Office of Inspector General

Independent Auditor's Report of FMC's FY 2012 Financial Statements

A13-04

November 2012

FEDERAL MARITIME COMMISSION

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FEDERAL MARITIME COMMISSION
Office of Inspector General
Washington, DC 20573-0001

November 14, 2012

Office of Inspector General

The Honorable Richard A. Lidinsky, Jr.
Chairman
Federal Maritime Commission

I am pleased to provide you with the attached audit report required by the Accountability for Tax Dollars Act of 2002 (ATDA), which presents an unqualified opinion on the Federal Maritime Commission's (FMC) FY 2012 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. We commend the FMC for the noteworthy accomplishment of attaining an unqualified (clean) opinion for the ninth consecutive year.

The Office of Inspector General (OIG) engaged the independent certified public accounting firm of Regis & Associates, P.C. (Regis) to perform the audit of the FMC's financial statements for the fiscal year ended September 30, 2012. 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 Federal Maritime Commission, Regis 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 in internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations; and
- no reportable noncompliance with laws and regulations tested.

To fulfill our responsibilities under ATDA and related legislation for ensuring the quality of the audit work performed, the OIG monitored Regis's audit of FMC's FY 2012 financial statements by:

- reviewing Regis's approach and planning of the audit;

- evaluating the qualifications and independence of its auditors;
- monitoring the progress of the audit at key points;
- examining its work papers related to planning the audit, assessing the FMC's internal control, and substantive testing;
- reviewing Regis's audit report to ensure compliance with *Government Auditing Standards* and OMB Bulletin No. 07-04, as amended;
- coordinating the issuance of the audit report; and
- performing other procedures we deemed necessary.

Our review disclosed no instances where Regis did not comply, in all material respects, with U.S. Generally Accepted Government Auditing Standards. However, our review cannot be construed as an audit in accordance with U.S. Generally Accepted Government Auditing Standards. It was not intended to enable us to express, and we do not express, any opinion on the FMC's financial statements, conclusions about the effectiveness of internal control, or conclusions on compliance with laws and regulations. Regis is solely responsible for the attached auditor's report dated November 9, 2012, and the conclusions expressed in the report.

We appreciate the cooperation and courtesies extended to both Regis and OIG staff during the audit.

Sincerely,

/Adam R. Trzeciak/
Inspector General

Attachment

cc: Commissioners
Managing Director

REGIS ASSOCIATES, PC
MANAGEMENT CONSULTANTS &
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

The Honorable Richard A. Lidinsky, Jr.
Chairman
Federal Maritime Commission
Washington, DC

In accordance with the Accountability of Tax Dollars Act of 2002, we have audited the accompanying balance sheets of the Federal Maritime Commission as of September 30, 2012 and 2011, and the related statements of net cost, changes in net position, budgetary resources, and custodial activity for the years then ended. In our audit of the Federal Maritime Commission's financial statements for fiscal years ended September 30, 2012 and 2011, we found:

- the financial statements are presented fairly, in all material respects, in conformity with U.S. Generally Accepted Accounting Principles;
- no material weaknesses in internal control over financial reporting (including safeguarding assets), and compliance with laws and regulations; and
- no reportable noncompliance with the laws, and regulations we tested.

The following sections discuss in more detail (1) these conclusions, (2) our audit objectives, scope and methodology, (3) agency comments, and our evaluation.

Opinion on Financial Statements

In our opinion, the financial statements, including the accompanying notes, present fairly, in all material respects, the Federal Maritime Commission's assets, liabilities, and net position as of September 30, 2012 and 2011; and net costs; changes in net position; budgetary resources; and custodial activity for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

1400 Eye Street, NW, Suite 425, Washington, DC 20005 Tel 202-296-7101 Fax 202-296-7284

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 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 the Management's Discussion and Analysis (MD&A) section of the Federal Maritime Commission's Performance and Accountability Report for Fiscal Year 2012. 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. However, for the controls we tested, we found no material weakness in internal control over financial reporting (including safeguarding assets) and compliance.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with Generally Accepted Accounting Principles, such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting and compliance was for the limited purpose described in the first paragraph of this section, and would not necessarily disclose all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses or significant deficiencies, as defined above.

