

Office of Inspector General

Semiannual Report to Congress
Covering the Period

October 1, 2014 – March 31, 2015



FEDERAL MARITIME COMMISSION

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FEDERAL MARITIME COMMISSION
Washington, DC 20573

April 24, 2015

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 October 1, 2014 to March 31, 2015. 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.

Due to a vacancy in the OIG's auditor position throughout the reporting period, the OIG operated with only one full-time employee, the Inspector General (IG). The OIG worked during the period on recruitment for the auditor position, as well as discussed the possibility of a reimbursable agreement with another federal OIG to have a senior auditor detailed to the FMC OIG on a temporary basis. Lastly, the OIG worked during the period to put in place a student intern program to provide students with the opportunity to work in a federal OIG for a semester or the summer.

The OIG completed several worthwhile and important evaluations and an audit during the reporting period. These assignments are discussed in detail in the report. I continue to appreciate the cooperation and courtesies provided by the FMC's leadership and staff, and I look forward to the next six months being an agent of positive change.

Respectfully submitted,

Jon Hatfield
Inspector General

Enclosure

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 six month reporting period October 1, 2014 through March 31, 2015. The most significant activities of the OIG during the first half of fiscal year (FY) 2015 are summarized below and additional details can be found in subsequent sections of this report.

During this reporting period, the OIG's one auditor position was vacant, this position represents one-half of the OIG's staff size. During the period, the Inspector General (IG) worked on recruitment to fill the auditor position. On a short-term basis until an auditor is hired, the IG held discussions with another federal OIG regarding a reimbursable agreement for a six month detail of a senior auditor to the FMC OIG. The OIG expects the detail to begin in the early part of the next reporting period and recruitment for a permanent auditor to be completed in the near future.

The OIG issued the following evaluation reports during this reporting period: the *Evaluation of the FMC's Compliance with the Federal Information Security Management Act FY 2014* (A15-02); *Evaluation of the FMC's FY 2014 Privacy and Data Protection* (A15-03); and the *Federal Maritime Commission Workplace Evaluation Report* (A15-04). In addition, the OIG completed an audit of the FMC's financial statements and issued the *Independent Auditors' Report of the FMC's FY 2014 Financial Statements* (A15-01) and issued a management letter (A15-01A) for this audit. The OIG also completed a risk assessment of the FMC's purchase and travel card programs.

The OIG had two audits open at the end of the reporting period: the *Audit of Expenditures for Furnishing or Re-decorating Commissioners' Offices* and an audit of the FMC's physical security operations. The OIG expects to complete the furniture and physical security audits after the OIG has staffed the vacant auditor position.

During this reporting period, the OIG received several hotline complaints; some of these complaints were forwarded to the appropriate FMC program areas for disposition. One administrative investigation was open and nine 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 federal 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 U.S. 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. These representatives provide information, liaison and investigatory services on behalf of the FMC.

Pictured: Pier Container Terminals, the Port of Los Angeles, San Pedro, California.



Picture source: The Port of Los Angeles.

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 and Congress. To aid the FMC in accomplishing its mission, the OIG is provided two full-time positions, the Inspector General and an auditor. The auditor position was vacant throughout the reporting period and the IG worked on recruitment to fill the position. The OIG has a memorandum of understanding (MOU) in place with the Federal Election Commission (FEC) OIG under which the FEC IG's Counsel also serves as the FMC IG's Counsel on a reimbursable basis.

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

Completed Audit and Evaluations

Independent Auditors' Report of FMC's FY 2014 Financial Statements, [A15-01](#). This audit report was issued on November 14, 2014. The OIG contracted with Regis & Associates, PC to perform the audit and the OIG actively monitored and reviewed the work and results of the contractor. The audit objectives were to opine on whether the FMC's FY 2014 financial statements follow U.S. Generally Accepted Accounting Principles (GAAP) and present fairly the financial position of the agency. The auditors also reviewed internal controls over financial reporting and agency compliance with laws and regulations. The statements audited were 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.

The independent auditor opined that the FMC's financial statements were fairly presented, in all material respects, in conformity with GAAP; there were no material weaknesses in internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations; and no reportable noncompliance with laws and regulations tested. Therefore, there were no findings or recommendations in the audit report.

