

# Office of Inspector General

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**Independent Auditors' Report of the  
FMC's FY 2015 Financial Statements**

**A16-01**



**November 2015**

**FEDERAL MARITIME COMMISSION**

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FEDERAL MARITIME COMMISSION  
Washington, DC 20573

November 10, 2015

***Office of Inspector General***

Dear Chairman Cordero and Commissioners:

I am pleased to provide the attached audit report required by the Accountability for Tax Dollars Act of 2002 (ATDA), which presents an unmodified (clean) opinion on the Federal Maritime Commission's (FMC) fiscal year (FY) 2015 financial statements. The audit results indicate that the FMC has established an internal control structure that facilitates the preparation of reliable financial and performance information. The Office of Inspector General (OIG) commends the FMC for the noteworthy accomplishment of attaining an unmodified opinion.

The OIG contracted with the independent certified public accounting firm of Regis & Associates, P.C. (Regis) to: perform the audit of the FMC's financial statements for the fiscal year ended September 30, 2015; consider internal control over financial reporting; and test the agency's compliance with certain provisions of applicable laws, regulations, and contracts that could have a direct and material effect on the financial statements. The contract required that the audit be performed in accordance with U.S. Generally Accepted Government Auditing Standards and Office of Management and Budget (OMB) audit guidance.

In its audit of the FMC, 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 or significant deficiencies in internal control over financial reporting; and no reportable noncompliance issues with the laws and regulations tested.

In connection with the OIG's contract, the OIG reviewed Regis & Associates' report and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with U.S. Generally Accepted Government Auditing Standards, was not intended to enable the OIG to express, and we do not express, opinions on FMC's financial statements or internal control; or conclusions on compliance with laws and regulations. Regis & Associates is responsible for the attached auditors' report dated November 4, 2015 and the conclusions expressed in the report. However, our review disclosed no instances where Regis & Associates did not comply, in all material respects, with Generally Accepted Government Auditing Standards.

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

Respectfully submitted,

Jon Hatfield  
Inspector General

Attachment

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



**REPORT ON THE  
FINANCIAL STATEMENTS AUDIT  
OF FEDERAL MARITIME COMMISSION  
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2015 and 2014**

**REPORT ON THE  
FINANCIAL STATEMENTS AUDIT  
OF FEDERAL MARITIME COMMISSION  
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2015 and 2014**

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## INDEPENDENT AUDITORS' REPORT

The Honorable Mario Cordero,  
Chairman  
Federal Maritime Commission  
Washington, DC

### ***Report on the Financial Statements***

We have audited the accompanying Financial Statement Report of the Federal Maritime Commission, which comprises the Balance Sheet as of September 30, 2015 and 2014, and the related Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, Statement of Custodial Activity, and the related notes to the financial statements as of September 30, 2015 and 2014.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements, in accordance with U.S. Generally Accepted Accounting Principles. This includes the design, implementation, and maintenance of internal control, relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements, based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits, contained in U.S. Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget's (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 15-02 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the agency's preparation and fair presentation of the financial statements, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the agency's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used, and the reasonableness of significant estimates made by management, as well as evaluating the overall presentation of the

financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Federal Maritime Commission as of September 30, 2015 and 2014; and its net costs, changes in net position, budgetary resources, and custodial activity for the years then ended, in accordance with U.S. Generally Accepted Accounting Principles.

### **Other Accompanying Information**

#### ***Required Supplementary Information***

U.S. Generally Accepted Accounting Principles require that the information in the other accompanying information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information, in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information, and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion, or provide any assurance on the information, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Restriction on Use of the Report on the Financial Statements***

This report is intended solely for the information and use of the management of the Federal Maritime Commission, the U.S. Department of the Treasury, OMB, and the U.S. Government Accountability Office, in connection with the preparation and audit of the Financial Report of the U.S. Government; and is not intended to be, and should not be, used by anyone other than these specified parties.

