Federal Election Commission

Agency Financial Report

Fiscal Year 2014

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Federal Election Commission
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Released November 17, 2014

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Message from the Chairman

FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20463

OFFICE OF THE CHAIRMAN

November 17, 2014

I am pleased to present the Federal Election Commission's (FEC) Agency Financial Report (AFR) for Fiscal Year (FY) 2014. The AFR reflects the agency's program performance and financial activities over the past year and demonstrates our continued commitment to administering the *Federal Election Campaign Act of 1971*, as amended (the *Act*).

The Commission received an unmodified opinion from its independent auditors with respect to the agency's FY 2014 annual financial statements. This unmodified opinion reflects the continued commitment by the Commissioners and FEC staff to ensure that the FEC's financial statements present fairly the agency's fiscal position.

The Commission took a number of steps during FY 2014 to ensure that it would be fully successful in its mission to receive and make public campaign finance reports filed with the agency. The FEC received 68,765 documents filed during FY 2014 disclosing more than 26 million transactions. During FY 2014, the FEC launched an initiative to develop an automated data capture process to convert paper-filed reports into structured, machine-readable data. Automating this labor-intensive process will decrease data processing time, increase the accuracy of data and reduce the overall costs of capturing data from paper forms.

The Commission also began an extensive effort to redesign the FEC website to improve the delivery of campaign finance data and information to the public. The Commission is committed to ensuring the website redesign project is user-driven and meets the needs of the FEC's diverse audience. On September 17, 2014, the Commission hosted a public forum seeking broad public input for its website improvement project. Further, the FEC has engaged 18F, a digital services delivery team within the General Services Administration, to help redesign its website at www.fec.gov to provide an agile, navigable, user-based online platform to deliver campaign finance information. The Commission will continue to actively engage the public in this effort to provide easy, intuitive and comprehensive campaign finance data and information.

The Commission also continued to serve the public during FY 2014 through its educational outreach programs. During the fiscal year, the FEC held regional conferences in San Francisco, California, and Tampa, Florida. The agency also hosted a series of one-day seminars and topic-based roundtable workshops at FEC headquarters. These programs were available simultaneously as webinars for online attendees in order to reduce registration and travel costs for attendees.

The performance data described in the FEC's FY 2014 AFR were compiled and evaluated using appropriate techniques for achieving the desired level of credibility for the verification and validation of performance data relative to its intended use.

The efforts described in this report reflect the work and dedication of the agency's staff. The Commission looks forward to building on its achievements in FY 2014 in order to fulfill the mission of the agency in the most efficient manner possible.

On behalf of the Commission,

Lee E. Goodman

Lee E. Goodman, Chairman

How to Use This Report

This Agency Financial Report presents financial information, as well as relevant performance information, on the Federal Election Commission's operations. The report was prepared pursuant to the *Accountability of Tax Dollars Act of 2002* and Office of Management and Budget (OMB) Circular A-136, revised, *Financial Reporting Requirements,* and covers activities from October 1, 2013 through September 30, 2014.

The FEC places a high importance on keeping the public informed of its activities. To learn more about the FEC and what the agency does to serve the American public, visit the FEC's website at http://www.fec.gov. To access this report, click on "About the FEC" and then "Plans, Performance and Budget."

The FY 2014 Agency Financial Report is organized into three primary sections:

Section I – Management's Discussion and Analysis (MD&A) provides an overview of the FEC. It describes our mission, organizational structure and regulatory responsibilities. It also includes relevant performance information related to the FEC's strategic goals and objectives to provide a forward-looking discussion of future challenges.

Section II – Financial Information, including the Independent Auditor's Report, detailing the FEC's financial performance by 1) highlighting the agency's financial position and audit results and 2) describing the FEC's compliance with key legal and regulatory requirements.

Section III – Other Information includes our Inspector General's (IG) assessment of the FEC's management challenges and the FEC's response.

