

Office of Inspector General

**Semiannual Report to Congress
Covering the Period**

October 1, 2013 – March 31, 2014



FEDERAL MARITIME COMMISSION

TABLE OF CONTENTS

Transmittal Letter

| | |
|--|----|
| EXECUTIVE SUMMARY | 1 |
| FEDERAL MARITIME COMMISSION | 2 |
| OFFICE OF INSPECTOR GENERAL | 2 |
| OFFICE OF INSPECTOR GENERAL ACTIVITIES | 3 |
| Completed Audits and Evaluations..... | 3 |
| On-going Audits and Evaluations..... | 5 |
| Hotline and Investigations | 6 |
| Other Activities..... | 6 |
| SUMMARY OF INSPECTOR GENERAL REPORTING REQUIREMENTS | 9 |
| TABLE I – Summary of Audit Reports with Corrective Actions Outstanding for More than 1 Year | 10 |
| TABLE II – Listing of Audit Reports Issued | 10 |
| TABLE III – Reports with Questioned Costs | 11 |
| TABLE IV – Recommendations that Funds be Put to Better Use | 12 |
| Appendix A – Peer Review Activity | 13 |

EXECUTIVE SUMMARY

This semiannual report summarizes the activities and accomplishments of the Federal Maritime Commission (FMC or Commission), Office of Inspector General (OIG) for the reporting period October 1, 2013 through March 31, 2014. The most significant activities of the OIG during the first half of fiscal year (FY) 2014 are summarized below. Additional details pertaining to each activity can be found in subsequent sections of this report.

During this reporting period, the FMC OIG was led by an Interim Inspector General (IG), due to the resignation of the last permanent IG in January 2013. After the departure of a previous Interim IG, the Commission designated Jon Hatfield in August 2013 to serve as Interim IG while a search for a permanent IG was conducted. Mr. Hatfield is concurrently serving as the Deputy IG for the Federal Election Commission (FEC) OIG. The Commission concluded the recruitment process to select a new IG during the latter part of this reporting period and the OIG expects a permanent IG to be in place early in the next reporting period. In addition to the IG vacancy, the OIG's Assistant IG for Audits resigned in December 2013. The OIG is working to obtain contract audit services to provide audit coverage in the interim until the permanent IG is hired and is able to staff the office appropriately.

During this reporting period, the OIG issued the following reports: the *Evaluation of the FMC's Compliance with the Federal Information Security Management Act FY 2013* (A14-02); the *Independent Auditors' Report of the FMC's FY 2013 Financial Statements* (A14-01); and the *FY 2013 Financial Statement Management Letter* (A14-01A). The OIG also determined that the Commission is compliant with the Improper Payments Elimination and Recovery Act of 2010.

In addition to the completed audit and evaluation, the OIG had two audits open as of the end of this reporting period. These include the OIG's *Audit of Expenditures for Furnishing or Re-decorating Commissioners' Offices* and the *Audit of FMC's Physical Security – Datawatch*. These audits were on-hold as of the end of the reporting period due to higher priority assignments. The OIG anticipates continuation of these audit assignments during the next reporting period.

During this reporting period, the OIG received two hotline complaints through its anonymous webmail; the complaints were forwarded to the appropriate FMC program areas for disposition. One administrative investigation was in progress and two hotline complaints were pending at the close of this reporting period. The OIG opened no new investigations and referred no matters to prosecutorial authorities during this period.

The FMC OIG completed an audit peer review of the Consumer Product Safety Commission (CPSC) OIG during this reporting period and issued a *pass* rating in the final system review report dated March 14, 2014.

In addition to these activities, the OIG continued to work with the agency's Office of the General Counsel to revise Commission Order 113, which pertains to OIG reporting responsibilities and protections for whistleblowers with access to classified information.

FEDERAL MARITIME COMMISSION

The FMC is an independent agency responsible for the regulation of ocean borne 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; and Section 19 of the Merchant Marine Act of 1920.

