FEDERAL MARITIME COMMISSION

An independent agency of the U.S. Government

Performance and Accountability Report

FISCAL YEAR 2017

Acting Chairman Michael A. Khouri

November 2017

MESSAGE FROM THE ACTING CHAIRMAN

Federal Maritime Commission
Washington, D.C. 20573 - 0001

Office of the Chairman

Competition and Integrity for America's Ocean Supply Chain

Message from the Acting Chairman

The essential and fundamental mission of the Federal Maritime Commission (FMC) is to ensure a competitive and reliable international ocean transportation supply system that supports the U.S. economy and protects the public from unfair and deceptive practices. The tools through which the Commission accomplishes this mission are set forth in the Shipping Act of 1984 and other related maritime statutes.

Given the vital importance of the ocean-linked supply chain to the overall health of our Nation's economy and the limited resources and staff available to the Commission, the key to our agency's success is through discipline and focus on performance and adherence to best management practices and controls. *The FMC Fiscal Year 2017 Performance & Accountability Report* (PAR) discusses the Commission's success in meeting its strategic goals while guarding against financial and operational risks. It is worth noting that the Commission's financial statements have earned an unmodified ("clean") opinion from the agency's independent auditor for the fourteenth consecutive year. Further, no material weaknesses, significant deficiencies, or instances of non-compliance with laws and regulations were identified as a result of the agency's annual assessment of internal controls over operations, systems, and financial reporting.

The global ocean transportation industry that the FMC oversees, monitors and regulates has been experiencing significant changes over the last decade. Fiscal Year (FY) 2017 saw a continuation of trends of ocean carrier realignments, marine terminal expansions and facility upgrades, and non-vessel owner/freight forwarder regulatory issues. What has not changed over this time period is that the marketplace for these ocean transportation services remains highly competitive, to the ultimate benefit of the American exporter, importer, and consumer.

A few examples – the container shipping industry will have gone from twenty major international carriers in 2015 to twelve carriers in mid-2018. With the exception of the bankruptcy of one of the top ten container lines, this industry consolidation has taken place through merger and acquisition activities. A parallel development has been the sequential re-ordering of the ocean carrier alliance structure. While there are now fewer companies operating in fewer alliances, both capacity and rates charged to move ocean containers remain essentially unchanged. In short, key economic benchmarks indicate that competition remains robust. In fact, shipping companies continue to invest in new vessels and new technology in order to achieve further cost savings or competitive operational advantages, while port authorities and terminal operators upgrade their infrastructure so as to attract cargo to their facilities.

In FY 18, the Commission will continue its careful monitoring of the container shipping industry as a whole, with particular focus and vigilance against natural marketplace and alliance consolidation becoming the precursor for anticompetitive activity. Each of us at the Commission are dedicated to maintaining and ensuring competition and integrity for America's ocean supply chain. The *FMC Fiscal Year 2017 Performance & Accountability Report* articulates how we achieve that objective.

/s/

Michael A. Khouri
Acting Chairman
November 1, 2017

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This Report can be downloaded at http://www.fmc.gov/about/performance_and_accountability_reports.aspx.

INTRODUCTION

This Performance and Accountability Report (Report or PAR) serves as a progress report wherein the FMC demonstrates accountability by presenting performance, management, and financial information for fiscal year 2017 (FY 2017). This report enables the President, Congress, and the public to assess the Commission's activities and accomplishments relative to its mission and the resources entrusted to it. This Report satisfies the following legislation:

- ***The Federal Manager's Financial Integrity Act of 1982*** requires continuous evaluations and reporting of the adequacy of systems of internal accounting and administrative controls.
- ***The Chief Financial Officers Act of 1990*** provides for the production and submission of complete, reliable, timely, and consistent financial information for use by the Executive Branch of the government and the Congress in the financing, management and evaluation of Federal programs.
- ***The Government Management Reform Act of 1994*** requires the submission of audited financial statements.
- ***The Reports Consolidation Act of 2000*** authorizes agencies to consolidate several reports to provide performance, financial, and other related data in a more useful manner.
- ***The Inspector General Reform Act of 2008*** amends the Inspector General Act of 1978 to enhance the independence of Inspectors General, to create a Council of the Inspectors General on Integrity and Efficiency, and for other purposes.
- ***The Government Performance and Results Modernization Act of 2010*** (GPRA Modernization Act) requires an annual report that measures the performance results of the agency against the established agency goals.
- ***The Improper Payments Elimination and Recovery Act of 2010*** provides for estimates and reports of improper payments by Federal agencies.
- ***The Digital Accountability and Transparency Act of 2014*** (DATA Act) amends the Federal Funding Accountability and Transparency Act of 2006 (Public Law 109-282), requiring the establishment of government-wide data standards for spending information.

HOW THIS REPORT IS ORGANIZED

Management's Discussion and Analysis (MD&A) provides an overview of the Commission, financial results, a high-level discussion of program performance, management assurances on internal controls and financial management systems compliance; and other management information, initiatives, and issues.

Program Performance Information describes the Commission's strategic goals and targets, and provides data on progress toward meeting those goals during the fiscal year.

Financial Information provides financial details, including a message from the Chief Financial Officer, the independent auditor's report, and the audited financial statements.

Other Information includes a statement prepared by the Inspector General (IG) summarizing what the Office of the Inspector General considers to be the most serious management and performance challenges facing the Commission, a report on improper payments, and a table summarizing the financial statement audit.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year 2017

HISTORY, MISSION, AND ORGANIZATION

HISTORY

The FMC was officially established on August 12, 1961, but its genesis can be traced back to the turmoil of World War I. Since its founding, the Federal Maritime Commission (FMC or Commission) has worked to ensure that neither the activities of liner shipping groups nor foreign government laws or regulations impose unfair costs on American shippers, exporters, or on American consumers of imported goods.

THE FMC TODAY

Over the past five decades, international ocean transportation has changed dramatically. The FMC, an independent expert agency charged with regulating liner shipping in U.S. trades, has adapted to and evolved with those changes. From its inception, the FMC has worked to further competition and integrity for America's ocean supply chain. While the specifics of U.S. maritime policy and legislation have changed markedly during the last several decades, the FMC's goals of maintaining a competitive and reliable international ocean transportation supply system and protecting the public from unlawful, unfair, and deceptive ocean transportation practices remain the cornerstone of today's regulatory efforts.

STATUTORY AUTHORITY

Congress has charged the FMC with oversight responsibilities designed to ensure competitive and efficient ocean transportation services for the shipping public, and to protect the public from unlawful, unfair, and deceptive practices. The principal statutes administered by the Commission, now codified at 46 U.S.C. §§ 40101-44106, are:

- The Shipping Act of 1984, as amended by the Ocean Shipping Reform Act of 1998 (Shipping Act);
- The Foreign Shipping Practices Act of 1988 (FSPA);
- Section 19 of the Merchant Marine Act, 1920 (1920 Act); and
- Sections 2 and 3 of Pub. L. No. 89-777, 80 Stat. 1350.

MISSION

The FMC's mission is to ensure a competitive and reliable international ocean transportation supply system that supports the U.S. economy and protects the public from unfair and deceptive practices. Our mission is achieved by ensuring that the fundamental dynamics of a free, open, and competitive ocean transportation market drive economic outcomes. To that end, the Commission is committed to administering the Shipping Act while employing a minimum of government intervention and regulatory costs, and by placing a greater reliance on the marketplace.

ORGANIZATION

The FMC is directed by five commissioners nominated by the President and confirmed by the Senate, each serving a staggered five-year term. No more than three members of the Commission may be from the same political party. One Commissioner, designated by the President, serves as Chairman. On January 23, 2017, Michael A. Khouri, a commissioner since 2010, was designated

Acting Chairman. The Chairman serves as the Chief Executive and Administrative Officer of the Commission.

The FMC's staff is comprised of economists, attorneys, and experts in ocean transportation and government administration. While most of the Commission's workforce is located at its Washington, D.C. headquarters, the Commission maintains a presence in six major port locations nationwide.

In addition to the Commissioners' offices, the Commission is organized into 10 bureaus and offices:

The Bureau of Certification and Licensing (BCL) protects the public from financial harm through its ocean transportation intermediary (OTI) licensing, registration, and renewal program. BCL also protects the public by requiring Passenger Vessel Operators (PVOs) to maintain adequate financial coverage to reimburse cruise cancellations or to cover liability in the event of death or injury at sea.

The Bureau of Enforcement (BOE) is the prosecutorial arm of the Commission. Bureau attorneys serve as trial counsel in formal proceedings, and protect the shipping public by working closely with the Commission's Area Representatives in investigations of potential violations of the Shipping Act and Commission regulations. BOE negotiates settlements and informal compromises of civil penalties, and may act as investigative officers in formal fact-finding investigations.

The Bureau of Trade Analysis (BTA) analyzes and monitors the concerted activities of vessel-operating common carriers (VOCCs) and marine terminal operators (MTOs) to detect and guard against possible anticompetitive abuse of authority contained in filed agreements under the Shipping Act that could result in substantial increases in transportation costs or decreases in transportation services; and to identify and address other prohibited activities. BTA also reviews and analyzes service contracts, monitors rates of foreign, government-owned controlled carriers; and reviews carrier-published tariff systems under the accessibility and accuracy standards of the Shipping Act.

The Office of the Administrative Law Judges (OALJ) resolves cases of alleged violations of the Shipping Act and other laws within the Commission's jurisdiction. Through trial-type hearings and the issuance of an initial decision, the OALJ ensures that the rights of all parties are preserved.

The Office of Consumer Affairs and Dispute Resolution Services (CADRS) assists shippers, OTIs, cruise operators and passengers, truckers, MTOs, and VOCCs by providing alternative dispute resolution (ADR) services, *ombuds* assistance, mediation, facilitation, and arbitration to resolve disputes involving cargo shipments, household goods shipments, and cruises.

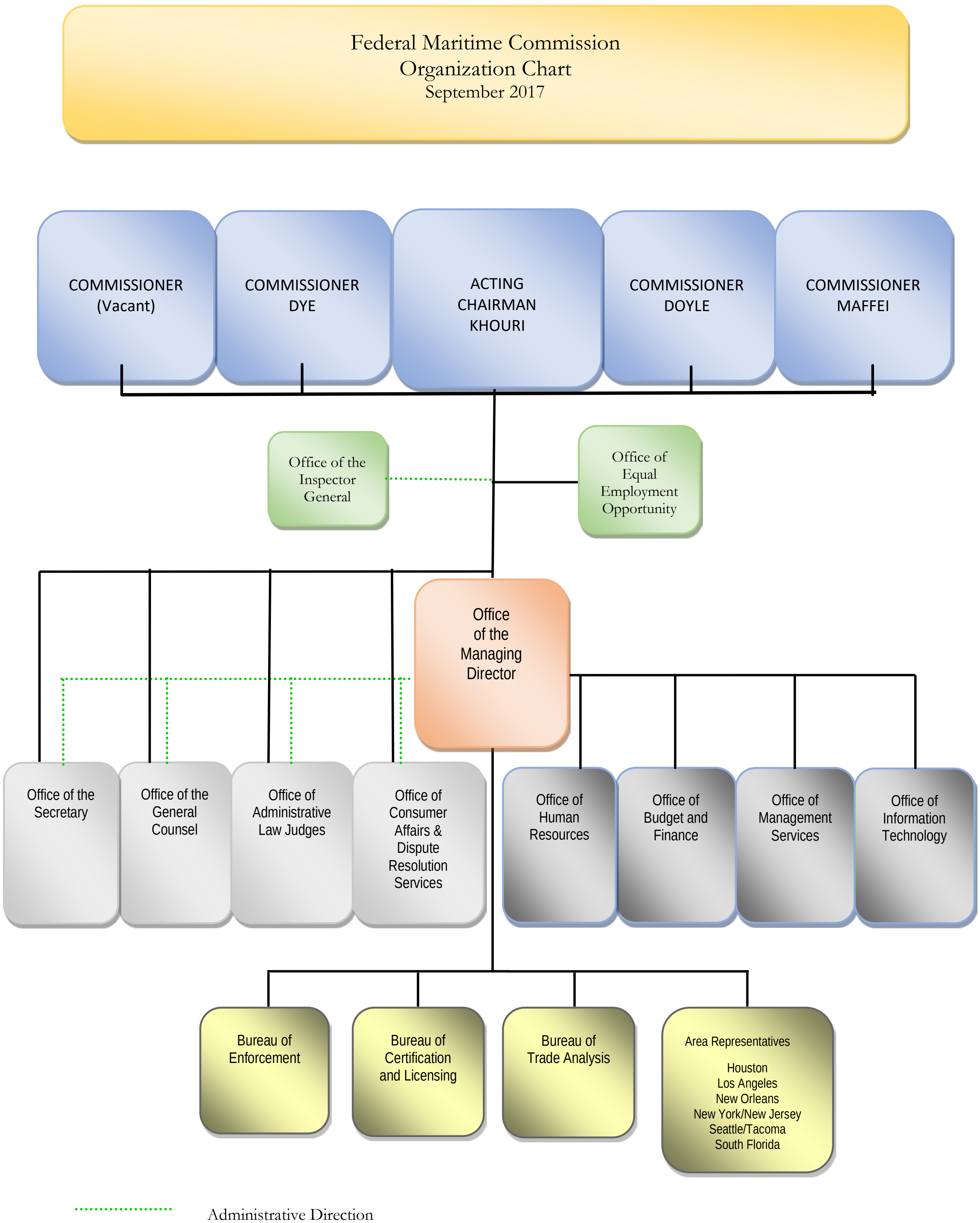
The Office of Equal Employment Opportunity (OEEO) advises and assists the Commission in carrying out its responsibilities relative to Titles VI and VII of the Civil Rights Act of 1964 (as amended), other laws, executive orders, and regulatory guidelines implementing affirmative employment, and the processing of EEO complaints.

The Office of the Inspector General (OIG) is an independent and objective oversight office created within the FMC by the Inspector General Act of 1978 (as amended) to conduct and supervise audits, inspections, and investigations relating to FMC programs; detect and prevent waste, fraud and abuse; promote economy, efficiency, and effectiveness; review existing and proposed legislation and regulations; keep the Chairman, Commissioners, and Congress fully informed of serious problems and deficiencies and recommend corrective actions; and report violations of law to the U.S. Attorney General.

The Office of the General Counsel (OGC) provides sound and timely legal services to the Commission and staff as it fulfills responsibilities that include: preparing final decisions, orders and regulations for Commission approval and issuance; representing the Commission in litigation before the courts; providing technical and policy assistance to other government agencies engaged in international negotiations or discussions on shipping matters; and providing legal opinions to the Commission, its staff, and the general public in appropriate instances. OGC also oversees the Commission's international affairs activities.

The Office of the Managing Director (OMD) is responsible for implementing the administrative directives of the Chairman, the management and coordination of Commission bureaus, and overseeing the agency's Area Representatives located in six major port areas nationwide. It has direct oversight of the administrative offices of the Commission, which include the offices of Budget and Finance, Human Resources, Information Technology, and Management Services.

The Office of the Secretary (OS) serves as the office through which all filings are made in Commission proceedings, notices of proceedings are given, and from which all official actions are issued by the Commission. The OS prepares and maintains agenda matters and actions taken by the Commission; maintains official files and records of formal proceedings; ensures compliance with Freedom of Information, Government in the Sunshine and Privacy Acts; responds to information requests from the public; issues publications and authenticates instruments and documents of the Commission; maintains a public reference/law library and a docket library; and oversees the organization and content of the Commission's website.