#### ***Internal Control over Financial Reporting Specific to the Financial Statements***

In planning and performing our audits of the financial statements as of, and for the years ended September 30, 2015 and 2014, we also considered Federal Maritime Commission's internal control over the financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances, for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion of the effectiveness of Federal Maritime Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of Federal Maritime Commission's internal control.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in their normal course of performing their assigned functions, to prevent,

or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

A significant deficiency is a deficiency, or a combination of deficiencies in internal control, that is less severe than a material weakness, yet important enough to merit the attention by those charged with governance. There were no deficiencies in the accompanying financial statements that are considered to be significant deficiencies.

***Compliance and Other Matters Specific to the Financial Statements***

As part of obtaining reasonable assurance about whether Federal Maritime Commission's financial statements are free from material misstatement, we also performed tests of its compliance with certain provisions of laws, regulations, contracts, and agreements. However, we limited our tests of compliance to these provisions; and did not test compliance with all laws, regulations, and contracts applicable to the Federal Maritime Commission.

The results of our tests of compliance disclosed no instances of non-compliance with laws, regulations, contracts, and agreements; or other matters that are required to be reported herein, under *Government Auditing Standards* and OMB Bulletin No. 15-02.

Providing an opinion on compliance with laws, regulations, and contracts was not an objective of our audit; and accordingly, we do not express such an opinion.

***Purpose of the Other Reporting Required by Government Auditing Standards***

The purpose of the communication provided in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance, and the results of that testing, and not to provide an opinion on the effectiveness of the agency's internal control or on compliance. This communication is an integral part of an audit performed in accordance with U.S. Generally Accepted Government Auditing Standards in considering internal control and compliance with provisions of laws, regulations, contracts, and agreements that have a material effect on the financial statements. Accordingly, this communication is not suitable for any other purpose.

**Agency Comments and Our Evaluation**

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



Regis & Associates, PC  
Washington, DC

November 4, 2015

**FEDERAL MARITIME COMMISSION  
BALANCE SHEET  
AS OF SEPTEMBER 30, 2015 AND 2014  
(IN DOLLARS)**

	<b>2015</b>	<b>2014</b>
<b>Assets:</b>		
Intragovernmental:		
Fund Balance With Treasury (Note 2)	\$ 4,397,659	\$ 4,105,128
Accounts Receivable (Note 3)	14,540	-
Total Intragovernmental	4,412,199	4,105,128
Accounts Receivable, Net (Note 3)	5,447	1,520
Property, Equipment, and Software, Net (Note 4)	408,312	404,706
Total Assets	<u>\$ 4,825,958</u>	<u>\$ 4,511,354</u>
<b>Liabilities:</b>		
Intragovernmental:		
Accounts Payable	\$ 65,788	\$ 104,117
Other ( Note 6)	117,760	86,032
Total Intragovernmental	183,548	\$ 190,149
Accounts Payable	471,552	425,648
Federal Employee and Veterans' Benefits (Note 5)	-	787
Other (Note 6)	1,788,591	1,485,061
Total Liabilities (Note 5)	<u>\$ 2,443,691</u>	<u>\$ 2,101,645</u>
<b>Net Position:</b>		
Unexpended Appropriations - Other Funds	\$ 3,167,730	\$ 3,129,440
Cumulative Results of Operations - Other Funds	(785,463)	(719,731)
Total Net Position	<u>\$ 2,382,267</u>	<u>\$ 2,409,709</u>
Total Liabilities and Net Position	<u>\$ 4,825,958</u>	<u>\$ 4,511,354</u>

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

**FEDERAL MARITIME COMMISSION  
STATEMENT OF NET COST  
FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014  
(IN DOLLARS)**

	<b>2015</b>	<b>2014</b>
<b>Program Costs:</b>		
Operational and Administrative		
Gross Costs	\$ 18,323,598	\$ 16,120,903
Less: Earned Revenue	<u>(40,304)</u>	<u>-</u>
Net Program Costs	<u>\$ 18,283,294</u>	<u>\$ 16,120,903</u>
Formal Proceedings		
Gross Costs	\$ 7,803,458	\$ 7,505,802
Less: Earned Revenue	<u>(21,864)</u>	<u>(29,030)</u>
Net Program Costs	<u>\$ 7,781,594</u>	<u>\$ 7,476,772</u>
Office of Inspector General		
Gross Costs	<u>\$ 450,246</u>	<u>\$ 314,541</u>
Net Program Costs	<u>\$ 450,246</u>	<u>\$ 314,541</u>
Office of Equal Employment Opportunity		
Gross Costs	<u>\$ 153,307</u>	<u>\$ 193,139</u>
Net Program Costs	<u>\$ 153,307</u>	<u>\$ 193,139</u>
Total Other Program Costs:	<u>\$ 8,407,011</u>	<u>\$ 7,984,452</u>
Net Cost of Operations (Note 9)	<u><u>\$ 26,668,441</u></u>	<u><u>\$ 24,105,355</u></u>

