

Office of Inspector General

FY 2013 Financial Statement
Management Letter

A14-01A



January 2014

FEDERAL MARITIME COMMISSION



FEDERAL MARITIME COMMISSION
Washington, DC 20573

January 31, 2014

Office of Inspector General

TO: Chairman Mario Cordero
Commissioner Rebecca F. Dye
Commissioner Richard A. Lidinsky
Commissioner Michael A. Khouri
Commissioner William P. Doyle

FROM: Jon Hatfield 
Interim Inspector General

SUBJECT: Transmittal of the Fiscal Year 2013 Management Letter

The Office of Inspector General (OIG) submits to you the fiscal year (FY) 2013 financial statement audit *management letter*. 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 issues that are reported in the attached *management letter*; one of which has already been resolved related to the recording of penalties and fines (comment #2).

FMC management has responded to the auditors' management letter, and their response is included in this document. Although management did not agree to the recommendation for comment #1, related to monitoring of invoice and payment approval activities, management is planning to "begin a post payment audit process" where a sample of FMC invoices will be audited each month. The OIG's auditors will plan to review this compensating control during the FY 2014 financial statement audit to ensure it addresses the deficiency.

FMC management acknowledges the benefit of the recommendation for comment #3, to develop a database to facilitate tracking of open contracts/obligations for timely funds de-obligation or closeout. Management has indicated there are future plans to address this issue and develop an application in their planned Enterprise Content Management (ECM) system.

Lastly, the recommendation for comment # 4 relates to the lack of a contingency plan to ensure continuity of operations in cases of emergency. Management agrees this is an issue and has plans to address the deficiency. The status of this issue will be reviewed during the OIG's FY 2014 Federal Information Security Management Act evaluation.

The OIG appreciates the attention and cooperation by FMC management and staff. I am happy to meet with you to discuss these issues, and I can be reached at (202) 523-5258.

Attachment

CC: Office of the Managing Director
Office of Budget and Finance
Office of Information Technology



**MANAGEMENT LETTER
ON THE FY 2013 FINANCIAL STATEMENT AUDIT
OF FEDERAL MARITIME COMMISSION**

December 30, 2013

Federal Maritime Commission
Washington, D.C.

We have audited the financial statements of the Federal Maritime Commission (the Commission), as of and for the years ended September 30, 2013 and 2012, and have issued our report thereon dated December 2, 2013. In planning and performing our audit of the financial statements of the Commission, we considered internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements.

During the course of our audit, we had the opportunity to observe various accounting and operating matters, as they relate to the Commission. Based on our audit, we have additional observations and recommendations. Even though, the matters described in this management letter are not considered significant deficiencies, as defined by the American Institute of Certified Public Accountants, these matters are still important in the overall internal control structure of the Commission and require management's attention.

Prior Year Findings - Updated

There were no findings and recommendations in the prior year.

Current Year Comments

1: The Commission's Office of Budget and Finance does not have access to the Internet Payment Platform (IPP) in order to monitor invoice and payment approval activities of the Contracting Officer's Representatives and Bureau of the Public Debt's Administrative Resource Center.

The Bureau of the Public Debt's (BPD) Administrative Resource Center (ARC) uses the U.S. Treasury Financial Management Service's IPP, an electronic invoice processing solution (mandated for all Treasury Bureaus by the Department of Treasury), to process invoices and make payments on behalf of the Commission. IPP is a web-based electronic invoicing and payment information system that is hosted by the Federal Reserve Bank of Boston. Purchase Orders are interfaced from the Oracle system, maintained by ARC, to IPP. Invoices are submitted in IPP by either the vendor or ARC personnel, and are routed to the Commission's delegated Contracting Officer's Representatives (CORs) for approval. Upon approval, the invoice is scheduled for payment. Payment is then made by ARC when due.

The Commission's Chairman has delegated administrative funds control to the Director, Office of Budget and Finance (OBF), through Commission Order 77, *Administrative Control of Funds*. The Director is therefore responsible for approving, certifying, or otherwise authorizing those actions dealing with the use of funds made available to the Commission.

During our fieldwork, we noted that invoices submitted in IPP, by either the vendor or ARC personnel, were routed to the CORs for approval; and were subsequently scheduled for payment, and then paid without being reviewed by the OBF. We noted that OBF has established limits for purchase orders in the Oracle system, and have adequate controls in place to ensure that those limits are not exceeded. However, the lack of review by OBF, of invoices approved for payment by the CORs on a routine basis, puts the Commission at risk of making payments that should not have been authorized. The IPP, as presently set-up, without access by OBF, does not allow for adequate monitoring of the payment approval activities of the CORs prior to payments being made.