Federal Maritime Commission
Organization Chart
September 2017
COMMISSIONER (Vacant)
COMMISSIONER DYE
ACTING CHAIRMAN KHOURI
COMMISSIONER DOYLE
COMMISSIONER MAFFEI
Office of the Inspector General
Office of Equal Employment Opportunity
Office of the Managing Director
Office of the Secretary
Office of the General Counsel
Office of Administrative Law Judges
Office of Consumer Affairs & Dispute Resolution Services
Office of Human Resources
Office of Budget and Finance
Office of Management Services
Office of Information Technology
Bureau of Enforcement
Bureau of Certification and Licensing
Bureau of Trade Analysis
Area Representatives
Houston
Los Angeles
New Orleans
New York/New Jersey
Seattle/Tacoma
South Florida
Administrative Direction

REGULATORY RESPONSIBILITY AND OVERSIGHT

The FMC ensures competitive and reliable ocean transportation services for the shipping public by:

- Reviewing and monitoring agreements among and between ocean common carriers and among and between marine terminal operators (MTOs) serving the U.S. foreign oceanborne trades to ensure that they do not cause unreasonable increases in transportation costs or decreases in transportation services;
- Maintaining and reviewing confidentially filed service contracts and non-vessel-operating common carrier (NVOCC) Service Arrangements to guard against detrimental effects to shipping;
- Providing a forum for exporters, importers, and other members of the shipping public to obtain relief from ocean shipping practices or disputes that impede the flow of commerce;
- Ensuring common carriers' tariff rates and charges are published in private, automated tariff systems and electronically available;
- Monitoring rates, charges, and rules of government-owned or -controlled carriers to ensure they are just and reasonable; and
- Taking action to address unfavorable conditions caused by foreign government or foreign business practices in U.S. foreign shipping trades.

The FMC protects the public from financial harm, and contributes to the integrity and security of the Nation's import and export supply chains and ocean transportation system. FMC activities include:

- Licensing and registering ocean transportation intermediaries;
- Administering a surety bond program to ensure payment of judgments for damages by NVOCCs and freight forwarders;
- Investigating and prosecuting violations of the Shipping Act and other statutes referenced above;
- Helping resolve disputes involving the shipment of goods or the carriage of passengers;
- Adjudicating private party complaints alleging Shipping Act violations; and
- Ensuring that passenger vessel operators maintain proper financial coverage to reimburse cruise passengers in the event a cruise is cancelled or to cover liability in the event of death or injury at sea.

AGENCY MISSION CHALLENGES

The Commission is aware of the day-to-day issues and challenges facing the United States' vital ocean transportation system and its stakeholders, and will continue to focus its efforts on fostering the Nation's international trade and economic growth. This agency strives to accomplish its strategic goals by improving staff efficiency and closely managing its resources to enforce the Commission's governing statutes and regulations to protect the shipping public. As financial resources allow, the FMC will continue to prioritize investments needed in information technology to improve information security, efficiency, and greater public access, while reducing costs over time.

REGULATORY REVIEW

The FMC reviews its processes and regulatory requirements for efficiency and effectiveness. As economic conditions alter the state of our trades, regulations are revised to respond to new conditions. Toward the goal of eliminating or reforming regulations, the Commission designated its Managing Director as the Commission's Regulatory Reform Officer. The Regulatory Reform Officer and the FMC's Regulatory Reform Task Force are now leading the Commission's regulatory reform initiative to identify those regulations that have become less relevant in today's fast-moving commerce, or are unduly burdensome. The Task Force will establish a timeline to move those items to a vote before the Commission. The

Commission recently posted a new webpage designed to provide transparent, real-time information to the public regarding the Commission's regulatory reform efforts.

The Commission's new regulatory reform initiative will continue and build on the work of the Commission's current *Plan for Retrospective Review of Existing Rules*. The Commission issued a final rule, aimed to relieve regulatory burdens, in Docket 16-05, *Service Contracts and NVOCC Service Arrangements,* effective May 5, 2017. The rulemaking amended FMC regulations to allow amendments to service contracts and NVOCC service arrangements to go into effect before being filed with the Commission, which grants the industry enhanced ability to respond to real-time market conditions.

A Notice of Inquiry was issued in Docket No. 17-04, *Regulatory Reform Initiative* in May 2017. The Inquiry solicited information and comments by July 2017 in an effort to identify existing FMC regulations which are outdated, unnecessary, ineffective, eliminate jobs or inhibit job creation, impose costs that exceed benefits, or otherwise interfere with regulatory reform initiatives ad policies. Over 40 comments were received from the public. These were reviewed, analyzed, and summarized for the Commissioners.

In FY 2017, staff prepared recommendations for Commission consideration of potential regulatory reforms to the filing and processing of agreements, quarterly monitoring reports and agreement meeting minutes, taking into consideration industry comments received in response to its Notice of Proposed Rulemaking (NPR) in Docket No. 16-04, *Ocean Common Carrier and Marine Terminal Operator Agreements Subject to the Shipping Act of 1984*. The Commission anticipates that the agreements rulemaking initiative will conclude in FY 2018.

In Docket P2-15, the National Customs Brokers & Forwarders Association of America (NCBFAA) petitioned the FMC to initiate a rulemaking to eliminate the NVOCC Service Arrangements (NSA) provisions in 46 CFR Part 531 in their entirety, or alternatively, eliminate the filing and essential terms publication requirements for NSAs. Consolidated with that request, NCBFAA also asked the Commission to expand the NRA exemption in 46 CFR Part 532 to include economic terms beyond rates, and to delete 46 CFR Part 532.5(e) that precludes any amendment or modification of an NVOCC Negotiated Rate Arrangement (NRA). The Commission granted the NCBFAA's petition to "initiate a rulemaking with respect to the revisions discussed in the petition." However, the Commission delayed initiating the requested rulemaking until after the rulemaking in Docket No. 16-05, *Service Contracts and NVOCC Service Arrangements,* was concluded. The Commission anticipates that a rulemaking proceeding will commence in early FY 2018.

ALLIANCE AND VESSEL SHARING AGREEMENTS

The FMC monitors key trade lanes, and reviews and analyzes the competitive impact of agreements with particular emphasis on issues concerning carrier consolidation, adequate vessel capacity, and equipment availability. The difficult economic environment continues to drive changes among vessel operating carriers with respect to the complexity and scope of agreements filed with the Commission.

Carrier consolidations are ongoing, and will continue to impact existing and future filed agreements. In particular, the merger of COSCO and China Shipping Container Lines, and the purchase of APL by CMA CGM, necessitated amendments to existing agreements, and resulted in plans for the formation of a new alliance, the OCEAN Alliance, consisting of COSCO, CMA CGM, Evergreen, and OOCL. The OCEAN Alliance agreement was implemented in early 2017. Leading up to the proposed implementation, there were substantial changes among existing alliances, as COSCO and Evergreen exited the CKYHE Alliance, and OOCL and APL left the G6 Alliance. Also, the CKYHE Alliance unexpectedly lost one of its five members when Hanjin Shipping, the seventh largest liner operator in the world at the time, filed for bankruptcy in September 2016. Another agreement, THE Alliance, effective in December 2016, is comprised of five container shipping companies: Hapag-Lloyd; K Line; MOL; NYK; and Yang Ming. A joint venture between Japanese carriers K Line, MOL, and NYK, announced in November 2016, will create the sixth largest carrier by size and capacity. These carriers will jointly operate as the Ocean Network Express (ONE), beginning in April 2018.

As the industry continues to undergo significant structural change, the FMC will continue to play an important role in analyzing agreements for anti-competitive practices, overseeing the changes and monitoring the impact on the Nation's exporters/importers to ensure goods reach international markets efficiently and reliably.

PORT CONGESTION AND SECURITY INITIATIVES

The FMC's Supply Chain Innovation Teams (SCIT) Initiative continued to make progress developing commercial solutions to ocean supply chain challenges. Led by Commissioner Rebecca Dye, the Initiative's goal is to bring together small teams of industry leaders from across the international ocean transportation supply chain to collaborate on solutions to improve American supply chain reliability and resilience, and remove obstacles to efficient U.S. supply chain operations. External teams represent key supply chain industries: ocean carriers, U.S. ports, marine terminal operators, warehouse operators, chassis providers, longshore labor, trucking, railroads, intermediaries, and American exporters and importers.

On December 6, 2016, the Commission published an executive summary of its interim status report, reporting on the first phase, focusing on the import supply chain.

In May 2017, Commissioner Rebecca Dye testified before the Senate Subcommittee on Surface Transportation and Merchant Marine Infrastructure, Safety and Security concerning the FMC's SCIT Initiative, including the Team's focus on "actionable" process innovations that would improve overall international supply chain reliability and resilience on the import side.

On July 11, 2017, the FMC launched the second phase of the SCIT Initiative, focusing on the export supply chain. This phase, expected to conclude in early FY 2018, is focused on identifying the critical information needed by supply chain actors for improved supply chain system visibility, reliability and resilience for U.S. exporters and related service providers. A bedrock concept of the SCIT is the Commission's commitment to help the industry address its challenges, while rejecting the notion that additional government regulation is needed to enhance performance of the commercial supply chain.

The FMC is active in security initiatives as they relate to U.S. ocean commerce, and works to coordinate the use of available database systems with other agencies engaged in homeland security to improve identification of entities providing and utilizing maritime transportation services. To facilitate these activities, the FMC executed a Memorandum of Understanding (MOU) with the U.S. Customs and Border Protection to provide a more efficient utilization of existing systems and services. The FMC also has an active MOU with the Census Bureau, U.S. Department of Commerce, to provide the FMC with access to the Census' Automated Export System (AES) database. These relationships allow the FMC to access confidential U.S. export shipment data to accomplish its mission and to protect the Nation's security interests. The Commission also supports the Nation's economic and security interests by partnering with the National Intellectual Property Rights Coordination Center (IPR Center), a Department of Homeland Security-led partnership of 23 Federal and international agencies targeting intellectual property- and trade-related crimes. This partnership has resulted in coordinated enforcement efforts to address international criminal activity.

ENFORCEMENT, DISPUTE RESOLUTION, AND PUBLIC INFORMATION

With the increasing pressure of industry consolidation and port congestion, the Commission is particularly sensitive to the impact on the Nation's exporters and their need for efficient ocean transportation in reaching foreign markets. The FMC will continue to monitor agreements, service contracts, and tariffs in key trades as barometers of market cycles and shifts in the balance of supply and demand. The FMC will continue to expand and promote its compliance-focused program to monitor and audit ocean common carrier, NVOCC, and ocean freight forwarder operations. The Commission's Bureau of Enforcement, through the Commission's statutory and regulatory mandate, protects the shipping public and ensures industry adherence to U.S. shipping laws.

The FMC provides direct services to the public through its offices, programs, and website. The Commission's CADRS office receives time-sensitive requests for assistance from shippers and carriers. The Commission works closely with the Federal Motor Carrier Safety Administration (FMCSA) and participated in quarterly working group and Moving Fraud Task Force meetings. The Commission's Area Representatives, strategically located at six key maritime ports, commonly operate as the "front line" for questions and issues facing the industry. The Commission's Office of the Secretary updates the FMC's website and social media frequently, providing time sensitive notifications and important information to the public. The FMC also responds to requests for information from the press and the public, delivering key information directly to potentially affected shippers and consumers.

The FMC assists with industry-driven solutions to ocean shipping issues. For example, the Commission regularly provides outreach and education to the shipping industry, stakeholders, and other government entities on the statutes it implements, and to address any issues that may arise. Commissioners and staff address industry and stakeholder groups as speakers and panelists to provide information on the latest issues related to Commission activities and international commerce.

ENCOURAGING ECONOMIC GROWTH

The Commission supports key government-wide initiatives by working to increase efficiencies and customer service initiatives, and by providing public access to information to make a positive difference in the lives of the American people and the economy. The FMC's mission supports the President's commitment to economic growth and job creation.

PROGRAM PERFORMANCE OVERVIEW

The FMC, like other Federal agencies, provides a performance plan to Congress, pursuant to the Government Performance and Results Act (GPRA). The Commission's performance goals are organized to aid in achieving its strategic goals. The FMC's *Strategic Plan Fiscal Years 2014-2018 (Revised)* is available on the FMC's website. The complete Program Performance Report for FY 2017 is contained in the *Program Performance* section of this Report.

ACHIEVING STRATEGIC GOAL RESULTS

The FMC developed performance goals and measures to both promote its strategic goals and support its mission. Specific targets and strategies must be accomplished to meet the identified performance goals. Fiscal Year 2017 was the ninth year that the FMC undertook to quantify and measure performance goals. The Commission's actual performance in FY 2017 is compared with the targeted levels of performance established in the agency's *Strategic Plan Fiscal Years 2014-2018 (Revised)*. Taken together, performance measures and targets under each strategic goal were designed to enhance and further those goals each fiscal year, bringing the agency closer to full achievement of its strategic goals.

Historical Performance of Strategic Goals and Objectives							
Strategic Goal	**Objective**	**Performance Measures**		**2014**	**2015**	**2016**	**2017**
Goal 1. Maintain an efficient and competitive international ocean transportation system.	**1.** Enhance efficiency in the trades through the use of asset sharing authority under the Shipping Act of 1984.	Percentage share of U.S. containerized cargo moving on other agreement parties' vessels in major U.S. trades.	**TARGET**	39.5%	40%	40.5%	41%
			ACTUAL	45.6%	49%	51%	51%
Goal 2. Protect the public from unlawful, unfair and deceptive ocean transportation practices and resolve shipping disputes.	**1.** Identify and take action to end unlawful, unfair and deceptive practices.	Percentage of enforcement actions taken under the 1984 Act successfully resolved through favorable judgment, settlement, issuance of default judgment, or compliance letter or notice.	**TARGET**	76.5%	77%	77.5%	77.5%
			ACTUAL	83.8%	83.4%	88.6%	82.8%
	2. Prevent public harm through licensing and financial responsibility requirements.	Percentage of decisions on completed OTI license applications rendered within 60 calendar days of receipt, facilitating lawful operation of OTIs with the appropriate character and experience requirements.	**TARGET**	75%	75%	75%	75%
			ACTUAL	71.3%	72%	79.7%	95%
	3. Enhance public awareness of agency resources, remedies and regulatory requirements through education and outreach.	Percentage of key Commission issuances, orders, and reports that are available through the Commission's website within 5 working days of receipt.	**TARGET**	76%	78%	80%	82%
			ACTUAL	93%	92%	90%	95%
	4. Impartially resolve international shipping disputes through ADR and adjudication.	Number of cases opened and closed each fiscal year using *ombuds* and ADR services to assist consumers in recovering goods or funds.*	**TARGET**	825	825	825	n/a*
			ACTUAL	994	882	778	n/a*
		Percentage of *ombuds* matters and ADR services provided by CADRS closed within six months of request for assistance.	**ACTUAL**	n/a	n/a	n/a	60%*
			TARGET	n/a	n/a	n/a	90%*
		Percentage of formal complaints or Commission-initiated orders of investigation completed within 2 years of filing or Commission initiation.	**TARGET**	58%	58%	60%	62%
			ACTUAL	88%	90%	86%	79%

*This performance measure was replaced in 2017 with: "Percentage of *ombuds* matters and ADR services provided by CADRS closed within six months of request for assistance." The new performance measure for 2017 and 2018 more accurately reflects the FMC's performance in this area.

Building upon the success of our prior Strategic Plan, the Commission has submitted its Initial Draft Strategic Plan for FY 2018-2022 (draft Strategic Plan) to OMB for approval, and has invited public comment until December 6, 2017. The draft Strategic Plan retains, with slight language modifications, Strategic Goal One, "Maintain a competitive and reliable international ocean transportation supply system," and Strategic Goal Two, "Protect the shipping public from unlawful, unfair and deceptive ocean transportation practices." Notably, the Commission has developed a new objective under Strategic Goal One, namely "to ensure that actions under filed agreements do not result in unreasonable increases in transportation costs and/or unreasonable decreases in transportation services." The measures to assess this objective will track modifications made in the review process to mitigate anti-competitive effects, and ensure timely review of monitoring reports.

