



U.S. DEPARTMENT OF TRANSPORTATION  
**OFFICE OF INSPECTOR GENERAL**

**MARAD's Policy and Procedures for the  
Title XI Program's Application Review  
Process Do Not Ensure Full Compliance  
With Requirements**

**MARAD**

Report No. ST2020038

July 8, 2020





## MARAD's Policy and Procedures for the Title XI Program's Application Review Process Do Not Ensure Full Compliance With Requirements

*Required by the Fiscal Year 2019 John S. McCain National Defense Authorization Act*

**Maritime Administration | ST2020038 | July 8, 2020**

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### What We Looked At

Title XI of the Merchant Marine Act of 1936 established the Maritime Administration's (MARAD) Federal Ship Financing Program (Title XI), which provides loan guarantees to private companies for ship construction and shipyard modernization. The Fiscal Year 2019 John S. McCain National Defense Authorization Act requires us to audit MARAD's policies and procedures for reviewing and approving loan guarantee applications. Our audit objectives were to assess (1) the completeness of the program's policy for application reviews and (2) the program's adherence to the policy in its application reviews.

### What We Found

MARAD's Title XI policy manual does not fully cover 13 of 28 regulatory requirements that address program eligibility and applications. A MARAD official acknowledged that the manual does not cover all requirements but pointed out that missing requirements are not frequently relevant to application reviews. However, lack of inclusion of all requirements creates a risk that the program will omit attention to relevant requirements, and in turn, diminish the reliability of information the program uses to assess applicants' eligibility and creditworthiness.

MARAD lacks adequate procedures to ensure that staff fully comply with requirements. The program also takes longer to process applications than the 9-month statutory review period, and the program's controls are inadequate to ensure staff comply with policy requirements. According to the Government Accountability Office, management must enforce accountability for the entity's internal control, including through supervisory feedback. However, the program supervisor reviews applications for completeness on an ad-hoc basis. The lack of internal controls could inhibit assessments of applicants' eligibility and creditworthiness.

### Our Recommendations

We made three recommendations, and MARAD concurred with all three.

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## Memorandum

Date: July 8, 2020

Subject: INFORMATION: MARAD's Policy and Procedures for the Title XI Program's Application Review Process Do Not Ensure Full Compliance With Requirements | Report No. ST2020038

From: David Pouliott   
Assistant Inspector General for Surface Transportation Audits

To: Maritime Administrator

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Title XI of the Merchant Marine Act of 1936<sup>1</sup> established the Maritime Administration's (MARAD) Federal Ship Financing Program (Title XI). The program provides loan guarantees<sup>2</sup> to private companies for ship construction and shipyard modernization. As of September 30, 2018, the program had a portfolio of 28 loan guarantees with an outstanding balance of \$1.3 billion. Before the program can approve a guarantee application, regulations<sup>3</sup> require the Agency to assess many factors, including the economic soundness of the applicant's project.

The Fiscal Year 2019 John S. McCain National Defense Authorization Act<sup>4</sup> requires us to audit MARAD's policies and procedures for reviewing and approving loan guarantee applications. Our audit objectives were to assess MARAD's (1) policy for review and approval of loan guarantee applications and (2) monitoring of its portfolio of loan guarantees. In this report, however, we present our findings on the first objective only.<sup>5</sup> Specifically, we assessed (1) the completeness of the program's policy for application reviews and (2) the program's adherence to the policy in its application reviews.

We conducted our work in accordance with generally accepted Government auditing standards. As a part of our audit, we reviewed the seven applications that the program approved for guarantees between January 1, 2010, through

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<sup>1</sup> 46 U.S.C. Chapter 537, Loans and Guarantees.

<sup>2</sup> In cases of default, Federal guarantee programs make full payment to lenders of unpaid principal and interest on loan obligations.

<sup>3</sup> 46 CFR Part 298.

<sup>4</sup> Pub. L. No. 115-232 (2018).

<sup>5</sup> We will conduct a separate audit on the second objective on MARAD's portfolio monitoring and present those findings in a another report.

September 30, 2018. Exhibit A details our scope and methodology, and exhibit B lists the entities we visited or contacted.

