procedures for managing heritage assets—such as artwork, ship models, and ship wheels—by adding and expanding several sections, as well as updating the manual to reflect changes in terms and policies. However, MARAD lacks key controls to ensure heritage asset preservation. For example, MARAD does not have controls to identify and maintain historical assets through the life cycle of a vessel. MARAD's procedures detail specific heritage assets that should be removed from obsolete NDRF vessels at the end of their life, but they do not describe procedures for conducting periodic inventories of heritage assets on vessels before they become obsolete. As a result, MARAD has lost heritage assets and has not been able to determine when the losses occurred.

MARAD also lacks policies and procedures for timely disposal of existing excess assets that were once considered “heritage” but are no longer; these assets are generally sold through GSA. We reviewed 10 of the 931 excess former heritage assets that, according to the heritage asset inventory, were supposed to be located at the Suisan Bay, CA, fleet site. However, we found that 3 (30 percent) were missing. A MARAD official said the losses may have resulted from a variety of factors, including too many people having access to the items or the fleet site not properly documenting transfers to museums. These missing assets represent a lost source of Government revenue.

Vessel Transfer Office. MARAD lacks current policies and procedures for vessel transfers. In 1993, MARAD developed a procedures manual for the then-combined vessel transfer and ship disposal office that described procedural steps and provided supporting forms to process vessel transfer applications. That manual described foreign vessel transfer as a complex process, which “must be

¹⁵ 54 U.S.C. § 308704.

technically, legally, and administratively correct at all times.” Yet, according to the VTO staff person, VTO no longer uses these procedures and has not developed other procedures to replace them because the office’s single staff member has the expertise and experience to process the applications. Well-documented policies and procedures would enhance MARAD’s ability to ensure consistent program implementation and smooth continuity of VTO operations if the office’s only employee leaves the Agency.

TIGER Grant Oversight. MARAD’s TIGER grant oversight policies and procedures lack comprehensive controls to ensure effective oversight by its Gateway Directors. MARAD Gateway Directors are tasked with a broad range of duties, including overseeing TIGER grant projects through site visits to verify progress and compliance with program requirements. The Discretionary Grants Administration Manual, which contains the policies and procedures that guide MARAD’s TIGER grant oversight, has some practices that strengthen controls over Gateway Directors’ oversight, such as requiring Gateway Directors to take and submit photographs for certain items. In addition, a Program Specialist in Headquarters evaluates site visit reports before recommending payments for some invoices, such as individual reimbursement requests exceeding \$500,000. However, the manual does not require supporting documentation for all oversight tasks the Gateway Directors perform. For example, the manual does not require documentation to support a determination of whether the grantee requested and obtained required approvals before making budget or program changes—regardless of the magnitude of the change. In addition, MARAD has not implemented two controls: the Gateway Assurance Program and a Gateway Desk Audit initiative, which MARAD developed to ensure that all Gateway Directors perform due diligence in the execution of their duties and are good stewards of Agency resources. The lack of comprehensive controls increases the risk of inadequate TIGER grant oversight.

MARAD Does Not Adequately Monitor Performance for Two Program Areas Reviewed, and Oversight Is Not Sufficient To Ensure Implementation of Corrective Actions

MARAD developed mechanisms that could enable it to regularly monitor performance in the five program areas we reviewed. For example, MARAD monitors the performance of its NDRF Reserve Fleet Operations through quarterly KPI reports and Annual Fleet Reviews. In addition, MARAD updated its Heritage Asset Management Manual in June 2015 to respond to a deficiency we identified during this audit. Specifically, we found that the Historic Preservation Program lacked a monitoring mechanism to ensure that the historic asset inventory numbers reported in the Department’s financial statement were accurate. As a result,

MARAD's manual now includes procedures for periodic heritage asset inventory checks.¹⁶

However, we found weaknesses in two areas that inhibit the effectiveness of monitoring. First, VTO provides a weekly report to MARAD management that includes application processing times—VTO's only identified performance metric—but, according to VTO staff, this report is used for informational purposes and not performance tracking. VTO does not analyze the information in the report or take any specific action in response to applications that have passed the processing deadline. Second, the NDRF fleet operations' KPIs are not consistently calculated due to differences in fleet practices and system limitations. As a result, the KPIs do not produce reliable assessments of fleet performance.