A brief overview of the agency's successes includes the following:

Strategic Management of Human Capital – In 2017, the FMC continued to implement the strategic goals, strategies, and measures of results outlined in the 2012-2017 Human Capital Plan. The Commission's Human Capital Plan was developed under the Office of Personnel Management's (OPM) Human Capital Assessment and Accountability Framework, and provides for recruiting and retaining a talented workforce, and to appropriately manage succession in the Commission's small workforce. Currently, the 2017-2022 Human Capital Plan is being constructed to reflect the results and changes of strategies and goals.

As instructed by OMB Memorandum M-17-22, *Comprehensive Plan for Reforming the Federal Government and Reducing the Federal Civilian Workforce*, a Draft Agency Reform and Long-Term Workforce Plan FY 2018–2022 was submitted to OMB in September 2017.

To recruit and retain a highly qualified and diverse workforce, the Human Capital Plan includes improved marketing of the FMC; streamlining of the application process with an automated application system; targeting recruitment tools and areas of consideration to increase the diversity of applicants; and incorporating organizational needs based on the annual OPM Federal Employee Viewpoint Survey results. To meet mission objectives, the FMC is actively working to define and plan for the workforce of the future, consistent with the current Administration's programs and reform initiatives.

Strong leadership is a critical asset, and at the close of FY 2017, 43 percent of the FMC's executives were eligible for optional retirement. The Commission is engaged in succession management and projecting its future needs. Current staff is being trained and developed to prepare individuals to assume greater levels of responsibility, and to allow the agency to continue to maintain talented and knowledgeable leadership to meet the challenges of the future. Continuous training and development in leadership competencies will prepare the next generation of leaders at the Commission.

Competitive Sourcing – The FMC submitted its FY 2017 Federal Activities Inventory Reform Act (FAIR Act) Inventory to OMB in June 2017. The Inventory identified 70 of the agency's 127 authorized Full-Time Equivalent employees (FTEs) as commercial activity FTEs. No challenges to its commercial inventories have ever been received.

Improved Financial Performance – The FMC received an unmodified ("clean") opinion on its financial statements in FY 2017, and will strive to make improvements in its operations and achieve unmodified audit opinions in the future.

Expanded E-Government – The Commission continued to monitor public usage trends and leverage user feedback during FY 2017. Public feedback was used to refine and improve users' experience with the website (www.fmc.gov), and enhance the organization, quality, clarity, and accessibility of content provided to the shipping public. Notable achievements in FY 2017 included:

- archiving and streamlining content to improve delivery and accuracy of information;
- beginning work on a major platform migration and extensive improvements to the information architecture of www.fmc.gov; and
- making the FMC's public meetings under the Government in the Sunshine Act available for viewing in a live webcast.

The Commission remains committed to a multiyear enhancement of its IT systems, which will make it faster and easier for individuals and businesses doing business with the FMC to find information and complete required filings. Efforts to advance the Commission's Information Resources Management Strategic Plan and IT Capital Plan were made during the fiscal year, and significant upgrades were made to the agency's IT infrastructure. Critical applications and the Commission's disaster recovery server were moved to the cloud to ensure regular and effective data backups, to assist in effectively continuing operations during emergency events, and save the Commission the operating costs of maintaining a physical disaster recovery location. The FMC is compliant with FEDRAMP, and also compliant with Department of Homeland Security (DHS) continuous monitoring requirements for network security, and deploys internal security tools to effectively monitor network operations, including integrity of files, password sufficiency, probing for open ports and other externally visible points of attack.

Performance Improvement – The Commission's Strategic Plan represents the fundamental framework for planning and budgeting activities. Funding and FTE levels are integrated into the Commission's performance budget planning document by strategic goal to clearly identify the budgetary and staff resources committed to the performance of each goal.

Fiscal Year 2017 concludes the five-year performance cycle with the Commission's current Strategic Plan. An Initial Draft Strategic Plan for FY 2018-2022 was submitted to OMB for approval in September 2017. The public is invited to comment on this plan which may be viewed on the Commission's website at https://www.fmc.gov/assets/1/Page/FY2018-2022InitialDraftStrategicPlan.pdf.

FINANCIAL PERFORMANCE OVERVIEW

The FMC's financial condition as of September 30, 2017, is sound, and internal controls are in place to ensure that funds are utilized efficiently and effectively, and that its budget authority is not exceeded. The FMC's accounting services provider, the Bureau of the Fiscal Service (BFS), prepared the financial statements as required by the Accountability of Tax Dollars Act of 2002. They have been prepared from, and are fully supported by, the books and records of the FMC in accordance with GAAP, standards approved by the Federal Accounting Standards Advisory Board (FASAB), and OMB Circular A-136, *Financial Reporting Requirements.*

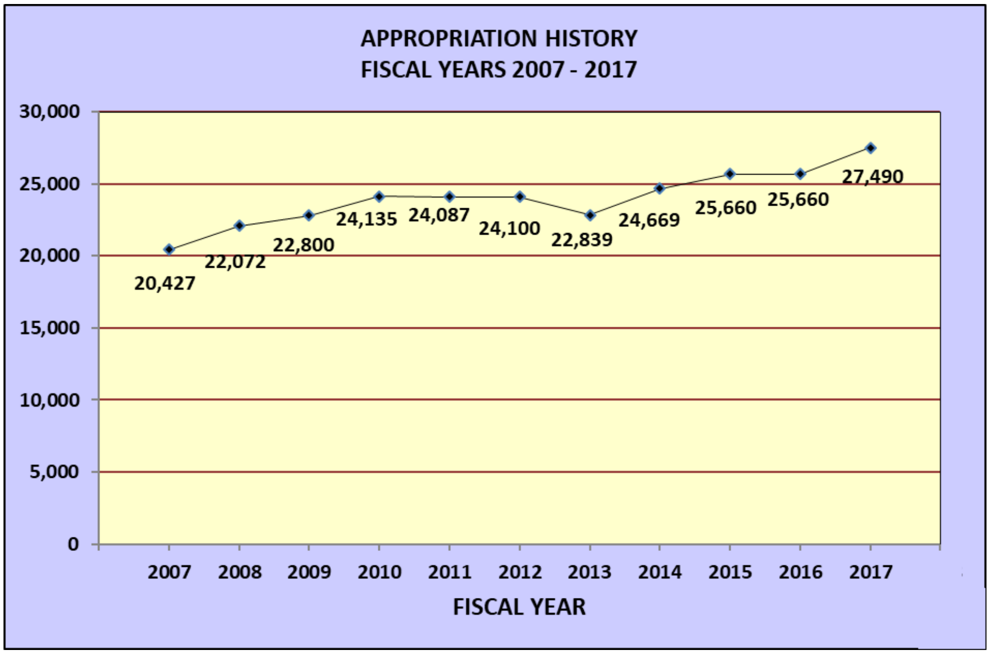
The principal financial statements provided in this report are prepared to report the financial position and results of the operations of the Federal Maritime Commission, pursuant to the requirements of 31 U.S.C. § 3515(b). The statements are prepared from the books and records of the Commission in accordance with Federal Generally Accepted Accounting Principles (GAAP) and the formats prescribed by OMB. Reports used to monitor and control budgetary resources are prepared from the same books and records. The financial statements should be read with the realization that they are for a component of the U.S. Government.

SOURCE OF FUNDS

The FMC has single source funding, Salaries and Expenses, funded by an annual appropriation available for commitments and obligations incurred during the fiscal year in which the authority was granted. Congress approved FY 2017 appropriations for the FMC in the amount of $27,490,000 through P.L. 115-31, an increase of $1,830,000 over the FY 2016 final appropriation level. Additionally, the Commission had reimbursable budget authority of $15,903 for work performed by FMC staff at other government entities.

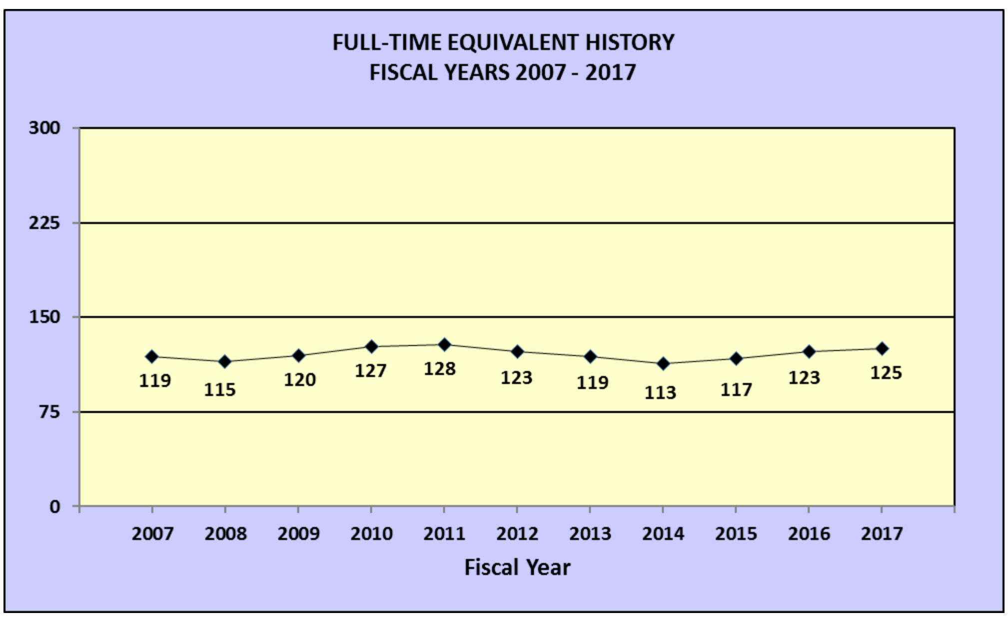
The FMC collects remittances for user fees and penalties, however, it is not authorized to offset any of its budget authority by utilizing these funds. Collections are deposited directly into the Treasury General Fund. This information is captured in the Statement of Custodial Activity which can be found in the *Financial Information* section of this report.

APPROPRIATION HISTORY



FULL-TIME EQUIVALENT HISTORY

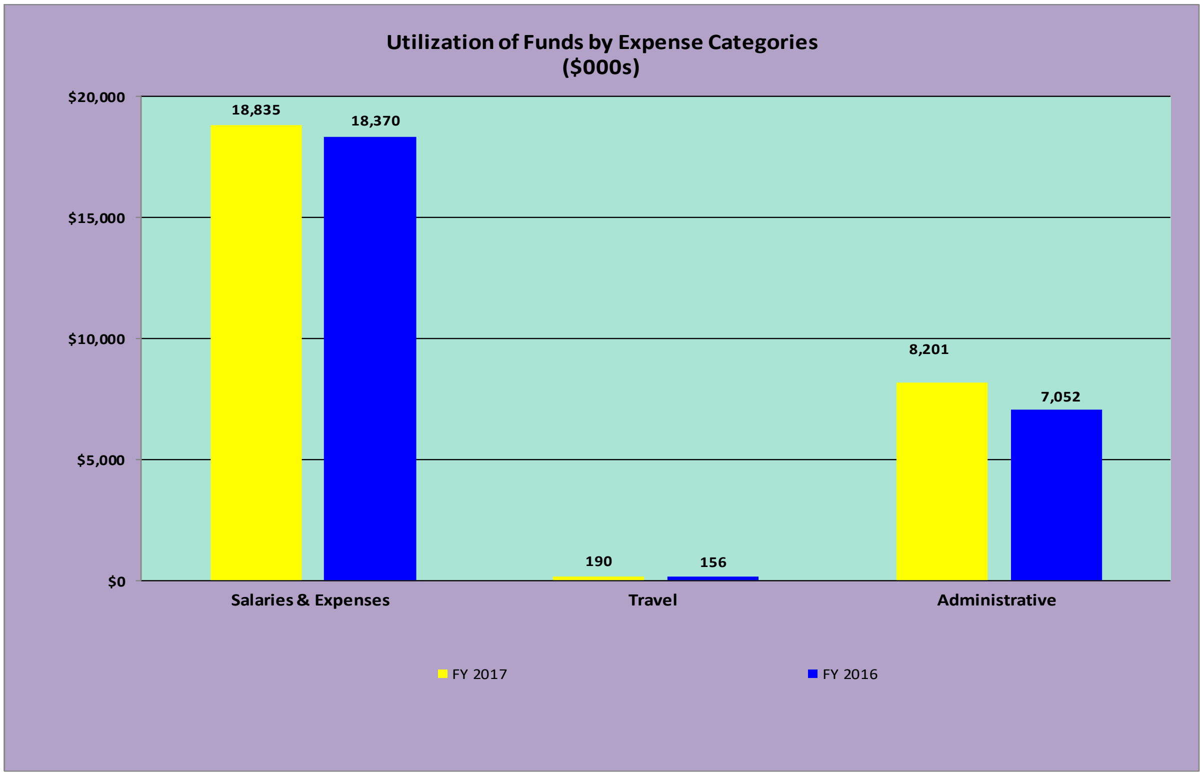
The FMC's FTE level is largely driven by its annual appropriation level; however, vacancies in such offices as the Offices of the Commissioners have sometimes remained unfilled for lengthy periods of time. The FMC currently has only four of its five Commissioners.



The FMC experienced a number of retirements and separations in 2014, resulting in a lower than anticipated FTE level. The FMC had a slight increase in FTEs in 2015 and 2016. The actual FTE level for 2017 was 125, with 123 employees on board at fiscal year's end. The Commission continues to endeavor to develop the appropriate mix of staffing and other available means to ensure effective accomplishment of its mission.

USES OF FUNDS BY EXPENSE CATEGORY

During FY 2017, obligations against the FMC's appropriation totaled $27,225,653, representing 99.04 percent of the funding level. The Commission spent $27.226 million as follows: 69.18 percent for salaries and benefits, 0.70 percent for official travel expenses, and 30.12 percent for administrative expenses (e.g., rent, government and commercial contracts, telephones, and IT services and equipment). The balance of $264,347 will be allocated to legitimate increases to existing FY 2017 obligations.



AUDIT RESULTS

The FMC again received an unmodified ("clean") opinion on its FY 2017 financial statements from the auditing firm of Dembo Jones, P.C. under contract through the FMC's OIG. Comparative statements may be found in the *Financial Information* section of this report.

FINANCIAL STATEMENT HIGHLIGHTS

The financial statements were prepared to report the financial position and results of operations of the Commission pursuant to the requirements of 31 U.S.C. § 3515(b). While the statements were prepared from the books and records of the Commission in accordance with the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated absent legislation that provides resources to do so.

The FMC's financial statements summarize the financial position and financial activity of the agency. The financial statements, footnotes, and the remainder of the required supplementary information appear in their entirety in the *Financial Information* section of this report. A brief analysis of the principal statements follows.

SUMMARY OF ASSETS

Summary of Assets as of September 30, 2017		
	FY 2017	FY 2016
Fund Balance With Treasury	$5,614,138	$3,716,353
Accounts Receivable	$2,856	$3,720
Capital Assets	$399,648	$462,906
Other	$0	$0
Total Assets	**$6,016,642**	**$4,182,979**

The FMC's assets were $6,016,642 as of September 30, 2017. This represents an increase from FY 2016 of $1,833,663. The FMC's assets reported in the balance sheet are summarized in the accompanying table.

The Fund Balance with Treasury of $5,614,138 represents the FMC's largest asset and comprises 93.31 percent of the agency's total assets. The Fund Balance with Treasury is comprised only of annual appropriations maintained by the Department of the Treasury to address current liabilities.

Accounts Receivable as of September 30, 2016, was $2,856 for outstanding receivables billed to both Federal and non-Federal entities. This accounts for 0.05 percent of the FMC's assets.

Capital Assets, also known as Property, Equipment and Software, accounts for 6.6 percent of the FMC's total assets as of September 30, 2017. The net value of $399,648 accounts for the depreciation of all assets and represents the current book value of those assets.

SUMMARY OF LIABILITIES

Summary of Liabilities as of September 30, 2017		
	FY 2017	FY 2016
Accounts Payable	$153,972	$1,346,485
Payroll Taxes	$168,533	$148,036
Federal Employee Benefits	$3,307	$1,300
Custodial Liabilities	$0	$0
Accrued Liabilities	$2,085,237	$1,881,695
Total Liabilities	**$2,411,049**	**$3,377,516**

The FMC's liabilities totaled $2,411,049 as of September 30, 2017, a decrease of $966,467 from FY 2016. The majority of the decrease is related to a reduction in accounts payable.