We appreciate the courtesies and cooperation of Department of Transportation representatives during this audit. If you have any questions concerning this report, please call me at (202) 366-1844, or Jaydeep Borwankar, Program Director, at (202) 493-0970.

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

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## Results in Brief

### **MARAD's policy for the Title XI application review process does not cover all requirements.**

MARAD's Title XI program policy manual—which provides specifics on how the staff process guarantee applications—does not fully cover 13 of the 28<sup>6</sup> requirements that address program eligibility and applications. Specifically, the manual does not fully cover 6 of 10 requirements on eligibility, including project economic soundness; 4 of 8 requirements on guarantee terms; and 3 of 10 requirements on application documentation. For example, one section on eligibility requires applicants to demonstrate financial soundness. However, the policy does not direct program staff to obtain and review information on needed technical improvements to project vessels—such as those for better fuel efficiency and safety. This type of vessel improvement can result in up-front investment costs for applicants and affect their eligibility for guarantees. According to a MARAD official, the policy manual was updated in 2012 to address a recommendation in our 2010 report to do so. However, the 2012 policy update did not include all requirements. The MARAD official acknowledged that the manual does not cover all regulatory requirements, but pointed out that the requirements missing from the manual are not frequently relevant to application reviews. However, the lack of inclusion of all regulatory requirements in the manual creates a risk that the program will omit attention to relevant requirements, and in turn, diminish the reliability of the information the program uses to assess applicants' eligibility and creditworthiness.

### **MARAD lacks adequate procedures to ensure that staff fully comply with requirements.**

We reviewed seven application files<sup>7</sup> and found that all seven had instances of non-compliance with program policy, including a lack of documentation required for application completeness. For example, in one application, program staff identified eight areas related to project economic soundness for which the applicant did not submit sufficient information. The file did not document any program follow-up with the applicant; staff could not confirm for us whether the applicant ever submitted the missing information but the program eventually approved a \$241 million guarantee. Additionally, we found that the program takes longer to process applications than the statutory review period of 9

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<sup>6</sup> Part 298 includes 32 requirements, the last 4 of which cover post-approval areas and therefore are outside the scope of this audit.

<sup>7</sup> These seven applicants were approved for guarantees during the period of time we audited but one was terminated after approval.

months,<sup>8</sup> and applicants frequently do not request review extensions as the statute requires. Of the seven applications we reviewed, the program's reviews of six exceeded the statutory review period, and only two of these six applicants requested extensions. Lastly, the program's controls are inadequate to ensure that staff comply with policy requirements. According to the Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government*, management must take corrective actions to enforce accountability for the entity's internal control, including supervisors' feedback. However, the policy manual does not include procedures for supervisory reviews of application files. According to the program supervisor, he reviews applications for completeness on an ad-hoc basis. As a result, the program does not fully review staff's compliance with completeness requirements, and the program potentially approved guarantees for these seven applicants despite the missing information. The lack of internal controls may inhibit program assessments of applicants' eligibility and creditworthiness.

We made three recommendations to help MARAD improve its policies and procedures for the Title XI application review process, and MARAD concurred with all three recommendations.

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## Background

The Title XI program authorizes the Federal Government to guarantee full payment to lenders of unpaid principals and interest on mortgage obligations in the event of default by vessel or shipyard owners. The program is administered by MARAD's Office of Marine Financing (OMF), which has a director and four staff people.

Title 46 of the Code of Federal Regulations (CFR) Part 298 establishes the requirements for Title XI in four topic areas,<sup>9</sup> and these topic areas contain 32 requirements.<sup>10</sup> See table 1 for the topic areas and descriptions of the requirements.

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<sup>8</sup> The statute—46 U.S.C. Chapter 537, Loans and Guarantees, § 53703, Application procedures—refers to 270 days, the equivalent of 9 months.

<sup>9</sup> Part 298 also includes subpart A—Introduction, which presents definitions, and subpart F—Administration, which is reserved.

<sup>10</sup> An applicant may not have to meet all 32 requirements. For example, if the applicant will be the vessel operator, it does not have to meet requirements for lessee or charter operators.