The FMC is headed by five Commissioners nominated by the President and confirmed by the Senate, each serving five-year terms. Although the majority of FMC personnel are located in Washington, D.C., the FMC also maintains a presence in Los Angeles, Seattle, New York, New Orleans, Houston, and South Florida through area representatives who serve the major ports and transportation centers within their respective geographic areas. In addition, one at-large area representative operates from Washington, D.C.

OFFICE OF INSPECTOR GENERAL

The OIG was established in 1989 by the Inspector General Act of 1978, as amended (5 U.S.C. app.). The OIG is an independent audit and investigative unit headed by an IG who

reports to the FMC Commissioners. To aid the FMC in accomplishing its mission, the OIG is provided three full-time positions.

The OIG is responsible for conducting audits and investigations relating to the programs and operations of the FMC. Audits are conducted for the purpose of finding and preventing fraud, waste and abuse, and promoting economy, efficiency and effectiveness within the agency. The OIG investigations seek out facts related to allegations of wrongdoing on the part of FMC employees and individuals, or entities contracting with, or obtaining benefits from, the agency. The Inspector General Act provides that the OIG shall have access to all agency records and may subpoena records from entities outside of the agency in connection with an audit or investigation.

The IG is required by law to prepare a report summarizing OIG audits and investigations during the immediately preceding six-month period. The report is sent to the FMC Commissioners, the President of the Senate, the Speaker of the House and FMC's appropriating and authorizing committees. This dual reporting requirement helps to ensure the independence of the OIG.

OFFICE OF INSPECTOR GENERAL ACTIVITIES

Completed Audits and Evaluations

Evaluation of FMC's Compliance with the Federal Information Security Management Act FY 2013, A14-02. This evaluation report was issued on January 3, 2014. The objectives of this independent evaluation of the FMC's information security program were to evaluate its security posture by assessing compliance with the Federal Information Security Management Act (FISMA) and related information security policies, procedures, standards, and guidelines. The scope of our testing focused on the FMC General Support Systems (GSS) and Major Applications. More specifically, our testing covered a sample of controls as listed in the National Institute of Standards and Technology (NIST) 800-53, Recommended Security Controls for Federal Information Systems and Organizations, Revision 4. For example, testing covered system security plans, access controls, risk assessments, configuration management, contingency planning, security awareness and auditing. Our scope also included a vulnerability assessment for the overall network and workstations that connect to the network.

During the FY 2013 evaluation, the evaluator noted that FMC has taken steps to improve the information security program and to remediate some prior year deficiencies. For example, the FMC has deployed complexity settings on the servers supporting the major applications. The OIG did not find any new deficiencies in the FY 2013 FISMA evaluation.

FMC management reported in a letter to the OIG dated March 11, 2014 that additional corrective action has occurred on outstanding recommendations from the FY 2012 and prior year FISMA evaluations, and the OIG's *Evaluation of the FMC's FY 2012 Privacy and Data Protection*. The OIG plans to evaluate these corrective actions during the FY 2014 FISMA evaluation to verify the weaknesses have been remediated.

Independent Auditors' Report of FMC's FY 2013 Financial Statements, A14-01. This audit report was issued on December 12, 2013. The audit objectives were to opine on whether the FMC's FY 2013 financial statements follow U.S. Generally Accepted Accounting Principles (GAAP) and present fairly the financial position of the agency. The auditors also reviewed internal controls over financial reporting and agency compliance with laws and regulations. The statements audited were the balance sheets as of September 30, 2013 and 2012, and the related statements of net cost, statements of changes in net position, statements of budgetary resources and statements of custodial activity.

The independent auditor opined that the FMC's financial statements were fairly presented, in all material respects, in conformity with GAAP; there were no material weaknesses in internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations; and no reportable noncompliance with laws and regulations tested. Therefore, there were no findings or recommendations in the audit report.

Management Letter for Fiscal Year 2013 Audit of the Federal Maritime Commission Financial Statements, A14-01A. The independent auditor, under contract with the OIG, reviewed FMC's internal controls over financial reporting and, for FY 2013, did not find any matters that were considered a material weakness in the systems and processes tested. When

performing the annual audit of the agency's financial systems and accounting processes, auditors may detect deficiencies in internal controls that do not rise to a level of seriousness to be reported in the annual financial statement audit report. Instead, these deficiencies are communicated to the agency in a management letter. As a result of the FY 2013 financial statement audit, the auditors identified four internal control issues; one of which was resolved prior to the release of the management letter. FMC management generally concurred with the weaknesses and agreed to implement corrective action.