The FMC's accounts payable as of September 30, 2017, was $153,972. This represents the funds owed for goods and services received from vendors. Accrued liabilities represent future costs such as accrued annual and sick leave balances and workman's compensation that are not covered by current budgetary resources. Accumulated leave costs are recognized as they are taken and workman's compensation costs are recognized as they are paid out.

ANALYSIS OF CHANGES IN NET POSITION SUMMARY

Changes in Net Position Summary as of September 30, 2017		
	FY 2017	FY 2016
Unexpended Appropriations	$4,483,892	$1,520,851
Cumulative Results of Operations	($878,299)	($715,389)
Total Net Position	**$3,605,593**	**$805,462**

The Changes in Net Position Summary is a summary of two factors, Unexpended Appropriations (the amount of spending authority that remains unused at the end of the fiscal year) and Cumulative Results of Operations (the cumulative excess of financing resources over expenses). The total net position for FY 2017 is an increase of $2,800,131 from FY 2016.

Unexpended Appropriations represent the amount of unobligated and unexpended budget authority for the 5-year period ending on September 30,

2017. Unobligated balances are the amount of appropriations or other authority remaining after deducting the cumulative obligations from the amount available for obligation for the same period. The Cumulative Results of Operations is the net result of FMC's operations for all active fiscal years.

ANALYSIS OF NET COST SUMMARY

The analysis of Net Cost Summary presents the net cost of FMC's Programs as identified in the Annual Report. The four agency programs are Operational and Administrative, Formal Proceedings, Inspector General, and Equal Employment Opportunity. The Statement of Net Costs shows the net cost of operations for the agency as a whole and its sub-organizations and/or programs. Net Costs compared to Budgetary Resources can be found in the *Financial Information* section of this report. This table reflects costs attributable to all active fiscal years (2013-2017).

Net Cost Summary as of September 30, 2017		
	FY 2017	FY 2016
Operational and Adminstrative	$16,890,163	$19,653,861
Formal Proceedings	$8,003,303	$8,080,880
Office of the Inspector General	$284,734	$389,899
Office of Equal Employment Opportunity	$141,325	$162,482
Total Net Cost	**$25,319,525**	**$28,287,122**

ANALYSIS OF THE STATEMENT OF BUDGETARY RESOURCES

The Statement of Budgetary Resources (SBR) shows the source of the agency's budgetary resources, the status of those resources at the end of the reporting period, and the relationship between the two. Total budgetary resources must be equal to the status of budgetary resources at all times. A more detailed SBR can be found in the *Financial Information* section of this report. During FY 2017, the FMC had a total of $27,747,113 available, representing an increase of $1,652,415 from 2016 in budgetary resources. The budgetary resources represent financial activity during the accounting period for the five active fiscal years.

Statement of Budgetary Resources as of September 30, 2017		
	FY 2017	FY 2016
Obligations Incurred	$27,331,928	$25,698,859
Unobligated Balance Unavailable	$150,838	$310,114
Unobligated Balance Available	$264,347	$85,725
Total Status of Budgetary Resources	**$27,747,113**	**$26,094,698**

ANALYSIS OF ENTITY'S SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

The Commission's internal controls are fundamental to the systems and processes used in managing its operations and achieving its strategic goals. The Acting Chairman's Statement of Assurance in the following section notes that the FMC does not have any material weaknesses or instances of nonconformance to report for FY 2017.

Additionally, in line with the new requirements of revised OMB Circular A-123, the Commission has formed an Enterprise Risk Management Committee to engage all agency management in the process of collaborating to identify, measure, and assess risk points across the agency. The Committee is developing a risk profile, which when used in conjunction with existing internal controls, will serve to improve the Commission's accountability and effectiveness.

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT

The Federal Managers' Financial Integrity Act (FMFIA) mandates that agencies establish controls that reasonably ensure that:

- obligations and costs comply with applicable laws;
- assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and
- revenues and expenditures are properly recorded and accounted for.

This Act encompasses program, operational, and administrative areas as well as accounting and financial management. The FMFIA requires that the Acting Chairman provide an assurance statement of the adequacy of management controls and conformance of financial systems with Government-wide standards, that FMC managers are held accountable for efficient and effective performance of their duties in compliance with applicable laws and regulations, and for maintenance of the integrity of their activities through the use of controls.

Acting Chairman Khouri has provided his annual assurance statement in this report based on various sources, including knowledge of the daily operation of Commission programs and reviews, frequent discussions with the Managing Director and the Directors of the Offices of Budget and Finance and Management Services, audits of the financial statements, and the Commission's strategic plan. Additionally, the Acting Chairman meets regularly with the members of the Commission's Senior Executive Service, and receives regular reports from the FMC's Inspector General.

Identified deficiencies in management control would be addressed at the highest management levels within the FMC. For instance, corrective actions for significant deficiencies identified in the information technology area would be overseen directly by the agency's Chief Information Officer (CIO).

During the fiscal year, the IG identified no significant deficiencies and there were no significant management decisions made on which the IG disagreed. During FY 2017, management and the OIG reached agreement on 3 OIG audit recommendations. Management remedied all open audit recommendations, including those from prior years. Management will work to implement any new IG recommendations during the coming fiscal years.

DEBT COLLECTION IMPROVEMENT ACT OF 1996

The Debt Collection Improvement Act enhances the ability of the government to service and collect debts as it centralized the collection of non-tax delinquent debt owed to the government. Federal agencies are required to refer delinquent accounts in excess of 180 days to Treasury for collection. Collection of the Commission's delinquent debts is conducted by the Bureau of the Fiscal Service through the Cross-Servicing Program and Treasury Offset Program, where the names and taxpayer identification numbers (TIN) of the delinquent entities are matched against the TINs of recipients of government payments. The balance owed to the government is deducted or offset from the payment to the entity to satisfy the debt. The goal of the FMC is to minimize the amount of delinquent debt owed to the government.

DIGITAL ACCOUNTABILITY AND TRANSPARENCY ACT OF 2014

The Digital Accountability and Transparency Act of 2014 (DATA Act) is an amendment to the Federal Funding Accountability and Transparency Act of 2006 (Public Law No. 109-282), and required the establishment of government-wide data standards for spending information that agencies report to Treasury, OMB, and the General Services Administration. Agencies began reporting standardized spending information as required, on May 9, 2017.

Additionally, the DATA Act requires Treasury and OMB to publish standardized spending information for free access and download on the government's USASpending.gov website by May 9, 2018.

The Commission utilizes the infrastructure and financial system maintained by its Federal Shared Service Provider, the Administrative Resource Center (ARC), Bureau of the Fiscal Service (BFS). The Commission worked with ARC to ensure that it was on target with the DATA Act's requirements.

The Commission established a working group, prepared a DATA Act Implementation Plan, and actively monitored ARC's implementation progress prior to the implementation date. The agency's Inspector General completed a DATA Act Readiness Review in August 2016, and provided helpful insights which the Commission incorporated into its Plan.

In accordance with OMB Memorandum M-15-12, agencies were required to submit their DATA Act certifications for the second quarter of FY 2017 by April 27, 2017. Working with our financial services provider, the FMC complied with this requirement and submitted its DATA Act certification to OMB on time. Four records were found to be unreported to USASpending and two of these records were found not to have had Procurement Instrument Identifier (PIID) data transmitted to the accounting system. FMC personnel will work with BFS to address the anomalies.

PROMPT PAYMENT ACT OF 1982

The Prompt Payment Act requires agencies to make timely payments to vendors for supplies and services, to pay interest penalties when payments are made after the due date, and to take cash discounts when they are economically justified. In FY 2017, the FMC maintained a percentage of on-time payments exceeding 99 percent.

In FY 2017, the FMC paid $10.00 in interest payments as a result of three late payments. The FMC will continue to work towards maintaining 100 percent on-time vendor payments in future years.

PERFORMANCE MEASURE SUMMARY

The FMC does not have an in-house financial accounting system, and does not receive a Performance Measure Summary from the Department of the Treasury. The agency acquires travel, procurement, accounting, and financial services from Treasury's Bureau of the Fiscal Service. The Commission verifies and reconciles all financial statements and reports prior to submission.

INSPECTOR GENERAL ACT OF 1978, AS AMENDED IN 1988, AND THE INSPECTOR GENERAL REFORM ACT OF 2008

Section 5(b) of the Inspector General Act of 1978 requires agencies to report on final actions taken on OIG audit recommendations. The Inspector General issued the following two reports in FY 2017:

- Independent Auditors' Report of FMC's FY 2016 Financial Statements; and
- Evaluation of FMC's Compliance with the Federal Information Security Management Act FY 2016.

There were no recommendations made in the audit of the FMC's financial statements for FY 2016, and no management letter was issued. Three recommendations were made in the FY 2016 FISMA evaluation, and all were remediated during FY 2017. Action was taken to close all audit recommendations during the year. No significant deficiencies or material weaknesses were identified during FY 2017.

TREASURY ASSURANCE STATEMENT – USA SPENDING RECONCILIATION

The FMC has implemented its plan to ensure data completeness and accuracy on USAspending.gov by using control totals with financial statement data, and comparing samples of financial data to actual award documents. The prime Federal award financial data reported on USAspending.gov is correct at the reported percentage of accuracy, and the FMC has adequate internal controls over the underlying spending.

ACTING CHAIRMAN'S STATEMENT OF ASSURANCE

The Federal Maritime Commission is responsible for managing risks and maintaining effective internal control to meet the objectives of Sections 2 and 4 of the Federal Managers' Financial Integrity Act of 1982 (FMFIA). The FMC conducted its assessment of risk and internal control in accordance with the Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control* (revised July 15, 2016). Based on the results of this assessment, the FMC can provide reasonable assurance that internal controls over operations, reporting, and compliance were operating effectively as of September 30, 2017.

These objectives ensure effectiveness and efficiency of operations, reliability of reporting for internal and external use, and compliance with applicable laws and regulations. Additionally, the FMC conducted its assessment of the effectiveness of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of OMB Circular A-123. Based on the results of this evaluation, the FMC can provide reasonable assurance that its internal control over financial reporting as of September 30, 2017, was operating effectively and no material weaknesses were found in the design or operation of internal control over financial reporting.

/s/

Michael A. Khouri
Acting Chairman
November 15, 2017

PROGRAM PERFORMANCE INFORMATION

Fiscal Year 2017

ANNUAL PERFORMANCE REPORT

INTRODUCTION

The FMC's performance management system includes specific strategic goals, performance measures, and targets. The strategic goals represent the FMC's mission and reflect the overall outcomes and objectives the agency is working to achieve. This report describes progress towards performance targets in 2017 in furtherance of the Commission's mission to ensure a competitive and reliable international ocean transportation supply system that supports the U.S. economy and protects the public from unfair and deceptive practices. In this final year under the Commission's 2014-2018 Strategic Plan, the FMC's strategic goals and objectives for FY 2017 are as follows:

- **Maintain an Efficient and Competitive International Ocean Transportation System.**
    - Enhance efficiency in the trades through the use of asset sharing authority under the Shipping Act.
- **Protect the Public from Unlawful, Unfair and Deceptive Ocean Transportation Practices and Resolve Shipping Disputes.**
    - Identify and take action to end unlawful, unfair, and deceptive practices.
    - Prevent public harm through licensing and financial responsibility requirements.
    - Enhance public awareness of agency resources, remedies, and regulatory requirements through education and outreach.
    - Impartially resolve international shipping disputes through alternative dispute resolution and adjudication.

The FMC quantitatively measured seven performance goals during the fiscal year. All measures exceeded FY 2017 targets. Each measure, target, and actual result is reported in the summary table below (Table 1) and includes a description of the data used to measure performance along with an explanation of the procedures in place to validate and ensure integrity of the reported result.

Trend data for measures in place is shown in Table 2 on page 23 of this report. This data reflects continuous increases in agency efficiency and productivity – a result of both improved and streamlined processes, and enhanced focus on improving the critical processes and activities being measured.

The FMC's current Strategic Plan was further revised in 2013 and 2017 to replace a number of performance measures with new measures and targets to better reflect the work of the Commission.

Table 1: Summary of Performance Measure Results – FY 2017

Targeted performance compared to actual results.

Strategic Goal No. 1: Maintain an efficient and competitive international ocean transportation system.		
Performance Measure	**FY 2017 Target**	**FY 2017 Actual**
Measure: Percentage share of U.S. containerized cargo moving on other agreement parties' vessels in major U.S. trades. **2017 Target:** 41% **Validation:** Several different commercial sources are used that collectively provide the number of loaded containers (TEUs) carried by vessels operating in selected major U.S. trade lanes while separately enumerating the number of TEUs carried by each vessel for the ship operator's own account and the number of TEUs carried by the vessel on behalf of other vessel operating common carriers (i.e., on behalf of third-parties). Vessels' data are aggregated, and total number of TEUs carried on behalf of third-parties is divided by total number of TEUs carried in the trades selected. Measure is applied to the transpacific and transatlantic liner trades, which together account for approximately 80% of all U.S. container cargo.	41%	51%
Strategic Goal No. 2: Protect the public from unlawful, unfair and deceptive ocean transportation practices and resolve shipping disputes.		
Performance Measure	**FY 2017 Target**	**FY 2017 Actual**
Measure: Percentage of enforcement actions taken under the Shipping Act of 1984 successfully resolved through favorable judgment, settlement, issuance of default judgment, or compliance letter or notice. **2017 Target:** 77.5% **Validation:** Measured by examining enforcement case inventory and physically counting the number of cases resolved. The inventory is maintained for case load management, and monthly and quarterly reporting purposes. The data is constantly under review and frequently updated.	77.5%	82.8%
Measure: Percentage of decisions on completed OTI license applications rendered within 60 calendar days of receipt, facilitating lawful operation of OTIs with the appropriate character and experience requirements. **2017 Target:** 75% **Validation:** Data fields are compared in an internal database that contains, among other data points, the date the OTI license application is accepted for processing and the date a licensing determination is made or the application process has been completed. The difference between these two dates is the length of time to render a decision on an OTI application accepted for processing. The database is maintained for daily case load management, and monthly and quarterly reporting purposes. The data is constantly under review and frequently updated.	75%	95%
Measure: Percentage of cruise line operators examined during the year that have the full financial coverage required by regulation to protect against loss from non-performance or casualty. **2017 Target:** 95% **Validation:** Measured by comparing reported financial coverage amounts against required coverage amounts. Approximately 200 cruise vessels are registered in and monitored by the Commission's Passenger Vessel (Cruise) Operator program. Operators covered by this program file semi-annual, monthly, and weekly unearned passenger revenue reports. This information is used to compare reported coverage against required coverage amounts.	95%	100%
Measure: Percentage of key Commission issuances, orders and reports that are available through the Commission's website within 5 working days of receipt. **2017 Target:** 82% **Validation:** Measured by reviewing the workflow processes for posting documents to the Commission's website docket activity logs. The date that each docket activity log is updated with new filings or issuances is compared to the date the document is filed with or issued by the Commission in a particular proceeding. The case logs are used daily by agency staff and by the public, and as such, any discrepancies are discovered and remedied quickly.	82%	95%
Measure: Percentage of *ombuds* matters and ADR services provided by the Office of Consumer Affairs and Dispute Resolution Services (CADRS) closed within six months of request for assistance. **2017 Target:** 60% **Validation:** Measured using data maintained by the Commission on each *ombuds* and ADR matter opened. Cases are opened upon the request of the public for assistance and are subject to the normal fluctuations in businesses and consumers seeking help from the Commission. Cases are closed upon resolution, voluntary termination by the parties, or the CADRS mediator determines that particular issues prevent the possibility for successful negotiation.	60%	99%
Measure: Percentage of formal complaints or Commission initiated orders of investigation completed within two years of filing or Commission initiation. **2017 Target:** 62% **Validation:** Measured using docket activity logs maintained by the Commission. The docket logs are used daily by agency staff and the public, and as such, any discrepancies are discovered and remedied quickly.	62%	79%