Compliance with Laws and Regulations

Our tests of the Federal Maritime Commission's compliance with selected provisions of laws and regulations for fiscal year 2012 disclosed no instances of noncompliance that would be reportable under U.S. Generally Accepted Government Auditing Standards, or OMB audit guidance. However, the objective of our audit was not to provide an opinion on overall compliance with laws and regulations. Accordingly we do not express such an opinion.

Objectives, Scope, and Methodology

The Federal Maritime Commission's management is responsible for (1) preparing the financial statements in conformity with U.S. Generally Accepted Accounting Principles, (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of the Federal Managers' Financial Integrity Act are met; and (3) complying with applicable laws and regulations.

We are responsible for obtaining reasonable assurance about whether the financial statements are presented fairly, in all material respects, in conformity with U.S. Generally Accepted Accounting Principles. We are also responsible for (1) obtaining a sufficient understanding of internal control over financial reporting and compliance to plan the audit, (2) testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements and laws for which OMB audit guidance requires testing, (3) performing limited procedures with respect to certain other information appearing in the Annual Financial Statements, and (4) expressing an opinion on these financial statements based on our audit.

In order to fulfill these responsibilities, we:

- examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessed the accounting principles used and significant estimates made by management;
- evaluated the overall presentation of the financial statements;
- obtained an understanding of the FMC and its operations, including its internal control related to financial reporting (including safeguarding assets), and compliance with laws and regulations (including execution of transactions in accordance with budget authority);
- tested relevant internal controls over financial reporting and compliance, and evaluated the design and operating effectiveness of internal control;
- considered the design of the process for evaluating and reporting on internal control and financial management systems under the Federal Managers' Financial Integrity Act; and
- tested compliance with selected provisions of laws and regulations.

We did not evaluate all internal controls relevant to operating objectives, as broadly defined by the Federal Managers' Financial Integrity Act, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to controls over financial reporting and compliance. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We caution that our internal control testing may not be sufficient for other purposes and that projecting our evaluation to future periods is subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with controls may deteriorate.

We did not test compliance with all laws and regulations applicable to the Federal Maritime Commission. We limited our tests of compliance to selected provisions of laws and regulations that have a direct and material effect on the financial statements, and those required by OMB audit guidance that we deemed applicable to the Federal Maritime Commission's financial statements for the fiscal year ended September 30, 2012. We caution that noncompliance may occur and not be detected by these tests, and that such testing may not be sufficient for other purposes.

We performed our audit in accordance with auditing standards generally accepted in the United States and OMB audit guidance.

Agency Comments and Our Evaluation

The Federal Maritime Commission concurred with the facts and conclusions in our report. See Appendix A.

Regis & Associates, PC

Regis & Associates, PC
Washington, DC

November 9, 2012

FEDERAL MARITIME COMMISSION
BALANCE SHEET
AS OF SEPTEMBER 30, 2012 AND 2011

	2012	2011
Assets:		
Intragovernmental		
Fund Balance With Treasury (Note 2)	$ 4,254,644	$ 3,792,671
Total Intragovernmental	4,254,644	3,792,671
Accounts Receivable, Net (Note 3)	4,031	979
Property, Equipment, and Software, Net (Note 4)	420,323	525,021
Other	-	300
Total Assets	$ 4,678,998	$ 4,318,971
Liabilities:		
Intragovernmental		
Accounts Payable	$ 201,490	$ 146,636
Employer Contributions and Payroll Taxes Payable	191,260	188,998
Unfunded FECA Liability (Note 6)	324	1,956
Custodial Liability (Note 6)	256	979
Other	-	870
Total Intragovernmental	393,330	339,439
Accounts Payable	177,008	103,362
Federal Employee and Veterans' Benefits (Note 6)	5,910	5,910
Accrued Liabilities	901,485	951,116
Employee Contributions and Payroll Taxes Payable	24,363	24,546
Unfunded Leave (Note 6)	1,276,758	1,229,110
Total Liabilities	$ 2,778,854	$ 2,653,483
Net Position:		
Unexpended Appropriations - Other Funds	2,759,038	2,378,313
Cumulative Results of Operations - Other Funds	(858,894)	(712,825)
Total Net Position	$ 1,900,144	$ 1,665,488
Total Liabilities and Net Position	$ 4,678,998	$ 4,318,971

