Office of Inspector General

FY 2012 Financial Statement Management Letter
A13-04A

March 2013

FEDERAL MARITIME COMMISSION
Office of Inspector General

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

FROM: /Dana Rooney-Fisher/  
Interim Inspector General

SUBJECT: Transmittal of the FY 2012 Management Letter

When performing an audit of an agency’s major financial systems and accounting processes, auditors often detect deficiencies in internal controls that do not rise to a level of seriousness to be reported in the auditor’s opinion. These findings are communicated to the auditee in a management letter. Attached is a copy of the FY 2012 Financial Statement Management Letter that reports on such findings.

During this year’s annual review, there were no new findings or recommendations made. The auditors followed up on prior year findings and closed six of seven recommendations. The recommendation that remains open is for the Commission to implement formal procedures to track civil penalties between the Office of General Counsel and the Office of Budget and Finance. The auditors will monitor and opine on management’s progress on this recommendation during the FY 2013 Audit of FMC’s Financial Statements.

The OIG will continue to review areas vulnerable to accounting error(s) and report any findings in next year’s management letter. I am available to discuss the letter at your convenience.

Attachment
December 7, 2012

Federal Maritime Commission
Washington, D.C.

In planning and performing our audit of the financial statements of the Federal Maritime Commission (FMC) as of September 30, 2012, in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards, issued by the Comptroller General of the United States, we considered the FMC’s internal control over financial reporting as a basis for designing our auditing procedures for the purposes of expressing our opinion on the financial statements, and not for the purpose of expressing an opinion on the effectiveness of the agency’s internal control. However, based on our audit, we are providing an update on recommendations made in prior years’ reports.

Follow-up on Prior Year Findings

Finding 1. Agency Program Officials Risk Unauthorized Commitments and Anti-deficiency Violations when Purchase Orders are Signed after Services Begin

Federal Acquisition Regulation (FAR) 1.602-3, defines an unauthorized commitment as an agreement that is not binding - solely because the government representative who made it lacked the authority to enter into that agreement on behalf of the government.

Section 13(g) of Commission Order 112, Procurement, states that no employee shall enter into a formal or informal agreement to acquire services unless that employee has been delegated specific written authority to do so. The requesting office must not direct a contractor to perform services prior to being notified that a purchase requisition has been approved.

The Anti-Deficiency Act prohibits federal agencies from obligating or expending federal funds in advance or in excess of an appropriation or apportionment. An Anti-Deficiency Act violation occurs when government officials make payments or commit the United States to make payments at some future time for goods or services when there are insufficient funds in the appropriation to cover the cost in full.

During our fieldwork, we identified a number of unauthorized commitments by FMC managers and staff involving transactions processed in house and by the agency’s procurement service provider, the Bureau of Public Debt. These transactions involved purchase orders for services that were “signed off” by the contracting officer (CO) after the period of service had already begun.¹

¹ According to FAR 2.101, a purchase order is an offer by the Government to buy supplies or services upon specified terms and conditions, using simplified acquisition procedures.
For example,

- The agency entered into a contract with a vendor to provide court reporting and transcription for Commission meetings. The order was signed by the contracting officer on November 7, 2009. Before funds were obligated, the vendor provided services for two Commission hearings on October 15th and 29th, 2009.
- The agency signed a contract (order) for cell phone services on December 3, 2008, for services received in October 2008 and November 2008.
- An order for document scanning services was signed by the contracting officer on June 13, 2009. However, the vendor provided daily services to the Commission in March 2009 through June 2009.
- A vendor provided keycard monitoring and maintenance services to the agency beginning on October 1, 2008. The contracting officer signed the order for these services on November 18, 2008.

In all of the above unauthorized commitments, the agency received services without a valid obligating document in place. This puts the vendor, the COR and the agency at risk. The vendor is at risk of not being paid for services provided; the COR is at risk of being personally liable for payment of these services and for an Anti-Deficiency Act violation if funds are not provided by Congress to fund the activity; and the agency at risk of a costly lawsuit if the vendor was told to provide the service by agency personnel.

One cause for late authorization of purchase orders is the timing of the procurement request (PR) by program staff. Section 8(a) of Commission Order 112, *Procurement*, requires staff to prepare a PR to initiate the acquisition of a product or service and to route it through the FMC’s automated procurement and contracting system for concurrence/approval at the required FMC management levels prior to being submitted to the CO for any appropriate action. Further, all PRs shall include sufficient information and lead time to allow for preparation of the procurement material (e.g., purchase order) in compliance with FAR time and content requirements.