Table 1. Title XI Program Regulations

Topic areas	Sections and Description of Requirements
Subpart B: Eligibility	§§ 298.10 through 19. Verification of applicants' eligibility for program participation, including requirements for citizenship, vessels registration, and applicants' financial soundness and projects' economic soundness.
Subpart C: Guarantees	§§ 298.20 through 27. Establish the terms and conditions that applicants' loans must meet to qualify for guarantees, including loan length and collateral, and requirements for refinancing older vessels.
Subpart D: Documentation	§§ 298.30 through 39. <sup>a</sup> Establish documents MARAD must collect and maintain, such as proof of citizenship, applicants' financial statements, and market analysis documentation.
Subpart E: Defaults and Remedies, Reporting Requirements, and Applicability of Regulations	§§ 298.40 through 43. Evaluation of loan defaults, remedies after default, reporting on financial statements, applicability of the regulations.

<sup>a</sup> Section 34 is reserved.

Source: OIG analysis of 46 CFR Part 298

MARAD's current program policy manual<sup>11</sup> states that the application process starts with an introductory meeting between the applicant and OMF. During this meeting, the program informs the applicant of regulatory requirements the applicant must meet to be awarded a guarantee, including demonstration of the project's economic soundness.

Policy requires each applicant to provide documentation that details its eligibility and its project's economic feasibility. The statute states that once OMF receives an application, the program has 9 months<sup>12</sup> to review the application and approve or deny a loan guarantee. The statute also states that the applicant is responsible for requesting an extension of the review period, and that upon request, the program may extend the review period for an additional 15 months. According to program policy, applicants that do not receive extensions are terminated from the program.

Policy requires applicants to provide responses that detail their qualifications and their projects' economic feasibility. Policy also calls for applications to be reviewed simultaneously by each of nine supporting offices for assessment based on the office's expertise. For example, the Office of Chief Counsel (OCC) determines whether a project and its documents are legally sound and in compliance with statutes, regulations, and program policy. See exhibit C for a list of the nine offices and their functions. Policy also requires applications for

<sup>11</sup> MARAD, *Program and Risk Management Policy Manual: Title XI Vessel and Shipyard Financing*, 2012.

<sup>12</sup> 46 U.S.C. Chapter 537, Loans and Guarantees, § 53703. Application procedures.

guarantees over \$100 million to be reviewed by contracted independent financial advisors.<sup>13</sup>

When information or documents are missing from an application, the policy requires the program to send a deficiency letter to the applicant requiring submission of what is missing. The program does not proceed in the application review process until it determines that the application is complete. When the application is complete, the program informs the applicant in writing,<sup>14</sup> and then along with its financial advisors, analyzes the application to verify the project's financial, economic, and operational viability. If the program finds that any part of the project is not viable for loan repayment or does not meet other requirements,<sup>15</sup> the program denies the application. The program recommends to MARAD's Administrator approval of eligible applications, and the Administrator confirms project approval in letter commitments<sup>16</sup> to applicants.

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## MARAD's Policy for the Title XI Application Review Process Does Not Cover all Requirements

MARAD's Title XI policy manual—which staff use as guidance to administer the program—does not fully cover all 28 regulatory requirements for the program's application review process and document retention.

**Subpart B—Eligibility.** Subpart B includes 10 sections that cover eligibility requirements such as citizenship and the applicant's required financial information. The manual covers all requirements in 4 of these 10 sections, but only partially covers requirements in the other 6 sections or none at all. See table 2 for descriptions of these sections and whether or not the manual includes the requirements.

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<sup>13</sup> Five of the seven applications we reviewed were for guarantees over \$100 million.

<sup>14</sup> The program implemented this policy in August 2013.

<sup>15</sup> Such as requirements on applicants' citizenship requirements, types of vessels being financed, and building vessels in the United States.

<sup>16</sup> MARAD refers to this letter as a "letter commitment" rather than a letter of commitment.