The accompanying notes are an integral part of these financial statements

FEDERAL MARITIME COMMISSION
STATEMENT OF NET COST
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

		2012		2011
Program Costs:				
Operational and Administrative				
Gross Costs	$	16,908,154	$	17,474,598
Less: Earned Revenue		(41,676)		-
Net Program Costs	$	16,866,478	$	17,474,598
Formal Proceedings				
Gross Costs	$	7,374,383	$	7,576,489
Less: Earned Revenue		-		(39,856)
Net Program Costs	$	7,374,383	$	7,536,633
Office of Inspector General				
Gross Costs	$	743,557	$	721,109
Less: Earned Revenue		(12,984)		(19,336)
Net Program Costs	$	730,573	$	701,773
Office of Equal Employment Opportunity				
Gross Costs	$	193,612	$	198,706
Net Program Costs	$	193,612	$	198,706
Net Cost of Operations (Note 8)	$	25,165,046	$	25,911,710

The accompanying notes are an integral part of these financial statements

FEDERAL MARITIME COMMISSION
STATEMENT OF CHANGES IN NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

		2012		2011
Cumulative Results of Operations:				
Beginning Balances	$	(712,825)	$	(600,844)
Budgetary Financing Sources:				
Appropriations Used		23,560,395		24,236,436
Other Financing Sources (Non-Exchange):				
Imputed Financing Sources (Note 11)		1,458,582		1,563,293
Total Financing Sources		25,018,977		25,799,729
Net Cost of Operations		(25,165,046)		(25,911,710)
Net Change		(146,069)		(111,981)
Cumulative Results of Operations	$	(858,894)	$	(712,825)
Unexpended Appropriations:				
Beginning Balances	$	2,378,313	$	2,647,804
Budgetary Financing Sources:				
Appropriations Received		24,100,000		24,135,000
Other Adjustments		(158,880)		(168,055)
Appropriations Used		(23,560,395)		(24,236,436)
Total Budgetary Financing Sources		380,725		(269,491)
Total Unexpended Appropriations	$	2,759,038	$	2,378,313
Net Position	$	1,900,144	$	1,665,488

The accompanying notes are an integral part of these financial statements

FEDERAL MARITIME COMMISSION
STATEMENT OF BUDGETARY RESOURCES
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

		2012		2011
Budgetary Resources:				
Unobligated Balance Brought Forward, October 1	$	1,245,904	$	1,303,927
Recoveries of Prior Year Unpaid Obligations		182,051		103,585
Unobligated balance from prior year budget authority, net		1,269,074		1,287,727
Appropriations		24,100,000		24,086,730
Spending authority from offsetting collections		54,660		59,192
Total Budgetary Resources	$	25,423,734	$	25,433,649
Status of Budgetary Resources:				
Obligations Incurred (Note 12)	$	24,138,684	$	24,187,745
Unobligated balance, end of year:				
Apportioned		86,652		25,375
Unapportioned		1,198,398		1,220,529
Total unobligated balance, end of year		1,285,050		1,245,904
Total Status of Budgetary Resources	$	25,423,734	$	25,433,649
Change in Obligated Balance:				
Unpaid Obligations, Brought Forward, October 1	$	2,546,766	$	3,558,091
Adjustment to obligated balance, start of year		(2,969,594)		(2,546,766)
Obligated balance, start of year, as adjusted		(422,828)		1,011,325
Obligations Incurred		24,138,684		24,187,745
Outlays (gross)		(23,533,805)		(25,095,485)
Recoveries of Prior Year Unpaid Obligations		(182,051)		(103,585)
Obligated balance, end of year				
Unpaid obligations, end of year		2,969,594		2,546,766
Obligated balance, end of year	$	2,969,594	$	2,546,766
Budget Authority and Outlays, Net:				
Budget authority, gross	$	24,154,660	$	24,145,922
Actual offsetting collections		(54,660)		(59,192)
Budget Authority, net	$	24,100,000	$	24,086,730
Outlays, gross	$	23,533,806	$	25,095,485
Actual offsetting collections		(54,660)		(59,192)
Outlays, net		23,479,146		25,036,293
Distributed Offsetting Receipts		664,935		2,430,482
Agency outlays, net		24,144,081		27,466,775