*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, 2015 AND 2014**  
**(IN DOLLARS)**

	<b>2015</b>	<b>2014</b>
<b>Cumulative Results of Operations:</b>		
Beginning Balances	<u>\$ (719,731)</u>	<u>\$ (910,588)</u>
<b>Budgetary Financing Sources:</b>		
Appropriations Used	25,464,081	22,988,907
<b>Other Financing Sources (Non-Exchange):</b>		
Imputed Financing Sources (Note 10)	<u>1,138,628</u>	<u>1,307,305</u>
Total Financing Sources	26,602,709	24,296,212
Net Cost of Operations	<u>(26,668,441)</u>	<u>(24,105,355)</u>
Net Change	<u>(65,732)</u>	<u>190,857</u>
Cumulative Results of Operations	<u>\$ (785,463)</u>	<u>\$ (719,731)</u>
<b>Unexpended Appropriations:</b>		
Beginning Balances	<u>\$ 3,129,440</u>	<u>\$ 1,820,115</u>
<b>Budgetary Financing Sources:</b>		
Appropriations Received	25,660,000	24,669,000
Other Adjustments	(157,629)	(370,768)
Appropriations Used	<u>(25,464,081)</u>	<u>(22,988,907)</u>
Total Budgetary Financing Sources	<u>38,290</u>	<u>1,309,325</u>
Total Unexpended Appropriations	<u>\$ 3,167,730</u>	<u>\$ 3,129,440</u>
Net Position	<u><u>\$ 2,382,267</u></u>	<u><u>\$ 2,409,709</u></u>

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

**FEDERAL MARITIME COMMISSION**  
**STATEMENT OF BUDGETARY RESOURCES**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014**  
**(IN DOLLARS)**

	<b>2015</b>	<b>2014</b>
<b>Budgetary Resources:</b>		
Unobligated Balance Brought Forward, October 1	\$ 387,204	\$ 585,311
Recoveries of Prior Year Unpaid Obligations	518,708	268,870
Other changes in unobligated balance	<u>(157,629)</u>	<u>(370,768)</u>
Unobligated balance from prior year budget authority, net	748,283	483,413
Appropriations	25,660,000	24,669,000
Spending authority from offsetting collections	<u>62,249</u>	<u>29,117</u>
Total Budgetary Resources	<u>\$ 26,470,532</u>	<u>\$ 25,181,530</u>
<b>Status of Budgetary Resources:</b>		
Obligations Incurred (Note 12)	<u>\$ 26,168,073</u>	<u>\$ 24,794,326</u>
Unobligated balance, end of year:		
Apportioned (Note 2)	17,625	18,211
Unapportioned (Note 2)	<u>284,834</u>	<u>368,993</u>
Total unobligated balance, end of year	<u>302,459</u>	<u>387,204</u>
Total Budgetary Resources	<u>\$ 26,470,532</u>	<u>\$ 25,181,530</u>
<b>Change in Obligated Balance</b>		
<b>Unpaid Obligations:</b>		
Unpaid Obligations, Brought Forward, October 1	\$ 3,717,924	\$ 2,035,436
Obligations Incurred (Note 12)	26,168,073	24,794,326
Outlays (gross)	(25,257,549)	(22,842,968)
Recoveries of Prior Year Unpaid Obligations	<u>(518,708)</u>	<u>(268,870)</u>
Unpaid Obligations, End of Year (Gross)	\$ 4,109,740	\$ 3,717,924
<b>Uncollected payments</b>		
Change in Uncollected payments, Federal Sources	<u>(14,540)</u>	<u>-</u>
Uncollected Customer Payments, Federal Sources, End of Year	<u>(14,540)</u>	<u>-</u>
Obligated Balance, End of Year	<u>\$ 4,095,200</u>	<u>\$ 3,717,924</u>
<b>Budget Authority and Outlays, Net:</b>		
Budget authority, gross	\$ 25,722,249	\$ 24,698,117
Actual offsetting collections	(47,709)	(29,117)
Change in uncollected Payments, Federal Sources	<u>(14,540)</u>	<u>-</u>
Budget Authority, net (total)	<u>\$ 25,660,000</u>	<u>\$ 24,669,000</u>
Outlays, gross	\$ 25,257,549	\$ 22,842,968
Actual offsetting collections	<u>(47,709)</u>	<u>(29,117)</u>
Outlays, net (total)	25,209,840	22,813,851
Distributed Offsetting Receipts	<u>(248,451)</u>	<u>(220,316)</u>
Agency Outlays, net	<u>\$ 24,961,389</u>	<u>\$ 22,593,535</u>

