
Office of Inspector General Audit Report

Maritime Security Program

MARITIME ADMINISTRATION

Report Number MA-1998-156

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Memorandum


U.S. Department of
Transportation

Office of the Secretary
of Transportation

Office of Inspector General

Subject: **INFORMATION**: Report on the
Maritime Security Program, MARAD
Report Number: MA-1998-156

Date: June 12, 1998

From: 
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Assistant Inspector General for Auditing

Reply To
Attn. Of:

To: John E. Graykowski
Acting Administrator, Maritime Administration

This report presents the results of our audit of the Maritime Administration's (MARAD) management of the Maritime Security Program. Our objectives were to determine whether (1) MARAD's process of selecting vessels for participation in the Maritime Security Program followed criteria established in the Maritime Security Act of 1996 and (2) MARAD established controls to ensure that vessel operators complied with the Maritime Security Program's statutory requirements.

We found MARAD followed applicable criteria for selecting vessels for the Maritime Security Program and established controls intended to ensure compliance with statutory requirements. However, at the time of our audit, MARAD had not yet conducted its first annual review to determine whether vessel operators complied with the Maritime Security Program. Timely completion of MARAD's review is critical to ensuring that vessel owners have not been overpaid and that the controls are working as intended. Details of the Maritime Security Program and the results of our work are discussed below.

Background

The objective of the Maritime Security Program is to provide a U.S.-flag¹ merchant fleet to respond to national security sealift requirements and maintain a competitive presence in international commercial trade. The Maritime Security Program also provides a pool of loyal, reliable and well-trained U.S. merchant mariners to crew government and commercial ships when needed for national security purposes. The fleet of modern commercial ships and associated

¹ Vessels operated under U.S.-flag must be owned by a U.S. citizen or an entity whose members are U.S. citizens and are capable of holding title under U.S. laws, crewed by trained U.S. merchant mariners, meet U.S. crewing and safety standards, and comply with U.S. tax laws.

intermodal systems are to be available in time of war or national emergency. The fleet is intended to provide the Department of Defense (DOD) with “assured access” to critical U.S.-flag commercial sealift to carry supplies and sustainment cargoes to U.S. armed forces deployed overseas.

Under the Maritime Security Program, U.S.-flag operators receive a yearly retainer of up to \$2.1 million per ship to compensate them for the higher cost of employing U.S. merchant mariners. In exchange, the operators agree to maintain up to 47 selected ships under U.S. registry, crew them with U.S. merchant mariners, and make the ships available to DOD for sealift services in times of national emergency. The operator of a vessel enrolled in the Maritime Security Program may operate the vessel in the foreign trade of the United States without restriction. The Maritime Security Program is authorized to operate for 10 years, from Fiscal Year 1996 to 2005. The operating agreements are effective for one year and are renewable, subject to the availability of appropriations, for each subsequent year of the program.

The Maritime Security Program replaces the Operating Differential Subsidy (ODS) program which also reimbursed American shipowners for cost differentials associated with operating under U.S. flag. MARAD estimated the ODS payments averaged \$4.34 million per participating vessel in Fiscal Year 1997.

Scope and Methodology

We reviewed relevant policies, procedures, records and controls at MARAD’s Headquarters for selecting and monitoring vessels participating in the Maritime Security Program. We validated vessel ownership, operator, age and type by reviewing documentation contained in Lloyd’s of London’s *Register of Ships* and the American Bureau of Shipping’s *Record*. We utilized information from Lloyd’s of London Data Services to independently verify operating days for all Maritime Security Program vessels during the second and third quarters of Fiscal Year 1997. We also made an on-site review of one vessel operator whose 15 vessels accounted for nearly one-third of the 47 vessels in the Maritime Security Program.

This audit was conducted, from December 1997 through June 1998, in accordance with Government Auditing Standards prescribed by the Comptroller General of the United States.

Results

Did MARAD’s process of selecting vessels for the Maritime Security Program follow criteria in the Maritime Security Act of 1996?

