

# **Semiannual Report To the Congress**

Covering the Period  
October 1, 2005 to March 31, 2006





**FEDERAL MARITIME COMMISSION**

Office of the Inspector General  
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April 28, 2006

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Honorable Steven R. Blust  
Chairman  
Federal Maritime Commission  
Washington, DC 20573

Chairman Blust:

The attached report covers the Office of Inspector General (OIG) activities for the first half of fiscal year 2006 and is submitted according to Section 5 of the Inspector General Act of 1978, as amended.

During the six-month reporting period ending March 31, 2006, the OIG issued an audit of the FMC's FY 2005 financial statements and a companion report to management containing financial-related findings and recommendations resulting from the audit. The OIG also issued reports to management on agency compliance with the Federal Information Security Management Act of 2002, management challenges facing FMC in FY 2005, and data accuracy in the Bureau of Enforcement's data bases. The OIG also began fieldwork on an audit of agency payroll transactions. Details on these and other OIG activities are attached herein.

During the period, the OIG did not receive any hotline complaints or referrals from FMC management regarding misconduct. On the other hand, we did open a preliminary investigative file on two matters which were subsequently closed. The OIG opened no formal investigations and none remain pending.

As in the past, management has been responsive in attempting to implement all OIG recommendations. I appreciate management's support and I look forward to working with you in our ongoing efforts to promote economy and efficiency in agency programs.

Sincerely,

Adam R. Trzeciak  
Inspector General

## TABLE OF CONTENTS

Transmittal Letter	
Executive Summary .....	1
Background .....	1
Audits/Inspections.....	3
Audit of FY 2005 Financial Statements.....	3
Audit of FY 2005 FISMA .....	5
IG's Assessment of Management Challenges Facing the FMC.....	6
Audit of Data Accuracy of BOE's Tracking Systems .....	6
Corrective Actions Not Made .....	7
Investigations Activities.....	7
Other OIG Activities .....	8
Summary of Inspector General's Reporting Requirements .....	9
Statistical Summary .....	10
Table I.....	10
Table II.....	11
Table III.....	12

## **EXECUTIVE SUMMARY**

This Semiannual Report to the Congress summarizes the activities and accomplishments of the Federal Maritime Commission (FMC or Commission), Office of Inspector General (OIG) for the period October 1, 2005 through March 31, 2006. During this period we issued three reports and two management letters to the Commission. We also began fieldwork on one financial-related audit.

## **BACKGROUND**

The Commission is an independent agency responsible for the regulation of oceanborne 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, 1920.

The FMC is authorized 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 the Chairman. The Chairman is the chief executive and administrative officer of the Commission.

In Fiscal Year (FY) 2006, the Commission was authorized a total of 126 full-time equivalent positions with a total appropriation of \$20,294,010. The majority of the Commission's personnel are located in Washington, DC. The Commission maintains a presence in Los Angeles, South Florida, Seattle/Tacoma, New York, and New Orleans through area representatives who serve the major port areas and transportation centers within their respective areas. In addition, two at-large area representatives operate out of Washington, DC.

The FMC/OIG is an independent audit and investigative unit with an Inspector General (IG) who reports directly to the Chairman of the FMC.

The FMC/OIG was established pursuant to P.L. 100-504, the Inspector General Act of 1978 (P.L. 95-452), as amended in 1988. The OIG was formally established at the Commission on February 26, 1989. The Act states that the IG is responsible for (1) audits and investigations; (2) review of legislation; (3) recommendation of policies for the purpose of promoting economy and efficiency in the administration of, or preventing and detecting fraud and abuse in, programs and operations of the establishment. At the FMC, the IG is responsible for keeping the Chairman and Congress fully informed about problems and deficiencies in FMC programs and operations and the need for corrective actions. The IG has authority to inquire into all FMC programs, these inquiries may be in the form of audits, surveys, investigations, or other appropriate methods. The two primary purposes of these inquiries are (1) to assist all levels of FMC management by identifying and reporting problem areas, weaknesses, or deficiencies in procedures, policies, program implementation, and (2) to recommend appropriate corrective actions.

During the review period, the OIG operated with an Acting Inspector General and one administrative assistant. A permanent Inspector General joined the office in April 2006. The Office has a Memorandum of Understanding (MOU) with the FMC's Office of the General Counsel (OGC) which provides that an OGC attorney furnish legal services to the OIG on an "as needed" basis. The Office also has an MOU with the Office of Inspector General at the Social Security Administration which provides criminal investigative assistance as needed.

## **AUDITS/INSPECTIONS**

During this semiannual period, the OIG issued an audit of the FMC's FY 2005 financial statements and a companion report to management containing financial-related findings and recommendations resulting from the audit. The OIG also issued reports to management on agency compliance with the Federal Information Security Management Act (FISMA) of 2002, management challenges facing FMC in FY 2005, and data accuracy in the FMC's Bureau of Enforcement's data bases. The OIG also began fieldwork on an audit of agency payroll transactions.