Table 2: Performance Measure Trends, FY 2013-2017

Strategic Goal No. 1: Maintain an efficient and competitive international ocean transportation system.					
Performance Measure	**FY 2013**	**FY 2014**	**FY 2015**	**FY2016**	**FY 2017**
Measure: Percentage share of total U.S. international oceanborne trade moved by containership as an indicator of liner shipping efficiency.[1]					
TARGET	19.5%	N/A	N/A	N/A	N/A
ACTUAL	19.5%	N/A	N/A	N/A	N/A
MET/UNMET	MET	N/A	N/A	N/A	N/A
Measure: Percentage share of U.S. containerized cargo moving on other agreement parties' vessels in major U.S. trades.					
TARGET	N/A	39.5%	40%	40.5%	41%
ACTUAL	N/A	45.6%	49%	51%	51%
MET/UNMET	N/A	MET	MET	MET	MET
Strategic Goal No. 2: Protect the public from unlawful, unfair and deceptive ocean transportation practices and resolve shipping disputes.					
Measure: Percentage of enforcement actions taken under the Shipping Act of 1984 successfully resolved through favorable judgment, settlement, issuance of default judgment, or compliance letter or notice.					
TARGET	76%	76.5%	77%	77.5%	77.5%
ACTUAL	78.9%	83.8%	83.4%	88.6%	82.8%
MET/UNMET	MET	MET	MET	MET	MET
Measure: Percentage of decisions on completed OTI license applications rendered within 60 calendar days of receipt, facilitating lawful operation of OTIs with the appropriate character and experience requirements.					
TARGET	75%	75%	75%	75%	75%
ACTUAL	87.6%	71.3%	72%	79.7%[2]	95%
MET/UNMET	MET	UNMET	UNMET	MET	MET
Measure: Percentage of cruise line operators examined during the year that have the full financial coverage required by regulation to protect against loss from non-performance or casualty.					
TARGET	93%	94%	95%	95%	95%
ACTUAL	100%	96.7%	96%	96%	100%
MET/UNMET	MET	MET	MET	MET	MET
Measure: Percentage of key Commission issuances, orders and reports that are available through the Commission's website within 5 working days of receipt.					
TARGET	76%	76%	78%	80%	82%
ACTUAL	86%	93%	92%	90%	95%
MET/UNMET	MET	MET	MET	MET	MET
Measure: Number of cases opened and closed each fiscal year using *ombuds* and ADR services assisting consumers to recover goods or funds.[3]					
TARGET	800	825	825	825	N/A
ACTUAL	800	994	882	778	N/A
MET/UNMET	MET	MET	MET	UNMET	N/A
Measure: Percentage of *ombuds* matters and ADR services provided by CADRS closed within six months of request for assistance.					
TARGET	N/A	N/A	N/A	N/A	60%
ACTUAL	N/A	N/A	N/A	N/A	99%
MET/UNMET	N/A	N/A	N/A	N/A	MET
Measure: Percentage of formal complaints or Commission initiated orders of investigation completed within two years of filing or Commission initiation.					
TARGET	56%	58%	58%	60%	62%
ACTUAL	91%	88%	90%	86%	79%
MET/UNMET	MET	MET	MET	MET	MET

[1] This measure was replaced in FY 2014 to more accurately reflect the work of the Commission in this area.

[2] The final target result for 2016 was previously noted as 98%, the actual reflection of this measure is 79.7% for 2016.

[3] This measure was replaced in FY 2017 to more accurately to reflect the FMC's performance in this area.

FINANCIAL INFORMATION

Fiscal Year 2017

MESSAGE FROM THE CHIEF FINANCIAL OFFICER / MANAGING DIRECTOR

I am pleased to present the Financial section of this Performance and Accountability Report for Fiscal Year 2017, which demonstrates that the Federal Maritime Commission has continued its record of strong fiscal stewardship on behalf of the American people. The following financial statements and related notes, prepared in conformity with accounting principles generally accepted in the United States, and requirements set forth in Office of Management and Budget (OMB) Circular No, A-136, *Financial Reporting Requirements,* revised August 15, 2017, fairly present the Commission's financial position.

The FMC has again received an unmodified ("clean") opinion on its FY 2017 financial statements. This 14th consecutive unmodified opinion from our independent auditor emphasizes the continuing commitment of this agency to maintain high standards for financial management of the resources entrusted to it. The FMC's financial condition is sound, sufficient internal controls are in place to ensure that its budget authority is not exceeded, and funds are used efficiently and effectively.

The following key accomplishments demonstrate the effectiveness and efficiency of the FMC's acquisition and financial functions during Fiscal Year 2017:

- A continuous record of no material weaknesses, significant control deficiencies, or noncomformance with the Federal Managers' Financial Integrity Act and other applicable laws and regulations;
- Collecting, in civil enforcement proceedings and user fees, more than $2,115,000 on behalf of the American public;
- Continued focus on internal controls, as mandated by OMB Circular A-123, providing budget information in concise, reliable, and understandable formats; and
- Accurate and timely issuance of financial statements as required by the Accountability of Tax Dollars Act of 2002, which are prepared from, and fully supported by, the books and records of the FMC in accordance with Generally Accepted Accounting Principles (GAAP), standards approved by the Federal Accounting Standards Advisory Board (FASAB), and OMB Circular A-136.

This report highlights the Commission's commitment to fulfill its fiduciary responsibilities. We are committed to exemplary financial management and constantly strive to enhance operational efficiency. I wish to recognize the conscientious efforts made by the FMC staff and our financial service provider for their dedication and the role they play in effectively overseeing the FMC's limited resources, and continuing to protect the interest of the American shipping public. I am confident that the FMC will continue its high level of quality financial management in the coming fiscal years.

/s/

Karen V. Gregory
Chief Financial Officer/Managing Director
November 15, 2017

PRINCIPAL FINANCIAL STATEMENTS

The principal financial statements presented include:

- Balance Sheet – Presents the combined amounts the agency had to use or distribute (assets) versus the amounts the agency owed (liabilities), and the difference between the two (net position);
- Statement of Net Cost – Presents the annual cost of agency operations. The gross cost less any offsetting revenue is used to determine the net cost;
- Statement of Changes in Net Position – Reports the accounting activities that caused the change in net position during the reporting period;
- Statement of Budgetary Resources – Reports how budgetary resources were made available and the status of those resources at fiscal year-end; and
- Statement of Custodial Activity – Reports collections and their disposition by the agency on behalf of the Treasury General Fund. The FMC acts as custodian and does not have use of these funds.

LIMITATIONS OF THE FINANCIAL STATEMENTS

The principal financial statements have been prepared to report the financial position and results of operations of the FMC, pursuant to the requirements of 31 U.S.C. § 3515(b). While the statements have been prepared from the books and records of the agency in accordance with GAAP for Federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. Therefore, liabilities not covered by budgetary resources cannot be liquidated without the enactment of an appropriation, and the payment of all liabilities other than for contracts can be abrogated by the sovereign entity. Other limitations are included in the footnotes to the principal statements. The accompanying notes are an integral part of these statements.

The Federal Maritime Commission's financial statements were audited by Dembo Jones, P.C., under contract to the FMC's Office of the Inspector General.

REPORT ON THE

FINANCIAL STATEMENTS AUDIT

OF THE

FEDERAL MARITIME COMMISSION

FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2017 and 2016

FEDERAL MARITIME COMMISSION
Washington, DC 20573

November 7, 2017

Office of Inspector General

Dear Acting Chairman Khouri and Commissioners Dye, Doyle, and Maffei:

I am pleased to provide the attached audit report required by the Accountability for Tax Dollars Act of 2002 (ATDA), which presents an unmodified (clean) opinion on the Federal Maritime Commission's (FMC) fiscal year (FY) 2017 and 2016 financial statements. The audit results indicate that the FMC has established an internal control structure that facilitates the preparation of reliable financial and performance information. The Office of Inspector General (OIG) commends the FMC for the noteworthy accomplishment of attaining an unmodified opinion.

The OIG contracted with the independent certified public accounting firm of Dembo Jones, P.C. to: perform the audit of the FMC's financial statements for the fiscal years ending September 30, 2017 and 2016; consider internal control over financial reporting; and test the agency's compliance with certain provisions of applicable laws, regulations, and contracts that could have a direct and material effect on the financial statements. The contract required that the audit be performed in accordance with U.S. Generally Accepted Government Auditing Standards and Office of Management and Budget (OMB) audit guidance.

In its audit of the FMC, Dembo Jones found: the financial statements were fairly presented, in all material respects, in conformity with U.S. Generally Accepted Accounting Principles; there were no material weaknesses or significant deficiencies in internal control over financial reporting; and no reportable noncompliance issues with the laws and regulations tested.

In connection with the OIG's contract, the OIG reviewed Dembo Jones' report and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with U.S. Generally Accepted Government Auditing Standards, was not intended to enable the OIG to express, and we do not express, opinions on FMC's financial statements or internal control; or conclusions on compliance with laws and regulations. Dembo Jones is responsible for the attached auditors' report dated November 15, 2017 and the conclusions expressed in the report. However, our review disclosed no instances where Dembo Jones did not comply, in all material respects, with Generally Accepted Government Auditing Standards.

The OIG would like to thank FMC staff; especially the Office of Budget and Finance, for their assistance in helping Dembo Jones and the OIG meet the audit objectives.

Respectfully submitted,

/s/
Jon Hatfield
Inspector General

Attachment

cc: Office of the Managing Director
Office of the General Counsel
Office of Budget and Finance

INDEPENDENT AUDITORS' REPORT

DEMBO·JONES
CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

Report of Independent Auditors

To Acting Chairman Khouri
Federal Maritime Commission

Report on the Financial Statements

We have audited the accompanying financial statements of the Federal Maritime Commission (FMC), which comprise the balance sheet as of September 30, 2017 and 2016, and the related statements of net cost, changes in net position, budgetary resources, and custodial activity for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in the U.S. Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 17-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 17-03 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the agency's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the agency's internal control. Accordingly, we do not express such an opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion on Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Federal Maritime Commission as of September 30, 2017 and 2016 and its net costs; changes in net position; budgetary resources; and custodial activity for the years then ended in accordance with U.S. generally accepted accounting principles.

Consideration of Internal Control

In planning and performing our audit, we considered the Federal Maritime Commission's internal control over financial reporting as a basis for designing our auditing procedures and to comply with the Office of Management and Budget (OMB) audit guidance for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on internal control and compliance or on management's assertion on internal control included in MD&A. Accordingly, we do not express an opinion on internal control over financial reporting and compliance or on management's assertion on the effectiveness of the entity's internal control over financial reporting or on management's assertion on internal control included in the MD&A.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses or significant deficiencies, as defined below.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit the attention of those charged with governance.

Compliance With Laws and Regulations

As part of obtaining reasonable assurance about whether the Federal Maritime Commission financial statements are free from material misstatement, we also performed tests of its compliance with certain provisions of laws and regulations for fiscal year 2017. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of compliance disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Consistency of Other Information

The information in the Management's Discussion and Analysis is not a required part of the financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

The information in the Acting Chairman’s Message, Performance Section, and Other Accompanying Information is presented for purposes of additional analysis and is not required as part of the financial statements. This information has not been subjected to auditing procedures and, accordingly, we express no opinion on it.

Dembo Jones, P.C.

Rockville, Maryland
November 15, 2017

APPENDIX A

FEDERAL MARITIME COMMISSION COMMENTS ON AUDIT REPORT

Federal Maritime Commission
Washington, DC 20573

Office of the
Managing Director

November 15, 2017

Donald K. Marshall, CPA
Dembo Jones, P.C.
6010 Executive Boulevard, Suite 900
Rockville, MD 20852

Dear Mr. Marshall:

I have reviewed the financial statements audit report for the Federal Maritime Commission for fiscal year 2017. I concur with the audit report's findings that the financial statements fairly present the Commission's financial position during the fiscal year ending September 30, 2017, and that the financial statements are in conformity with U.S. Generally Accepted Accounting Principles; that the FMC has maintained, in all material respects, effective internal control over financial reporting; and that there were no instances of reportable noncompliance with laws and regulations tested by the auditors.

The Commission appreciates Dembo Jones' work over the past fiscal year.

Sincerely,

/s/
Karen V. Gregory
Chief Financial Officer / Managing Director

APPENDIX B

FEDERAL MARITIME COMMISSION

FINANCIAL STATEMENTS

FOR THE YEARS ENDED

SEPTEMBER 30, 2016 and 2017

The accompanying notes are an integral part of these financial statements.

FEDERAL MARITIME COMMISSION
BALANCE SHEET
AS OF SEPTEMBER 30, 2017 AND 2016
(In Dollars)

		2017		2016
Assets:				
Intragovernmental				
Fund Balance With Treasury (Note 2)	$	5,614,138	$	3,716,353
Accounts Receivable (Note 3)		-		1,955
Total Intragovernmental		5,614,138		3,718,308
Accounts Receivable, Net (Note 3)		2,856		1,765
Property, Equipment, and Software, Net (Note 4)		399,648		462,906
Total Assets	$	6,016,642	$	4,182,979
Liabilities:				
Intragovernmental				
Accounts Payable	$	2,100	$	434,801
Other (Note 6)		168,533		148,036
Total Intragovernmental		170,633		582,837
Accounts Payable		151,872		911,684
Federal Employee and Veterans' Benefits (Note 5)		3,307		1,301
Other (Note 6)		2,085,237		1,881,695
Total Liabilities	$	2,411,049	$	3,377,517
Net Position:				
Unexpended Appropriations - Other Funds	$	4,483,892	$	1,520,851
Cumulative Results of Operations - Other Funds		(878,299)		(715,389)
Total Net Position	$	3,605,593	$	805,462
Total Liabilities and Net Position	$	6,016,642	$	4,182,979

FEDERAL MARITIME COMMISSION
STATEMENT OF NET COST
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016
(In Dollars)

		2017		2016
Program Costs:				
Operational and Administrative				
Gross Costs	$	16,890,163	$	19,698,881
Less: Earned Revenue		-		(45,020)
Net Program Costs	$	16,890,163	$	19,653,861
Formal Proceedings				
Gross Costs	$	8,017,250	$	8,118,034
Less: Earned Revenue		(13,947)		(37,154)
Net Program Costs	$	8,003,303	$	8,080,880
Office of Inspector General				
Gross Costs	$	284,734	$	389,899
Net Program Costs	$	284,734	$	389,899
Office of Equal Employment Opportunity				
Gross Costs	$	141,325	$	162,482
Net Program Costs	$	141,325	$	162,482
Net Cost of Operations (Note 9)	$	25,319,525	$	28,287,122

FEDERAL MARITIME COMMISSION
STATEMENT OF CHANGES IN NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016
(In Dollars)

	2017	2016
Cumulative Results of Operations:		
Beginning Balances	$ (715,389)	$ (785,463)
Budgetary Financing Sources:		
Appropriations Used	24,229,686	27,226,099
Other Financing Sources (Non-Exchange):		
Imputed Financing Sources (Note 10)	926,929	1,131,097
Total Financing Sources	25,156,615	28,357,196
Net Cost of Operations	(25,319,525)	(28,287,122)
Net Change	(162,910)	70,074
Cumulative Results of Operations	$ (878,299)	$ (715,389)
Unexpended Appropriations:		
Beginning Balances	$ 1,520,851	$ 3,167,730
Budgetary Financing Sources:		
Appropriations Received	27,490,000	25,660,000
Other Adjustments	(297,273)	(80,780)
Appropriations Used	(24,229,686)	(27,226,099)
Total Budgetary Financing Sources	2,963,041	(1,646,879)
Total Unexpended Appropriations	$ 4,483,892	$ 1,520,851
Net Position	$ 3,605,593	$ 805,462