Improper Payments Elimination and Recovery Act of 2010 (IPERA). Each agency inspector general is required to review improper payment reporting in their agency's annual Performance and Accountability Report (PAR) to determine if the agency is in compliance with IPERA. The purpose of IPERA is to improve the federal government's efforts to reduce and recover improper payments. Improper payments are payments that should not have been made or that were made in an incorrect amount (including overpayments or underpayments); and includes any payment to an ineligible recipient, any payment for an ineligible good or service not received, and any payment that does not account for credit for applicable discounts. In a letter to the Commission dated April 11, 2014, the OIG concluded the FMC is compliant with the IPERA and applicable guidance.

On-going Audits and Evaluations

Audit of Expenditures for Furnishing or Re-decorating Commissioners' Offices. In a prior reporting period, the OIG decided to initiate this review after the FMC received a request, on May 9, 2012, from the Committee on Oversight and Government Reform to provide a complete account for all purchases made for the previous Chairman. The objectives of the audit were to determine whether the Commission complies with applicable laws and regulations regarding expenses associated with furnishing, redecorating, or making improvements to Commissioners' offices. Specifically, we performed this review to determine whether the Commissioners stayed within their \$5,000 statutory spending limit and to determine whether these expenses are recorded and tracked during the term, reappointment or hold over of office for each Presidential-appointee.

Fieldwork has been completed and an exit conference will be scheduled during the next reporting period to discuss the results of the audit and issue the draft audit report to FMC management. The final audit report will then be issued after review and comment by FMC management.

Audit of FMC's Physical Security – Datawatch. This audit was incorporated into the OIG's 2013 annual audit plan. The objective of the audit is to determine the effectiveness of the Datawatch security system, assess the cost efficiency of the program and review the internal controls regarding the security information generated from the system. Due to higher priority assignments, this assignment was put on-hold during this reporting period. The audit is expected to be continued during the next reporting period.

Hotline and Investigations

The Inspector General Act of 1978, as amended, provides that the IG may receive and investigate complaints or information concerning possible allegations of fraud, waste and abuse occurring within FMC programs and operations by employees or contractors. Matters of possible wrongdoing are referred to the OIG in the form of allegations or complaints from a variety of sources, including FMC employees, other government agencies and the general public.

During this reporting period, the OIG received two complaints through its anonymous webmail; the complaints were forwarded to the appropriate FMC program areas for disposition. One administrative investigation was in progress and two hotline complaints were pending at the close of this reporting period. The OIG opened no new investigations and referred no matters to prosecutorial authorities during this period.

Other Activities

Peer Review

Federal offices of inspectors general are required by the IG Act to have an audit peer review performed once every three years. These reviews are to be performed only by federal

auditors. A committee of the Council of Inspectors General on Integrity and Efficiency (CIGIE) schedules the review to ensure that resources are available to perform the review and that OIGs do not conduct reciprocal reviews. The objectives of a peer review are to determine, for the audit function, whether an effective quality control system has been established in the office and if policies, procedures and applicable government auditing standards are being followed.

The FMC OIG completed an audit peer review of the Consumer Product Safety Commission (CPSC) OIG during this reporting period and issued a *pass* rating in the final system review report dated March 14, 2014. There were no deficiencies or recommendations included in the report.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, Public Law 111-203, requires federal offices of inspectors general to include in their semiannual reports to Congress an appendix containing the results of any peer review conducted by another OIG during the reporting period, or, if no peer review was conducted within that reporting period, a statement identifying the date of the last peer review conducted by another OIG. Please see appendix A for additional information.

Memorandum of Understandings

The FEC OIG signed a Memorandum of Understanding (MOU) with the Commission under which the FEC's Deputy Inspector General serves as the Commission's Interim Inspector General while the IG position remains open.

