



Commonwealth of Massachusetts
Office of the State Auditor
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Making government work better

Official Audit Report-Issued November 20, 2012

Schooner Ernestina Commission

For the period July 1, 2008 through June 30, 2011



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INTRODUCTION AND SUMMARY OF FINDINGS AND RECOMMENDATIONS

The Schooner Ernestina Commission (SEC) was established under Chapter 6, Sections 182A through C, of the Massachusetts General Laws for the preservation and operation of the Schooner Ernestina, a gift from the Republic of Cape Verde. According to Chapter 6, Section 182C, the Department of Conservation and Recreation (DCR), formerly the Department of Environmental Management, serves as the Commonwealth's oversight agency to ensure that the SEC adheres to state policies when executing its operational and managerial responsibilities. Furthermore, the law requires the Office of the State Auditor (OSA) to perform an annual audit of the SEC's books and accounts. The Schooner Ernestina, designated the official vessel of the Commonwealth and a National Historic Landmark by the U.S. Department of the Interior, is presently docked at the New Bedford State Pier.

The objectives of our audit were to (a) review and analyze the DCR's internal controls over SEC receipts and expenditures; (b) determine whether the SEC's books and accounts are complete, accurate, and current; (c) determine whether the SEC operates in compliance with its enabling legislation; and (d) determine whether the DCR properly oversees SEC funds and that these funds are expended efficiently, effectively, and in accordance with an established business and spending plan. We also reviewed the status of an issue identified during our prior audit of the SEC (No. 2008-1404-3A).

Based on our audit we have concluded that, for the period July 1, 2008 through June 30, 2011, except for the issue noted in the Audit Findings section of this report, the SEC and the DCR maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

Highlight of Audit Finding

- Our prior audit (No. 2008-1404-3A) found that the SEC had not established a business and spending plan in accordance with Chapter 6, Section 182B(j), of the General Laws. In response to this audit, the DCR provided us with a detailed business and spending plan for fiscal year 2009. Further, on February 27, 2009, the SEC filed a business and spending plan with the Office of the State Auditor, the Secretary of Administration and Finance, and the Ways & Means Committees of the House and Senate for fiscal year 2010. However, our current audit of the SEC revealed that it did not properly file a plan for fiscal years 2011, 2012, and 2013, contrary to Chapter 6, Section 182B(j).

Recommendations of the State Auditor

- The SEC should prepare and submit its annual business and spending plans in accordance with the requirements of Chapter 6, Section 182B(j).
- The DCR should exercise its oversight responsibilities to ensure that the SEC creates and submits accurate business and spending plans in a timely manner.

Subsequent Events

On October 23, 2012, subsequent to the end of our audit field work, the DCR submitted a copy of the SEC's annual business and spending plan for fiscal years 2011 through 2013 to the Office of the State Auditor, the Secretary of Administration and Finance, and the Ways and Means Committees of the House and Senate.

OVERVIEW OF AUDITED AGENCY

The Schooner Ernestina Commission (SEC) was established under Chapter 6, Sections 182A through C, of the Massachusetts General Laws for the preservation and operation of the Schooner Ernestina, a gift from the Republic of Cape Verde to the people of the United States as a symbol of the close ties between the two countries. According to Chapter 6, Section 182C, the Department of Conservation and Recreation (DCR), formerly the Department of Environmental Management, serves as the Commonwealth's oversight agency to ensure that the SEC adheres to state policies when executing its operational and managerial responsibilities. Furthermore, this law requires that the OSA perform an annual audit of the SEC's books and accounts. The Schooner Ernestina, designated the official vessel of the Commonwealth and a National Historic Landmark by the U.S. Department of the Interior, is presently docked at the New Bedford State Pier.

The DCR maintains complete oversight of all financial and managerial aspects of the SEC, and SEC staff are DCR employees paid through the DCR's payroll system. The DCR maintains control of all revenues received by the SEC, and grant funds received by the SEC are drawn down by the DCR. All donations received at the SEC are deposited into two Bank of America accounts—one in New Bedford, the other in Boston—and are then processed through the Office of State Treasurer to the SEC trust appropriation. The DCR's revenue unit maintains all SEC bank records at its central office in Boston. DCR appropriations fund all expenditures for the SEC, including payroll and maintenance and repairs to the Schooner Ernestina, and the DCR records these expenditures in the Massachusetts Management Accounting and Reporting System.

Income and expense information for the SEC for fiscal years 2009, 2010, and 2011 follows:

	<u>Fiscal Year Ended</u> <u>June 30, 2009</u>	<u>Fiscal Year Ended</u> <u>June 30, 2010</u>	<u>Fiscal Year Ended</u> <u>June 30, 2011</u>
Operational Revenues:			
DCR Support	\$54,371	\$16,543	\$27,187
DCR Salaries	<u>177,024</u>	<u>107,698</u>	<u>56,147</u>
Total	<u>\$231,395</u>	<u>\$124,241</u>	<u>\$83,334</u>
Operational Expenditures:			
Salaries	\$177,023	\$107,698	\$56,148
Operating Expense	5,084	5,208	2,571
Ship Maintenance/Repairs	<u>49,287</u>	<u>11,335</u>	<u>24,616</u>
Total	<u>\$231,394</u>	<u>\$124,241</u>	<u>\$83,335</u>
Capital Revenues:			
State	\$269,338	\$ 0	\$61,724
Federal	<u>470,000</u>	<u>50,000</u>	<u>0</u>
Total	<u>\$739,338</u>	<u>\$50,000</u>	<u>\$61,724</u>
Capital Expenditures:			
Ship Repairs	\$702,138	\$50,000	\$58,384
Consultant Shipwright	<u>37,200</u>	<u>0</u>	<u>3,340</u>
Total	<u>\$739,338</u>	<u>\$50,000</u>	<u>\$61,724</u>
Total Trust Revenue (Carryover, Donations and Restricted)	<u>\$ 56,600</u>	<u>\$42,470</u>	<u>\$42,295</u>
Total Trust Expenditures (Restricted and Unrestricted Expenses)	<u>\$16,010</u>	<u>\$1,330</u>	<u>\$ 0</u>
Net Income (Loss) from Operations, Capitals and Trusts	<u>\$40,590</u>	<u>\$41,140</u>	<u>\$42,295</u>