### **Completed Audits**

<b><u>Audit Report Number</u></b>	<b><u>Subject of Audit</u></b>
<b>A05-03</b>	<b>FY 2005 Financial Statements</b>
<b>A05-03A</b>	<b>FY 2005 Management Letter to the Financial Statements</b>
<b>A05-04</b>	<b>Audit of FY 2005 FISMA Compliance</b>
<b>A05-05</b>	<b>IG's Assessment of Management Challenges Facing the FMC</b>
<b>A06-01</b>	<b>Audit of Data Accuracy of BOE's Tracking Systems</b>

### **Summary of Audits Issued During the Current Period**

In A05-03, *Audit of the Federal Maritime Commission's Financial Statements for the Fiscal Year Ending September 30, 2005*, the objective was to determine whether the agency's financial statements present fairly the financial position of the agency. The statements audited were the



Balance Sheets as of September 30, 2005 and 2004, and the related statements of Net Cost, Statements of Changes in Net Position, Statements of Budgetary Resources, Statements of Financing and Statements of Custodial Activity for the years then ended. This was the second consecutive year that the FMC prepared financial statements for audit. The agency received an unqualified opinion, the highest opinion given by independent auditors.

The FY 2005 audited statements provide insight into the mission and operations of the Federal Maritime Commission. The FMC had total assets of \$2.3 million and \$2.0 million as of September 30, 2005 and 2004, respectively. The FMC has a single source of funds, Salaries and Expenses, funded by an annual appropriation that is available for commitments and obligations incurred during the fiscal year in which the authority was granted. The FMC's budget authority for fiscal year 2005 was just over \$19 million. This represents a net increase in budget authority over fiscal year 2004 of \$561,000. Although the FMC collects remittances for "user fees" and "fines and penalties," the agency is not authorized to offset any of its budget authority by utilizing these funds. The collections are deposited directly into the Treasury General Fund.

As part of the audit, the OIG reviewed and tested the Commission's compliance with laws and regulations. The review disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards (GAS)* or OMB Bulletin 01-02. In addition, the OIG examined compliance with the Federal Financial Management Improvement Act (FFMIA) of 1996. Our review disclosed no instances in which FMC's financial management systems did not comply substantially with FFMIA, GAS or OMB.

The OIG review of internal control over financial reporting did not find any matters involving the internal control and its operations that were considered material weakness. On the other hand, the OIG did identify vulnerabilities in agency financial systems that warranted some corrective actions.

These findings are presented in A05-03A, *FY 2005 Management Letter to the Financial Statements*. The identified vulnerabilities involved insufficient (i) follow up with service providers to ensure that security-related vulnerabilities are addressed and (ii) reconciliations between annual and sick leave balances on employee leave records and System Time and Attendance Reporting.

The Commission's management addressed these vulnerabilities by (i) sending letters to its service providers requesting information relating to information security-related weaknesses, and (ii) instructing its employees to verify their accrued annual and sick leave balances and their pay and deductions periodically to ensure their accuracy. Also communications were sent to timekeepers and supervisors to assist them with leave record maintenance and reconciliation.

In A05-04, *Audit of FY 2005 Federal Information Security Management Act (FISMA) Compliance*, the OIG evaluated the implementation of the FMC information security program, assessed agency progress towards correcting weaknesses addressed within the FY 2005 Plan of Action and Milestones (POA&M) and verified and tested information security access controls for the FMC network. The review followed National Institute of Science and Technology (NIST) guidance for Information Systems, OMB Memorandum M-05-15, FY 2005 Reporting Instructions for the Federal Information Security Management Act (June 13, 2005) and best practices used in the IT security industry.

In FY 2005, the Commission corrected 55 of 62 previously reported information security vulnerabilities identified in OIG audit reports and continued to make needed modifications to comply with federal information security requirements. Penetration tests performed by an OIG-selected IT security firm (e.g., an "ethical hacker") found that the agency's firewall was well maintained and secured. Attempts to break in to the network were unsuccessful. The IT security audit team identified other areas for remediation with the agency that have been addressed.



In A05-05, *IG's Assessment of Management Challenges Facing the FMC*, the objective of the assessment was to summarize what the IG considers to be the most serious management and performance challenges facing the agency and assess the agency's progress in addressing those challenges. This report was incorporated into FMC's FY 2005 Performance and Accountability Report (PAR).

In the FMC's first PAR, issued for fiscal year 2004, the OIG identified information technology, financial management and contract management as "management challenges," i.e., areas of potential weakness where management needs to focus its attention. During FY 2005, the OIG audited select aspects of these areas and made recommendations to address observed vulnerabilities. In this year's review, the OIG concluded that the Commission was working diligently in addressing these various challenges.