Recommendation: We recommend that the Director of OBF establish a procedure to routinely monitor the payment approval activities of the CORs, prior to payments being made by the Commission.

2: Penalties and Fines levied by the Commission were recorded as Accounts Receivable, rather than Custodial Activity.

Accounts receivable are legally enforceable claims for payment to an entity by its customers or clients for goods supplied and/or services rendered in execution of the customers' or clients' orders. Penalties and fines, on the other hand, are financial impositions by a government agency as restitution for wrongdoing. The wrongdoing is typically defined by a codification of legislation, regulations, or decrees.

Although the Commission collects remittances for user fees and penalties, the Commission is not authorized to offset any of its budget authority by utilizing these funds. The collections are deposited directly into the Treasury General Fund, and captured in the Statement of Custodial Activity. As such, the Commission is considered an administrative agency, collecting funds for another government entity or the General Fund of the United States. As a collecting entity, the Commission is required to measure and report cash collections and refunds. These collections are required to be reported as custodial activity 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 part of the custodial activity is the application fees for licenses issued to qualified Ocean Transportation Intermediaries (OTI's) in the U.S., Commission reviews, petitions, status changes, and special permission fees.

During our fieldwork, we noted that the Commission recorded penalties, fines, and forfeitures as receivables on its books of accounts, rather than custodial activity. The matter was brought to the attention of the Commission's Office of Budget and Finance (OBF), and Bureau of the Public Debt's Administrative Resource Center (ARC), and was promptly rectified. We commend the management of OBF, and ARC, for taking immediate action to properly reclassify the penalties, fines, and forfeitures.

Recommendation: We are not making any recommendation, due to the actions already taken by OBF and ARC. We, therefore, consider this comment closed.

3: Comprehensive contract database is not maintained to facilitate tracking of open contracts/obligations for timely contract/obligation closeout.

Commission Order 112, *Procurement*, establishes standards and procedures for the procurement of materials, equipment, and services for the Commission; and serves as internal agency guidance for all applicable Commission acquisitions, in accordance with the Federal Acquisition Regulation (FAR), and as set forth in Titles 41 and 48 of the Code of Federal Regulations. These standards and procedures are promulgated to ensure that materials, equipment, and services are obtained efficiently, economically, and in compliance with the provisions of the FAR, and all applicable Federal laws.

Commission Order 112 also charges the Director, Office of Management Services (OMS), as the principal Contracting Officer for the Commission, with the overall responsibility for managing the Commission's procurement program. Explicit in this responsibility is compliance with FAR. FAR, Subchapter A- *General*, Part 4, *Administrative Matters*, Subpart 4.6- *Contract Reporting*, requires the head of a contracting activity to develop a monitoring process to ensure timely and accurate reporting of contractual actions to the Federal Procurement Data System (FPDS). Implicit in this requirement is the need for a comprehensive database to track contracts in open, completed, or closeout status. The database will also facilitate efficient use of the Commission's resources; since obligated funds remaining on contracts in completed or closeout status can be easily identified, de-obligated, and re-programmed, as may be considered necessary.

During our fieldwork, we noted that OMS did not maintain a database at a level necessary to fully support the requirements of FAR, as discussed in the preceding paragraph. Although OMS currently tracks open contracts and obligations, manually; the manual process does not allow for timely identification of contracts that meet the criteria for funds de-obligation or closeout.

Recommendation: We recommend that the Director of OMS develop a comprehensive contract database to facilitate tracking of open contracts/obligations, for timely funds de-obligation or closeout.

4: The Commission has not developed a contingency plan to ensure continuity of operations in cases of emergency.

In planning and performing our audit of the financial statements of the Commission, we obtained and reviewed reports issued by other agencies to enable us to adequately assess risks related to the audit. During this process, we reviewed an FMC Office of Inspector General report titled "Evaluation of the FMC's Compliance with the Federal Information Security Management Act FY 2012," report number A13-03, December 2012. Comments therein from the Commission's Office of Inspector General indicated that a disaster recovery plan has not been developed and put into operation by the Commission. Inquiry of management during our audit confirmed that the condition, as noted in the report, still exists and is unresolved.

