



Commonwealth of Massachusetts
Office of the State Auditor
Suzanne M. Bump

Making government work better

Official Audit Report – Issued October 11, 2016

Schooner Ernestina Commission

For the period July 1, 2013 through December 31, 2015





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Making government work better

October 11, 2016

Laura Pires-Hester, PhD, Chair
Schooner Ernestina Commission
Department of Conservation and Recreation
Boston, MA 02114

Dear Dr. Pires-Hester:

I am pleased to provide this performance audit of the Schooner Ernestina Commission. This report details the audit objectives, scope, methodology, findings, and recommendations for the audit period, July 1, 2013 through December 31, 2015. My audit staff discussed the contents of this report with management of the agency, whose comments are reflected in this report.

I would also like to express my appreciation to the Schooner Ernestina Commission and the Department of Conservation and Recreation for the cooperation and assistance provided to my staff during the audit.

Sincerely,

A handwritten signature in blue ink, appearing to read "SMBump".

Suzanne M. Bump
Auditor of the Commonwealth

cc: Leo Roy, Commissioner, Department of Conservation and Recreation

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LIST OF ABBREVIATIONS

DCR	Department of Conservation and Recreation
MMA	Massachusetts Maritime Academy
MMARS	Massachusetts Management Accounting and Reporting System
OSA	Office of the State Auditor
SEC	Schooner Ernestina Commission

EXECUTIVE SUMMARY

The Schooner Ernestina Commission (SEC) was established under Sections 182A–182C of Chapter 6 of the Massachusetts General Laws for the preservation and operation of the Schooner Ernestina, which was a gift from the people of Cape Verde and has been designated the official vessel of the Commonwealth and a National Historic Landmark by the US Department of the Interior. It is presently docked at Boothbay Harbor Shipyard, Maine, where it is undergoing an extensive overhaul and restoration (see Appendix).

In accordance with Section 12 of Chapter 11, and Section 182C of Chapter 6, of the General Laws, the Office of the State Auditor has conducted a performance audit of certain activities of SEC for the period July 1, 2013 through December 31, 2015. The purpose of our audit was to determine whether SEC and its oversight agency, the Department of Conservation and Recreation (DCR), maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

Below is a summary of our findings and recommendations, with links to each page listed.

Finding 1 Page 6	DCR did not maintain adequate documentation for a credit of as much as \$50,000 for reused lead from one of its contractors.
Recommendations Page 7	<ol style="list-style-type: none">1. DCR should ensure that it accounts for all the lead removed from the vessel. This should include the receipt of a proper credit for any sold or recast lead.2. In the future, DCR should require and retain appropriate documentation for this type of transaction.
Finding 2 Page 8	Prior audit result unresolved—SEC did not submit its required business and spending plan on time.
Recommendation Page 9	SEC and DCR should submit the business and spending plan on time.

OVERVIEW OF AUDITED ENTITY

The Schooner Ernestina Commission (SEC) was established under Sections 182A–182C of Chapter 6 of the Massachusetts General Laws for the preservation, maintenance, and operation of the Schooner Ernestina (renamed the Schooner Ernestina-Morrissey in 2014¹), a gift made in 1982 from the Republic of Cape Verde to the people of the United States. The nine SEC members are appointed by the Governor and serve without compensation. They elect a chair and vice chair from among their members. SEC is required to meet at least four times annually, as well as holding additional meetings as needed to conduct business involving the schooner. During our audit period, SEC did not have any employees.

The Department of Conservation and Recreation (DCR), within the Executive Office of Energy, is the oversight agency responsible for ensuring that SEC adheres to state policies when executing its operational and managerial responsibilities. In addition, Section 182C of Chapter 6 of the General Laws requires that the Office of the State Auditor perform an annual audit of SEC’s books and accounts. All donations received by DCR on behalf of SEC are deposited into a Bank of America account in Boston and are then processed through the Office of State Treasurer to the SEC trust account. DCR’s revenue unit maintains all SEC bank records at its central office in Boston. DCR appropriations and the SEC trust account fund all expenditures for SEC, including maintenance and repairs to the Schooner Ernestina-Morrissey as well as payroll costs for DCR employees who work on SEC-related activities. DCR uses the Massachusetts Management Accounting and Reporting System to record, control, and report financial activity associated with SEC.

2014–2016² SEC Income and Expenses

	Fiscal Year 2014	Fiscal Year 2015	Fiscal Year 2016 (through December 2015)
Operational Revenue			
DCR Support	\$ 3,346	\$ 954	\$ 116
DCR Funding for Salaries	52,842	55,972	26,092
Total	<u>\$56,188</u>	<u>\$ 56,926</u>	<u>\$ 26,208</u>

1. The official name of the schooner was changed as a condition required by a donor in consideration for a \$1.8 million donation toward its restoration.
2. Fiscal year 2016 information covers only the six-month period July 1, 2015 through December 31, 2015.