SECTION I – Management's Discussion and Analysis

Section I.A: Mission and Organizational Structure

The FEC is an independent regulatory agency responsible for administering, enforcing, defending and interpreting the *Federal Election Campaign Act of 1971*, as amended (*FECA* or *the Act*).[1] Congress created the FEC to administer, enforce and formulate policy with respect to the *FECA*. The *Act* reflects Congress's efforts to ensure that voters are fully informed of the sources of financial support for Federal candidates, political party committees, other political committees and other political actors. Public confidence in the political process depends not only on laws and regulations to ensure transparency, but also on the knowledge that those who disregard the campaign finance law will face consequences.

Under the *Act*, all Federal political committees, including the committees of Presidential, Senate and House candidates, must file reports of receipts and disbursements. The FEC makes disclosure reports, and the data contained in them, available to the public through the Commission's Internet-based public disclosure system on the Commission's website, as well as in a public records office at the Commission's Washington, D.C. headquarters. The FEC also has exclusive responsibility for civil enforcement of the *Act*, and has litigating authority independent of the Department of Justice in U.S. district court and the courts of appeals. Additionally, the Commission promulgates regulations implementing the *Act* and issues advisory opinions responding to inquiries regarding interpretation and application of the *Act* and the Commission's regulations.

Additionally, the Commission is responsible for administering the Federal public funding programs for Presidential campaigns. This responsibility includes certifying and auditing all participating candidates and committees and enforcing the public funding laws.

The FEC has chosen to produce an Agency Financial Report and Annual Performance Report (APR) pursuant to the *Government Performance and Results Act of 1993*, as amended. The FEC will include its FY 2014 Annual Performance Report with its Congressional Budget Justification and will post it on the FEC website at http://www.fec.gov/pages/budget/budget.shtml in February 2015.

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1 The Commission's primary responsibilities pertain to the *Federal Election Campaign Act of 1971,* Public Law 92-225, 86 Stat. 3 (1972) as amended (*codified at* 52 U.S.C. §§ 30101-30145) (formerly at 2 U.S.C. §§ 431-55) (the *Act* or the *FECA*). The Commission's responsibilities for the Federal public funding programs are contained in the *Presidential Election Campaign Fund Act,* Public Law 92-178, 85 Stat. 562 (1971) (*codified at* 26 U.S.C. §§ 9001-13) and the *Presidential Primary Matching Payment Account Act,* Public Law 93-443, 88 Stat. 1297 (1974) (*codified at* 26 U.S.C. §§ 9031-42).

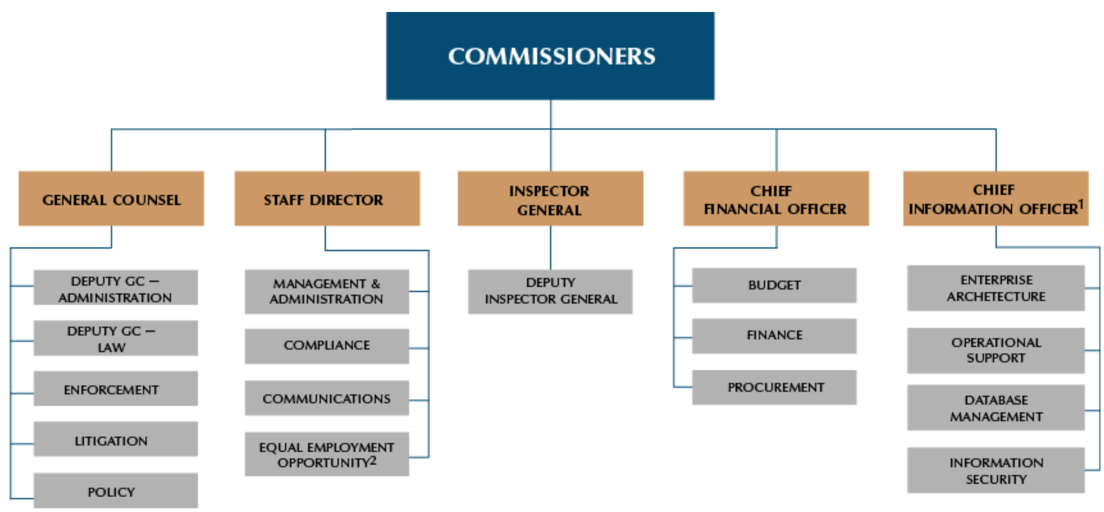
Mission Statement

The FEC's mission is to protect the integrity of the Federal campaign finance process by providing transparency and fairly enforcing and administering Federal campaign finance laws.