Table 2. Requirements in Subpart B—Eligibility

CFR Section and Description	Included in Program Manual?
§ 298.10 Applicant’s citizenship requirements	Yes
§ 298.11 Types of vessels <sup>a</sup> eligible for financing	Yes
§ 298.12 Applicant’s and/or vessels operator’s qualifications	Partially
§ 298.13 Required financial information on applicant, parent company, and any other entity with significant financial or contractual relationship with applicant,	Partially
§ 298.14 Required information on applicant’s economic soundness.	Partially
§ 298.15 Required fees from applicant for program participation before a letter commitment is issued.	Yes
§ 298.16 Required information on any changes to guarantee participants, such as the lender, plus a fee.	No
§ 298.17 Required information on vessel age and capability and applicant’s financial condition, and the value of applicant’s pledged collateral.	Partially
§ 298.18 Required information for shipyard financing, such as information on collateral that will secure the guarantee, and evidence that the loan will not exceed the economic useful life of shipyard assets.	Partially
§ 298.19 Required information on financing of vessels to be used for international export.	Yes

<sup>a</sup> Three types of vessels to be used in U.S. waters—newly constructed, reconstructed, and reconditioned—may be eligible. “Reconstructed” refers to an older ship that will receive significant capital improvements and “reconditioned” refers to an older ship that will receive minor capital improvements.

Source: OIG analysis of regulations

For example, § 298.14 states that prior to application approval, MARAD must confirm that the applicant’s project is economically sound. A project’s economic soundness indicates the project’s feasibility and is the primary basis for MARAD’s project approval and commitment to a guarantee. This section calls for the program to determine economic soundness by analyzing, among other things,

projects' future revenues and costs. However, the policy manual does not call for collection of data on four other project factors:

- Contractual agreements regarding vessel use or shipyard leases that provide revenue to applicants;
- Need for technical improvements to project vessels—such as those for better fuel efficiency and safety—that result in up-front investment costs;
- Market information on applicants existing or anticipated markets—such as types and amounts of cargo or passengers to be moved; and
- For shipyard projects, estimated expenses such as operating expenses and capital costs.

The policy manual also does not fully cover certain financial requirements that applicants must meet. For example, an applicant is typically the project vessel owner but can lease the vessel to an operator for payments. Section 298.13 requires financial information on such lessee operators to verify their financial stability, but program policy does not cover this requirement.

**Subpart C—Guarantee Terms.** Subpart C includes eight sections covering areas such as the limits on expenditures that guarantees cover, loan length, and the loans' repayment schedules. The policy manual covers all requirements in four of these eight sections, but only partially covers requirements for the other four or none at all. See table 3 for descriptions of these sections and whether or not the manual includes the requirements.

Table 3. Requirements in Subpart C—Guarantee Terms

CFR Sections and Descriptions	Included in Program Manual?
§ 298.20 Guarantee length, interest, and redemption requirements.	Partially
§ 298.21 Limits on, among other things, expenditures that the guarantee covers.	Yes
§ 298.22 Guaranteed loan’s payment schedule.	Yes
§ 298.23 Requirements for the use of the program to refinance existing debt.	Yes
§ 298.24 Requirements for financing a vessel that is over a year old.	Partially
§ 298.25 Requirements on excess interest <sup>a</sup> and other considerations.	No
§ 298.26 Required information on lease and charter for hire payments.	Partially
§ 298.27 Information on when the program can make advance payments on behalf of the borrower	Yes

<sup>a</sup> Excess interest refers to interest payments or other compensation that a Title XI awardee pays to its lender in excess of an approved interest rate.

Source: OIG analysis of regulations

For example, § 298.20 requires that the length of each project’s loan not exceed the project’s anticipated physical and economic life. However, MARAD’s policy does not cover this portion of the requirement or the section’s prohibition of the sale of loan collateral before the loan is repaid.

The policy also does not cover § 298.24’s requirements on guarantees for older vessels. Both the regulations and the act require the program to guarantee loans for older vessels—ones that have been in use for over a year. Other sections present requirements for new vessels, and applicants with older vessels must comply with many of these same requirements. The manual also includes § 298.24’s requirement that these applicants must maintain funds in escrow to pay off any existing mortgages on their older vessels. However, the manual does not cover the other requirements in § 298.24 for older vessels, including permission for use of loan proceeds to reconstruct or refurbish older vessels.