The accompanying notes are an integral part of these financial statements

FEDERAL MARITIME COMMISSION
AS OF SEPTEMBER 30, 2012 AND 2011
STATEMENT OF CUSTODIAL ACTIVITY

		2012		2011
Revenue Activity:				
Sources of Cash Collections:				
Miscellaneous	$	1,006,298	$	2,430,482
Total Cash Collections (Note 13)		1,006,298		2,430,482
Accrual Adjustments		-		865
Total Custodial Revenue	$	1,006,298	$	2,431,347
Disposition of Collections:				
Transferred to Others (by Recipient)	$	1,006,298	$	2,430,482
Retained by the Reporting Entity				865
Net Custodial Activity	$	-	$	-

The accompanying notes are an integral part of these financial statements

FEDERAL MARITIME COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Federal Maritime Commission (FMC) 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 (U.S.). 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 (OSRA), 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), ports and ocean transportation intermediaries (OTIs) (non-vessel-operating common carriers and freight forwarders) who operate in the U.S. foreign commerce to ensure that 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 appropriately remedy malpractices and violations of the prohibited acts set forth in section 10 of the 1984 Act; reviews competitive activities of common carrier alliances and other agreements among common carriers and/or terminal operators; 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, accuracy, and reasonable terms. The FMC also issues licenses to qualified OTIs in the U.S., ensures that all OTIs are bonded or maintain other evidence of financial responsibility, and, pursuant to 46 U.S.C. §§ 44102 and 44103, ensures that passenger vessel operators (PVO) demonstrate adequate financial responsibility to indemnify passengers in the event of nonperformance of voyages or passenger injury or death.

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 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, net cost of operations, changes in net position, and the status and availability of budgetary resources of the FMC. The statements are a requirement of the Accountability of Tax Dollars Act of 2002. 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 approved by the Federal Accounting Standards Advisory Board (FASAB), 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 the 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. Balances on these statements may therefore differ from those on financial reports prepared pursuant to other OMB directives that are primarily used to monitor and control the FMC's use of budgetary resources.

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.

FMC does not maintain bank accounts of its own, has no disbursing authority and does not maintain cash held outside of Treasury. Treasury disburses funds for FMC on demand.

E. Accounts Receivable

Accounts receivable consists of amounts owed to the FMC by other Federal agencies, its employees and the general public. Accounts receivable in the Salaries and Expense Fund represent employee-related receivables. An allowance for uncollectible accounts receivable from the public is established when, based upon a review of outstanding accounts, management determines that collection is unlikely to occur considering the debtor's ability to pay. Debts six months or more past due are referred to the Department of Treasury for follow-up collection efforts in keeping with the Debt Collection Improvement Act of 1996 (DCIA). Treasury's Debt Management Services (DMS) administers the program and adds a fee equal to 28 percent of the amount of debt that is less than 2 years delinquent or 30 percent of debts delinquent by 2 years or more. Collections, net of fees, are returned to the FMC for remittance to the general fund of the Treasury.

F. Property, Equipment, and Software

Property, equipment and software represent furniture, fixtures, equipment, and information technology (IT) 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, except wherein the tenant improvement allowance specified in lease agreements covers the costs of certain renovations. Maintenance and repair costs are expensed as incurred. The FMC's capitalization threshold is $25,000 for individual purchases. 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
IT Software	5

G. Advances and Prepaid Charges

Advance payments are generally prohibited by law. There are exceptions, such as some 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 represents 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 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. Nonvested leave is expensed when used. Any liability for unused sick leave that is accrued but not taken by a Civil Service Retirement System (CSRS)-covered employee is transferred to the 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 effective at 50% beginning FY2010 and 100% in 2014.