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

**FEDERAL MARITIME COMMISSION  
STATEMENT OF CUSTODIAL ACTIVITY  
AS OF SEPTEMBER 30, 2015 AND 2014  
(IN DOLLARS)**

	<b>2015</b>	<b>2014</b>
<b>Revenue Activity:</b>		
Sources of Cash Collections:		
Miscellaneous	<u>\$ 2,299,802</u>	<u>\$ 3,185,724</u>
Total Cash Collections (Note 14)	2,299,802	3,185,724
Accrual Adjustments	<u>(643)</u>	<u>(1,247)</u>
Total Custodial Revenue	<u>2,299,159</u>	<u>3,184,477</u>
<b>Disposition of Collections:</b>		
Transferred to Others (by Recipient)	2,300,035	3,185,491
Increase/(Decrease) in Amounts Yet to be Transferred	410	1,480
Retained by the Reporting Entity	<u>(1,286)</u>	<u>(2,494)</u>
Net Custodial Activity	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

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

**FEDERAL MARITIME COMMISSION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2015**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The Federal Maritime Commission (“FMC” or “the Commission”) was established as an independent regulatory agency on August 12, 1961. The FMC is responsible for the regulation of ocean borne 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; the Foreign Shipping Practices Act of 1988 (FSPA); section 19 of the Merchant Marine Act of 1920; and sections 2 and 3 of Public Law No. 89-777.

The Commission: monitors the activities of ocean common carriers, marine terminal operators (MTOs), agreements among ocean common carriers and/or MTOs, ports and ocean transportation intermediaries (non- vessel-operating common carriers and ocean freight forwarders) operating in the U.S. foreign commerce to ensure they maintain just and reasonable practices; maintains trade monitoring, enforcement and dispute resolution programs designed to assist regulated entities in achieving compliance and to detect and remedy malpractices and violations of the 1984 Act; monitors the laws and practices of foreign governments, which could have a discriminatory or otherwise adverse impact on shipping conditions in U.S. trades, and imposes remedial action, as appropriate, pursuant to section 19 of the 1920 Act or FSPA; enforces special

regulatory requirements applicable to carriers owned or controlled by foreign governments; processes and reviews agreements, service contracts, and service arrangements, pursuant to the 1984 Act for compliance with statutory requirements; and reviews common carriers’ privately published tariff systems for accessibility and accuracy, as required by OSRA. The Commission also issues licenses to qualified ocean transportation intermediaries (OTIs) in the U.S., ensures that all OTIs are bonded or maintain other evidence of financial responsibility, and ensures that passenger vessel operators (PVOs) demonstrate adequate financial responsibility in case of nonperformance of voyages, or death or injury occurring to passengers.

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

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

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

### **B. Basis of Presentation**

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

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

otherwise, all amounts are presented in dollars.