Furthermore, MARAD has not established comprehensive mechanisms to monitor implementation of corrective actions. While MARAD systematically tracks recommendations from OIG and GAO audit reports and DOT's A-123 reviews,¹⁷ MARAD's tracking system does not include complete information on management control deficiencies identified in other sources, such as OIG investigations, internal MARAD reviews, and other external audits. For example, the tracking system did not contain the results of an OIG investigation describing several potential control weaknesses at a MARAD fleet site. This is because MARAD's Internal Control Program directive does not require information on all management control deficiencies to be communicated to the Program and Performance Office staff who maintain the tracking system. By not tracking the full range of management control deficiencies, MARAD may not be resolving these deficiencies—potentially missing opportunities for program improvement and exposing its programs to ongoing risk.

CONCLUSION

In recent years, MARAD has experienced unprecedented change to help meet its mission to improve the U.S. marine transportation system. MARAD has taken a number of steps to establish management controls for its operations—including developing a strategic plan, establishing Agency-wide performance measures, and conducting a workforce assessment. However, MARAD has not thoroughly documented risk mitigation strategies; fully implemented key workforce actions and development policies; or provided sufficient policies, controls, and monitoring for effective program implementation. Until MARAD fully implements these

¹⁶ We did not assess the Agency's implementation of this new process because it has only recently been developed.

¹⁷ OMB Circular A-123, Appendix A, requires agencies to test the operating effectiveness of all key controls at least once every 3 years. The Department's A-123 program identifies 14 key business processes for periodic review and testing.

actions, the Agency lacks effective management controls to fulfill its mission to improve the Nation's marine transportation system.

RECOMMENDATIONS

We recommend that the Maritime Administrator:

1. Update policies and procedures to require Program and Performance Office staff to review risk profiles to ensure program managers thoroughly document risks and mitigation strategies.
2. Provide additional training to both program managers and Internal Control Officers on thoroughly documenting risks and mitigation strategies in risk profiles.
3. Create and implement a plan—including tasks, actions, timelines, and responsible personnel—to fully implement comprehensive competency models for mission-critical occupations.
4. Align Headquarters' and field offices' onboarding policies and procedures to ensure consistent implementation and provision of critical information across the Agency.
5. Update the training policies to reflect the current operating environment and to include a control mechanism to ensure all completed training is tracked in a comprehensive training repository.
6. Contingent upon HHS' response, finalize the expansion of the number of testing-designated positions at fleet sites.
7. Develop supplemental policies and procedures and train fleet supervisors on MARAD's procedures to handle suspected drug use.
8. Update existing MAOs in accordance with established timelines.
9. Update the MAO governing the internal directive system to assign responsibility for monitoring implementation.
10. Develop or update policies and procedures to carry out MARAD's ship disposal responsibilities under Title 40 U.S.C. Section 548, including policies and procedures for:
 - a. identifying the universe of Government-owned vessels that meet the statutory criteria for MARAD to serve as the disposal agent;

- b. notifying agencies that own these vessels of MARAD's disposal agent role;
 - c. specifying into what accounts MARAD should deposit ship disposal proceeds; and
 - d. specifying when and how the Maritime Administrator determines what portion of funds MARAD retains for its heritage property.
11. Update policies and procedures for the Historic Preservation Program to include controls to prevent asset loss.
 12. Dispose of excess non-heritage assets identified in the heritage asset inventory.
 13. Update VTO policies and procedures to reflect the current range of program responsibilities and processes.
 14. Modify policies and procedures to strengthen controls for Gateway Directors' oversight of TIGER grants.
 15. Provide additional guidance to fleet sites to standardize NDRF Reserve Fleet Operations' KPI data inputs, and provide more uniform measures of fleet performance.
 16. Update the MARAD Internal Control Program directive to include mechanisms for communicating all management control deficiency information to the Program and Performance Office staff for entry into the tracking system.

AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

We provided MARAD with our draft report on October 27, 2015, and received its response on November 25, 2015, which is included as an appendix to this report. MARAD provided additional technical comments to our draft report, which we incorporated as appropriate. MARAD concurred with our 16 recommendations, agreed to implement all recommendations as written, and provided appropriate target completion dates. Accordingly, we consider all 16 recommendations resolved but open pending final implementation of planned actions.

We appreciate the courtesies and cooperation of Office of the Secretary of Transportation and MARAD representatives during this audit. If you have any questions concerning this report, please call me at (202) 366-5630 or Toayoa Aldridge, Program Director, at (202) 366-2081.