Review of Legislation

As required by the Inspector General Act of 1978, as amended, the OIG routinely reviews proposed legislation and regulations. The purpose of these reviews is to assess whether the proposed legislation or regulation: (1) impacts the economy and efficiency of FMC programs and operations; and (2) contains adequate internal controls to prevent and detect fraud and abuse.

Review of FMC Policies

During this semiannual period, the OIG continued to work with the agency's Office of the General Counsel to revise Commission Order (CO) 113, which pertains to OIG reporting responsibilities and protections for whistleblowers with access to classified information. The OIG expects the FMC to issue the final CO 113 during the next reporting period.

Council of Inspectors General on Integrity and Efficiency Activities

The Council of Inspectors General on Integrity and Efficiency (CIGIE) was established by law as an independent entity by the Inspector General Reform Act of 2008 (P.L. 110-409) to:

- address integrity, economy and effectiveness issues that transcend individual government agencies; and
- increase the professionalism and effectiveness of personnel by developing policies, standards, and approaches to aid in the establishment of a well-trained and highly skilled workforce in the Office of Inspectors General.

The CIGIE is comprised of all inspectors general that are Presidentially-appointed / Senate confirmed and those that are appointed by agency heads -- designated federal entities. The FMC OIG remains active in CIGIE operations. Specifically, the Interim Inspector General is a member of CIGIE and participates in the monthly CIGIE meetings. The Counsel to the IG participates in the Council of Counsels to the Inspector General ("CCIG") activities. The CCIG consists of senior counsel from agency OIGs who discuss various legal issues that affect the OIG community. As Chief Investigator, the OIG Counsel also attends the Assistant Inspector General for Investigations Committee quarterly meetings, where issues concerning OIG investigative matters are discussed.

**SUMMARY OF INSPECTOR GENERAL
REPORTING REQUIREMENTS**

| IG Act Reference | Reporting Requirement | Pages |
|-------------------------|--|--------------|
| Section 4(a)(2) | Review of legislation and regulations | 7 |
| Section 5(a)(1) | Significant problems, abuses and deficiencies | None |
| Section 5(a)(2) | Recommendations with respect to significant problems, abuses, or deficiencies | None |
| Section 5(a)(3) | Prior significant recommendations on which corrective actions have not been completed | 10 |
| Section 5(a)(4) | Matters referred to prosecutive authorities | None |
| Section 5(a)(5) | Summary of instances where information was refused | None |
| Section 5(a)(6) | List of audit reports by subject matter | None |
| Section 5(a)(7) | Summary of each particularly significant report | None |
| Section 5(a)(8) | Statistical table Reports with questioned costs | 11 |
| Section 5(a)(9) | Statistical table recommendations that funds be put to better use | 12 |
| Section 5(a)(10) | Summary of each audit issued before this reporting period for which no management decision was made by the end of the reporting period | None |
| Section 5(a)(11) | Description and explanation of significant revised management decisions | None |
| Section 5(a)(12) | Significant management decisions with which the inspector general disagrees | None |
| Section 5(a)(13) | Information under Section 5(b) of the Federal Management Improvement Act (FFMIA) of 1996 | None |
| Section 5(a)(14) | Peer Review Activity | 6, App. A |

**TABLE I – Summary of Audit Reports with
Corrective Actions Outstanding for More than 1 Year**

| Report Title | Report Number | Issue Date | Recommendations | | |
|---------------------------------------|---------------|------------|-----------------|------|--------|
| | | | Number | Open | Closed |
| FY 2012 Implementation of FISMA | A13-03 | 12/21/12 | 2 | 2 | 0 |
| FY 2012 Privacy and Data Protection | A13-02 | 12/6/12 | 5 | 5 | 0 |
| FY 2011 Implementation of FISMA | A12-02 | 1/17/12 | 20 | 9 | 11 |
| Review of FMC's User Fee Calculations | OR10-03 | 5/27/10 | 1 | 1 | 0 |
| FY 2009 Implementation of FISMA | A10-02 | 1/28/10 | 19 | 1 | 18 |

TABLE II - Listing of Audit Reports Issued

| Report Number | Issue Date | Report Title | Questioned Costs | Unsupported Costs | Funds Put to Better Use |
|---------------|------------|--------------|------------------|-------------------|-------------------------|
| NONE | | | \$0 | \$0 | \$0 |