For the four orders identified above, we noted that PRs for three of the four orders were dated after the beginning of the performance period. The remaining PR was submitted one day before the performance period, as the following table illustrates:

<table>
<thead>
<tr>
<th>SERVICE</th>
<th>PROCUREMENT REQUEST</th>
<th>PURCHASE ORDER</th>
<th>PERFORMANCE PERIOD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Court Reporting</td>
<td>09/30/08</td>
<td>11/07/08</td>
<td>10/01/08</td>
</tr>
<tr>
<td>Cell Phone</td>
<td>10/15/08</td>
<td>12/03/08</td>
<td>10/01/08</td>
</tr>
<tr>
<td>Document Scanning</td>
<td>06/04/08</td>
<td>06/13/08</td>
<td>03/06/08</td>
</tr>
<tr>
<td>Keycard Monitoring</td>
<td>11/12/08</td>
<td>11/18/08</td>
<td>10/01/08</td>
</tr>
</tbody>
</table>

It is unclear why managers are submitting purchase requisitions after the performance period has already begun. Based on discussions with staff, it appears that, in some of the cases, the timing
of vendor invoices may contribute to some of the delay. Agency managers often know in advance when the agency will be billed for a service. For services that bill at the end of each quarter, we were told that PRs and orders are often prepared just prior to invoicing. However, waiting to obligate funds means that services are being provided to the agency without funding authority, which creates risks to the vendor and the agency, as discussed above.

We also noted that, in all cases, the agency was operating under a continuing resolution (CR) at prior year funding levels. During these periods, it cannot obligate funds for a full year to a vendor due to funding uncertainty. Rather, the agency will “incrementally” fund an activity for some period of time not exceeding the CR. When interim funding runs out, or when a new CR or appropriation bill is enacted, program staff must revise the order for services to, again, obligate funds. Unless CORs actively monitor the funding timeframes in the purchase order, they are unlikely to prepare PRs (and by extension, purchase orders) timely.

Regardless of managers’ intent to spend funds cautiously during CR funding, it is important to have purchase orders in place at the beginning of the period of performance because the purchase order obligates funds for the activity. This ensures that funds will be available to pay for services received, regardless of when the agency is billed.

We commend management for recognizing the seriousness of this issue. On February 4, 2010, the FMC’s Managing Director spoke to FMC participants at the annual COR refresher training about the need to monitor funding to avoid unauthorized commitments.

**Recommendation**

We recommended the Office of the Managing Director include specific language in the COR’s performance plan addressing funding lapses that occur when funding runs out before a new purchase order has been approved.

**FY 2012 Follow-up**

We noted that the Office of the Managing Director included specific language in the COR's performance plan addressing funding lapses that occur when funding runs out before a new purchase order has been approved. Our review of procurement transactions in FY 2012 did not show any such funding lapses.

*We consider this comment closed.*

**Finding 2. Formal Procedures Needed to Track Civil Penalties**

The Bureau of Enforcement is the prosecutorial arm of the Commission. Under the direction and management of the Bureau Director, Bureau attorneys participate as trial counsel in formal Commission proceedings, and work closely with the Commission’s Area Representatives on investigations of potential violations of the Shipping Act and Commission regulations.
The Bureau prepares and serves notices of violations of the relevant shipping statutes and Commission regulations, and often enters into negotiations to compromise (i.e., settle) civil penalty demands arising out of those violations. If settlement is not reached, Bureau attorneys may recommend commencement of a formal Commission proceeding seeking the assessment of civil penalties or other relief for conduct or practices violating the shipping statutes. Bureau attorneys are designated to serve as the prosecuting attorneys on behalf of the Commission in such formal proceedings before the agency’s Administrative Law Judge. After the penalty is assessed, the Office of Budget and Finance (OBF) records collections against the assessment.

The Office of General Counsel (OGC) assigns penalty cases to staff attorneys in the office to monitor progress and outcomes. However, information on civil penalty judgments is not centrally maintained in OGC; i.e., there is no centralized tracking system that would enable it to easily identify all outstanding penalty judgments, i.e., amounts assessed, amounts collected, balance due and due dates. Further, OBF does not know what judgment collections to expect and whether amounts received represent full or partial payments unless indicated by the defendant.