### **C. Basis of Accounting**

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

### **D. Fund Balance with Treasury**

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

### **E. Accounts Receivable**

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

### **F. Property, Equipment, and Software**

Property, equipment and software represent furniture, fixtures, equipment, and information technology hardware and software, which are recorded at original acquisition cost and are depreciated or amortized using the straight-line method over their estimated useful lives. Major alterations and renovations are capitalized, while maintenance and repair costs are expensed as incurred. FMC's capitalization threshold is \$25,000 for individual

purchases. Property, equipment, and software acquisitions that do not meet the capitalization criteria are expensed upon receipt. Applicable standard governmental guidelines regulate the disposal and convertibility of agency property, equipment, and software. The useful life classifications for capitalized assets are as follows:

<u>Description</u>	<u>Useful Life</u> <u>(years)</u>
Leasehold Improvements	5
Office Furniture	5
Computer Equipment	5
Office Equipment	5
Software	5

**G. Advances and Prepaid Charges**

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

**H. Liabilities**

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

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

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

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

**I. Annual, Sick, and Other Leave**

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

covered employees, effective at 50% for the 1<sup>st</sup> quarter of FY 2014, and 100% thereafter.

#### **J. Accrued and Actuarial Workers' Compensation**

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

#### **K. Retirement Plans**

FMC employees participate in either the CSRS or the FERS. The employees who participate in CSRS are beneficiaries of FMC matching contribution, equal to 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. Both CSRS and FERS employees may participate in the federal Thrift Savings Plan (TSP). FERS

employees receive an automatic agency contribution equal to one percent of pay, and FMC matches any employee contribution up to an additional four percent of pay. For FERS participants, FMC also contributes the employer's matching share of Social Security.

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

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

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

#### **L. Other Post-Employment Benefits**

FMC employees eligible to participate in the Federal Employees' Health Benefits Plan (FEHBP) and the Federal Employees' Group Life Insurance Program (FEGSIP) may continue to participate in these programs after their retirement. The OPM has provided the FMC with certain cost factors that estimate the true cost of providing the post-retirement benefit to current employees. The FMC recognizes a current cost for these and

Other Retirement Benefits (ORB) at the time the employee's services are rendered. The ORB expense is financed by OPM, and offset by the FMC through the recognition of an imputed financing source.

**M. Use of Estimates**

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

**N. Imputed Costs/Financing Sources**

Federal Government entities often receive goods and services from other Federal Government entities, without reimbursing the providing entity for all the related costs. In addition, Federal Government entities also incur costs that are paid in total or in part by other entities. An imputed financing source is recognized by the receiving entity for costs that are paid by other entities. FMC recognized imputed costs and financing sources in fiscal years 2015 and 2014 to the extent directed by accounting standards.

**O. Contingencies**

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

FMC discloses contingent liabilities in the notes to the financial statements when the conditions for liability recognition are not met, or when a loss from the outcome of future events is more than remote. In some

cases, once losses are certain, payments may be made from the Judgment Fund maintained by the U.S. Treasury, rather than from the amounts appropriated to FMC for agency operations. Payments from the Judgment Fund are recorded as an "Other Financing Source" when made.

**P. Reclassification**

Certain fiscal year 2014 balances have been reclassified, re-titled, or combined with other financial statement line items for consistency with the current year presentation.

## NOTE 2- FUND BALANCE WITH TREASURY

Fund Balance With Treasury account balances as of September 30, 2015 and 2014 were as follows:

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

	<b>2015</b>	<b>2014</b>
<b>Fund Balances:</b>		
Appropriated Funds	\$ 4,397,659	\$ 4,105,128
Total	<u>\$ 4,397,659</u>	<u>\$ 4,105,128</u>
<b>Status of Fund Balance with Treasury:</b>		
Unobligated Balance		
Available	\$ 17,625	\$ 18,211
Unavailable	284,834	368,993
Obligated Balance Not Yet Disbursed	<u>4,095,200</u>	<u>3,717,924</u>
Total	<u>\$ 4,397,659</u>	<u>\$ 4,105,128</u>

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

The unavailable unobligated fund balances represent the amount of appropriations for which the period of availability for obligation has expired. These balances are available for upward adjustments of obligations incurred only during the period for which the appropriation was available for obligation, or for paying claims attributable to the appropriations.

The obligated balance not yet disbursed, includes accounts payable, accrued expenses, and undelivered orders that have reduced unexpended appropriations, but have not yet decreased the fund balance on hand (see also Note 13).

