

Office of Inspector General

**Semiannual Report to Congress
Covering the Period**

April 1, 2014 – September 30, 2014



FEDERAL MARITIME COMMISSION



FEDERAL MARITIME COMMISSION
Washington, DC 20573

October 30, 2014

Office of Inspector General

Dear Chairman Cordero and Commissioners:

The following report is submitted in accordance with Section 5 of the Inspector General Act of 1978, as amended. The report summarizes the activities of the Office of Inspector General (OIG) for the period April 1, 2014 to September 30, 2014. The Act requires that you transmit the report to the appropriate Congressional committees within 30 days of receipt. Your transmittal should also include any comments you consider appropriate and other statistical tables and reports required by law.

I am honored to submit this report as the Inspector General (IG), having been appointed to the IG position on May 18, 2014, following my short-term service as the Interim IG. I look forward to continuing a positive and effective relationship between the OIG and the agency, and it is my expectation and goal to continue to improve the high quality of Commission programs and operations.

Respectfully submitted,

Jon Hatfield
Inspector General

Enclosure

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EXECUTIVE SUMMARY

This semiannual report summarizes the activities and accomplishments of the Federal Maritime Commission (FMC or Commission), Office of Inspector General (OIG) for the reporting period April 1, 2014 through September 30, 2014. The most significant activities of the OIG during the second half of fiscal year (FY) 2014 are summarized below. Additional details pertaining to each activity can be found in subsequent sections of this report.

During this reporting period, the FMC Commission appointed a new Inspector General (IG), Mr. Jon Hatfield, after the resignation of the last permanent IG in January 2013. Between the period of January 2013 and May 2014, the Commission designated two individuals to serve as Interim IG while a search for a permanent IG was conducted. Mr. Hatfield previously served as the Deputy IG of the Federal Election Commission (FEC). Over the past 20 years, Mr. Hatfield served at FEC OIG in several executive, managerial, and staff positions. Mr. Hatfield has received several awards during his professional career for outstanding accomplishments; most notably, the Council of the Inspectors General on Integrity and Efficiency recognized Mr. Hatfield for his audit, investigative, and individual accomplishments. In 2009, he was granted a graduate certificate by American University for completion of the University's Key Executive Leadership Certificate Program for Inspector General Leaders. Mr. Hatfield holds a B.B.A. in Accounting from Radford University and is a Certified Fraud Examiner and Certified Public Accountant in the state of Virginia.

In addition to Mr. Hatfield's appointment, there were two OIG staff vacancies during this reporting period, one that occurred in December 2013, and the other in May 2014. The OIG initiated measures to address the vacant positions: the OIG entered into a memorandum of understanding (MOU) with the FEC OIG for legal services on a reimbursable basis; and the office began recruitment for a program audit and investigation specialist.

During this period, the OIG had three audits and two evaluations open and at various stages of progress. The OIG's *Independent Auditors' Report of the FMC's FY 2014 Financial Statements and Evaluation of the FMC's Compliance with the Federal Information Security*

Management Act FY 2014 were both started during this reporting period and expected to be completed by November 2014. In addition, the OIG commenced a new evaluation in September 2014 on the FMC's Workplace Environment. The OIG's *Audit of Expenditures for Furnishing or Re-decorating Commissioners' Offices* was in the report phase and an audit of the FMC's physical security operations was on-hold due to the OIG's vacant audit position. The OIG expects to complete the furniture and physical security audits after the OIG has hired the new program audit and investigation specialist.

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

FEDERAL MARITIME COMMISSION

The FMC is an independent agency responsible for the regulation of ocean borne transportation in the foreign commerce of the United States. The principal statutes or statutory provisions administered by the Commission are: the Shipping Act of 1984, as amended by the Ocean Shipping Reform Act of 1998; the Foreign Shipping Practices Act of 1988; and Section 19 of the Merchant Marine Act of 1920.

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

OFFICE OF INSPECTOR GENERAL

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

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

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

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

OFFICE OF INSPECTOR GENERAL ACTIVITIES

On-going Audits and Evaluations

Evaluation of FMC's Compliance with the Federal Information Security Management Act FY 2014. The objectives of the independent evaluation of the FMC's information security program are to evaluate its security posture by assessing compliance with the Federal Information Security Management Act (FISMA) and related information security policies, procedures, standards, and guidelines. The scope of this task includes the FMC network and applications housing service contracts, tariff location filings, and FMC license applications. The OIG will evaluate potential system vulnerabilities and assess management actions to implement prior-year recommendations.

Independent Auditors' Report of FMC's FY 2014 Financial Statements. The audit objectives are to opine on whether the FMC's FY 2014 financial statements follow U.S. Generally Accepted Accounting Principles and present fairly the financial position of the agency.

The OIG also will review internal controls over financial reporting and agency compliance with laws and regulations. The statements to be audited are the Balance Sheets as of September 30, 2014 and 2013, and the related Statements of Net Cost, Statements of Changes in Net Position, Statements of Budgetary Resources and Statements of Custodial Activity.

OIG Evaluation of the FMC's Workplace Environment. The OIG identified workplace satisfaction at the FMC as an agency management challenge in 2013. In December 2012, the Partnership for Public Service (PPS), a nonprofit organization that works to revitalize the Federal government, released its annual rankings for the *Best Places to Work in the Federal Government*. The December 2012 report ranked the FMC the second lowest of small agencies. The PPS uses data from the Office of Personnel Management's (OPM) *Federal Employee Viewpoint Survey* to rank agencies according to a *Best Places to Work* index score. OPM surveys agency employees and then the agency is measured on overall employee satisfaction, as well as 10 workplace categories, such as effective leadership, employee skills/mission match, pay, teamwork and work/life balance. Since 2012, there has been some improvement in the survey results, but there is still opportunity for improvement.