The policy also does not cover § 298.26 on lease and charter for hire payments. An owner may lease the project vessel or use it to run charter services. Section 298.26 requires the program to approve lease and charter arrangements under certain circumstances, but the policy does not cover these arrangements and circumstances.

**Subpart D—Documentation.** Subpart D includes nine sections covering documentation of things such as the nature and content of the guarantee (including borrower's name and guarantee amount) and evidence that the borrower maintains required amounts of escrow funds. The manual covers the requirements in six of these nine sections, but only partially covers requirements for the other three or none at all. See table 4 for descriptions of these requirements and whether or not they are included in the manual.

Table 4. Requirements in Subpart D—Documentation

CFR Sections and Descriptions	Included in Program Manual?
§ 298.30 Terms of the guarantee, such as the borrower's name, guarantee amount, interest rate, and date of maturity.	Yes
§ 298.31 Required documentation on the mortgage that the program must hold on the project vessel.	Yes
§ 298.32 Required documentation on shipyards and related contracts.	Partially
§ 298.33 Required documentation on the borrower's maintenance of escrow fund deposit, withdrawal, and termination.	Yes
§ 298.35 Required documentation on the borrower's maintenance of deposits for the program reserve fund. <sup>a</sup>	Yes
§ 298.36 Evidence that the borrower has paid the required guarantee fee.	Yes
§ 298.37 Evidence that the borrower has given the program the right to examine and audit its financial statements and project vessel.	Yes
§ 298.38 Evidence that the borrower agrees to provide documentation of its plans in case of dissolution of a partnership or limited liability corporation.	No
§ 298.39 Documentation of exemptions from requirements that the program grants the borrower.	No

<sup>a</sup> A financial deposit that each borrower must maintain to protect against any failure in meeting the financial covenants of the loan and guarantee.  
Source: OIG analysis of regulations

For example, the manual does not explain how the program must document dissolutions of partnerships and limited liability companies (LLC). An applicant may be a partnership or LLC, but these legal relationships could affect loan repayment. Under § 298.38, such an applicant must inform the program of the relationship's stability and plans in case of dissolution by providing documentation on

1. the entity's age (a new entity could be financially unstable),

2. adequate partnership or LLC funding, and
3. the entity's requirements for dissolution and withdrawal of a general partner or member.

According to GAO's Internal Control Standards, control activities are policies, procedures, techniques, and mechanisms that enforce management's directives to achieve the entity's objectives and address related risk. Furthermore, management should implement control activities through policy.

A Title XI staff analyst that reviews applications informed us that the program hired a contractor to update the program's policy manual in response to an OIG recommendation from 2010 but program officials were not satisfied with initial draft. The program then tasked the analyst to develop another update. The result—completed in 4 months—was the 2012 manual still in use. Program officials acknowledged that the manual does not cover all regulatory requirements, but also pointed out that the requirements missing from the manual are not frequently relevant to application reviews. However, the lack of inclusion of all regulatory requirements in the manual creates a risk that the program will omit attention to relevant requirements, and in turn, diminish the reliability of the information the program uses to assess applicants' eligibility and creditworthiness.

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## MARAD Lacks Adequate Procedures To Ensure That Staff Fully Comply With Requirements

Title XI program staff do not always adhere to the policy manual, including requirements for application completeness, and program procedures do not ensure compliance with requirements.

All seven application files we reviewed had issues of non-compliance with program policy, including a lack of documentation required for application completeness. For example, we found that

- One file was missing documents and information required for guarantee approval. The file included the financial statements of the applicant's parent company but not the applicant's. It also contained evidence that the program identified eight areas related to project economic soundness on which the applicant did not submit sufficient information. The policy manual requires program staff to obtain all required documentation before reviewing for guarantee approval. The program approved a \$241 million guarantee, but program officials could not confirm for us that the applicant ever submitted the information.

- Six files were missing evidence that introductory meetings had occurred between the applicants and OMF. Program officials could not provide documentary evidence that the meetings occurred.
- Four files were missing evidence of review and approvals by one or more of the nine support offices. For example, the four files did not contain documentation that OCC had reviewed and approved them or that the Office of Insurance and Shipping Analysis had assessed the projects' economic soundness.

