



Highlights of [GAO-09-635](#), a report to congressional committees

UNITED STATES MERCHANT MARINE ACADEMY

Internal Control Weaknesses Resulted in Improper Sources and Uses of Funds; Some Corrective Actions Are Under Way

Why GAO Did This Study

The U.S. Merchant Marine Academy (Academy), a component of the Department of Transportation's Maritime Administration (MARAD), is one of five U.S. service academies. The Academy is affiliated with 14 non-appropriated fund instrumentalities (NAFI) and two foundations.

GAO was asked to determine whether there (1) were any potentially improper or questionable sources and uses of funds by the Academy, including transactions with its affiliated organizations; (2) was an effective control environment with key controls in place over the Academy's sources and uses of funds; and (3) were any actions taken, under way, or planned to improve controls and accountability. GAO analyzed selected transactions from fiscal years 2006, 2007, and 2008 to identify improper or questionable sources and uses of funds and reviewed documents and interviewed cognizant officials to assess the Academy's internal controls, and identify corrective actions to improve controls.

What GAO Recommends

GAO makes a series of recommendations directed at improving internal controls and accountability at the Academy and to address issues surrounding the improper and questionable sources and uses of funds. The Department commented that MARAD will produce a comprehensive strategy and corrective action plan to address our recommendations.

View [GAO-09-635](#) or [key components](#). For more information, contact Jeanette Franzel at (202) 512-2600 or franzelj@gao.gov.

What GAO Found

GAO identified numerous instances of improper and questionable sources and uses of funds by the Academy and its affiliated organizations. These improprieties and questionable payments GAO identified demonstrate that, while MARAD and the Academy have been taking action to improve the Academy's internal controls, the Academy did not have assurance that it complied with applicable fund control requirements, including the Antideficiency Act (ADA). Further, the Academy had numerous breakdowns in its important stewardship responsibilities with respect to maintaining accountability over the receipt and use of funds. For example, GAO identified improper and questionable midshipmen fee transactions related to: (1) fee collections and uses of fees unrelated to goods and services provided to all midshipmen, (2) fee collections that exceeded the actual expense to the Academy for the goods or services, and (3) the use of accumulated excess midshipmen fees for improper and questionable purposes.

GAO found that a weak overall control environment and the flawed design and implementation of internal controls were the root causes of the Academy's inability to prevent or effectively detect numerous instances of improper and questionable sources and uses of funds. Specifically, GAO found that there was a lack of awareness or support for strong internal control and accountability across the Academy at all levels and risks, such as those that flow from a lack of clear organizational roles and responsibilities and from significant activities with affiliated organizations. The internal control weaknesses GAO identified were systemic and could have been identified in a timely manner had Academy and MARAD management had a more effective oversight and monitoring regimen. For example, GAO found that the Academy did not routinely prepare financial reports and information for use by internal and external users.

GAO found that various actions were taken and in process that were intended to improve the Academy's internal controls, including actions to address issues of accountability with its affiliated organizations. For example, a permanent position of Assistant Chief Financial Officer (CFO) for the Academy was established in March 2009 with direct reporting responsibility to the MARAD CFO. This action provides a senior financial official at the Academy with authority to conduct needed oversight and monitoring of financial activities on a real time basis. Further, following discussions GAO had with Department and MARAD officials, the MARAD CFO took steps to secure and protect accumulated reserves held in commercial bank accounts of an affiliated organization. However, even though MARAD and the Academy have taken actions, much more needs to be done, including determining the amount of midshipmen fees that were used to cover official Academy expenses, performing a comprehensive analysis of the risks posed by the Academy's organizational structure and its relationships with its affiliated organizations, and establishing and implementing policies, procedures, and internal controls over many Academy activities.