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cc: DOT Audit Liaison, M-1
MARAD Audit Liaison, MAR-392

EXHIBIT A. SCOPE AND METHODOLOGY

We conducted our work from October 2014 through October 2015 in accordance with generally accepted Government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our audit objective was to assess MARAD's management controls for (1) planning, performance measurement, and risk management; (2) organizational structure and workforce development; and (3) program implementation, monitoring, and oversight of core mission requirements.

We reviewed GAO's Standards for Internal Control in the Federal Government and the related Internal Control Management and Evaluation Tool; the Government Performance and Results Modernization Act of 2010; and OMB, DOT, and MARAD implementing regulations and guidance to identify criteria related to each area of our objective. Using these documents, we developed a criteria matrix to guide our work (see exhibit B). To conduct our work, we analyzed DOT and MARAD documentation; interviewed MARAD officials and staff from MARAD Headquarters in Washington, DC, and MARAD's field offices in California, Louisiana, Missouri, New York, Texas, Virginia, and Washington. The field offices we selected included all three of MARAD's Reserve Fleet Sites and their related Division offices, several Gateway offices that were nearby or in close proximity to OIG office locations, and the Acting Director of the Office of Gateways. We compared the results of our review to the criteria to assess the adequacy of MARAD's management controls.

We also selected five program areas to test MARAD's management controls. We selected these areas based on MARAD's fiscal year 2014 risk ratings, congressional interest, and input from OIG investigators and previous audits (see table 4).

Table 4. Selection Criteria for MARAD Program Areas

Program Area	Selection Criteria			
	Inherent Risk Assessment ^a	Risk Profile Rating	Congressional Interest	OIG Investigators or Audits
NDRF Reserve Fleet Operations	Medium	Medium		X
Historic Preservation Program	High	High		X
Ship Disposal Program	Medium	Medium	X	
Vessel Transfer Office	N/A	N/A	X	
TIGER Grant Oversight ^b	Medium	Low		X
	Low	Low		

^a The inherent risk assessment is a DOT tool that assesses the inherent risk in an AU's operations, activities, systems, and processes.

^b TIGER Grant Oversight was covered by two of MARAD's AUs—Port Infrastructure and Gateway Office.

Source: OIG

EXHIBIT B. AUDIT CRITERIA

The following table identifies the specific criteria derived from the GAO's Internal Control Management and Evaluation Tool that we used to assess MARAD's management controls:

Area	Key Practices
Planning	<ul style="list-style-type: none"> • Establish mission, goals, and objectives that relate to and stem from program requirements established by legislation. • Link significant activities in the plan to MARAD's objectives and strategic plans and to the Department's strategic goals. • Review activity-level objectives periodically to assure that they have continued relevance.
Performance Measurement	<ul style="list-style-type: none"> • Establish performance measures and indicators throughout the organization at the agency, activity (program level), and individual (SES) level. • Periodically review and validate the propriety and integrity of both organizational (agency level) and activity (program level) performance measures and indicators.
Risk Assessment	<ul style="list-style-type: none"> • Thoroughly identify risks, from both internal and external sources, both organization-wide and for each significant activity level of the agency. • Establish a formal process to analyze risks that involves appropriate levels of management and employees. • Decide on specific control activities to manage or mitigate specific risks organization-wide and at each activity level, and monitor their implementation.
Organizational Structure	<ul style="list-style-type: none"> • Periodically evaluate the organizational structure and make changes as necessary in response to changing conditions. • Have a coherent overall human capital strategy that encompasses human capital policies, programs, and practices to guide the agency. • Conduct succession planning to ensure continuity of needed skills and abilities.
Workforce Development	<ul style="list-style-type: none"> • Communicate information to recruiters about the type of competencies needed for the work or participated in the hiring process. • Have an orientation programs for new employees. • Establish a training program that emphasizes the need for continuing training and has a control mechanism to help ensure that all employees actually received appropriate training. • Take action on violations of policies, procedures, or the code(s) of conduct, including terminating employment when performance was consistently below standards or there were significant and serious violations of policy.