The program supervisor stated that he typically performs reviews to verify file completeness on an ad-hoc basis.

Regarding the statutory review time period, one of the seven applicants asked for an extension in a timely matter. The program granted the extension and processed the application within the 2-year extended review period. However, we found that remaining six files indicated that the program exceeded the statutory review period.<sup>17</sup>

A program official stated that in 2013, policy was updated to clarify that the statutory review period begins once an application is complete rather than when the program initially receives it. The program processed five of these six applications under the previous policy, but its reviews of four of the five exceeded the statutory review period by an average of 451 days. The fifth applicant requested an extension 306 days after the initial 9-month review period expired. The program granted the extension but then exceeded the statutory review period by 322 days. Rather than terminating—as the manual requires—the five applicants that did not request extensions or requested one late, the program approved the guarantees.

The sixth applicant, whose application was processed under the updated policy, requested an extension in a timely manner and the program granted it, but then exceeded the review period by 213 days.

Furthermore, the program's procedures lack controls to ensure that staff comply with policy requirements. According to GAO's Internal Controls Standards, management must take corrective actions to enforce accountability for the entity's internal control, including supervisors' feedback. However, the policy manual does not include procedures for supervisory reviews of application files, and the program supervisor acknowledges the ad-hoc nature of his reviews of

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<sup>17</sup> Under the statute, once it receives an application, the program has 9 months to review it and render a decision. The statute also states that the applicant can request, and the program can grant, a 15-month extension of the review period.

the files for completeness. As a result, the program lacks controls that ensure staff's compliance with requirements.

Due to this lack of supervisory review, all seven applications we reviewed were approved for guarantees despite missing information. Furthermore, lack of this sort of internal control inhibits the program's assessments of applicants' eligibility and creditworthiness.

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## Conclusion

MARAD's Title XI program guarantees large loans for ship construction and shipyard modernization. This extensive financing requires awardees to be financially stable and to maintain economically sound projects. However, the program's incomplete policy manual and staff's lack of adherence to existing policies may increase the risk of approval of ineligible applicants or ones that are financially incapable of repaying loans.

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## Recommendations

To improve MARAD's internal controls for the Title XI application review process, we recommend that the Maritime Administrator:

1. Update the 2012 policy manual to address all statutory and regulatory requirements.
2. Develop and implement procedures that direct MARAD to obtain and document all application related materials required by statute and regulation.
3. Develop and implement procedures that require program staff to adhere to MARAD's program policy and statutory and regulatory requirements.

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## Agency Comments and OIG Response

We provided MARAD with our draft report on May 1, 2020, and received its formal response on June 11, 2020, which is included in its entirety as an appendix to this report. MARAD concurred with all three of our recommendations as written and provided appropriate actions and completion dates. See Appendix. Agency Comments below.

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## Actions Required

We consider our three recommendations resolved but open pending MARAD's completion of planned actions.

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## Exhibit A. Scope and Methodology

We conducted this audit between February 2019, and May 2020, in accordance with generally accepted Government auditing standards as prescribed by the Comptroller General of the United States. 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.

The objective of our audit was to evaluate MARAD's oversight of the Title XI application process. Specifically, we assessed (1) the completeness of the program's policy for application reviews and (2) the program's adherence to the policy in its application reviews.

To assess MARAD's oversight of the program's application process, we reviewed Federal laws, regulations, and prior OIG and GAO audit reports. We also interviewed relevant DOT and Title XI officials to gain a better understanding of their roles in the Title XI application process and their interpretations of the program's 2012 policy and 2013 update memorandum.

We also reviewed 46 U.S.C. Chapter 537, Loans and Guarantees and 46 CFR Part 298, and determined that 46 CFR Part 298 contains 32 requirements. These requirements covered topic areas on eligibility, guarantee terms, application documentation, and defaults and remedies

We also reviewed the files on seven applications that the program had approved for guarantees during our review period—January 1, 2010 through September 30, 2018—to determine whether the files included all documentation that the regulations and program policy require. We developed a checklist that identified stages, milestones, roles and responsibilities in the application review process.

