

**Management Letter to
the FY 2007 Audited
Financial Statements
December 12, 2007
A08-02A**





FEDERAL MARITIME COMMISSION

800 North Capitol Street, N.W.
Washington, DC 20573

December 12, 2007

Office of Inspector General

Tel.: (202) 523-5863
Fax: (202) 566-0043
E-mail: oig@fmc.gov

TO: Commissioner Anderson
Commissioner Brennan
Commissioner Creel
Commissioner Dye

FROM: Adam R. Trzeciak
Inspector General

SUBJECT: Transmittal of the OIG FY 2007 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 2007 Financial Statement Management Letter that reports on such findings.

During the annual review, findings within the same general area as earlier findings are likely to occur. Consequently, the Management Letter begins with reporting on the status of prior year findings. This is not necessarily an indication that management is not addressing these issues. Rather, it reflects that certain areas are vulnerable to accounting errors or system breakdowns and need constant oversight.

This year's management letter contains the status of one prior-year finding as well as two new findings.

The OIG will continue to review areas vulnerable to accounting error and report any findings in next year's management letter.

I am available to discuss the letter at your convenience.

Attachment



Dembo, Jones, Healy, Pennington & Marshall, P.C.

Certified Public Accountants and Consultants

Martin S. Dembo, CPA (Ret.)
William C. Pennington, CPA (Ret.)

Stanley R. Jones, CPA
Joseph T. Healy, Jr., CPA
Walter C. Pennington, CPA, CVA, CFP®
Donald K. Marshall, CPA, CVA, CFE
Daniel B. Geehreng, CPA
James K. Green, CPA, CFP®

Robert J. Tyrrell, JD
Michael R. Mason, JD, CFP®
Stanley M. Sobel, CPA
James C. Fielding, Jr., CPA
Cheryle S. Weal, CPA
Robert L. Pillote, Jr., JD

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, 2007**, 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 the following findings and recommendations.

Prior Year Finding - Updated

Finding 1. Errors in the Reconciliation of Annual Leave Accrual

All agency employees are required to complete a timesheet on a biweekly basis to document hours worked and leave taken during the pay period. The FMC uses the proprietary software program STAR – System for Time and Attendance Reporting – to record employee work and leave hours. Timekeepers are responsible for entering the information into the STAR system and printing a hard copy of the biweekly input for review and certification by the employee and his/her supervisor. Timekeepers send the certified attendance information to the FMC's payroll servicing agent, the U.S. Department of Agriculture's National Finance Center's (NFC), via direct link, for processing.

Notwithstanding the certification process, an employee or timekeeper will, on occasion, discover an error in the employee's leave balance(s). According to FMC staff, this error often results from a breakdown in the above-described certification process. For example, some employees may not review their biweekly time and attendance information before it is submitted to NFC by the timekeeper because the employee is on leave or travel when the cards are prepared. Once the error is detected, the timekeeper notifies FMC's Office of Financial Management (OFM), who then manually makes the correction in the NFC system. After this change is made, then OFM notifies the timekeeper, who then makes the correction in STAR. If the timekeeper makes the correction in STAR without notifying OFM, or the correction is not made by the timekeeper per instructions from OFM, a leave error report will be generated by NFC identifying the imbalance between the two systems.

During fieldwork on the annual financial statement audit for FY 2007, we reviewed the FMC's leave error report for pay period No. 20. We identified eight employees with leave balance errors as identified on leave error reports. These differences were deemed minor, however, we believe that this reconciliation is important to ensure that the accrued annual leave balances in the agency's records and on the agency's financial statements is accurate.

As most, if not all, errors are occurring when timekeepers either fail to (i) enter corrections into the STAR after those corrections are made by OFM staff into the NFC system, or (ii) notify OFM when making the correction into STAR, we believe that many leave error reports can be prevented by simply having OFM make corrections into both systems at the same time.

Recommendation 1. We recommend that the Office of Financial Management make corrections in the STAR and NFC payroll systems to centralize and consolidate the leave error correction function.