As a hedge against staff losing track of individual penalties assigned to it to monitor (due to reassignments, departures or the press of daily business), and to enhance controls over civil penalty receivables, OGC should centrally track all penalties assigned, noting the attorney assigned, the judgment amount, amounts paid, balance owed, and due date. The due date is important to ensure that the agency complies with the requirements of Debt Collection Improvement Act of 1996.²

**Recommendation**

We recommended the Office of the General Counsel should maintain a database of all civil monetary penalties assessed by the agency. This database should identify the date of the penalty, the defendant’s name, the monetary penalty amount, payment amount and payment date(s). The spreadsheet should be provided to the Office of Budget and Finance with each modification to enable it to record collections against the judgment and timely refer past due amounts to Treasury for collection in accordance with the Debt Collection Improvement Act. All payment activity should be noted on the spreadsheet and shared between OGC and OBF.

**FY 2012 Follow-up**

We noted that the draft Managing Directive that addresses debt collection agency wide, including civil penalties, transfers to Treasury, and maintenance of an accounts receivable report has not been put in operation. We will monitor management’s progress and we will opine on the effectiveness of the new system in our FY 2013 letter.

² The Debt Collection Improvement Act of 1996 centralizes the government collection of delinquent debt. Federal government agencies are required to refer delinquent debts of fines and penalties to Treasury that exceed 180 days. Treasury then acts as the collection agency for the federal government agency.
Finding 3. Human Resources Contractor Evaluation did not Follow FAR Requirements

In fiscal year 2010 the agency procured human resource services for approximately $20,000. The Director of Human Resources (HR) identified three vendors from the Federal Supply Schedule and evaluated each for its ability to meet FMC requirements. In addition, four government “cross-service” providers, offering some or all of the necessary HR disciplines, were considered in a prior evaluation. However, according to the HR Director, these providers did not fully meet the level of technical expertise necessary and/or per hour labor charges quoted for services they provide exceeded quotes obtained from General Services Administration (GSA) vendors. Consequently, they were not considered to be viable alternatives in this procurement action.

Each of the GSA vendors was evaluated based on the vendors’ ability to meet three requirement factors: (i) cost/pricing, (ii) technical capabilities, and (iii) past performance. The evaluation was performed by the HR Director over the telephone. No vendor was provided a statement of work (SOW) and no written proposals were sought from the vendors.

We could not determine from our review of the file what specific services the agency sought to acquire. All firms provided various position classification, staffing and HR management support services. Without a specific need identified, we could not assess the adequacy of the evaluation of the vendors. The evaluation consisted of between two-three sentences for each vendor and did not provide specific examples to support a rating. For example, one firm’s technical capabilities “ranged from fair to good,” without describing why it was fair to good. We also noted a heavy reliance on price as a selection factor. For the winning bidder, the evaluation noted that this firm offered a discounted price from its GSA schedule, which made it the least expensive firm. However, it was not clear whether the evaluator asked the firm for a better price or the firm unilaterally lowered its price. More importantly, there was no indication that the competing firms were given an opportunity to lower their prices.

We also noted that there was no Federal Acquisition Regulation (FAR) required Statement of Work (SOW) prepared for this procurement. The SOW identifies the specific tasks to be accomplished, deliverables, timeframes and costs. The SOW and resulting bid and proposal are used to hold the vendor accountable should the performance on the task not meet the government’s requirements. If this contract fails to meet expectations, the government would have little documentation to support its claims.

**Recommendation**

We recommended the Office of Management Services requires program offices to follow the FAR and prepare work statements, including deliverables and timeframes, for all service

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3 FMC’s cross servicing procurement agent does not consider price in the evaluation. Rather, price is considered after the proposals are evaluated when identifying the best value for the government. The lowest price may not be the best value. This transaction was processed within the FMC’s procurement office.

4 We noted on the purchase order that the rate to be paid ($107/hr) to the vendor was the GSA schedule price. If a discount was offered, the agency did not take it.
requirements, and that evaluations be performed by two or more employees based on the written responses of the vendors.

**FY 2012 Follow-up**

We obtained and reviewed the revised Commission Order 112 to determine whether it addresses the auditors’ recommendation. Although, the Order is still in draft form at the time of our review, we noted that it has been placed in operations, and it addresses the auditors’ comments.