### NOTE 3- ACCOUNTS RECEIVABLE

Accounts receivable balances for as of September 30, 2015 and 2014, were as follows:

	<b>2015</b>	<b>2014</b>
Intragovernmental		
Accounts Receivable	\$ 14,540	\$ -
Total Intragovernmental Accounts Receivable	<u>\$ 14,540</u>	<u>\$ -</u>
	<b>2015</b>	<b>2014</b>
With the Public		
Miscellaneous Accounts Receivable	\$ 5,141	\$ 1,389
Interest Receivable	21	-
Penalties and Fines Receivable	285	131
Total Public Accounts Receivable	<u>\$ 5,447</u>	<u>\$ 1,520</u>
Total Accounts Receivable	<u>\$ 19,987</u>	<u>\$ 1,520</u>

The accounts receivable is primarily made up of services provided to other Intragovernmental agencies. Historical experience has indicated that the majority of the receivables are collectible. There are no material uncollectible accounts as of September 30, 2015 and 2014.

### NOTE 4- PROPERTY, EQUIPMENT, AND SOFTWARE

The Schedule of Property, Equipment, and Software as of September 30, 2015 is as follows:

<b>Major Class</b>	<b>Acquisition Cost</b>	<b>Accumulated Amortization/ Depreciation</b>	<b>Net Book Value</b>
Leasehold Improvements	\$ 225,000	\$ 225,000	\$ -
Furniture & Equipment	502,537	324,249	178,288
Software-in-Development	<u>230,024</u>	<u>-</u>	<u>230,024</u>
Total	<u>\$ 957,561</u>	<u>\$ 549,249</u>	<u>\$ 408,312</u>

#### NOTE 4- PROPERTY, EQUIPMENT, AND SOFTWARE Cont'd

Schedule of Property, Equipment, and Software as of September 30, 2014 is as follows:

<b>Major Class</b>	<b>Acquisition Cost</b>	<b>Accumulated Amortization/ Depreciation</b>	<b>Net Book Value</b>
Leasehold Improvements	\$ 225,000	\$ 225,000	\$ -
Furniture & Equipment	341,800	262,401	79,399
Software-in-Development	<u>325,307</u>	<u>-</u>	<u>325,307</u>
Total	<u>\$ 892,107</u>	<u>\$ 487,401</u>	<u>\$ 404,706</u>

#### NOTE 5- LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

The liabilities of FMC as of September 30, 2015 and 2014 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.

	<b>2015</b>	<b>2014</b>
Unfunded Leave	\$ 1,197,058	\$ 1,123,416
Actuarial FECA	-	787
Custodial Liabilities	<u>2,163</u>	<u>1,753</u>
Total Liabilities Not Covered by Budgetary Resources	\$ 1,199,221	\$ 1,125,956
Total Liabilities Covered by Budgetary Resources	<u>1,244,470</u>	<u>975,689</u>
Total Liabilities	<u>\$ 2,443,691</u>	<u>\$ 2,101,645</u>

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

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

## NOTE 6- OTHER LIABILITIES

Other liabilities account balances as of September 30, 2015 were as follows:

	<b>Current</b>	<b>Non Current</b>	<b>Total</b>
Intragovernmental			
Payroll Taxes Payable	\$ 115,597	\$ -	\$ 115,597
Custodial Liabilities	2,163	-	2,163
Total Intragovernmental Other Liabilities	<u>\$ 117,760</u>	<u>\$ -</u>	<u>\$ 117,760</u>
With the Public			
Payroll Taxes Payable	\$ 15,136	\$ -	\$ 15,136
Accrued Funded Payroll and Leave	576,397	-	576,397
Unfunded Leave	1,197,058	-	1,197,058
Total Public Other Liabilities	<u>\$ 1,788,591</u>	<u>\$ -</u>	<u>\$ 1,788,591</u>

Other liabilities account balances as of September 30, 2014 were as follows:

	<b>Current</b>	<b>Non Current</b>	<b>Total</b>
Intragovernmental			
Payroll Taxes Payable	\$ 84,279	\$ -	\$ 84,279
Custodial Liabilities	1,753	-	1,753
Total Intragovernmental Other Liabilities	<u>\$ 86,032</u>	<u>\$ -</u>	<u>\$ 86,032</u>
With the Public			
Payroll Taxes Payable	\$ 12,022	\$ -	\$ 12,022
Accrued Funded Payroll and Leave	349,623	-	349,623
Unfunded Leave	1,123,416	-	1,123,416
Total Public Other Liabilities	<u>\$ 1,485,061</u>	<u>\$ -</u>	<u>\$ 1,485,061</u>

## NOTE 7- OPERATING LEASES

FMC occupies office space in seven locations, of which six of the lease agreements are required to be accounted for as operating leases. Lease payments are increased annually, based on the adjustments for operating cost and real estate tax escalations. The total operating lease expense for fiscal years 2015 and 2014 were \$3,277,725 and \$3,433,323, respectively. The lease locations and terms are listed below:

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

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

<b>Fiscal Year</b>	<b>Totals</b>
2016	\$ 3,189,633
2017	3,221,574
2018	3,419,625
2019	3,454,859
2020	3,469,921
Thereafter	7,330,851
Total Future Minimum Payments	<u>\$ 24,086,463</u>

## NOTE 8- CONTINGENT LIABILITIES

FMC records commitments and contingent liabilities for legal cases in which payment has been deemed probable, and for which the amount of potential liability has been estimated, including certain judgments that have been issued against the agency. The FMC has knowledge of one lawsuit/investigation from FY 2014 where the amount of potential loss exceeds \$48,000. The FMC has knowledge of one lawsuit/investigation from FY 2015 where the amount of potential loss exceeds \$48,000. The Commission will be vigorously contesting both cases.

## NOTE 9- INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE

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

	2015	2014
<b>Operational and Administrative</b>		
Intragovernmental Costs	\$ 3,727,051	\$ 3,793,654
Public Costs	14,596,547	12,327,249
Total Program Costs	<u>18,323,598</u>	<u>16,120,903</u>
Less: Intragovernmental Earned Revenue	(40,304)	-
Net Program Costs	<u>18,283,294</u>	<u>16,120,903</u>
<b>Formal Proceedings</b>		
Intragovernmental Costs	1,096,851	1,021,862
Public Costs	6,706,607	6,483,940
Total Program Costs	<u>7,803,458</u>	<u>7,505,802</u>
Less: Intragovernmental Earned Revenue	(21,864)	(29,030)
Net Program Costs	<u>7,781,594</u>	<u>7,476,772</u>
<b>Office of Inspector General</b>		
Intragovernmental Costs	89,391	246,955
Public Costs	360,855	67,586
Total Program Costs	<u>450,246</u>	<u>314,541</u>
Net Program Costs	<u>450,246</u>	<u>314,541</u>
<b>Office of Equal Employment Opportunity</b>		
Intragovernmental Costs	20,242	20,323
Public Costs	133,065	172,816
Total Program Costs	<u>153,307</u>	<u>193,139</u>
Net Program Costs	<u>153,307</u>	<u>193,139</u>
Total Intragovernmental Costs	4,933,535	5,082,793
Total Public Costs	<u>21,797,074</u>	<u>19,051,592</u>
Total Costs	26,730,609	24,134,385
Less: Total Intragovernmental Earned Revenue	(62,168)	(29,030)
Net Cost of Operations	<u>\$ 26,668,441</u>	<u>\$ 24,105,355</u>

**NOTE 10- IMPUTED FINANCING SOURCES**

FMC recognizes as imputed financing, the costs of future benefits, which include health benefits, life insurance, pension, and post-retirement benefit expenses for current employees. The assets and liabilities associated with such benefits are the responsibility of the administering agency, OPM. For the fiscal years ended September 30, 2015 and 2014, imputed financing was as follows:

	<b>2015</b>	<b>2014</b>
Office of Personnel Management	\$ 1,138,628	\$ 1,307,305
Total Imputed Financing Sources	<u>\$ 1,138,628</u>	<u>\$ 1,307,305</u>

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

The President’s budget that will include fiscal year 2015 actual budgetary execution information has not yet been published. The President’s budget is scheduled for publication in February 2016, and will be found at the OMB Web site: <http://www.whitehouse.gov/omb/>. The 2016 Budget of the United States Government, with the "Actual" column completed for 2014, has been reconciled to the Statement of Budgetary Resources, and there were no material differences.