We found that MARAD's process of selecting vessels for the Maritime Security Program followed criteria in the Maritime Security Act. The Maritime Security Act required MARAD to consult with DOD and consider a variety of factors including age, ownership, and military usefulness of the vessels.

As required by the Maritime Security Act, MARAD gave first priority consideration to vessels (1) less than 15 years of age (25 years for Lighter Aboard Ship vessels), and owned and operated by citizens of the United States or (2) less than 10 years of age, and owned and operated by corporations either eligible for U.S. registry or currently operating, managing, or chartering vessels for the Secretary of Defense. Using these criteria, MARAD identified 59 vessels qualified to support DOD's transport requirements.

Based on the pro rata reduction formula specified in the Maritime Security Act, MARAD was required to reduce the pool of vessels from 59 to 47. MARAD, in consultation with DOD, used the following factors to choose the most desirable 47 vessels:

- Age of each vessel,
- maintaining and balancing essential trade routes,
- obtaining the most militarily useful vessels, and
- intermodal assets of the applicant.

Did MARAD establish controls to ensure that vessel operators complied with the statutory requirements of the Maritime Security Program?

We found that MARAD had established controls that are intended to ensure vessel operators complied with the statutory requirements of the Maritime Security Act. These controls are designed to ensure, through annual reviews, that vessel operators comply with operating and reporting requirements, and are paid in accordance with the terms of the operating agreements.

The operating agreements stipulate that operators will not be paid for days (1) a vessel is not operated exclusively in the U.S.-foreign trade or in mixed foreign and domestic trade allowed under a registry endorsement issued under Title 46, United States Code, Section 12105², (2) during which a vessel was dry-docked or undergoing survey, inspection, or repair in excess of 30 days, (3) a vessel was engaged in transporting more than 7,500 tons of civilian bulk preference cargoes, or (4) a vessel is subject to an ODS contract or on charter to the United States Government, other than a charter pursuant to an Emergency Preparedness Agreement.

² Under the Maritime Security Program operators receive a pro rata reduction in the annual retainer if the vessel is not operated for at least 320 days.

To ensure that vessel operators comply with the regulations, MARAD requires monthly submissions to support their claims. The controls also call for annual reviews to verify the accuracy of the monthly submissions. MARAD plans to use information from independent data services and other external sources to validate the ship operator complied with its operating agreement and was entitled to the amount paid. If an operator has been overpaid, MARAD intends to reduce future payments to recover the amount of the overpayment.

MARAD pays the yearly retainer of \$2.1 million per vessel in equal monthly installments of \$175,000. Because vessel operators' monthly voucher submissions included certifications that all vessels operated in accordance with the terms of the Maritime Security Program operating agreement, MARAD has paid \$175,000 per vessel for each complete month of participation in the Maritime Security Program.

At the time of our audit, MARAD had not yet conducted its first annual review of the Maritime Security Program to determine whether there should be any reductions in amounts paid in 1997. This review is scheduled for the last half of 1998 when complete data service information is available. This will be MARAD's first opportunity to compute applicable 1997 reductions and offset future payments accordingly. Timely verification of the data is key to ensuring that vessel operators have not been overpaid and that the controls work as intended.

Recommendation

We recommend the MARAD Acting Administrator ensure the timely completion of the first annual review to determine whether the amounts paid to vessel operators in 1997 are supported. Given that this is the first of many annual reviews it is important that the reviews are thorough and that any overpayments be promptly recovered. We plan to conduct a follow up review in about 6 months to determine if the review has been completed and whether the controls were implemented as intended. We will also determine whether overpayments, if any, were recovered.

Action Required

Please provide written comments on this final report within 15 days. We appreciate the courtesies and assistance extended to our staff during this audit. If I can answer any questions or be of further assistance, please feel free to call me on (202) 366-1992, or Tom Howard, Deputy Assistant Inspector General for Maritime and Departmental Programs, on (202) 366-1964.

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