*We consider this comment closed.*

**Finding 4. Sole Source Contract Issued to Non-GSA Vendor without Performing Market Research**

In October 2009, the FMC’s Office of Management Services entered into a sole source contract with a vendor to provide HR-related advisory and assistance services. Total contract value was $55,000. The file contained a detailed statement of work, identifying work description and deliverables.

Federal Acquisition Regulation 6.3 provides guidance on the use of sole source contracts by federal agencies. Each contract awarded without full and open competition must contain a reference to the specific authority under which it was so awarded (Sec. 6.301{b}). Further when not providing for full and open competition, the contracting officer shall still solicit offers from as many potential sources as is practical. (6.301{d}).

The contracting officer prepared a detailed “sole-source” memo, citing FAR 6.302-1, “*Only one responsible source and no other supplies or services will satisfy agency requirements*” as justification for the procurement method. However we found no evidence in the file to indicate that other sources were solicited or even considered.

FAR Part 10, *Market Research*, proscribes policies and procedures for conducting research to arrive at the most suitable approach to acquiring, distributing and supporting supplies and services. Agencies must conduct market research before soliciting offers for acquisitions. Agencies should use the results of market research to determine if sources capable of satisfying agency requirements exist. In other words, a determination that no other source exists has to be supported by efforts to find a vendor to meet the requirement.

FAR Part 8, *Required Sources of Supply*, requires agencies to satisfy their requirements for supplies or services from or through the sources listed in FAR 8.002, *Priorities for use of Government supply sources*. Agencies are required to use, for example, sources listed on GSA’s Federal Supply Schedules before considering open market vendors.
Market research, when used in conjunction with FAR, Part 8, guarantees that agencies will be able to document their sole source decisions. For example, an agency could identify efforts made to use required sources and explain why these sources do not meet its need. The sole source justification would then be supported. We found no documentation in the file, including in the sole source justification memo, that indicated that the agency attempted to address its requirement by using other required sources first. The vendor selected is not on the GSA schedule and is considered to be an “open market” source by the FAR. Open market sources are to be the last option considered by federal agencies when selecting vendors.

The OIG raised similar concerns in a FY 2007 report on a contract for consulting services; specifically that a sole source contract was used to improperly used to justify not seeking a competitive bid on needed services.

**Recommendation**

We recommend management ensure that all future sole source actions are properly documented with market research results following FAR-required sources of services (FAR Parts 10 & 8, respectively).

**FY 2012 Follow-up**

We obtained and reviewed the revised Commission Order 112. Although, the Commission Order 112 is in draft at the time of our review, we noted that it has been revised and placed into operation, and it addresses auditors’ comments.

*We consider this comment closed.*

**Finding 5. Conflict Management: Needs Assessment and Training**

According to Commission Order 112, *Procurement,* all procurement transactions, whether by sealed bids or by negotiation and without regard to dollar value, shall be conducted in a manner that provides for, and promotes, to the maximum extent practicable, full and open competition as expressed in the FAR.

In August 2011, the FMC identified a requirement for a conflict resolution seminar for FMC managers. FMC procurement staff performed market research by meeting with one potential vendor (Vendor #1). A proposal was prepared, dated August 2011, by Vendor #1 to address this requirement. On September 21, 2011, the agency provided three vendors, including Vendor #1, with a Statement of Objectives (SOO) that described the training requirement (objectives) as follows:

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5 See A07-02, *Audit of Contracts*
The workshop shall provide participants with an understanding of the dynamics of conflict and how to resolve conflict effectively with individuals or with groups. The emphasis of the workshop should be on developing skills and tools to understand the causes of conflict and to reach satisfactory outcomes.

This workshop provides (sic) participants with skills and tools to resolve conflicts with individuals and with groups, both internally with a working group, with peers and bosses, across departments and divisions, as well as outside individuals or groups with interests and concerns.

A purchase request to fund this requirement was prepared on September 23, 2011, in the amount of $4,000, the estimated cost submitted by Vendor #1. According to the requisition, the training would be provided over two days for 24 agency employees.

According to FAR 37.602, *Performance Work Statement (PWS)*, a PWS may be prepared by the Government or result from an SOO prepared by the Government where the offeror proposes the PWS. The requests for proposal that were provided to the three vendors requested a PWS, including an agenda of content and activities.