	Fiscal Year 2014	Fiscal Year 2015	Fiscal Year 2016 (through December 2015)
Operational Expenditures			
Salaries (DCR Ship Staff)	\$52,842	\$ 55,972	\$ 26,092
Operating Expenses	40	375	0
Ship Maintenance/Repairs	3,306	579	116
Total	<u>\$56,188</u>	<u>\$ 56,926</u>	<u>\$ 26,208</u>
Revenue			
State	\$70,497	\$ 344,065	\$ 621,686
Federal	0	0	0
Total	<u>\$70,497</u>	<u>\$ 344,065</u>	<u>\$ 621,686</u>
Capital Expenditures			
Ship Repairs	\$36,101	\$ 292,984	\$ 621,686
Consultant Shipwright	34,396	51,081	0
Total	<u>\$70,497</u>	<u>\$ 344,065</u>	<u>\$ 621,686</u>
Total Trust Revenue (Donations and Restricted)	<u>\$ 19</u>	<u>\$2,133,565</u>	<u>\$ 433,333</u>
Total Trust Expenditures (Restricted and Unrestricted)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 19,096</u>
Net Income (Loss) from Operations, Capital Expenditures, and Trusts	<u>\$ 19</u>	<u>\$2,133,565</u>	<u>\$ 414,237</u>

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with Section 12 of Chapter 11, and Section 182C of Chapter 6, of the Massachusetts General Laws, the Office of the State Auditor (OSA) has conducted a performance audit of certain activities of the Schooner Ernestina Commission (SEC) for the period July 1, 2013 through December 31, 2015.

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.

Below is a list of our audit objectives, indicating each question we intended our audit to answer; the conclusion we reached regarding each objective; and, if applicable, where each objective is discussed in the audit findings.

Objective	Conclusion
1. Did the Department of Conservation and Recreation (DCR), on behalf of SEC, ensure that all revenue was recorded and reported accurately and was properly safeguarded from theft and abuse?	Yes
2. Did DCR, on behalf of SEC, ensure that expenses were accurately calculated, recorded, and reported in accordance with applicable laws and regulations and SEC's established business and spending plan?	No; see Finding 1
3. Did SEC file its annual business and spending plan in accordance with Section 182B(j) of Chapter 6 of the General Laws?	No; see Finding 2

To achieve our audit objectives, we gained an understanding of the internal controls at DCR that were related to our audit objectives and tested the operating effectiveness of controls over revenue and expenses. In addition, we performed the following procedures:

- We reviewed DCR's organization chart and various policies and procedures.
- We reviewed DCR's internal control plan—specifically, controls related to the processing and recording of receipts and expenditures.
- We reviewed the minutes of SEC's meetings for the audit period.

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- We reviewed the filings of SEC's annual business and spending plan.
 - We reviewed SEC's enabling legislation, Sections 182A–182C of Chapter 6 of the General Laws.
 - We examined all revenue (donations) associated with the rehabilitation of the Schooner Ernestina-Morrissey.
 - We scanned expenditure queries for large payments, unusual payees, non-project expenditures, and duplicate payments.
 - We tested a sample of 30 expenditures out of a population of 578 that were related to the rehabilitation of the Schooner Ernestina-Morrissey to determine whether they were authorized and were in accordance with contract requirements and applicable laws and regulations. The 30 totaled \$899,117 (75%) out of the \$1,194,415 total expenditures.
 - We examined payment vouchers and source documentation for the lead identified in the contract for reconstruction work to be performed on the Schooner Ernestina-Morrissey.
 - We located three quotes for scrap lead per pound on the Internet and calculated the average price of these quotes. We determined that using the average of three prices would be good support for the validity and reliability of our estimated price of scrap lead during the audit period.
 - We reviewed the status of an issue identified during our prior audit of SEC (No. 2011-1404-3A): the fact that SEC had not prepared or submitted the required business and spending plan in accordance with enabling legislation.

Based on OSA's most recent data-reliability assessment of the Massachusetts Management Accounting and Reporting System (MMARS) and our current comparison of source documentation with MMARS information, we determined that the information obtained from MMARS for our audit period was sufficiently reliable for the purposes of our audit work.³ We generally relied on hardcopy source documents for other data needs.

We used nonstatistical sampling to help us achieve our audit objectives and therefore did not project our results to the various populations.