FEDERAL MARITIME COMMISSION
STATEMENT OF BUDGETARY RESOURCES
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016
(In Dollars)

		2017		2016
Budgetary Resources:				
Unobligated Balance Brought Forward, October 1	$	395,839	$	302,459
Recoveries of Prior Year Unpaid Obligations		125,033		100,146
Other changes in unobligated balance		(277,706)		(50,080)
Unobligated balance from prior year budget authority, net		243,166		352,525
Appropriations		27,490,000		25,660,000
Spending authority from offsetting collections		13,947		82,173
Total Budgetary Resources	$	27,747,113	$	26,094,698
Status of Budgetary Resources:				
New obligations and upward adjustments (total) (Note 12)	$	27,331,928	$	25,698,859
Unobligated balance, end of year:				
Apportioned, unexpired account (Note 2)		264,347		85,725
Expired unobligated balance, end of year (Note 2)		150,838		310,114
Unobligated balance, end of year (total)		415,185		395,839
Total Budgetary Resources	$	27,747,113	$	26,094,698
Change in Obligated Balance				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, October 1	$	3,322,469	$	4,109,740
New obligations and upward adjustments (Note 12)		27,331,928		25,698,859
Outlays (gross)		(25,330,411)		(26,385,984)
Recoveries of Prior Year Unpaid Obligations		(125,033)		(100,146)
Unpaid Obligations, End of Year (Gross)		5,198,953		3,322,469
Uncollected payments:				
Uncollected Customer Payments, Federal Sources, Brought Forward, October 1		(1,955)		(14,540)
Change in Uncollected Payments, Federal Sources		1,955		12,585
Uncollected Customer Payments, Federal Sources, End of Year		-		(1,955)
Memorandum entries:				
Obligated Balance, Start of Year	$	3,320,514	$	4,109,740
Obligated Balance, End of Year	$	5,198,953	$	3,320,514
Budget Authority and Outlays, Net:				
Budget authority, gross	$	27,503,947	$	25,742,173
Actual offsetting collections		(35,470)		(125,458)
Change in Uncollected Payments, Federal Sources		1,955		12,585
Recoveries of prior year paid obligations		19,568		30,700
Budget Authority, net, (total)	$	27,490,000	$	25,660,000
Outlays, gross	$	25,330,411	$	26,385,984
Actual offsetting collections		(35,470)		(125,458)
Outlays, net, (total)		25,294,941		26,260,526
Distributed Offsetting Receipts		(234,968)		(225,359)
Agency outlays, net	$	25,059,973	$	26,035,167

FEDERAL MARITIME COMMISSION
STATEMENT OF CUSTODIAL ACTIVITY
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016
(In Dollars)

	2017	2016
Revenue Activity:		
Sources of Cash Collections:		
Miscellaneous	$ 2,115,237	$ 3,703,552
Total Cash Collections (Note 14)	2,115,237	3,703,552
Accrual Adjustments	2,161	(2,163)
Total Custodial Revenue	2,117,398	3,701,389
Disposition of Collections:		
Transferred to Others (by Recipient)	2,115,237	3,703,552
Increase/(Decrease) in Amounts Yet to be Transferred	2,161	(2,163)
Total Disposition of Collections	2,117,398	3,701,389
Net Custodial Activity	$ -	$ -

FEDERAL MARITIME COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Federal Maritime Commission (FMC or Commission) was established as an independent regulatory agency on August 12, 1961. The FMC is responsible for the regulation of oceanborne transportation in the foreign commerce of the United States. The principal statutes or statutory provisions administered by the Commission are the Shipping Act of 1984, as amended by the Ocean Shipping Reform Act of 1998, the Foreign Shipping Practices Act of 1988 (FSPA), section 19 of the Merchant Marine Act of 1920, and sections 2 and 3 of Public Law No. 89-777.

The Commission monitors the activities of ocean common carriers, marine terminal operators (MTOs), agreements among ocean common carriers and/or MTOs, ports and ocean transportation intermediaries (non-vessel-operating common carriers and ocean freight forwarders) operating in the U.S. foreign commerce to ensure they maintain just and reasonable practices; maintains trade monitoring, enforcement and dispute resolution programs designed to assist regulated entities in achieving compliance and to detect and remedy malpractices and violations of the 1984 Act; monitors the laws and practices of foreign governments which could have a discriminatory or otherwise adverse impact on shipping conditions in U.S. trades, and imposes remedial action, as appropriate, pursuant to section 19 of the 1920 Act or FSPA; enforces special regulatory requirements applicable to carriers owned or controlled by foreign governments; processes and reviews agreements, service contracts, and service arrangements pursuant to the 1984 Act for compliance with statutory requirements; and reviews common carriers' privately published tariff systems for accessibility and accuracy, as required by OSRA.

The FMC also issues licenses to qualified ocean transportation intermediaries (OTIs) in the U.S., ensures that all OTIs are bonded or maintain other evidence of financial responsibility, and ensures that passenger vessel operators (PVOs) demonstrate adequate financial responsibility in case of nonperformance of voyages or death or injury occurring to passengers.

The FMC is composed of five Commissioners appointed for five-year terms by the President with the advice and consent of the Senate. The President designates one of the Commissioners to serve as Chairman, who is the chief executive and administrative officer of the FMC.

The FMC reporting entity is comprised of General Funds and General Miscellaneous Receipts. General Funds are accounts used to record financial transactions arising under congressional appropriations or other authorizations to spend general revenues. General Fund Miscellaneous Receipts are accounts established for receipts of non-recurring activity, such as fines, penalties, fees and other miscellaneous receipts for services and benefits.

The FMC makes custodial collections and holds custodial receivables that are non-entity assets and are transferred to Treasury at fiscal year-end. The FMC has rights and ownership of all assets reported in these financial statements. FMC does not possess any non-entity assets.

B. Basis of Presentation

The financial statements have been prepared to report the financial position and results of operations of FMC. The Balance Sheet presents the financial position of the Commission. The Statement of Net Cost presents the Commission's operating results; the Statement of Changes in Net Position displays the changes in the Commission's equity accounts. The Statement of Budgetary Resources presents the sources, status, and uses of the Commission's resources and follows the rules for the Budget of the United States Government.

The statements are a requirement of the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. They have been prepared from, and are fully supported by, the books and records of FMC in accordance with the hierarchy of accounting principles generally accepted in the United States of America, standards issued by the Federal Accounting Standards Advisory Board (FASAB), Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*, as amended, and FMC accounting policies which are summarized in this note. These statements, with the exception of the Statement of Budgetary Resources, are different from financial management reports, which are also prepared pursuant to OMB directives that are used to monitor and control FMC's use of budgetary resources. The financial statements and associated notes are presented on a comparative basis. Unless specified otherwise, all amounts are presented in dollars.

C. Basis of Accounting

Transactions are recorded on both an accrual accounting basis and a budgetary basis. Under the accrual method, revenues are recognized when earned, and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal requirements on the use of federal funds.

D. Fund Balance with Treasury

Fund Balance with Treasury is the aggregate amount of the FMC's funds with Treasury in expenditure and receipt accounts. Appropriated funds recorded in expenditure accounts are available to pay current liabilities and finance authorized purchases.

E. Accounts Receivable

Accounts receivable consists of amounts owed to FMC by other Federal agencies and the general public. Amounts due from Federal agencies are considered fully collectible. An allowance for uncollectible accounts receivable from the public is established when, based upon a review of outstanding accounts and the failure of all collection efforts, management determines that collection is unlikely to occur considering the debtor's ability to pay.

F. Property, Equipment, and Software

Property, equipment and software represent furniture, fixtures, equipment, and information technology hardware and software which are recorded at original acquisition cost and are depreciated or amortized using the straight-line method over their estimated useful lives. Major alterations and renovations are capitalized, while maintenance and repair costs are expensed as incurred. FMC's capitalization threshold is \$25,000 for individual purchases. Property, equipment, and software acquisitions that do not meet the capitalization criteria are expensed upon receipt. Applicable standard governmental guidelines regulate the disposal and convertibility of agency property, equipment, and software. The useful life classifications for capitalized assets are as follows:

Description	Useful Life (years)
Leasehold Improvements	5
Office Furniture	5
Computer Equipment	5
Office Equipment	5
Software	5

G. Advances and Prepaid Charges

Advance payments are generally prohibited by law. There are some exceptions, such as reimbursable agreements, subscriptions and payments to contractors and employees. Payments made in advance of the receipt of goods and services are recorded as advances or prepaid charges at the time of prepayment and recognized as expenses when the related goods and services are received.

H. Liabilities

Liabilities represent the amount of funds likely to be paid by the FMC as a result of transactions or events that have already occurred.

The FMC reports its liabilities under two categories, Intragovernmental and With the Public. Intragovernmental liabilities represent funds owed to another government agency. Liabilities with the Public represent funds owed to any entity or person that is not a federal agency, including private sector firms and federal employees. Each of these categories may include liabilities that are covered by budgetary resources and liabilities not covered by budgetary resources.

Liabilities covered by budgetary resources are liabilities funded by a current appropriation or other funding source. These consist of accounts payable and accrued payroll and benefits. Accounts payable represent amounts owed to another entity for goods ordered and received and for services rendered except for employees. Accrued payroll and benefits represent payroll costs earned by employees during the fiscal year which are not paid until the next fiscal year.

Liabilities not covered by budgetary resources are liabilities that are not funded by any current appropriation or other funding source. These liabilities consist of accrued annual leave, actuarial Federal Employees' Compensation Act (FECA), and the amounts due to Treasury for collection and accounts receivable of civil penalties.

I. Annual, Sick, and Other Leave

Annual leave is accrued as it is earned, and the accrual is reduced as leave is taken. The balance in the accrued leave account is adjusted to reflect current pay rates. Liabilities associated with other types of vested leave, including compensatory, restored leave, and sick leave in certain circumstances, are accrued at year-end, based on latest pay rates and unused hours of leave. Funding will be obtained from future financing sources to the extent that current or prior year appropriations are not available to fund annual and other types of vested leave earned but not taken. Non-vested leave is expensed when used. Any liability for sick leave that is accrued but not taken by a Civil Service Retirement System (CSRS)-covered employee is transferred to the Office of Personnel Management (OPM) upon the retirement of that individual. Credit is given for sick leave balances in the computation of annuities upon the retirement of Federal Employees Retirement System (FERS)-covered employees.

J. Accrued and Actuarial Workers' Compensation

The FECA administered by the U.S. Department of Labor (DOL) addresses all claims brought by the FMC employees for on-the-job injuries. The DOL bills each agency annually as its claims are paid, but payment of these bills is deferred for two years to allow for funding through the budget process. Similarly, employees that the FMC terminates without cause may receive unemployment compensation benefits under the unemployment insurance program also administered by the DOL, which bills each agency quarterly for paid claims. Future appropriations will be used for the reimbursement to DOL. The liability consists of (1) the net present value of estimated future payments calculated by the DOL, and (2) the unreimbursed cost paid by DOL for compensation to recipients under the FECA.

K. Retirement Plans

FMC employees participate in either the CSRS or the FERS. The employees who participate in CSRS are beneficiaries of FMC matching contribution, equal to 7% of pay, distributed to their annuity account in the Civil Service Retirement and Disability Fund.

Prior to December 31, 1983, all employees were covered under the CSRS program. From January 1, 1984 through December 31, 1986, employees had the option of remaining under CSRS or joining FERS and Social Security. Employees hired as of January 1, 1987 are automatically covered by the FERS program. Both CSRS and FERS employees may participate in the federal

Thrift Savings Plan (TSP). FERS employees receive an automatic agency contribution equal to 1% of pay and FMC matches any employee contribution up to an additional 4% of pay. For FERS participants, FMC also contributes the employer's matching share of Social Security.

FERS employees and certain CSRS reinstatement employees are eligible to participate in the Social Security program after retirement. In these instances, FMC remits the employer's share of the required contribution.

The FMC recognizes the imputed cost of pension and other retirement benefits during the employees' active years of service. OPM actuaries determine pension cost factors by calculating the value of pension benefits expected to be paid in the future and communicate these factors to FMC for current period expense reporting. OPM also provides information regarding the full cost of health and life insurance benefits. FMC recognized the offsetting revenue as imputed financing sources to the extent these expenses will be paid by OPM.

FMC does not report on its financial statements information pertaining to the retirement plans covering its employees. Reporting amounts such as plan assets, accumulated plan benefits, and related unfunded liabilities, if any, is the responsibility of the OPM, as the administrator.

L. Other Post-Employment Benefits

FMC employees eligible to participate in the Federal Employees' Health Benefits Plan (FEHBP) and the Federal Employees' Group Life Insurance Program (FEGLIP) may continue to participate in these programs after their retirement. The OPM has provided the FMC with certain cost factors that estimate the true cost of providing the post-retirement benefit to current employees. The FMC recognizes a current cost for these and Other Retirement Benefits (ORB) at the time the employee's services are rendered. The ORB expense is financed by OPM, and offset by the FMC through the recognition of an imputed financing source.

M. Use of Estimates

The preparation of the accompanying financial statements in accordance with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses. Actual results could differ from those estimates.

N. Imputed Costs/Financing Sources

Federal Government entities often receive goods and services from other Federal Government entities without reimbursing the providing entity for all the related costs. In addition, Federal Government entities also incur costs that are paid in total or in part by other entities. An imputed financing source is recognized by the receiving entity for costs that are paid by other entities. FMC recognized imputed costs and financing sources in fiscal years 2017 and 2016 to the extent directed by accounting standards.

O. Contingencies

Liabilities are deemed contingent when the existence or amount of the liability cannot be determined with certainty pending the outcome of future events. FMC recognizes contingent liabilities in the accompanying balance sheet and statement of net cost, when it is both probable and can be reasonably estimated.

The FMC discloses contingent liabilities in the notes to the financial statements when the conditions for liability recognition are not met or when a loss from the outcome of future events is more than remote. In some cases, once losses are certain, payments may be made from the Judgment Fund maintained by the U.S. Treasury rather than from the amounts appropriated to FMC for agency operations. Payments from the Judgment Fund are recorded as an "Other Financing Source" when made.

P. Reclassification

Certain fiscal year 2016 balances have been reclassified, re-titled, or combined with other financial statement line items for consistency with the current year presentation.

NOTE 2. FUND BALANCE WITH TREASURY

Fund balance with Treasury account balances as of September 30, 2017, and 2016 were as follows:

		2017		2016
Fund Balances:				
Appropriated Funds	$	5,614,138	$	3,716,353
Total	$	5,614,138	$	3,716,353
Status of Fund Balance with Treasury:				
Unobligated Balance				
Available	$	264,347	$	85,725
Unavailable		150,838		310,114
Obligated Balance Not Yet Disbursed		5,198,953		3,320,514
Total	$	5,614,138	$	3,716,353

No discrepancies exist between the Fund Balance reflected on the Balance Sheet and the balances in the Treasury accounts.

The available unobligated fund balances represent the current-period amount available for obligation or commitment. At the start of the next fiscal year, this amount will become part of the unavailable balance, as described in the following paragraph.

The unavailable unobligated fund balances represent the amount of appropriations for which the period of availability for obligation has expired. These balances are available for upward adjustments of obligations incurred only during the period for which the appropriation was available for obligation or for paying claims attributable to the appropriations. The obligated balance not yet disbursed, includes accounts payable, accrued expenses, and undelivered orders that have reduced unexpended appropriations but have not yet decreased the fund balance on hand (see also Note 13).

NOTE 3. ACCOUNTS RECEIVABLE

Accounts receivable balances as of September 30, 2017, and 2016, were as follows:

	2017	2016
Intragovernmental		
Accounts Receivable	$ -	$ 1,955
Total Intragovernmental Accounts Receivable	$ -	$ 1,955

	2017	2016
With the Public		
Miscellaneous Accounts Receivable	$ 2,731	$ 1,765
Interest Receivable	7	-
Penalties and Fines Receivable	118	-
Total Public Accounts Receivable	$ 2,856	$ 1,765
Total Accounts Receivable	$ 2,856	$ 3,720

The accounts receivable is primarily made up of services provided to the public. Historical experience has indicated that the majority of the receivables are collectible. There are no material uncollectible accounts as of September 30, 2017 and 2016.