J. Accrued and Actuarial Workers' Compensation

The Federal Employees' Compensation Act (FECA) administered by the U.S. Department of Labor (DOL) addresses all claims brought by FMC employees for on-the-job injuries. The DOL bills each agency annually as its claims are paid, and the actual costs incurred are reflected as a liability to the agency. 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's contribution, equal to seven percent 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. All employees are eligible to contribute to the Thrift Savings Plan (TSP). For those employees participating in the FERS, a TSP account is automatically established and FMC makes a mandatory one percent contribution to this account. In addition, FMC makes matching contributions, ranging from one to four percent, for FERS eligible employees who contribute to their TSP accounts. Matching contributions are not made to the TSP accounts established by CSRS employees. For FERS participants, FMC also remits the employer's share of the required contribution.

FERS employees and certain CSRS reinstatement employees are eligible to participate in the Social Security program after retirement.

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.

The 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.

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 FMC with certain cost factors that estimate the true cost of providing the post-retirement benefit to current employees. 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 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 and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. 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 2012 and 2011 to the extent directed by OMB.

O. Contingencies

The FMC recognizes contingent liabilities when a past event or exchange transaction has occurred, a future outflow or other sacrifice of resources is probable, and the future outflow or sacrifice of resources is measurable. 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. 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.

NOTE 2. FUND BALANCE WITH TREASURY

Fund balance with Treasury account balances as of September 30, 2012 and 2011 were as follows:

	2012	2011
Fund Balances:		
Appropriated Funds	$ 4,254,644	$ 3,792,671
Total	$ 4,254,644	$ 3,792,671
Status of Fund Balance with Treasury:		
Unobligated Balance		
Available	$ 86,652	$ 25,375
Unavailable	1,198,398	1,220,529
Obligated Balance Not Yet Disbursed	2,969,594	2,546,767
Total	$ 4,254,644	$ 3,792,671

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 cash balance on hand. (See also Undelivered Orders at the End of the Period, Note 10.)

NOTE 3. ACCOUNTS RECEIVABLE

Accounts receivable balances as of September 30, 2012 and 2011 were as follows:

	2012	2011
With the Public		
Accounts Receivable	$ 4,031	$ 979
Total Accounts Receivable	$ 4,031	$ 979

The accounts receivable is primarily made up of employee receivables and custodial collections.

Historical experience has indicated that the majority of the receivables are collectible. There are no material uncollectible accounts as of September 30, 2012 and 2011.

NOTE 4. PROPERTY, EQUIPMENT, AND SOFTWARE

Schedule of Property, Equipment, and Software as of September 30, 2012:

Major Class	Acquisition Cost	Accumulated Amortization/ Depreciation	Net Book Value
Leasehold Improvements	$ 225,000	$ 157,500	$ 67,500
Furniture & Equipment	315,250	143,006	172,244
Software-in-Development	180,579	-	180,579
Total	$ 720,829	$ 300,506	$ 420,323

Schedule of Property, Equipment, and Software as of September 30, 2011:

Major Class	Acquisition Cost	Accumulated Amortization/ Depreciation	Net Book Value
Leasehold Improvements	$ 225,000	$ 112,500	$ 112,500
Furniture & Equipment	520,566	288,624	231,942
Software-in-Development	180,579	-	180,579
Total	$ 926,145	$ 401,124	$ 525,021

NOTE 5. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

The liabilities for FMC as of September 30, 2012 and 2011 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.