Organizational Structure

To accomplish its legislative mandate, the FEC is directed by six Commissioners, who are appointed by the President with the advice and consent of the Senate. By law, no more than three Commissioners can be members of the same political party. Each member serves a six-year term, and two seats are subject to appointment every two years. The Chairmanship of the Commission rotates among the members, with no member serving as Chair more than once during his or her term. The Commissioners are responsible for administering and enforcing the *FECA* and meet regularly to formulate policy and to vote on significant legal and administrative matters. The *Act* requires the affirmative vote of four members of the Commission to approve official actions, thus requiring bipartisan decision-making. The FEC has its headquarters in Washington, D.C. and does not have any regional offices.

Figure 1: FEC Organizational Chart



1 The position of the Chief Information Officer normally reports directly to the Staff Director who, in turn, reports to the Commission itself. At present, however, the same individual is serving in both the position of the Staff Director and the position of the Chief Information Officer, pursuant to an authorization by the Commission and based, in part, on an advance decision from the Comptroller General. Accordingly, the organizational chart reflects both positions – the Staff Director and the Chief Information Officer – as reporting directly to the Commission.

2 The Director for Equal Employment Opportunity reports to the Staff Director on administrative issues but has direct reporting authority to the Commission on all EEO matters. See 29 CFR 1614.102(b)(4).

As noted in Figure 1, the offices of the Staff Director, General Counsel, Chief Information Officer and Chief Financial Officer support the agency in accomplishing its mission. The Office of the Inspector General, established within the FEC in 1989 under the 1988 amendments to the *Inspector General Act*, is independent and reports both to the

Commissioners and to Congress. The specific roles and responsibilities of each office are described in greater detail below.

- **Office of the Staff Director (OSD)**

The Office of the Staff Director consists of four offices: 1) Management and Administration; 2) Compliance; 3) Communications; and 4) Equal Employment Opportunity. The Office of Management and Administration is responsible for the FEC’s strategic planning and performance and works with the Commission to ensure the agency’s mission is met economically and effectively. In addition, this office houses the Commission Secretary functions, the Office of Human Resources (OHR) and the Administrative Services Division (ASD). The primary responsibilities of the Office of Compliance are review of campaign finance reports, audits, administrative fines and alternative dispute resolution. The Office of Communications includes four divisions charged with receiving campaign finance reports and making this information available to the public, encouraging voluntary compliance with the *Act* through educational outreach and ensuring effective communication with Congress, executive branch agencies and the media. The Equal Employment Opportunity (EEO) Office administers and ensures compliance with applicable laws, regulations, policies and guidance that prohibit discrimination in the Federal workplace based on race, color, national origin, religion, age, disability, sex, pregnancy, genetic information or retaliation. The EEO Officer reports to the Staff Director on administrative issues, but has direct reporting authority on all EEO matters. See 29 Code of Federal Regulations (CFR) 1614.102(b)(4).

- **Office of General Counsel**

The Office of General Counsel (OGC) consists of five organizational units: (1) the Deputy General Counsel—Administration; (2) the Deputy General Counsel—Law; (3) the Policy Division; (4) the Enforcement Division; and (5) the Litigation Division. The Deputy General Counsel—Administration directly supervises the Administrative Law Team, the Office of Complaints Examination and Legal Administration, the Law Library and all OGC administrative functions. The Deputy General Counsel—Law has the primary responsibility for assisting the General Counsel in all of the substantive aspects of the General Counsel’s duties and shares in the management of all phases of OGC programs, as well as directly supervises the Compliance Advice Team and the agency’s ethics program. The Policy Division drafts for Commission consideration advisory opinions and regulations interpreting the Federal campaign finance law. The Enforcement Division recommends to the Commission appropriate action to take with respect to administrative complaints and apparent violations of the *Act*. Where authorized, the Enforcement Division investigates alleged violations and negotiates conciliation agreements, which may include civil penalties and other remedies. If an enforcement matter does not resolve through conciliation during the administrative process, the Commission may authorize suit in district court, at which point the matter is transferred to the Litigation Division. The Litigation Division represents the Commission before the Federal district courts and courts of appeals in all civil litigation involving the campaign finance statutes. This Division assists the Department of Justice's Office of the Solicitor General when the Commission's *FECA* cases are before the Supreme Court.