NOTE 4. PROPERTY, EQUIPMENT, AND SOFTWARE

Schedule of Property, Equipment, and Software as of September 30, 2017

Major Class	Acquisition Cost	Accumulated Amortization/ Depreciation	Net Book Value
Leasehold Improvements	$ 225,000	$ 225,000	$ -
Furniture & Equipment	614,777	445,153	169,624
Software-in-Development	230,024	-	230,024
Total	$ 1,069,801	$ 670,153	$ 399,648

Schedule of Property, Equipment, and Software as of September 30, 2016

Major Class	Acquisition Cost	Accumulated Amortization/ Depreciation	Net Book Value
Leasehold Improvements	$ 225,000	$ 225,000	$ -
Furniture & Equipment	614,777	381,895	232,882
Software-in-Development	230,024	-	230,024
Total	$ 1,069,801	$ 606,895	$ 462,906

NOTE 5. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

The liabilities for FMC as of September 30, 2017 and 2016 include liabilities not covered by budgetary resources. Congressional action is needed before budgetary resources can be provided. Although future appropriations to fund these liabilities are likely and anticipated, it is not certain that appropriations will be enacted to fund these liabilities.

		2017		2016
Intragovernmental – FECA	$	813	$	889
Intragovernmental – Unemployment Insurance		1,754		-
Unfunded Leave		1,272,767		1,177,870
Actuarial FECA		3,307		1,301
Other Liabilities		25		-
Total Liabilities Not Covered by Budgetary Resources	$	1,278,666	$	1,180,060
Total Liabilities Covered by Budgetary Resources		1,132,383		2,197,457
Total Liabilities	$	2,411,049	$	3,377,517

FECA and the Unemployment Insurance liabilities represent the unfunded liability for actual workers compensation claims and unemployment benefits paid on FMC's behalf and payable to the DOL. FMC also records an actuarial liability for future workers compensation claims based on the liability to benefits paid (LBP) ratio provided by DOL and multiplied by the average of benefits paid over three years.

Unfunded leave represents a liability for earned leave and is reduced when leave is taken. The balance in the accrued annual leave account is reviewed quarterly and adjusted as needed to accurately reflect the liability at current pay rates and leave balances. Accrued annual leave is paid from future funding sources and, accordingly, is reflected as a liability not covered by budgetary resources. Sick and other leave is expensed as taken.

NOTE 6. OTHER LIABILITIES

Other liabilities account balances as of September 30, 2017 were as follows:

		Current		Non Current		Total
Intragovernmental						
FECA Liability	$	-	$	813	$	813
Unemployment Insurance Liability		1,754		-		1,754
Payroll Taxes Payable		163,805		-		163,805
Custodial Liability		2,161		-		2,161
Total Intragovernmental Other Liabilities	$	167,720	$	813	$	168,533
With the Public						
Payroll Taxes Payable	$	20,991	$	-	$	20,991
Accrued Funded Payroll and Leave		791,454		-		791,454
Unfunded Leave		1,272,767		-		1,272,767
Other Liabilities with Related Budgetary Obligations		25		-		25
Total Public Other Liabilities	$	2,085,237	$	-	$	2,085,237

Other liabilities account balances as of September 30, 2016 were as follows:

	Current		Non Current		Total	
Intragovernmental						
FECA Liability	$	-	$	889	$	889
Payroll Taxes Payable		147,147		-		147,147
Total Intragovernmental Other Liabilities	$	147,147	$	889	$	148,036
With the Public						
Payroll Taxes Payable	$	20,356	$	-	$	20,356
Accrued Funded Payroll and Leave		683,470		-		683,470
Unfunded Leave		1,177,869		-		1,177,869
Total Public Other Liabilities	$	1,881,695	$	-	$	1,881,695

NOTE 7. OPERATING LEASES

FMC occupies office space in seven locations, of which six of the lease agreements are required to be accounted for as operating leases. Lease payments are increased annually based on the adjustments for operating cost and real estate tax escalations. The total operating lease expense for fiscal years 2017 and 2016 were $3,036,110 and $3,193,005, respectively. The lease locations and terms are listed below:

Location	Term	Lease Expiration Date
Houston, TX	10 years	09/14/2018
Tacoma, WA	10 years	06/30/2019
Hollywood, FL	10 years	05/31/2020
San Pedro, CA	10 years	09/30/2021
Washington, DC	10 years	10/31/2022
Iselin, New Jersey	10 years	03/15/2024

The operating lease amount does not include estimated payments for leases with annual renewal options. The schedule of future payments for the term of the leases is as follows:

Fiscal Year		Totals
2018	$	3,225,021
2019		3,231,351
2020		3,232,209
2021		3,227,456
2022		3,217,107
Thereafter		334,899
Total Future Minimum Payments	$	16,468,043

NOTE 8. CONTINGENT LIABILITIES

FMC records commitments and contingent liabilities for legal cases in which payment has been deemed probable, and for which the amount of potential liability has been estimated, including certain judgments that have been issued against the agency. The FMC has no knowledge of any lawsuits/investigations in which payment is deemed probable.

NOTE 9. INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE

Intragovernmental costs and revenue represent exchange transactions between FMC and other federal government entities, and are in contrast to those with non-federal entities (the public). Such costs and revenue are summarized as follows:

	2017	2016
Operational and Administrative		
Intragovernmental Costs	$ 3,994,022	$ 4,867,783
Public Costs	12,896,141	14,831,098
Total Program Costs	16,890,163	19,698,881
Intragovernmental Earned Revenue	-	(45,020)
Net Program Costs	16,890,163	19,653,861
Formal Proceedings		
Intragovernmental Costs	2,417,983	5,719,697
Public Costs	5,599,267	2,398,337
Total Program Costs	8,017,250	8,118,034
Intragovernmental Earned Revenue	(13,947)	(37,154)
Total Net Cost	8,003,303	8,080,880
Office of Inspector General		
Intragovernmental Costs	77,510	260,578
Public Costs	207,224	129,321
Net Program Costs	284,734	389,899
Office of Equal Employment Opportunity		
Intragovernmental Costs	31,246	36,018
Public Costs	110,079	126,464
Net Program Costs	141,325	162,482
Total Intragovernmental costs	6,520,761	10,884,076
Total Public costs	18,812,711	17,485,220
Total Costs	25,333,472	28,369,296
Total Intragovernmental Earned Revenue	(13,947)	(82,174)
Total Net Cost	$ 25,319,525	$ 28,287,122

NOTE 10. IMPUTED FINANCING SOURCES

FMC recognizes as imputed financing the costs of future benefits which include health benefits, life insurance, pension and post-retirement benefit expenses for current employees. The assets and liabilities associated with such benefits are the responsibility of the administering agency, OPM. For the years ended September 30, 2017 and 2016 imputed financing was as follows:

	2017	2016
Office of Personnel Management	$ 926,929	$ 1,131,097
Total Imputed Financing Sources	$ 926,929	$ 1,131,097

NOTE 11. BUDGETARY RESOURCE COMPARISONS TO THE BUDGET OF THE UNITED STATES GOVERNMENT

The President's Budget that will include fiscal year 2017 actual budgetary execution information has not yet been published. The President's Budget is scheduled for publication in February 2018 and can be found at the OMB Web site: *http://www.whitehouse.gov/omb/*. The 2018 Budget of the United States Government, with the "Actual" column completed for 2016, has been reconciled to the Statement of Budgetary Resources and there were no material differences.

In Millions

FY2016	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Statement of Budgetary Resources	$ 26	$ 26	$ -	$ 26
Budget of the U.S. Government	$ 26	$ 26	$ -	$ 26

NOTE 12. APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED

Obligations incurred and reported in the Statement of Budgetary Resources in 2017 and 2016 consisted of the following:

	2017	2016
Direct Obligations, Category A	$ 27,316,025	$ 25,608,181
Reimbursable Obligations, Category A	15,903	90,678
Total Obligations Incurred	$ 27,331,928	$ 25,698,859

Category A apportionments distribute budgetary resources by fiscal quarters.

NOTE 13. UNDELIVERED ORDERS AT THE END OF THE PERIOD

For the years ended ended September 30, 2017 and 2016, budgetary resources obligated for undelivered orders amounted to $4,068,707 and $1,125,012, respectively.

NOTE 14. CUSTODIAL REVENUES

FMC is an administrative agency, collecting for another entity or the General Fund of the Treasury. As a collecting entity, FMC measures and reports cash collections and refunds. These collections are reported as custodial revenue on the Statement of Custodial Activity. The type of cash collected is for fines, penalties and administrative fees. A small portion is for interest on the past due fines. Another component of the custodial revenue is general proprietary receipts (User Fees) for the application of licenses issued to qualified Ocean Transportation Intermediaries (OTI's) in the U.S., FMC reviews petitions, status changes and special permission fees. FMC believes that all fines, penalties, administrative fees and user fees will be collected in full. There are no material uncollectible accounts as of September 30, 2017 and 2016.

Custodial collections are reported on the Statement of Custodial Activity. The miscellaneous receipts are broken out in the general receipt funds as follows:

	2017	2016
Custodial Collections:		
Fines, Penalties, and Forfeitures	$ 1,887,513	$ 3,482,000
General Fund Proprietary Receipts (User fees)	234,886	225,359
Refunds of Proprietary Receipts (User fees)	(7,244)	(3,807)
Interest	82	-
Total Custodial Collections	$ 2,115,237	$ 3,703,552

NOTE 15. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

FMC has reconciled its budgetary obligations and non-budgetary resources available to its net cost of operations.

	2017	2016
Resources Used to Finance Activities		
Budgetary Resources Obligated		
Obligations Incurred	$27,331,928	$25,698,859
Spending Authority from Offsetting Collections and Recoveries	(158,548)	(213,019)
Offsetting Receipts	(234,968)	(225,359)
Obligations Net of Offsetting Collections and Recoveries	26,938,412	25,260,481
Other Resources		
Imputed Financing from Costs Absorbed by Others	926,929	1,131,097
Total Resources Used to Finance Activities	27,865,341	26,391,578
Resources Used to Finance Items Not Part of the Net Cost of Operations		
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	(2,707,733)	1,835,708
Total Resources Used to Finance the Net Cost of Operations	25,157,608	28,227,286
Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period		
Total Components of Net Cost of Operations That will not Require or Generate Resources in the Current Period	161,917	59,836
Net Cost of Operations	$25,319,525	$28,287,122

OTHER INFORMATION

Fiscal Year 2017

OFFICE OF INSPECTOR GENERAL
FISCAL YEAR 2017 MANAGEMENT CHALLENGE

FEDERAL MARITIME COMMISSION
Washington, DC 20573

October 12, 2017

Office of Inspector General

TO: Acting Chairman Khouri
Commissioner Dye
Commissioner Doyle
Commissioner Maffei

FROM: Inspector General

SUBJECT: Inspector General's Statement on the Federal Maritime Commission's Management and Performance Challenge

The Reports Consolidation Act of 2000 (Public Law 106-531) requires inspectors general to provide a summary and assessment of the most serious management and performance challenges facing Federal agencies, and their progress in addressing these challenges. The attached document responds to the requirements and provides the annual statement to be included in the Federal Maritime Commission's (FMC) Performance and Accountability Report (PAR) for fiscal year (FY) 2017.

The Office of Inspector General (OIG) has identified one management and performance challenge this year, ***information technology (IT) security***. Although the Commission has made progress on this challenge since last year, the OIG acknowledges that IT security remains a government-wide challenge and the FMC will need to remain vigilant to protect the information and information systems of the agency. This assessment is based on information derived from a combination of sources, including OIG evaluation work; Commission reports; Federal government reports; and a general knowledge of the Commission's programs.

The Reports Consolidation Act of 2000 permits agency comment on the inspector general's statements. Agency comments, if applicable, are to be included in the final version of the FMC PAR that is due by November 15, 2017.

/s/
Jon Hatfield

Attachment
Cc: Karen V. Gregory, Managing Director
Peter J. King, Deputy Managing Director

Office of Inspector General
Fiscal Year 2017 Management Challenge

1. *The Management Challenge* - Information Technology Security

The Office of Inspector General (OIG) recognizes the Federal Maritime Commission (FMC) has continued to make improvements on the agency's information technology (IT) security. Notwithstanding these improvements, the OIG has identified IT security as a management challenge because IT security remains a government-wide challenge and the FMC will need to remain vigilant to protect the information and information systems of the agency.

In a report[1] dated September 28, 2017, the Government Accountability Office points out that as computer technology has advanced, Federal agencies have become dependent on computerized information and electronic data to carry out operations and to process, maintain, and report essential information. Further, GAO acknowledges that agencies would find it difficult, if not impossible, to carry out their missions and account for their resources without these information assets. As a result, securing these systems and data is critical.

GAO first designated Federal information security as a government-wide high-risk area 20 years ago in 1997. In 2003, GAO expanded this area to include computerized systems supporting the nation's critical infrastructure and, in 2015, GAO further expanded this area to include protecting the privacy of personally identifiable information. GAO continues to identify Federal information security as a government-wide high-risk area in their February 2017 high-risk update report.

The FMC shares with other Federal government departments and agencies this challenge due to the evolving and growing threats to government information systems. Risks to information and communication systems include insider threats from disaffected or careless employees and business partners; escalating and emerging threats from around the globe; the ease of obtaining and using hacking tools; the steady advance in the sophistication of attack technology; and the emergence of new and more destructive attacks.

One of the most recent examples of the challenges faced by Federal agencies to protect information and information systems is the cybersecurity incident at the Securities and Exchange Commission (SEC). In August 2017, the SEC learned that an incident previously detected in 2016 may have provided the basis for illicit gain through trading. Specifically, a software vulnerability in a component of the SEC's EDGAR database was exploited and resulted in access to nonpublic information. Another example, first reported in early 2015 by the Office of Personnel Management (OPM), involved the discovery of malicious cyber activity on its network. Two separate but related OPM cybersecurity incidents impacted the data of Federal government employees, contractors, and others. OPM first discovered malicious cyber activity on its network resulting in the exposure of the personnel data of approximately 4.2 million current and former Federal government employees. OPM later discovered malicious cyber activity on its network resulting in the exposure of the background investigation records of approximately 21.5 million individuals, primarily current, former, and prospective Federal employees and contractors. The frequency and increased sophistication of cyber

[1] Government Accountability Office, GAO-17-549, Federal Information Security, *Weaknesses Continue to Indicate Need for Effective Implementation of Policies and Practices*, (September 28, 2017).

threats underscores the need to properly manage and bolster the security of Federal information systems, and to remain vigilant.

Agency Progress in Addressing the Challenge

The *Federal Information Security Management Act of 2002* (FISMA) established information security program and evaluation requirements for Federal agencies in the executive branch, including the FMC. Each year, the FMC OIG performs an independent evaluation of the information security program and practices of the agency. The results of the evaluation are reported annually to the Office of Management and Budget; selected congressional committees; the Comptroller General; and the FMC's Commission and management.

In the OIG's *Evaluation of the FMC's Compliance with the Federal Information Security Management Act (FISMA) FY 2016*, the OIG found the FMC had effectively implemented six of the nine outstanding prior year FISMA recommendations. Further, the FY 2016 FISMA evaluation contained three new recommendations to address three findings; however, two of the three recommendations were implemented by the agency prior to the release of the November 2016 report.

The Challenge Ahead

Significant cybersecurity incidents at Federal agencies, and GAO's continued identification of Federal information security as a government-wide high-risk area, are important reminders that the FMC must continue their focus on protecting the agency's information and information systems.