Finally, we reviewed the amount of time the program took to review applications and render decisions. Specifically, we requested applicant data and decision-making documentation for the seven applications we reviewed. We then reviewed and analyzed the seven files and the data to determine whether MARAD met or exceeded the statutory 270-day review period.

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## **Exhibit B.** Organizations Visited or Contacted

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### **U.S. Department of Transportation**

Maritime Administration, Washington, DC

Office of the Secretary of Transportation, Washington, DC

## Exhibit C. MARAD's Nine Application Review Supporting Offices

Office	Title XI Application Specific Areas of Expertise
Office of Financial Approvals	Reviews and approves projects' economic soundness through reviews of microeconomic indicators such as projected revenues and expenses associated with vessel use and significant provision of charter or lessee contracts.
Office of Policy and Plans	Reviews and approves projects' economic soundness through reviews of macroeconomic indicators such as the need for new or additional capacity in the maritime industry and potential vessel employment over the life of the guarantee.
Office of Shipyards and Marine Engineering	Ensures the technical soundness of vessels' design and shipyard modernization; determines whether actual project costs are fair and reasonable and in accordance with statute and regulation.
Office of Ship Operations	Reviews applications to determine acceptability of vessel operators and vessel operating costs.
Office of Chief Counsel	Determines whether projects, transactions, and documents are legally sound and sufficient and in compliance with statutes, regulations and MARAD policy.
Office of Environment	Determines whether projects are environmentally sound.
Office of Cargo and Commercial Sealift	Reviews and analyzes applicants' compliance with the Cargo Preference Act of 1954 (46 U.S.C. § 55305) and corresponding regulations at 46 CFR Part 381, for waterborne transport of equipment, materials, and commodity materials included as part of vessels' actual costs to be financed with Title XI guarantees.
Office of Marine Insurance	Advises and assists OMF and OCC in documentation of marine insurance requirements, including protection and indemnity insurance, hull and machinery insurance, political risk insurance, and mortgage interest insurance.
Associate Administrator for Budget and Programs/Chief Financial Officer	Confirms receipt of upfront fees, and transfers subsidies required to appropriate accounts.

<sup>a</sup> All nine offices make recommendations to OMF on applicants' eligibility to participate in the program.

Source: Title XI Program

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## Exhibit D. List of Acronyms

CFR	Code of Federal Regulations
DOT	Department of Transportation
GAO	Government Accountability Office
LLC	limited liability company
MARAD	Maritime Administration
OIG	Office of Inspector General
OMF	Office of Marine Financing
OCC	Office of Chief Counsel
USC	United States Code

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## Exhibit E. Major Contributors to This Report

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SENIOR ANALYST

SENIOR ANALYST

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DEPUTY CHIEF COUNSEL

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## Appendix. Agency Comments



U.S. Department  
Transportation  
**Maritime  
Administration**

Administrator

1200 New Jersey Avenue, SE  
Washington, DC 20590

**DATE:**

**From:**

Mark H. Buzby  
Maritime Administrator

*MHB 10 JUN 20*

**To:**

David Pouliott  
Assistant Inspector General for Surface Transportation Audits

**Subject:**

Management Response-Office of Inspector General (OIG) Draft  
Report- MARAD's Policy and Procedures for the Title XI Program's  
Application Review Process

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The Maritime Administration (MARAD) is committed to ensuring the Federal Ship Financing Program (Title XI) promotes the growth and modernization of the U.S. merchant marine and U.S. shipyards. MARAD, as stewards of taxpayer dollars, exercises rigorous management and oversight over the Title XI Program. Since 1993, the program has provided 111 loans totaling \$7.4 billion to shipowners and shipyards.

MARAD has several efforts under way to further enhance its management and oversight of the Title XI program. Based on our review of the draft report, we concur with the three recommendations as written. We plan to complete actions to implement recommendations 2 and 3 by December 31, 2020 and recommendation 1 by September 30, 2021.

We appreciate the opportunity to review the OIG draft report. Please contact David M. Gilmore, Director Office of Marine Financing, at 202-366-2118 with any questions.

# U.S. DOT IG Fraud & Safety Hotline

[hotline@oig.dot.gov](mailto:hotline@oig.dot.gov) | (800) 424-9071

<https://www.oig.dot.gov/hotline>

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