AUDIT SCOPE, OBJECTIVES, AND METHODOLOGY

In accordance with Chapter 11, Section 12, and Chapter 6, Section 182C, of the Massachusetts General Laws, the Office of the State Auditor has conducted an audit of certain activities of the Schooner Ernestina Commission (SEC) for the period July 1, 2008 through June 30, 2011. The objectives of this audit were to:

- Review and analyze the Department of Conservation and Recreation’s (DCR’s) internal controls over SEC receipts and expenditures to determine their adequacy.
- Determine whether the SEC’s books and accounts are complete and accurate.
- Determine whether the SEC operates in compliance with its enabling legislation.
- Determine whether the DCR properly oversees SEC funds and that these funds are expended efficiently, effectively, and in accordance with an established business and spending plan.
- Review the DCR’s and the SEC’s progress in addressing the issue disclosed in our prior audit report (No. 2008-1404-3A), which covered the period July 1, 2006 to June 30, 2007.

We conducted this performance audit 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.

In order to complete our objectives, we:

- Reviewed the DCR’s internal control plan—specifically, controls related to the processing and recording of receipts and expenditures.
- Tested all expenditures related to the rehabilitation of the Ernestina, which accounted for the majority of all SEC expenditures during the audit period.
- Tested the SEC’s and the DCR’s compliance with a federal grant agreement that supplied a \$500,000 matching grant for the rehabilitation of the Ernestina;
- Reviewed and tested the procurement process followed by the DCR when it acquired vendors to perform rehabilitation services on the Ernestina to ensure it met the requirements of Chapter 30B of the General Laws, The Uniform Procurement Act.
- Reviewed the status of the issue disclosed in our prior audit report.

Based on our audit we have concluded that, for the period July 1, 2008 through June 30, 2011, except for the issue noted in the Audit Findings section of this report, the SEC and the DCR maintained adequate internal controls and complied with applicable laws, rules, and regulations for the areas tested.

AUDIT FINDINGS

PRIOR AUDIT RESULT UNRESOLVED - REQUIRED BUSINESS AND SPENDING PLAN NOT PREPARED OR SUBMITTED IN ACCORDANCE WITH ENABLING LEGISLATION

Our prior audit report (No. 2008-1404-3A) found that the Schooner Ernestina Commission (SEC) did not establish a business and spending plan detailing revenues and expenses to ensure the continued operation, preservation, and maintenance of the Schooner Ernestina in accordance with Chapter 6, Section 182B(j), of the Massachusetts General Laws, which states, in part:

The commission is hereby further authorized and directed to establish a business and spending plan detailing revenues of and expenditures by said commission which plan shall ensure the continued operation, preservation and maintenance of the Schooner Ernestina. Said plan shall be filed annually on or before March first, to the state auditor, the secretary of administration and finance, the department of environmental management and the house and senate committees on ways and means.

In response to our prior audit report, on February 29, 2008, the Department of Conservation and Recreation (DCR) provided Office of the State Auditor (OSA) staff with a detailed business and spending plan for the SEC for fiscal year 2009, which described the grants and gifts that would be used to supplement the agency's appropriation and the plan to enable the Schooner Ernestina to obtain United States Coast Guard certification as being seaworthy. Further, on February 27, 2009, the SEC filed a business and spending plan with the OSA, the Secretary of Administration and Finance, and the Ways and Means Committees of the House and Senate for fiscal year 2010. This plan included an overview of SEC operational strategies and a projected timeline of certain benchmarks.

During our follow-up audit, the DCR provided OSA staff with a draft version of the SEC's fiscal year 2011 business and spending plan. However, we found that the SEC had not filed this plan as required by Chapter 6, Section 182B(j). Additionally, as of March 1, 2012, the SEC had not drafted or filed the required business and spending plans for fiscal years 2012 and 2013, which were required to be filed on or before March 1, 2011 and March 1, 2012, respectively.

We also found that revenues and expenditures for fiscal year 2009, as detailed in the SEC's draft version of its fiscal year 2011 business and spending plan, did not reconcile with the records maintained by the DCR. During our audit period, the DCR oversaw, approved, and recorded all receipts and expenditures related to the SEC. According to Chapter 6, Section 182C, the SEC

must work jointly with the DCR “so that operational and managerial responsibilities authorized and empowered to the commission” follow state policy. Therefore, the SEC should have consulted with the DCR to ensure that the financial data reported in its business and spending plans are accurate, current, and in accordance with the requirements of its enabling legislation. If the SEC does not ensure that it develops its business and spending plans in conjunction with records maintained by the DCR, the SEC’s business plans could contain inaccurate information, which could hinder the continued operation, preservation, and maintenance of the Schooner Ernestina.

Recommendation

The SEC should take measures to ensure that it files all of its required business and spending plans to the appropriate oversight entities as required by Chapter 6, Section 182B(j). Additionally, in accordance with its oversight responsibility, the DCR should ensure that the SEC meets its obligation to create and file an accurate annual business and spending plan.

Auditee’s Response

DCR has determined that we will take the lead going forward in preparing budget reports. We will also improve communication with the Commission regarding the annual business plan to ensure its timely submittal.