COMMENTS ON INSPECTOR GENERAL-IDENTIFIED MANAGEMENT AND PERFORMANCE CHALLENGE

The Commission agrees with the Inspector General on the Management and Performance Challenge identified, and remains committed to focusing on this high-risk challenge with careful planning, attention, and diligence. The role of the Inspector General is essential government-wide to ensure government accountability to the American public, and the FMC appreciates its Inspector General's efforts in reviewing the agency's work as well as its compliance with Federal laws and mandates. A response to the challenge is outlined below:

1. Information Technology Security

The Commission remains ever mindful of the increasing frequency and sophistication of cyber threats, and appreciates working proactively with the Inspector General and his auditor to strengthen the Commission's security posture, and focus on protecting its information and information systems. The cybersecurity incidents mentioned underscore the continuing need for the Federal government to be increasingly vigilant and to constantly monitor, manage, and bolster security controls over Federal information systems. Protecting against unauthorized access to the Commission's information and information systems, and guarding against improper use of computing resources, will remain a priority during the coming years.

FINANCIAL STATEMENT AUDIT SUMMARY

Table 1 is a summary of the results of the independent audit of the FMC's financial statements by the agency's auditors in connection with the FY 2017 audit.

Table 1. Summary of Financial Statement Audit					
Audit Opinion	Unmodified				
Restatement	No				
Material Weaknesses	**Beginning balance**	**New**	**Resolved**	**Consolidated**	**Ending Balance**
None	n/a	n/a	n/a	n/a	n/a
Total Material Weaknesses	None	None	n/a	n/a	None

MANAGEMENT ASSURANCES SUMMARY

Table 2 is a summary of management assurances related to the effectiveness of internal control over the FMC's financial reporting and operations, and its conformance with financial management system requirements under Sections 2 and 4, respectively, of the Federal Managers' Financial Integrity Act (FMFIA) of 1982. The last portion of this table summarizes the FMC's compliance with the Federal Financial Management Improvement Act (FFMIA).

Table 2. Summary of Management Assurances						
Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)						
Statement of Assurance	Unmodified					
Material Weaknesses	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Reassessed**	**Ending Balance**
Total Material Weaknesses	None	n/a	n/a	n/a	n/a	n/a
Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance	Unmodified					
Material Weaknesses	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Reassessed**	**Ending Balance**
[name of weakness]	None	n/a	n/a	n/a	n/a	n/a
Total Material Weaknesses	None	n/a	n/a	n/a	n/a	n/a
Compliance with Federal Financial Management System Requirements (FMFIA § 4)						
Statement of Assurance	Unmodified					
Material Weaknesses	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Reassessed**	**Ending Balance**
[name of non-compliance]	None	n/a	n/a	n/a	n/a	n/a
Total non-compliances	None	n/a	n/a	n/a	n/a	n/a

Compliance with Section 803(a) of the Federal Financial Management Improvement Act (FFMIA)		
	Agency	**Auditor**
1. Federal Financial Management System Requirements	FFMIA does not apply to the FMC	n/a
2. Applicable Federal Accounting Standards	FFMIA does not apply to the FMC	n/a
3. USSGL at Transaction Level	FFMIA does not apply to the FMC	n/a

IMPROPER PAYMENTS INFORMATION ACT

NARRATIVE SUMMARY OF IMPLEMENTATION EFFORTS FOR FY 2017

The FMC has fully complied with the requirements of OMB Circular A-123, Appendix C, Requirements for Effective Estimation and Remediation of Improper Payments, which implements the provisions of the *Improper Payments Information Act of 2002*, as amended by the *Improper Payments Elimination and Recovery Act of 2010* (IPERA), and the *Improper Payments Elimination and Recovery Improvement Act of 2012* (IPERIA), and directs federal agencies to review and assess all programs and activities they administer and identify those determined to be susceptible to significant improper payments.

Following the guidance of OMB Circular Number A-136, a risk assessment analysis was completed. OMB Circular No. A-136 defines significant erroneous payments to be annual erroneous payments in a program that exceed both $10 million and 1.5 percent or $100 million of total annual disbursements. The assessment considered certain risk factors that would likely cause improper payments. It covered all disbursement programs including travel, payroll, intragovernmental transactions, and vendor payments. It was determined that the FMC does not meet the baseline criteria (both 1.5 percent and $10,000,000 of the total program) to trigger a quantitative risk assessment as stated in OMB Circular No. A-136 (Appendix C).

Federal Maritime Commission IPERIA Risk Assessment 2017					
Classification of Payment Activities: Fiscal Year 2017	Appropriation Baseline Reported to Congress	Improper Payments Identified in PAR	Improper Payments Percent of TP	Significant Improper Payment Test (1) both 1.5% and $10M of TP	Significant Improper Payment Test (2) $100M/Program
Payroll	$18,834,383.00	$0.00	0.0000%	No	No
Travel	$189,926.00	$176.49	0.0929%	No	No
Administrative Expenses:					
Government Vendors*	$4,818,495.00	$0.00	0.0000%	No	No
Commercial Vendors	$3,382,849.00	$0.00	0.0000%	No	No
Total	**$27,225,653.00**	**$176.49**	**0.0006%**		

* Government vendors includes rental payments made to GSA.

The FMC's authorized budget for FY 2017 was $27,490,000. Obligations against the FMC's appropriation totaled $27,225,653, representing 99.04 percent of the funding level. The largest annual disbursements were related to salaries and benefits, and represent 69 percent of the annual budget. The next largest allocation of funds (30.12 percent) was for administrative expenses which include GSA rent, utilities, communications, and IT services and equipment. Based on the results of testing a sample of transactions, our assessment of risk factors, and our reliance on internal controls, including an appropriate segregation of duties, performed at both the service provider level and FMC, we have determined that no FMC programs or activities were susceptible to significant erroneous payments in FY 2017. The following chart denotes the FMC's qualitive risk analysis for FY 2017.

Fiscal Year 2017 Systematic Method: Qualitative Risk Assessment Questionnaire

	Program	Total Annual Expenditures	Activity	Annual Expenditures	Activity	Annual Expenditures	Activity	Annual Expenditures	Activity	Annual Expenditures
	FMC	$27,225,653.00	Payroll	$18,834,383.00	Adminsitrative*	$7,927,420.00	Travel - CBA	$189,926.00	Purchase Card	$273,924.00
Risk (High, Med, or Low)	Low		Low		Low		Low		Low	
Criteria	No (1), Somewhat (2), Yes (3)		No (1), Somewhat (2), Yes (3)		No (1), Somewhat (2), Yes (3)		No (1), Somewhat (2), Yes (3)		No (1), Somewhat (2), Yes (3)	
Is the program new?	1.00		1		1		1		1	
Is the process to determine correct payment amounts complex?	1.00		1		1		1		1	
Is there a high volume of payments?	2.50		3		3		1		3	
Are payments or eligibility decisions made outside the agency (i.e., State or local governments or regional Federal field office)?	1.00		1		1		1		1	
Have there been recent changes in program funding, authorities, practices or procedures?	2.00		2		2		2		2	
Are the personnel responsible for making program eligibility determinations or certifying that payments are accurate inexperienced or lacking in training?	1.00		1		1		1		1	
Are there significant deficiencies in the audit reports of the agency that might hinder accurate payment certification?	1.00		1		1		1		1	
Are there any indicators from prior years' improper payment work that would indicate potential risk?	1.00		1		1		1		1	
Score	10.50		11		11		9		11	

Risk:		Scoring:	
Low	8 - 12	No	1
Medium	13 - 20	Somewhat	2
High	21 - 24	Yes	3

* Total administrative costs are $8,201,344 (administrative + purchase cards).

We are confident that we have an efficient and effective process which provides a reasonable assurance that payments are made for legitimate and proper expenses of the FMC. The FMC maintains a very low erroneous payment percentage and continually strives to reduce those payments. We plan to continuously review, monitor, and evaluate our programs and activities.

The Federal Maritime Commission has not identified any program that in and of itself constitutes a high-risk for improper payments. Therefore, the FMC considers all payments to fall within the realm of low risk. The National Finance Center (NFC) became the agency's payroll provider in 2002 and is responsible for monitoring and reporting on any payroll-related payments. Any overpayments made to an FMC employee by the NFC on behalf of the FMC, would be offset by NFC. In FY 2017, the FMC processed five overpayments for a total of $176.49. The FMC did not identify any improper collections through the Intergovernmental Payments and Collections (IPAC).

I. The FMC used a statistical sample conducted by BFS to determine its improper payment rate.

II. The FMC will continue to monitor payments to affect a zero-dollar improper payment figure. To this end, the FMC will ensure that there is sufficient segregation of duties pertaining to payments concomitantly with closer scrutiny of all IPAC collections made against the Commission. The FMC will continue to monitor all disbursements made on its behalf to ensure payments are valid and proper.

III. The table below represents the improper payments made by the FMC in FY 2017 with percentage forecasts through FY 2020.

Improper Payments Information Act Reduction Outlook FY 2017 – 2020 (millions)						
Program	**FY 17 Outlays**	**FY 17 IP %**	**FY 18 IP $**	**FY 18 %**	**FY 19 %**	**FY 20 %**
Formal Proceedings	$0.00	0.00	$0.00	0.00	0.00	0.00
Inspector General	$0.00	0.00	$0.00	0.00	0.00	0.00
Equal Employment Opportunity	$0.00	0.00	$0.00	0.00	0.00	0.00
Operational and Administrative	$0.00	0.00	$0.00	0.00	0.00	0.00
Totals	**$0.00**	**0.00**	**$0.00**	**0.00**	**0.00**	**0.00**

IV. The FMC has a segregation of duties in place to ensure that all invoices processed for payment are legitimate expenses of the agency. All IPAC invoices are received by BFS and forwarded to OBF electronically for internal processing and payment authorization. When an invoice is received, it is first verified as a valid invoice belonging to the agency. OBF matches the invoice to documentation provided by the Contracting Officer's Representative (COR) indicating that goods/services have been received by the Commission, and approves the invoice for payment. BFS is advised of the purchase order the invoice is being paid against and the payment amount. OBF also ensures that sufficient funds have been obligated to make the payment and provides BFS with the period of performance. Once the payment authorization has been processed by OBF, the payment information is verified by a second OBF staff member. At that point, the invoice is electronically returned to BFS for processing. When the payment is loaded into the Oracle database, a final funds availability check is made by the financial system against the fund controls set for the FMC. OBF audits the payment information posted in the financial system.

V. The Acting Chairman, as the Chief Administrative Officer of the FMC, is ultimately responsible for the efficient and effective utilization of spending authority granted the agency by Congress. The Acting Chairman has delegated administrative funds control to the Director, OBF. The Director, OBF, has the responsibility to ensure that disbursements made by BFS on behalf of the FMC are legitimate expenses of the Commission and that there are sufficient funds available to pay the agency's expenses. The OBF is responsible for reducing and recovering improper payments, and keeps senior agency officials apprised of all relevant activities.

VII. a. The FMC does not have an in-house information system to help reduce improper payments. The agency utilizes the infrastructure and financial system maintained by BFS in Parkersburg, WV.

b. In 2017, the FMC requested funding to maintain the contract between the FMC and BFS for financial support and platform access to the Oracle database through Oracle's Discoverer portal.

VIII. There are no statutory or regulatory barriers that limit the agency's ability to take corrective actions to address any improper payments.

REDUCE THE FOOTPRINT

OMB Memorandum M-12-12, Section 3, *Promoting Efficient Spending to Support Agency Operations,* and Management Procedures Memorandum 2013-02, "Freeze the Footprint" policy implementation guidance, require agencies to report total square footage associated with agency assets and annual operating costs.

The FMC does not have any real property and leases space through General Services Administration (GSA). Although not a CFO Act agency, the FMC does work closely with GSA to better steward government resources. In looking to better align the size of its leased space with actual program needs, the FMC further reconfigured its headquarters space in FY 2017, and returned approximately 1,395 square feet of space, providing an annual cost savings of approximately $66,000. The FMC will continue to evaluate its space needs going forward.

Table 1: Reduce the Footprint Policy Baseline Comparison			
	FY 2015 (Baseline)	**FY 2017**	**Change (FY 2015 Baseline – FY 2017)**
Square Footage (SF in millions)	0.067	0.063	0.003

Table 2: Reporting of O & M Cost – Owned and Direct Lease Buildings			
	FY 2015 Reported Cost	**FY 2017 Reported Cost**	**Change in Baseline 2012-2017**
Operation and Maintenance (O&M) Costs	N/A*	N/A*	N/A*

*The FMC does not directly lease or own any space, but has occupancy agreements with GSA.

CIVIL MONETARY PENALTY ADJUSTMENT FOR INFLATION

The Federal Civil Penalties Inflation Adjustment Act of 1990, Pub. L. 104-410, as amended by the Debt Collection Improvement Act of 1996, Pub. L. 104-134, and the Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015, Pub. L. 114-74, requires agencies to make regular and consistent inflationary adjustments of civil monetary penalties to maintain their deterrent effect. Below are the civil penalties that the FMC may impose, authority for imposing the penalty, dates of inflation adjustments, and current penalty levels. The Federal Register notice may be viewed at: http://www.fmc.gov/assets/1/Documents/17-01_FedReg.pdf.

Penalty	Statutory Authority	Date of Previous Adjustment	Date of Current Adjustment	Maximum Penalty
Adverse impact on U.S. carriers by foreign shipping practices	46 U.S.C. 42304	August 1, 2016	January 15, 2017	$2,011,061
Knowing and Willful violation / Shipping Act of 1984, or Commission regulation or order	46 U.S.C. 41107(a)	August 1, 2016	January 15, 2017	$57,391
Violation of Shipping Act of 1984, Commission regulation or order, not knowing and willful	46 U.S.C. 41107(b)	August 1, 2016	January 15, 2017	$11,478
Operating in foreign commerce after tariff suspension	46 U.S.C. 41108(b)	August 1, 2016	January 15, 2017	$114,782
Failure to provide required reports, etc. / Merchant Marine Act of 1920	46 U.S.C. 42104	August 1, 2016	January 15, 2017	$9,054
Adverse shipping conditions / Merchant Marine Act of 1920	46 U.S.C. 42106	August 1, 2016	January 15, 2017	$1,810,706
Operating after tariff or service contract suspension / Merchant Marine Act of 1920	46 U.S.C. 42108	August 1, 2016	January 15, 2017	$90,535
Failure to establish financial responsibility for non-performance of transportation*	46 U.S.C. 44102	August 1, 2016	January 15, 2017	$22,868 $762
Failure to establish financial responsibility for death or injury*	46 U.S.C. 44103	August 1, 2016	January 15, 2017	$22,868 $762
Program Fraud Civil Remedies Act / makes false claim	31 U.S.C. 3802(a)(1)	August 1, 2016	January 15, 2017	$10,957
Program Fraud Civil Remedies Act / giving false statement	31 U.S.C. 3802(a)(2)	August 1, 2016	January 15, 2017	$10,957

*These amounts are based on the penalties established in § 44104 for violations of §§ 44102 and 44103: $5,000, plus $200 for each passage sold. These penalties were established in 1966 and, applying the statutory inflation adjustment formula, amount to $22,868, plus $762 for each passage sold, in current dollars.

GRANTS OVERSIGHT & NEW EFFICIENCY (GONE) ACT REQUIREMENTS

Category	2-3 Years	3-5 Years	>5 Years
Number of Grants / Cooperative Agreements with Zero Dollar Balances	0	0	0
Number of Grants / Cooperative Agreements with Undisbursed Balances	0	0	0
Total Amount of Undisbursed Balances	0	0	0
NOTE: The Federal Maritime Commission does not award grants or cooperative agreement awards.			

BIENNIAL REVIEW OF USER FEES

Agencies are required by the Chief Financial Officers Act of 1990 to conduct biennial reviews of fees and other charges that they impose, and to revise cover program and administrative costs incurred as necessary. The Commission published notice of its final rule, *Update of Existing and Addition of New User Fees*, in August 2016. New user fee rates took effect in FY 2017, on October 1, 2016.