**NOTE 12- APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED**

Obligations incurred and reported in the Statement of Budgetary Resources in 2015 and 2014 consisted of the following:

	<b>2015</b>	<b>2014</b>
Direct Obligations, Category A	\$ 26,105,905	\$ 24,765,296
Reimbursable Obligations, Category A	62,168	29,030
Total Obligations Incurred	<u>\$ 26,168,073</u>	<u>\$ 24,794,326</u>

Category A apportionments distribute budgetary resources by fiscal quarters.

**NOTE 13- UNDELIVERED ORDERS AT THE END OF THE PERIOD**

For the fiscal years ended September 30, 2015 and 2014, budgetary resources obligated for undelivered orders amounted to \$ 2,865,271 and \$2,742,237, respectively.

**NOTE 14- CUSTODIAL ACTIVITY**

FMC is an administrative agency, collecting funds for another entity or the General Fund. As a collecting entity, FMC measures and reports cash collections and refunds. These collections are 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 for the application on licenses issued to qualified Ocean Transportation Intermediaries (OTIs) in the U.S., commission reviews, petitions, status changes, and special permission fees.

Custodial receipts are broken out in the general receipt funds:

	<b>2015</b>	<b>2014</b>
Fines, Penalties, and Forfeitures	\$ 2,052,514	\$ 2,968,000
General Fund Proprietary Receipts (user fees)	253,476	220,549
Refund of user fees	(6,188)	(2,825)
Total Custodial Collections	<u>\$ 2,299,802</u>	<u>\$ 3,185,724</u>

**NOTE 15- RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET**

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

	<b>2015</b>	<b>2014</b>
<b>Resources Used to Finance Activities</b>		
Budgetary Resources Obligated		
Obligations Incurred	\$ 26,168,073	\$ 24,794,326
Spending Authority from Offsetting Collections and Recoveries	(580,957)	(297,987)
Offsetting Receipts	<u>(248,451)</u>	<u>(220,316)</u>
Net Obligations	25,338,665	24,276,023
Other Resources		
Imputed Financing from Costs Absorbed by Others	<u>1,138,628</u>	<u>1,307,305</u>
Net Other Resources Used to Finance Activities	1,138,628	1,307,305
Total Resources Used to Finance Activities	26,477,293	25,583,328
Resources Used to Finance Items Not Part of the Net Cost of Operations	<u>42,414</u>	<u>(1,560,406)</u>
Total Resources Used to Finance the Net Cost of Operations	26,519,707	24,022,922
Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period	<u>148,734</u>	<u>82,433</u>
<b>Net Cost of Operations</b>	<u>\$ 26,668,441</u>	<u>\$ 24,105,355</u>

APPENDIX A -  
FEDERAL MARITIME COMMISSION COMMENTS ON  
DRAFT AUDIT REPORT



**Federal Maritime Commission**  
800 North Capitol Street, N.W.  
Washington, D.C. 20573-0001

Office of the  
Managing Director

Phone: (202) 523-5800  
Fax: (202) 523-3646  
E-mail: omd@fmc.gov

November 4, 2015

Peter Regis  
Engagement Partner  
Regis & Associates, PC  
1400 Eye Street, NW, Suite 425  
Washington, DC 20005

Dear Mr. Regis:

I have reviewed the financial statements audit report provided to me for the Federal Maritime Commission for fiscal year 2015. I concur with the audit report's findings that the financial statements fairly present the agency's financial position during the fiscal year and that the FMC's financial statements are in conformity with U.S. Generally Accepted Accounting Principles; that the FMC has maintained, in all material respects, effective internal control over financial reporting; and that there were no instances of reportable noncompliance with laws and regulations tested by the auditors. This audit report is the FMC's twelfth consecutive unmodified or "clean" audit opinion.

The Commission appreciates Regis & Associates' work over the past fiscal year.

Sincerely,

Vern W. Hill  
Chief Financial Officer