Commission Order (CO) 112, *Procurement*, requires that each technical proposal include instructions for the preparation and evaluation of technical and cost proposals. The weights assigned to the factors are to be established on a case-by-case basis. Examples of evaluation criteria include: (1) the prospective contractor's understanding of the statement of work as shown by its proposed technical approach; (2) the availability and experience of technical personnel to be employed on the project; (3) relevant experience of the organization (e.g., size and dollar value of similar projects); and (4) prospective contractor's proposed method of assuring the achievement of timely and acceptable performance of the work, as proposed.

In its request for proposal, the agency notified vendors in the SOO that the “Government will award a contract... based on the best overall value, to the responsible offeror whose offer confirming to the solicitation will be the most advantageous to the Government, price and other factors considered.” The SOO did not identify what “other factors” would be considered.

Three proposals were received on September 26 and 27. A technical evaluation was performed on September 28 by the FMC training coordinator, indicating that all proposals were technically acceptable. Once this determination was made, price became the determining factor. The vendor the agency met with in August 2011 was the lowest bidder and was selected.

**Analysis**

We believe that this requirement lacked “competition, to the maximum extent possible” as required by CO 112. We believe further that the winning vendor had a competitive advantage over the two other proposals for reasons discussed below.

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6 On November 17, 2011, the task amount was increased by $6,000 to a total of $10,000.
The FMC met with Vendor #1 in August 2011. Although we do not have minutes of the meeting, we found a proposal in the file, dated August 2011, for a two day seminar in conflict resolution. The agency used the meeting as an opportunity to perform market research, according to the CO, to learn about vendor offerings. The meeting and resulting proposal, in themselves, are not necessarily problematic.

Rather, we are concerned that language describing the agency’s conflict resolution workshop requirement in its request for proposal was copied, almost verbatim, from Vendor #1’s August 2011 proposal. For example, the first two paragraphs in Vendor #1’s proposal read as follows:

This workshop is designed to provide participants with an understanding of the dynamics of conflict and how to resolve conflict effectively with individuals or with groups. The emphasis of the workshop is on developing skills and tools to understand the causes of conflict and to reach satisfactory outcomes, even when emotions are high.

This workshop provides participants with skills and tools to resolve conflicts with individuals and with groups, both internally with a working group, with peers and bosses, across departments and divisions, as well as outside individuals or groups with interests and concerns.

A comparison with the two paragraphs identifying FMC’s training requirement near the beginning of this finding (see previous page) shows a very strong correlation between the first paragraphs, and, in the second paragraph, a verbatim relationship.

Vendor #2 and Vendor #3 were not given a clear understanding in the SOO as to how their proposals would be evaluated. “(P)rice and other factors” do not enable these vendors to tailor their proposals to what the FMC considered to be important, whereas the first vendor knew, or was in a better position to know, based on an August 2011 meeting with FMC staff, what the agency was looking for. Vendor #1’s bid was tailored to the FMC’s specific needs. The FMC’s contracting officer pointed out that he spoke with the two vendors prior to soliciting a proposal from them. While this mitigates some of the disparity, we believe it best to provide all vendors with the same opportunity to discuss the requirement. In this instance, the vendor who visited the FMC and provided a description of the requirement that was used in the SOO would, at least in appearance, have a competitive advantage.

According to one contracting officer we spoke with from a sister agency, allowing vendors to propose the PWS leaves the door open for numerous evaluation inconstancies since the content of proposals could range from one end of the spectrum to the other. As such, evaluation documentation and award justification for this type of procurement is extremely important to guard against potential challenges by unsuccessful bidders.

The technical evaluation panel consisted of one agency staff. Her results indicated that “all proposals met the performance criteria.” No additional information about the relative strengths or weaknesses of the approaches, past experience or technical merit was included in the technical evaluation. A price analysis by the CO and contract specialist followed the technical evaluation. As previously stated, the lowest bid was chosen.
The agency did not adequately plan to meet this requirement. Sending out proposals on September 21, with a one week turnaround, provides vendors with little time to prepare a comprehensive proposal and the agency even less time to follow an evaluation plan to review for technical content – given the September 30 fiscal year end. The agency simply ran out of time. If price was the overriding factor, the agency could have adopted a “low price, technically acceptable” approach, where each proposal is reviewed, one at a time, beginning with the lowest price proposal. Once an acceptable technical proposal is found, the evaluation concludes and that proposal is accepted. A “best value” approach is generally far more time consuming and involves the assignment of points to evaluation factors. Only after these technical scores are considered is price considered. The FMC did not assign evaluation points to any proposal.