		2012		2011
Intragovernmental – FECA	$	324	$	1,956
Intragovernmental – Unemployment Insurance		-		870
Actuarial FECA		5,910		5,910
Unfunded Leave		1,276,758		1,229,110
Total Liabilities Not Covered by Budgetary Resources	$	1,282,992	$	1,237,846
Accounts Payable		378,498		249,998
Accrued Funded Payroll and Leave		901,485		951,116
Employer Contributions and Payroll Taxes Payable		215,623		213,544
Custodial Liability		256		979
Total Liabilities	$	2,778,854	$	2,653,483

FECA and the Unemployment Insurance liabilities represent the unfunded liability for actual workers compensation claims paid on FMC's behalf and payable to 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. 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 lease locations and terms are listed below:

Location	Term	Lease Expiration Date
Washington DC	10 years	10/31/2012
Jamaica, NY	5 years	07/01/2013
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

The lease amounts vary from year to year depending on the specific lease. The schedule of future payments for the term of the leases is as follows:

Fiscal Year	Totals
2013	$ 347,931
2014	71,819
2015	73,070
2016	74,665
2017	75,665
Thereafter	189,221
Total Future Payments	$ 832,371

The operating lease amount does not include estimated payments for leases with annual renewal options. Real estate taxes included in the Washington, DC lease may escalate depending on the market during the year they are due.

NOTE 7. CONTINGENCIES

FMC did not have any material commitments or contingencies that met disclosure requirements as of September 30, 2012. FMC records commitments and contingent liabilities for legal cases in which payment has been deemed probable and the amount of potential liability has been estimated. There is one legal action pending against FMC in which claims have been asserted that may be based on action taken by FMC. Management intends to vigorously contest all such claims. In FY2012, based on information provided by legal counsel, FMC estimates a possible liability of $300,000 in connection with this lawsuit. There were no contingent liabilities as of September 30, 2012.

NOTE 8. INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE

Intragovernmental costs and exchange revenue represent goods and services exchange transactions made between two reporting entities within the Federal government, and are in contrast to those with non-Federal entities (the public). Such costs are summarized as follows:

	2012	2011
Operational and Administrative		
Intragovernmental Costs	$ 4,811,649	$ 5,107,709
Public Costs	12,096,505	12,366,889
Total Program Costs	16,908,154	17,474,598
Less: Intragovernmental Earned Revenue	(41,676)	-
Net Program Costs	16,866,478	17,474,598
Formal Proceedings		
Intragovernmental Costs	1,529,477	1,553,388
Public Costs	5,844,906	6,023,101
Total Program Costs	7,374,383	7,576,489
Less: Intragovernmental Earned Revenue	-	(39,856)
Net Program Costs	7,374,383	7,536,633
Office of Inspector General		
Intragovernmental Costs	129,247	129,943
Public Costs	614,311	591,166
Total Program Costs	743,558	721,109
Less: Intragovernmental Earned Revenue	(12,984)	(19,336)
Net Program Costs	730,574	701,773
Office of Equal Employment Opportunity		
Intragovernmental Costs	28,549	33,614
Public Costs	165,063	165,092
Total Program Costs	193,612	198,706
Net Program Costs	193,612	198,706
Total Intragovernmental costs	6,498,922	6,824,654
Total Public costs	18,720,784	19,146,248
Total Costs	25,219,706	25,970,902
Less: Total Intragovernmental Earned Revenue	(54,660)	(59,192)
Total Net Cost	$ 25,165,046	$ 25,911,710

NOTE 9. 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, 2012 and 2011 imputed financing was as follows:

	2012	2011
Office of Personnel Management	$ 1,458,582	$ 1,563,293
Total Imputed Financing Sources	$ 1,458,582	$ 1,563,293

NOTE 10. BUDGETARY RESOURCE COMPARISONS TO THE BUDGET OF THE UNITED STATES GOVERNMENT

The President's Budget that will include FY12 actual budgetary execution information has not yet been published. The President's Budget is scheduled for publication in February 2013 and can be found at the OMB Web site: *http://www.whitehouse.gov/omb/*. The 2012 Budget of the United States Government, with the "Actual" column completed for 2011, has been reconciled to the Statement of Budgetary Resources and there were no material differences.