Evaluation of FMC's Compliance with the Federal Information Security Management Act (FISMA) FY 2014, [A15-02](#). This evaluation report was issued on November 14, 2014. The OIG contracted with Your Internal Controls, LLC to perform the evaluation and the OIG actively monitored and reviewed the work and results of the contractor. The objectives of this independent evaluation of the FMC's information security program were to evaluate its security posture by assessing compliance with the FISMA and related information security policies, procedures, standards, and guidelines. The scope of the testing focused on the FMC General Support Systems (GSS) and Major Applications. Evaluation testing included inquiry of FMC personnel, observation of activities, inspection of relevant documentation, and the performance of technical security testing. More specifically, testing covered a sample of controls as listed in National Institute of Standards and Technology's (NIST) 800-53, Recommended Security Controls for Federal Information Systems and Organizations, Revision 4.

As a result of the FY 2014 evaluation, the OIG concluded the agency continues to make progress addressing outstanding deficiencies from prior year FISMA evaluations. Specifically, eight of the 12 outstanding recommendations reported in last year's FISMA report have been implemented by the agency; and another recommendation from last year was merged with a current year recommendation. The FY 2014 report included five new recommendations to address three findings.

FMC management updated the OIG in a letter dated March 25, 2015 that corrective action had been taken or is planned on the outstanding FISMA recommendations. The OIG plans to evaluate these corrective actions during the FY 2015 FISMA evaluation to verify the weaknesses have been remediated.

Evaluation of the FMC's FY 2014 Privacy and Data Protection, [A15-03](#). This evaluation report was issued on November 14, 2014. The OIG contracted with Your Internal Controls, LLC to

perform the evaluation and the OIG actively monitored and reviewed the work and results of the contractor. The evaluation was performed to review the agency's use and protection of personally identifiable information (PII) and of its privacy and data protection policies and procedures. PII is information which can be used to distinguish or trace an individual's identity, such as their name, social security number, biometric records, etc., alone, or when combined with other personal or identifying information, which is linked or linkable to a specific individual, such as date and place of birth, mother's maiden name, etc.

The Privacy Act of 1974, 5 U.S.C. § 552a, as amended, and Office of Management and Budget (OMB) Memorandum M-06-15, Safeguarding Personally Identifiable Information¹, requires agencies to collect only such information about an individual as is relevant and necessary to accomplish a purpose of the agency required to be accomplished by statute or executive order of the President. The FMC is required to protect this information from any anticipated threats or hazards to their security or integrity which could result in substantial harm, embarrassment, inconvenience, or unfairness to any individual on whom the information is maintained, and must not disclose this information except under certain circumstances.

The OIG concluded the agency has significantly improved its privacy program since our last evaluation in 2012. Specifically, all five of the outstanding recommendations from the 2012 evaluation have been implemented. In addition, there were no new findings as a result of the 2014 privacy evaluation.

OIG Evaluation of the FMC's Workplace Environment, [A15-04](#). This evaluation report was issued on March 10, 2015. The OIG contracted with the Partnership for Public Service to perform the evaluation and the OIG actively monitored and reviewed the work and results of the contractor. The OIG first identified workplace satisfaction at the FMC as an agency management challenge in 2013, and then again in 2014. In December 2014, 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 2014 report ranked the FMC 28th out of 30 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.

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 the Partnership for Public Service, an organization with expertise in this area to evaluate the FMC's workplace environment. The objectives were to evaluate: (1) the historical and most recent OPM *Federal Employee Viewpoint Survey* (FEVS) 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 evaluation focused on a review of the 2012, 2013 and 2014 FEVS data and *Best Places to Work* results for FMC and feedback from staff during several workshops, a webinar and numerous one-on-one interviews. The goal was to validate FEVS results, receive additional or updated feedback from employees, identify areas of agreement and disagreement and receive specific ideas for improving the workplace.

The evaluation found the major cause of disengagement at the FMC was in the area of effective leadership. Specifically, three main issues were uncovered:

1. *Leadership legacy*: Challenges with previous leaders remain top-of-mind at the agency and continue to impact morale.
2. *Low levels of trust*: Management and staff exhibit signs of distrust and a fear of retribution for speaking up or being perceived as out of favor.
3. *Poor communication*: Information is not widely or effectively shared across the agency, which results in rumors and misinformation.