TABLE III**Reports with Questioned Costs**

| | Number of Reports | Questioned Costs | Unsupported Costs |
|---|----------------------------------|-----------------------------|------------------------------|
| A. For which no management decision has been made by the commencement of the reporting period. | 0 | \$0 | \$0 |
| B. Which were issued during the reporting period. | 0 | \$0 | \$0 |
| Subtotal (A + B) | 0 | \$0 | \$0 |
| C. For which a management decision was made during the reporting period. | 0 | \$0 | \$0 |
| (i) dollar value of disallowed costs; and | 0 | \$0 | \$0 |
| (ii) dollar value of costs not disallowed | 0 | \$0 | \$0 |
| D. For which no management decision has been made by the end of the reporting period. | 0 | \$0 | \$0 |
| E. Reports for which no management decision was made within six months of issuance. | 0 | \$0 | \$0 |

TABLE IV
Recommendations That Funds Be Put To Better Use

| | Number of Reports | Dollar Value |
|--|-------------------------|--------------|
| A. For which no management decision has been made by the commencement of the reporting period. | 0 | \$0 |
| B. Which were issued during the reporting period. | 0 | \$0 |
| Subtotal (A + B) | 0 | \$0 |
| C. For which a management decision was made during the reporting period. | 0 | \$0 |
| (i) dollar value of recommendations that were agreed to by management; and | 0 | \$0 |
| (ii) dollar value of recommendations that were not agreed to by management | 0 | \$0 |
| D. For which no management decision has been made by the end of the reporting period. | 0 | \$0 |
| E. Reports for which no management decision was made within six months of issuance | 0 | \$0 |

Appendix A

Peer Review Activity

In accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Section 989C of P.L. 111-203), which amended Section 5 of the Inspector General Act of 1978, OIGs are required to include in their semiannual reports (SAR) to Congress the results of peer reviews of their offices, as well as outstanding and not fully implemented recommendations from peer reviews the OIG received from another OIG, and outstanding and not fully implemented recommendations the OIG made in any peer review it performed for another OIG.

The FMC OIG completed an audit peer review of the Consumer Product Safety Commission (CPSC) OIG during this reporting period and issued a *pass* rating in the final system review report dated March 14, 2014. There were no deficiencies or recommendations included in the report. Consistent with the requirements of Section 989C of P.L. 111-203, the FMC OIG is required to include in our semiannual report a list of any outstanding and not fully implemented recommendations by the CPSC OIG; there are none.

In accordance with the Council of Inspectors General on Integrity and Efficiency (CIGIE) Audit Peer Review schedule, the Postal Regulatory Commission (PRC) OIG conducted an audit peer review of the FMC OIG in a prior reporting period. A final system review report was issued to the FMC OIG on March 28, 2013; this office received a *pass* rating. There were no weaknesses or recommendations identified in the system review report.

HOTLINE COMPLAINTS

The success of the OIG mission to prevent fraud, waste and abuse depends on the cooperation of FMC employees and the public.

Employees and the public are encouraged to contact the OIG regarding any incidents of possible waste, fraud or abuse occurring within FMC programs and operations.

A COMPLAINT CAN BE REPORTED BY CALLING OUR 24-HR DIRECT LINE:

(202) 523-5865

E-MAIL ADDRESS: OIG@FMC.GOV

OR

<https://www2.fmc.gov/oigcomplaints/>

TO PLACE A COMPLAINT IN WRITING PLEASE MAIL TO:

**Federal Maritime Commission
Office of Inspector General
Room 1054
800 North Capitol Street, NW
Washington, DC 20573**

To Be Opened By the IG Only

THE INFORMATION YOU PROVIDE IS CONFIDENTIAL AND YOU CAN BE ANONYMOUS.

HOWEVER, CALLERS ARE ENCOURAGED TO ASSIST THE INSPECTOR GENERAL BY SUPPLYING INFORMATION AS TO HOW THEY MAY BE CONTACTED FOR ADDITIONAL INFORMATION.