Area	Key Practices
Program Implementation	<ul style="list-style-type: none"> • Have written documentation—readily available in management directives, administrative policies, accounting manuals, and other such manuals—covering the Agency’s internal control structure and for all significant transactions and events. • Properly manage, maintain, and periodically update all documentation and records. • Divide or segregate key duties and responsibilities among different people to reduce the risk of error, waste, or fraud.
Monitoring	<ul style="list-style-type: none"> • Top-level management regularly review actual performance against budgets, forecasts, and prior period results. • Managers at all activity levels review performance reports, analyze trends, and measure results against targets.
Oversight	<ul style="list-style-type: none"> • Establish processes to work with and respond to accountability agencies (e.g., OIG and GAO). • Take corrective action or make improvements within established timeframes to resolve findings from audits and other reviews. • Keep top management informed, through periodic reports, on the status of audit and review resolution to ensure the quality and timeliness of individual resolution decisions.

Source: OIG analysis of GAO’s Internal Control Management and Evaluation Tool

EXHIBIT C. ENTITIES VISITED OR CONTACTED

DOT Headquarters

Office of the Secretary of Transportation

MARAD Headquarters

Office of the Executive Director

Office of Strategic Sealift Operations

Office of Administration

Office of Budget & Programs

Office of Program Performance & Internal Control

Office of Human Resources & Training

Office of Ship Operations

Office of Ship Disposal Programs

Historic Preservation Program

Office of Vessel Transfer

Office of Chief Counsel

Office of Infrastructure Development & Congestion Mitigation

Office of Gateway Outreach

MARAD Regional Offices

Division of Pacific Operations

Division of Atlantic Operations

Division of Gulf Operations

MARAD Gateway Offices

Northern California Gateway

Western Gulf Gateway

Pacific Northwest Gateway

North Atlantic Gateway

Inland Waterways Gateway

MARAD Fleet Sites

Suisun Bay Reserve Fleet, CA

James River Reserve Fleet, VA

Beaumont Reserve Fleet, TX

EXHIBIT D. MAJOR CONTRIBUTORS TO THIS REPORT

<u>Name</u>	<u>Title</u>
Toayoa Aldridge	Program Director
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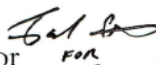
APPENDIX. AGENCY COMMENTS



U.S. Department
of Transportation

**Maritime
Administration**

Memorandum

From: Paul N. Jaenichen 
Maritime Administrator FOR
x61719 November 25, 2015

To: Mitchel Behm
Assistant Inspector General for Surface Transportation Audits, JA-30

Subject: Office of the Inspector General's MARAD Management Controls Report

The Maritime Administration (MARAD) is the steward of more than \$700 million annually to improve the U.S. marine transportation system to meet the Nation's economic, environmental and security needs. Over half of the funding is received from the Department of Defense to provide sealift for military or emergency response during peacetime and war. MARAD manages nearly \$500 million in Federal TIGER grants in 43 port projects across the country. MARAD also operates the U.S. Merchant Marine Academy, and provides financing, insurance and technical assistance to support American shipbuilding, water transportation, and port infrastructure.

MARAD assessed its organizational structure, developed workforce plans, and aligned its strategic plan and performance measures with Federal standards. MARAD thoroughly documented risks, developed mechanisms to monitor performance, and is in the process of updating its Maritime Administrative Orders (MAOs), nearly half of which are over ten years old.

In response to the findings and recommendations contained in the report, MARAD:

- Will update its strategic plan to align with the draft National Maritime Strategy (cleared for interagency review) as well as the DOT National Freight Strategic Plan and Beyond Traffic initiatives.
- Can document that all proceeds from the Ship Disposal Program were allocated and expended in accordance with the National Maritime Heritage Act.
- Has already assured physical controls on its existing historical assets in the Historic Preservation Program, and has located the three misplaced items while completing its review of the inventory of excess former assets.

Appendix. Agency Comments

- Efforts are presently underway to address the report's valuable recommendations to better document risk mitigation; improve controls for program implementation, monitoring and oversight; and implement workforce plans.

Based upon our review of the draft report, we agree to implement all 16 of OIG's recommendations, as written. The following table reflects each recommendation with a completion date:

Recommendations	Completion Date
2, 11	December 31, 2015
1, 16	January 29, 2016
7, 12, 13, 14	March 31, 2016
4, 15	June 30, 2016
9	July 29, 2016
3, 5	September 30, 2016
10	December 30, 2016
6	December 29, 2017
8	December 28, 2018

We appreciate this opportunity to offer additional perspective on the OIG draft report. Please contact Steven Snipes, Director for Management and Administration, at (202) 366-2811 if you have any questions or require additional information about these comments.