3. In 2014, OSA performed a data-reliability assessment of MMARS. As part of this assessment, we tested general information-technology controls for system design and effectiveness. We tested for accessibility of programs and data as well as system change management policies and procedures for applications, jobs, and infrastructure.

DETAILED AUDIT FINDINGS WITH AUDITEE'S RESPONSE

1. The Department of Conservation and Recreation did not keep adequate documentation of a credit of as much as \$50,000 from a contractor.

The Department of Conservation and Recreation (DCR) did not maintain adequate documentation to substantiate that it received credit from a contractor that was supposed to remove the old lead from the Schooner Ernestina-Morrissey and apply the value of any lead that was recast to the cost of making four new sections for the vessel as part of its reconstruction. Neither DCR records nor the contractor's invoice showed any indication that the appropriate credit for this reused lead, which we calculated to be worth as much as \$50,000,⁴ was applied to the contractor's invoices as required by the contract. As a result, DCR may have paid more than necessary for this project.

Authoritative Guidance

The specifications for this project state,

Existing ballast may be recast as needed to meet the new plan specifications. The remaining ballast is to be loaded and returned with the vessel to Massachusetts Maritime Academy.

This recasting would be noted as a credit.

DCR's internal control plan states, "There is a possibility that the vendor could submit incomplete information, or inadequate supporting documentation." The plan indicates that this risk is mitigated for construction contracts by having the resident engineer (owner's representative) review and sign off on the contractor's invoice.

The contract with the owner's representative states,

The owner's rep will oversee the work of the contracted shipyard working in close conjunction with the shipyard management team. . . . He/she will approve workmanship of all aspects of the overhaul and will review for approval all invoices submitted by the yard.

Proper oversight would include accurately accounting for any unused materials.

4. We arrived at this total by multiplying the per-pound lead scrap value at the time of our audit (\$0.47) by the amount of lead in the ship (113,000 lbs).

Reasons for Noncompliance

Although the owner's representative did review the invoices, he did not ensure that this lead was accurately accounted for. He did not explain to us why he approved invoices with incomplete documentation.

DCR's project manager stated that she believed that DCR received the appropriate credit. However, as stated above, there is no documentation to substantiate this assertion.

Recommendations

1. DCR should ensure that it accounts for all the lead removed from the vessel. This should include the receipt of a proper credit for any sold or recast lead.
2. In the future, DCR should require and retain appropriate documentation for this type of transaction.

Response from the Schooner Ernestina Commission

The Commission will continue to support DCR's efforts that seek to clarify this matter, and will work to support, however possible, the department's ongoing efforts to strengthen its documentation procedures with regard to the Schooner.

Response from DCR

We take issue with your calculation of the lead "credit." You seem to have assumed that all of the lead taken off the boat was sent to MarsKeel Technology; however, it was not.

You seem to have calculated \$50,000, by using a price of \$0.45/lb at 113,000 lbs (the estimated weight of lead that came off the boat). However, the entire amount of 113,000 lbs of lead was not sent to the foundry, and a substantial amount of lead will eventually be returned with the boat.

Approximately 61,900 lbs of lead was purchased by MarsKeel Technology in exchange for casting the new lead keel, which in the end weighed 59,994 lbs. The remaining lead is considered waste from the casting process and could not be sent back to DCR. So, in summary, 113,000 lbs (removed from the boat) – 61,900 lbs (sent to MarsKeel) = 51,100 lbs of lead to be returned with the boat, a value of \$22,995 to the Commonwealth.

Auditor's Reply

Our report states that DCR was entitled to receive *as much as* \$50,000 for any lead that was removed from the vessel and recast to make the four new sections of the Schooner Ernestina-Morrissey. However, DCR did not document how much lead was removed and recast or how much credit, if any, was received for it. Therefore, we had to use the estimated amount of lead in the vessel in our calculation of the

potential credit due DCR. In its response, DCR states that MarsKeel Technology “purchased” 61,900 pounds of lead taken from the schooner. However, again, DCR records do not show any cash proceeds reflecting such a purchase, nor does the invoice from the vendor show any credit against its charges to reflect one. Thus DCR has not provided us with any documentation to substantiate its response. Therefore, we again recommend that DCR ensure that it accounts for all the lead removed from the vessel, receives the proper credit for any sold or recast lead, and appropriately documents these matters.

2. Prior audit result unresolved—The Schooner Ernestina Commission did not submit its required business and spending plan on time.