NOTE 11. APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED

Obligations incurred and reported in the Statement of Budgetary Resources as of September 30, 2012 and 2011 consisted of the following:

	2012	2011
Direct Obligations, Category A	$ 24,084,024	$ 24,128,553
Reimbursable Obligations, Category A	54,660	59,192
Total Obligations Incurred	$ 24,138,684	$ 24,187,745

Category A apportionments distribute budgetary resources by fiscal quarters.

NOTE 12. UNDELIVERED ORDERS AT THE END OF THE PERIOD

Undelivered orders represent goods and services which have been ordered but not yet received at fiscal year end. Statement of Federal Financial Accounting Standards No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, states that the amount of budgetary resources obligated for undelivered orders at the end of the period should be disclosed. For the years ending September 30, 2012 and 2011, respectively, undelivered orders amounted to the following:

	2012		2011	
Undelivered Orders	$	1,473,988	$	1,132,410
Total Undelivered Orders	$	1,473,988	$	1,132,410

NOTE 13. CUSTODIAL ACTIVITY

FMC is an administrative agency collecting for the General Fund. As a collecting entity, FMC measures and reports cash collections and refunds as custodial activity on the Statement of Custodial Activity. Cash collections result primarily from FMC regulatory activities to include the assessment of fines and penalties and the payment of license application fees by ocean transportation intermediaries. A small portion of amounts collected is for interest on past due fines, petitions, status changes and special permission fees.

Custodial receipts are broken out in the following general receipt funds:

	2012		2011	
Fines, Penalties, and Forfeitures	$	665,000	$	2,097,500
General Fund Proprietary Receipts (user fees)		341,673		336,252
Refund of User Fees		(375)		(3,270)
Total Custodial Collections	$	1,006,298	$	2,430,482

NOTE 14. 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.

	2012	2011
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	$ 24,138,684	24,187,745
Spending Authority From Offsetting Collections and Recoveries	$ (236,711)	(162,777)
Obligations Net of Offsetting Collections and Recoveries	23,901,973	24,024,968
Offsetting Receipts	664,935	2,430,482
Net Obligations	24,566,908	26,455,450
Other Resources		
Imputed Financing From Costs Absorbed By Others	1,458,582	1,563,293
Net Other Resources Used to Finance Activities	1,458,582	1,563,293
Total Resources Used to Finance Activities	26,025,490	28,018,743
Resources Used to Finance Items Not Part of the Net Cost of Operations:		
Change In Budgetary Resources Obligated For Goods, Services and Benefits Ordered But Not Yet Provided	(341,579)	211,467
Resources That Fund Expenses Recognized In Prior Periods	(2,502)	1,086
Other	(664,935)	(2,430,482)
Total Resources Used to Finance Items Not Part of Net Cost of Operations	(1,009,016)	(2,217,929)
Total Resources Used to Finance the Net Cost of Operations	25,016,474	25,800,814
Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods		
Increase In Annual Leave Liability	47,648	12,109
Other	-	(5,911)
Total Components of Net Cost of Operations That Will Require or Generate Resources In Future Periods	47,648	6,198
Components Not Requiring or Generating Resources		
Depreciation and Amortization	104,698	104,698
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	100,924	104,698
Total Components of Net Cost of Operations That Will Not Require or Generate Resources In The Current Period	148,572	110,896
Net Cost of Operations	$ 25,165,046	$ 25,911,710

APPENDIX A -

FEDERAL MARITIME COMMISSION COMMENTS ON DRAFT AUDIT REPORT

FEDERAL MARITIME COMMISSION
Office of Inspector General
Washington, DC 20573-0001

November 14, 2012

Office of Inspector General

Regis & Associates, PC
Lateef Abassi, CPA
1400 Eye Street, NW Suite 425
Washington DC 20005

Dear Mr. Abassi,

I have reviewed the draft audit report provided to me relating to your audit of the Federal Maritime Commission for the fiscal year ended September 30, 2012. I concur with the facts and conclusions in the draft report.

Sincerely,

/Adam R. Trzeciak/
Inspector General

Attachment

cc: Commissioners
Managing Director