In A06-01, *Audit of Data Accuracy of Bureau of Enforcement's (BOE) Tracking Systems*, the objective of the audit was to determine whether information in the two tracking systems used by BOE is accurate and reliable. The review primarily focused on pending and closed cases and closed cases with settlements. We also reviewed databases capturing the collection of moneys for closed cases with settlement arrangements.

We found overall the information in BOE's tracking systems is accurate and reliable. We found just one error in the date entered for opening a pending case and the date entered for closing a case. We found some inconsistencies in the date used to close cases with settlements and in the settlement amounts. We also found that BOE does not record any information when settlement payments are received. Finally, the Commission could better comply with the Government Paperwork Elimination Act (GPEA) by giving entities an option to submit settlement payments electronically.

We recommended that BOE (1) set a standard of using the closing memorandum approval date for closing cases with settlements and to inform its staff of the process, as well as, (2) enhance its tracking system to capture the date when moneys are received. We also recommended that the Office of Administration and its BOE implement the use of Pay.gov as an option to collect moneys from settlement agreements.

Management agreed with our recommendations and plans to implement the corrective actions.

## **CORRECTIVE ACTIONS NOT MADE**

We reported in our last semiannual report that there were two material weaknesses remaining related to the FY 2004 Federal Information Security Management Act. During this period the Commission has mitigated those weaknesses therefore there are no outstanding recommendations.

## **INVESTIGATIVE ACTIVITIES**

The Inspector General Act of 1978, as amended, provides that the IG may receive and investigate complaints or information concerning the possible allegations of fraud, waste and abuse occurring within FMC programs and operations. 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.

During this reporting period, the OIG did not receive any "Hotline" complaints; however, we did receive a Freedom of Information Act (FOIA) request and a request for information that was referred to another office within FMC. The OIG also opened two informal investigations that were subsequently closed. There were no formal investigations opened and none remained pending.

## **OTHER OIG ACTIVITIES**

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

During this period, a number of legislative proposals as well as Commission Orders/policy guidelines were reviewed by this Office.

At the end of the reporting period the Commission's Acting Inspector General continued to serve on the Executive Council on Integrity and Efficiency (ECIE). The ECIE serves as a forum for the exchange of views for the inspector general community and provides a base for the establishment of joint inspector general projects. She also participated in the Federal Audit Executive Council (FAEC) and the IG E-Learning initiative.

**SUMMARY OF INSPECTOR GENERAL'S REPORTING REQUIREMENTS**

<b>IG Act Reference</b>	<b>Reporting Requirement</b>	<b>Page(s)</b>
Section 4(a)(2)	Review of legislation and regulations	8
Section 5(a)(1)	Significant problems, abuses and deficiencies	None
Section 5(a)(3)	Prior significant recommendations on which corrective actions have not been made	7
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, showing dollar value of questioned costs and funds put to better use	10
Section 5(a)(7)	Summary of each particularly significant report	3 - 6
Section 5(a)(8)	Statistical tables showing number of reports and dollar value of questioned costs	11
Section 5(a)(9)	Statistical tables showing number of reports and dollar value of 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)	Significant revised management decisions	None
Section 5(a)(12)	Significant management decisions with which the inspector general disagrees	None

**TABLE I**  
**SUMMARY OF AUDITS**  
**WITH NON-FINANCIAL RECOMMENATIONS**

Audit Report No.	Report Issue Date	Management Response Date	<u>Non-Financial Recommendations</u>		
			No.	Mgt. Agrees	Mgt. Disagrees
A05-03	10/27/05	N/A	0	0	0
A05-03A	10/27/05	10/27/05	2	2	0
A05-04	10/04/05	10/04/05	8	8	0
A05-05	10/04/05	N/A	0	0	0
A06-01	3/30/06	3/24/06	3	3	0

TABLE II  
INSPECTOR GENERAL ISSUED REPORTS  
WITH QUESTIONED COSTS

		<u>Dollar Value</u>	
	<u>Number</u>	<u>Questioned Cost</u>	<u>Unsupported Costs</u>
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
<b>Subtotal (A + B)</b>	<u>0</u>	<u>0</u>	<u>0</u>
C. For which a management decision was made during the reporting period	0	0	0
(i) <b>dollar value of disallowed costs</b>	0	0	0
(ii) <b>dollar value of costs not disallowed</b>	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 III**

**INSPECTOR GENERAL ISSUED REPORTS  
WITH RECOMMENDATIONS  
THAT FUNDS BE PUT TO BETTER USE**

	<u>Number</u>	<u>Dollar Value</u>
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 plus 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	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
Reports for which no management decision was made within six months of issuance	0	0

# HOTLINE COMPLAINTS

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

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

**(202) 523-5865**

**E-MAIL ADDRESS:**

**[oig@fmc.gov](mailto:oig@fmc.gov)**

**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, EACH CALLER IS ENCOURAGED TO ASSIST THE INSPECTOR GENERAL BY  
SUPPLYING INFORMATION AS TO HOW THEY MAY BE CONTACTED FOR ADDITIONAL INFORMATION**