With an agency the size of the FMC, with most of its appropriation going to salaries, it is sometimes necessary to delay many procurements until near the end of the year to ensure that basic requirements are addressed. In this particular instance, however, the agency was aware of this need in August but chose to wait until September 21.

**Recommendation**

We recommended OMS adhere to FAR and CO 112, *Procurement*, principles of full and open competition and provide all prospective vendors with equal opportunities to compete. Specifically, if one vendor is asked to meet with agency procurement staff, all vendors should have this opportunity.

**FY 2012 Follow-up**

We obtained and reviewed the revised Commission Order 112. Although, the Commission Order 112 is in draft form at the time of our review, we noted that it has been revised and placed into operation, and it addresses auditors’ comments.

*We consider this comment closed.*

**Finding 6. Accounts Payable is Understated**

Accounts payable (or payables) represent amounts owed for purchases of goods or services. During the year, payables are recorded when an invoice, packing slip or receiving report is received by the agency. The Office of Management Services (OMS) reviews all obligations at year-end and establishes an accrual for all services and goods received by year-end (e.g., to recognize that money is owed in the period that the goods were received). For example, an invoice for computer monitors that were delivered on September 15th (FY 2011) may not be sent by the manufacturer until October 10th (FY 2012). The expense should be recorded on the FY 2011 books because the monitors were received in FY 2011.

We reviewed accounts payable at year-end to ensure that all expenses for goods and services were properly recorded in the appropriate period. During our review, we identified
approximately $150,000 in additional FY 2011 payables that were not recorded by the agency in FY 2011. Since the adjustments were not made the agency’s payables and expenses for FY 2011 were understated on the agency’s financial statements.

Identifying expenses when they occur near the end of the fiscal year is a two-step process requiring agency staff (generally finance or procurement staff) (i) to identify large contract and purchase items and to follow-up with the Contracting Officer’s Representatives (COR) or other contact points to inquire whether goods were received, and (ii) to identify or estimate the dollar amount of services or goods that were received since the prior invoice up through the end of the fiscal year (September 30). The amounts are then accrued as payables.

OMS has established a standard operating procedure which reviews all procurements over $10,000 at year end with the COR to determine any amounts that should be accrued. This process is normally performed by sending an e-mail to the COR requesting a statement as to whether any of the goods or services in the open obligation have been received as of September 30th. If services or goods have been received the COR will then provide an estimate of these items to be accrued. The audit team noted that, due to transition in OMS staff members, CORs were not contacted and no accruals were established.

**Recommendation**

We recommend that the Director of OMS review year-end procedures with his staff to ensure that all necessary accruals are made at year-end.

**FY 2012 Follow-up**

As part of our audit procedures, we obtained and reviewed monthly, quarterly and year-end closing activities. We also interviewed responsible personnel in OMS and the Office of Budget and Finance (OBF). We noted that the responsibility to revise procedures for ensuring recordation of accruals was transferred from OMS to OBF in June 2012. OBF developed and implemented an SOP, End of Quarter Review of Open Obligations and Establishing Accruals for Large Procurements. Our review of quarterly and year-end closing activities showed that this recommendation has been implemented effectively.

_We consider this comment closed._

**Finding 7. Procurement Controls are Needed for Recurring Services**

The Bona Fide Needs rule is a fundamental principle of appropriations law. It states that a fiscal year appropriation may be obligated only to meet a legitimate or bona fide need arising in, or in some cases arising prior to but continuing to exist in, the fiscal year for which the appropriation was made. Recurring services are considered “severable” and are charged in the fiscal year in which the services are performed.
In August 2011 the agency procured $5,000 for recurring shredding services for FY 2011. At the end of the year approximately $300 of shredding services was used. In October 2011 this contract was modified to extend the period of performance to April 2012. Since shredding services are a recurring severable service, FY 2011 funds should not be used for a FY 2012 need. This was discussed with director of OMS who agreed that shredding services was a severable service and that funds under this contract should be deobligated. In addition the director of OMS plans to establish a new FY 2012 obligation for shredding services.

**Recommendation**

We recommended that the director of OMS put procedures in place to identify the bona fide need of each contract and only approve obligations in the year that need exists.

**FY 2012 Follow-up**

We obtained and reviewed the revised Commission Order 112. Although, the Commission Order 112 is in draft form at the time of our review, we noted that it has been revised and placed into operation, and it addresses auditors’ comments.

*We consider this comment closed.*

**Current Year Comments**

There are no findings and recommendations in the current year.

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