Current Year Findings

Finding 2. Accounts Payable are 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 15 (FY 2007) may not be sent by the manufacturer until October 10 (FY 2008). The expense should be recorded on the FY 2007 books because the monitors were received in FY 2007.

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 \$16,000 in additional FY 2007 payables that were not recorded by the agency. Without making the necessary adjustments, the payables would be erroneously recorded as FY 2008 expenses, even though the goods were received in FY 2007. This would understate the FMC's liabilities on its 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 technical representatives or other contact points to inquire whether the goods were received, or (ii) to estimate the dollar amount of services that were received since the prior invoice up through the end of the fiscal year (September 30). The amounts are then accrued as payables.

The OMS's accrual process did not include this important step, instead relying on invoices received either in FY 2007 or FY 2008. Invoices that were not received by the agency in time for its review were not included in the payable amounts. We believe that neglecting this step, although not material to the financial statements in FY 2007, could have a significant impact on accruals in years where a large volume of goods/services are delivered near fiscal year end.

Recommendation 2. We recommend that OMS establish procedures to review large contracts at year end to determine whether goods or services have been received and to establish an accrual to record the value of the goods/services received.

Finding 3. Obligations not Established for Field Office Lease

The FMC maintains field offices (a.k.a. area offices) in: New York, NY; Miami, FL; New Orleans, LA; Houston, TX; Seattle, WA; and Los Angeles, CA. The FMC leases office space from private landlords in some markets and from government agencies in other markets.

The area office in Los Angeles, CA, has a month to month lease with another Federal agency for office space. When we reviewed lease expense as part of our fieldwork performed in July, 2007, we learned that the agency had not been billed for this space and had not established an obligation to record, for budgetary purposes, the rent commitment in dollars.

In August 2007, OMS established the obligation for rent in Los Angeles in the amount of \$10,000. During the same month, OMS contacted the General Services Administration to establish a Memorandum of Understanding with the Federal agency in Los Angeles and a normal payment cycle for this space.

Recommendation 3. We recommend that rent obligations are made at the beginning of the fiscal year for all leased properties, and that the agency establish procedures to ensure that agency funds are obligated before the next rent cycle begins.

We believe that the implementation of these recommendations will provide the **Federal Maritime Commission** with a stronger system of internal controls while also making its operations more efficient. We will be happy to discuss the details of these recommendations with you and assist in any way possible with their implementation.

Management comments to this letter are attached in their entirety.

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.

Dembo, Jones, Healy, Pennington & Marshall, P.C.

Rockville, Maryland
December 10, 2007

Memorandum

TO : Inspector General

DATE: December 6, 2007

THROUGH: Deputy Director of Administration

FROM : Director, Office of Financial Management
Director, Office of Management Services

SUBJECT: Response to Management Letter Regarding the FY 2007 Financial Statements Audit

We have received and reviewed the findings and recommendations contained in the Management Letter for the FY 2007 Financial Statements Audit. We concur with the recommendations contained therein. Below are corrective action dates we have established to address the recommendations.

Finding 1. Errors in the Reconciliation of Annual Leave Accrual
Recommendation 1. We recommend that the Office of Financial Management make corrections in the STAR and NFC payroll systems to centralize and consolidate the leave error correction function.

OA will amend the relevant SOP with respect to making corrections in the STAR and NFC payroll systems to address the recommendation, and will provide advice via e-mail to all timekeepers and supervisors regarding this change. We have established a corrective action completion date of March 30, for this action.


Finding 2. Accounts Payable are Understated
Recommendation 2. We recommend that OMS establish procedures to review large contracts at year end to determine whether goods or services have been received and to establish an accrual to record the value of the goods/services received.

OA will incorporate such procedures into an SOP. We have established a corrective action completion date of March 30, for this action.

Finding 3. Obligations not Established for Field Office Lease
Recommendation 3. We recommend that rent obligations are made at the

beginning of the fiscal year for all leased properties, and that the agency establish procedures to ensure that agency funds are obligated before the next rent cycle begins.

OA will incorporate such procedures into an SOP. We have established a corrective action completion date of March 30, for this action.


Karon Douglass, Director, OFM


Michael Kilby, Director, OMS

cc: Director, OA
Deputy Director, OA