During the evaluation process, it was also found that the FMC has been taking positive steps to improve low employee satisfaction and commitment scores. In particular, employees pointed to the following areas as organizational strengths: actions taken to address low leadership scores; transparency in the hiring and promotion process; expertise and talent among staff; and the small agency culture and environment.

The evaluation report provided six recommendations for addressing employee engagement at the FMC and FMC management agreed with the recommendations, with some explanation. In addition to the six recommendations, ten top ideas were provided in the evaluation report drawn from FMC employee feedback as well as best practices from across successful agencies.

Open Audits

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, the purpose of the audit is 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. The audit is expected to be completed after the OIG has filled the vacant auditor position.

Audit of FMC's Physical Security – Datawatch. 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 has filled the vacant auditor position.

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 open and five hotline complaints were pending. During this reporting period, the OIG received six new hotline complaints; two of these complaints were closed and referred to the agency. At the end of this reporting period, one administrative investigation was open and nine hotline complaints were pending. The OIG opened no new investigations and referred no matters to prosecutorial authorities during this period.

OTHER ACTIVITIES

Charge Card Risk Assessment

In accordance with the *Government Charge Card Abuse Prevention Act of 2012* (Charge Card Act), the OIG completed the annual risk assessment of the FMC's purchase and travel card programs. The objective was to assess the risk of illegal, improper, and erroneous use of the purchase and travel card programs to determine the scope, frequency, and number of future audits and reviews to be conducted by the OIG. To conduct the risk assessment, the OIG reviewed charge card data; program documentation; policies and procedures; and interviewed program officials for the purchase and travel card programs. The OIG assessed the risk of illegal, improper, or erroneous use in the FMC's purchase and travel card programs is "**low**," based on a scale from very low, to very high. In addition, several administrative suggestions were made to FMC management for improvement of the program.

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.

Council of Inspectors General on Integrity and Efficiency Activities

The 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, participates in the monthly CIGIE meetings and periodically assists CIGIE on special projects. During the reporting period, the IG served as Chair on a CIGIE panel to review the 2015 OIG community Presidential Rank Award nominations. The panel reviewed the nominations of OIG leaders for the Distinguished Executive and Meritorious Executive Rank Awards and provided feedback to the nominating OIG's for finalizing their nominations.

**SUMMARY OF INSPECTOR GENERAL
REPORTING REQUIREMENTS**

IG Act Reference	Reporting Requirement	Pages
Section 4(a)(2)	Review of legislation and regulations	9
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	11
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 reports by subject matter	11
Section 5(a)(7)	Summary of each report	None
Section 5(a)(8)	Reports with questioned costs	12
Section 5(a)(9)	Recommendations that funds be put to better use	13
Section 5(a)(10)	Summary of each report 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)(15)	Peer review activity on FMC OIG	14, App. A
Section 5(a)(16)	Peer review activity by FMC OIG on another OIG	None

**TABLE I – Summary of 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
Review of FMC's User Fee Calculations	OR10-03	5/27/10	1	1	0

TABLE II - Listing of Reports Issued

Report Number	Issue Date	Report Title	Questioned Costs	Unsupported Costs	Funds Put to Better Use
A15-01	11/14/14	<i>Independent Auditors' Report of FMC's FY 2014 Financial Statements</i>	\$0	\$0	\$0
A15-02	11/14/14	<i>Evaluation of FMC's Compliance with the Federal Information Security Management Act FY 2014</i>	\$0	\$0	\$0
A15-03	11/14/14	<i>Evaluation of the FMC's FY 2014 Privacy and Data Protection</i>	\$0	\$0	\$0
A15-04	3/10/15	<i>OIG Evaluation of the FMC's Workplace Environment</i>	\$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

ONLINE COMPLAINT FORM:

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

TO PLACE A COMPLAINT IN WRITING PLEASE MAIL TO:

Federal Maritime Commission
Office of Inspector General
Suite 1054
800 North Capitol Street, NW
Washington, DC 20573
To Be Opened By the IG Only

THE INFORMATION YOU PROVIDE IS CONFIDENTIAL. YOU CAN CHOOSE TO REMAIN ANONYMOUS; HOWEVER, INDIVIDUALS ARE ENCOURAGED TO ASSIST THE INSPECTOR GENERAL BY SUPPLYING INFORMATION AS TO HOW THEY MAY BE CONTACTED FOR ADDITIONAL INFORMATION.