In order to evaluate the FMC's workplace environment, the OIG initiated an independent evaluation in September 2014. Through a competitive bid process, the OIG contracted with an organization with expertise in this area to evaluate the FMC's workplace environment. The objectives are to evaluate: (1) the historical and most recent OPM *Federal Employee Viewpoint Survey* results for the FMC; (2) the effectiveness of the agency to implement corrective action related to workplace issues requiring improvement; (3) and provide recommendations for improvement, where warranted.

The OIG's evaluation should result in a detailed assessment of the strengths and weaknesses of the FMC's workplace environment. The evaluation will involve analysis of current and historical Viewpoint survey results; several workshops and one-on-one meetings with staff at all levels of the agency; as well as an action planning session with management officials able to effect positive change within the agency. The OIG expects to complete the evaluation and issue the final report in late 2014.

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

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

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

Hotline and Investigations

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

At the beginning of this reporting period, one administrative investigation was in progress and two hotline complaints were pending.

During this reporting period, the OIG received 14 new hotline complaints. Nine of the 14 hotline complaints were reviewed and closed by the OIG because the matters were outside the OIG's jurisdiction. The nine complaints were referred to the agency for disposition (i.e. FMC Consumer Affairs & Dispute Resolution Services, Bureau of Certification and Licensing, and Bureau of Enforcement). Two of the new complaints were similar to existing complaints and merged with those hotline complaints. The other three new complaints were pending at the end of this reporting period.

At the end of this reporting period, one administrative investigation was open and a total of five hotline complaints were pending. The OIG opened no new investigations and referred no matters to prosecutorial authorities during this period.

Other Activities

Peer Review

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

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

statement identifying the date of the last peer review conducted by another OIG. Please see appendix A for additional information.

Memorandum of Understanding

In accordance with Section 6 of the Inspector General Reform Act of 2008, each Inspector General shall have his or her own legal counsel, or obtain the services of a counsel appointed by and directly reporting to another Inspector General or the Council of Inspectors General on Integrity and Efficiency (CIGIE) on a reimbursable basis. The OIG signed a Memorandum of Understanding (MOU) with the Federal Election Commission OIG under which the FEC IG's Counsel also serves as the FMC IG's Counsel on a reimbursable basis.

Review of Legislation

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

Inspector General Working Group

The Inspector General served on a Working Group of 15 IGs during the reporting period regarding oversight of Federal entities. In the first half of 2014, a discussion draft for possible legislation suggested that additional entities throughout the Federal government warranted oversight by an Office of Inspector General (OIG); 63 small federal entities without OIGs were identified for consideration. The Working Group of IGs reviewed the discussion draft, evaluated pertinent issues, and developed recommendations for achieving enhanced, right-sized OIG oversight of the selected Executive Branch entities currently without OIGs. The Working Group gathered and analyzed a comprehensive range of overarching and entity-specific data, reviewed relevant legislative history, consulted with stakeholders, and drew upon collective expertise and experience in overseeing a wide range of OIG programs. A final report on the Working Group's findings and recommendations is expected to be issued during the next reporting period.

Council of Inspectors General on Integrity and Efficiency Activities

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

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

The CIGIE is comprised of all inspectors general that are Presidentially-appointed / Senate confirmed and those that are appointed by agency heads -- designated federal entities. The FMC OIG remains active in CIGIE operations. Specifically, the Inspector General is a member of CIGIE and participates in the monthly CIGIE meetings.

Employee Recognition

On September 16, 2014, Inspector General (IG) Jon Hatfield received recognition from his former agency, the Federal Election Commission (FEC) OIG. FEC IG Lynne A. McFarland and Deputy IG J. Cameron Thurber presented a plaque acknowledging Mr. Hatfield's service to the FEC OIG that spanned over 20 years, from February 1994 to May 2014.



SUMMARY OF INSPECTOR GENERAL REPORTING REQUIREMENTS

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

**TABLE I – Summary of Audit Reports with
Corrective Actions Outstanding for More than 6 Months**

Report Title	Report Number	Issue Date	Recommendations		
			Number	Open	Closed
FY 2013 Implementation of FISMA	A14-02	1/03/14	12	3	9
FY 2012 Privacy and Data Protection	A13-02	12/6/12	5	0	5
Review of FMC's User Fee Calculations	OR10-03	5/27/10	1	1	0

TABLE II - Listing of Audit Reports Issued

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

TABLE III**Reports with Questioned Costs**

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

TABLE IV
Recommendations That Funds Be Put To Better Use

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

Appendix A

Peer Review Activity

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

The Postal Regulatory Commission (PRC) OIG conducted an audit peer review of the FMC OIG in a prior reporting period. A final system review report was issued to the FMC OIG on March 28, 2013; this office received a *pass* rating. There were no weaknesses or recommendations identified in the system review report.

HOTLINE COMPLAINTS

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

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

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

(202) 523-5865

E-MAIL ADDRESS: OIG@FMC.GOV

OR

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

TO PLACE A COMPLAINT IN WRITING PLEASE MAIL TO:

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

To Be Opened By the IG Only

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

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