The Schooner Ernestina Commission (SEC) filed its fiscal year 2014 business and spending plan⁵ on April 8, 2014, and its fiscal year 2015 plan May 8, 2015, instead of by the March 1 deadline. As a result, DCR, the State Auditor, the Secretary of Administration and Finance, and the House and Senate Committees on Ways and Means did not obtain the data they needed to perform their duties in a timely manner. In our previous audit report (No. 2011-1404-3A), we stated that the plans due on March 1, 2011 and March 1, 2012 were also not filed on time, and we recommended that DCR and SEC work together so that SEC could fulfill its operational and managerial responsibilities. (Because SEC has no operating budget, it must rely on DCR for technical and clerical support.) DCR, in its written response, indicated that it would improve communication with SEC and assist it by preparing budgets so that the annual business plan would be submitted on time.

Authoritative Guidance

Section 182B(j) of Chapter 6 of the Massachusetts General Laws states,

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 [now DCR] and the house and senate committees on ways and means.

5. This document details business and other pertinent information for the fiscal year up to the date it was prepared, as well as a spending plan for the next fiscal year.

Reasons for Late Filing

Although DCR responded to our last audit by saying that it would work with SEC in preparing budgets so the annual business plan could be submitted on time, this did not happen. The DCR project manager who was responsible for developing these business plans retired and was not replaced in time to ensure that they were filed by the deadline.

Recommendation

SEC and DCR should submit the business and spending plan on time.

Response from SEC

The Commission accepts and supports this finding and recommendation.

The Commission will continue to work closely with DCR to ensure compliance with the statutorily required annual submission of a business and spending plan by the SEC for the Schooner Ernestina-Morrissey. In addition, the Commission will strengthen its policies and procedures to help ensure its compliance with this statutory requirement and recommendation.

It should be noted that staffing and resources within the SEC continue to be a contributing factor in the SEC's ability to optimally address reporting deadlines and the increasingly complex suite of financial, legal, operational and management issues involving the schooner's current and future preservation and restoration.

APPENDIX

Schooner Ernestina-Morrissey Restoration

The Schooner Ernestina-Morrissey, a wooden 156-foot Fredonia class⁶ fishing vessel, has undergone several piecemeal repairs since 1982. Most of the bottom and frame planking, floor, timbers, and keel bolts were replaced from 2002 through 2007. However, the vessel lost its Coast Guard license to carry passengers in 2004 and was relegated to a dockside attraction in its home port of New Bedford. In 2008–2009, the bow section, including adjacent topside and foredeck, was rebuilt with financial assistance from a National Park Services grant of \$500,000, matched by the Department of Conservation and Recreation (DCR). However, by 2011, other parts of the vessel had deteriorated because of age and the lack of the preserving effects of sailing in salt water. A survey prepared in 2012 concluded that it would cost approximately \$1.4 million to repair the vessel so that it could regain its passenger-carrying license. However, this survey noted that these repairs were far from the full restoration needed. In 2014, philanthropists and a nonprofit association pledged a total of \$3.8 million⁷ for a more complete restoration. This pledge was supplemented by a \$2.5 million commitment from the Commonwealth. DCR records show vendor costs totaling \$3,846,091 from 2005 through May 2016 for various repairs (shipyard services, materials, maintenance, engineering costs, and surveys), including the current restoration effort.

In April 2015, the Schooner Ernestina-Morrissey was towed by water from New Bedford, Massachusetts, to Boothbay Harbor, Maine, where restoration work is currently in progress. The restoration work is anticipated to be completed in summer 2018 at an estimated cost of \$6,069,438. DCR has engaged a master shipwright from Essex, Massachusetts, to act as the owner’s representative to ensure that the work is properly performed and the Commonwealth is billed appropriately. The master shipwright’s billing rate is \$65 per hour, with a contract upset limit of \$251,975.

According to a letter to the Office of the State Auditor from the Schooner Ernestina Commission, “ongoing discussions and facts regarding the nature of the future location, management and stewardship of the schooner following the completion of its restoration in Maine . . . remain unresolved.”

6. Modeled after the Fredonia, a vessel designed by Edward Burgess of Boston and built in 1889 in Essex, Massachusetts, by Moses Adams. The schooner was originally used as a yacht, but was later refitted for offshore fishing.

7. To date, DCR has received approximately \$2.6 million of the \$3.8 million pledged by philanthropists in 2014.

One proposal under consideration indicates that when the structural work in Maine is complete, the vessel will be towed to the Massachusetts Maritime Academy (MMA) for the installation of new engines and rigging at a cost yet to be determined. It is anticipated that MMA will provide ongoing maintenance and upkeep. The Schooner Ernestina-Morrissey may then be used as a training ship for MMA cadets for part of the year and will be available for public educational and training programs from New Bedford.