Information technology (IT) and automated information systems are vital elements in most business processes. Because these IT resources are so essential to an organization's success, it is

critical that the services provided by these systems are able to operate effectively, without excessive interruption. Contingency planning supports this requirement, by establishing thorough plans and procedures, and technical measures that can enable a system to be recovered quickly and effectively following a service disruption or disaster. Contingency planning refers to interim measures to recover IT services following an emergency or system disruption. Interim measures may include the relocation of IT systems and operations to an alternate site; the recovery of IT functions, using alternate equipment; or the performance of IT functions, using manual methods.

National Institute of Standards and Technology (NIST) Special Publication 800-34, Rev. 1, *Contingency Planning Guide for Federal Information Systems*, provides instructions, recommendations, and considerations for government IT contingency planning, as noted in the report.

Recommendation: We recommend that the Director, Office of Information Technology, follow the recommendation of the Office of Inspector General and develop and put into operation, a contingency plan that is consistent with the requirements of NIST 800-34.

While this report is intended solely for the information and use of the management of the Federal Maritime Commission, it is also a matter of public record; and its distribution is, therefore, not restricted.

Regis & Associates, PC
Washington, DC

Memorandum

TO : Inspector General

DATE: January 29, 2014

FROM : Managing Director

SUBJECT : Management Letter on the FY 2013 Financial Statement Audit

This is offered in response to the Management Letter on the FY 2013 Financial Statement Audit of the Federal Maritime Commission prepared by Regis & Associates, PC, dated December 30, 2013. Regis & Associates states that “the matters described in this management letter are not considered significant deficiencies,” yet “these matters are still important in the overall internal control structures of the Commission and require management’s attention.”

FMC management has reviewed and considered each of the four comments offered. Comment number 2 did not include a recommendation and is not responded to herein. Comments 1, 3, and 4, and their recommendations, are responded to below.

Comment #1: The auditor commented that the Commission’s Office of Budget and Finance (OBF) does not have access to the Internet Payment Platform (IPP) in order to monitor invoice and payment approval activities of the Contracting Officer’s Representatives (CORs) and the Bureau of the Public Debt’s Administrative Resource Center. It was recommended that the Director, OBF, establish a procedure to routinely monitor the payment approval activities of the CORs, prior to payments being made by the Commission.

Response: FMC management is of the opinion that monitoring of payment approval activities by the OBF prior to payments being made is unnecessary. IPP system and process controls are in place to prevent payments from exceeding the amount of funds obligated for specific purchase orders. Agency CORs receive training and certification in such areas as invoice review and approval prior to receiving their COR delegation letter from the agency Contracting Officer. Further, payments for commercial vendors only are processed through the IPP. At the FMC, less than 5% of our annual appropriation is typically spent on commercial procurements. Additionally, FMS (formerly BPD) will soon begin a post payment audit process where they will be auditing a sample of FMC invoices each month and issuing result findings. This will provide useful information on the performance of the FMC’s CORs.

Comment #3: The auditor commented that a comprehensive contract database was not maintained to facilitate tracking of open contracts / obligations for timely contract / obligation closeout. It was recommended that the Director, OMS, develop a comprehensive contract database to facilitate the tracking of open contracts and/or obligations for timely funds deobligation or closeout.

Response: Currently, the agency Contract Specialist maintains a status report in the form of an Excel spreadsheet of all contract actions, including purchase orders, contracts and interagency agreements, which includes close-out dates and notes on OMS/Procurement contact with CORs and program offices. It is understood by OMS that a comprehensive database could facilitate obligation closeouts and enhance the ability to prepare for upcoming obligation requirements, such as the exercising of contract options and obligation of additional funds after a period of temporary funding, such as the Continuing Resolution. However, until such a database is created, OMS will continue to provide status of all contract actions via the spreadsheet. As the agency develops and implements its Enterprise Content Management system (ECM), an appropriate application will be prepared to electronically facilitate and monitor the contracting requirements of the agency. No immediate modification to the current system is projected.

Comment #4: The auditor commented that the Commission has not developed a contingency plan to ensure continuity of operations in cases of emergency. It was recommended that the Director, OIT, follow the Office of Inspector General's recommendation to develop and put into operation a contingency plan consistent with the requirements of NIST 800-34.

Response: Management is aware of this requirement and, as indicated in the agency's response to the FY 2013 FISMA audit, necessary documentation will be completed during FY 2014 to acknowledge and accept this risk. Management is aware of the need for a finalized contingency plan (COOP) and will make efforts to effectuate such a plan as resources are made available. This matter will be addressed in the future with the development and implementation of the agency's Disaster Recovery Plan.

Vern W. Hill

cc: Office of Budget and Finance
Office of Management Services
Office of Information Technology
Office of the Chairman