- **Office of the Chief Information Officer**

The Office of the Chief Information Officer (OCIO) meets the increasing public interest in and demand for the agency's disclosure information. In addition, fast changing information technology provides substantial opportunities for efficiency and effectiveness. The OCIO is working to upgrade the FEC's systems to meet internal and external demands and ensure that information is available to all of the Commission's stakeholders in a rapid and user-friendly fashion.

- **Office of the Chief Financial Officer**

The Office of the Chief Financial Officer (OCFO) is responsible for complying with all financial management laws and standards, and all aspects of budget formulation, budget execution and procurement.

Sources of Funds

On an annual basis, the FEC receives a single appropriation for Salaries and Expenses. In FY 2014, the FEC's authorized funding level included an appropriation of $65,791,000. During FY 2014 the FEC additionally received $42,000 in Personnel Reimbursable Authority for services provided to other Federal agencies.

The FEC also has the authority to collect fees from attendees of agency-sponsored educational conferences. The Commission may use those fees to defray the costs of conducting those conferences. In an effort to keep the fees as low as possible, the agency has not fully exercised that authority. Rather, the Commission sets its registration fees at a level that covers only the costs incurred by the agency's conference-management contractor, including meeting room rental and conference meals and compensation. All other conference-related expenses, such as materials and staff travel, are paid using appropriated funds. Registration fees for FY 2014 were $130,345.

Figure 2 shows the agency's appropriations and obligations from FY 2010 to 2014.

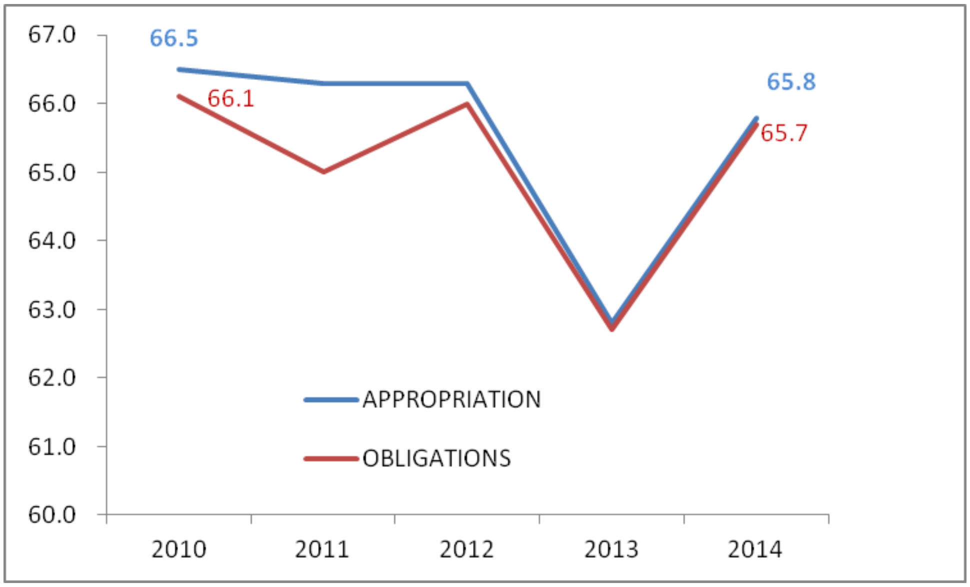


Figure 2: Summary of Funding (in millions of dollars)

Personnel vs. Non-Personnel Costs

Figure 3 represents the Commission's FY 2014 obligations by personnel and non-personnel costs. Personnel costs, which are primarily comprised of salaries and employee benefits, accounted for 69 percent of the FEC's costs. The remaining 31 percent of the Commission's costs was spent on non-personnel items, such as infrastructure and support, software and hardware, office rent, building security and other related costs.

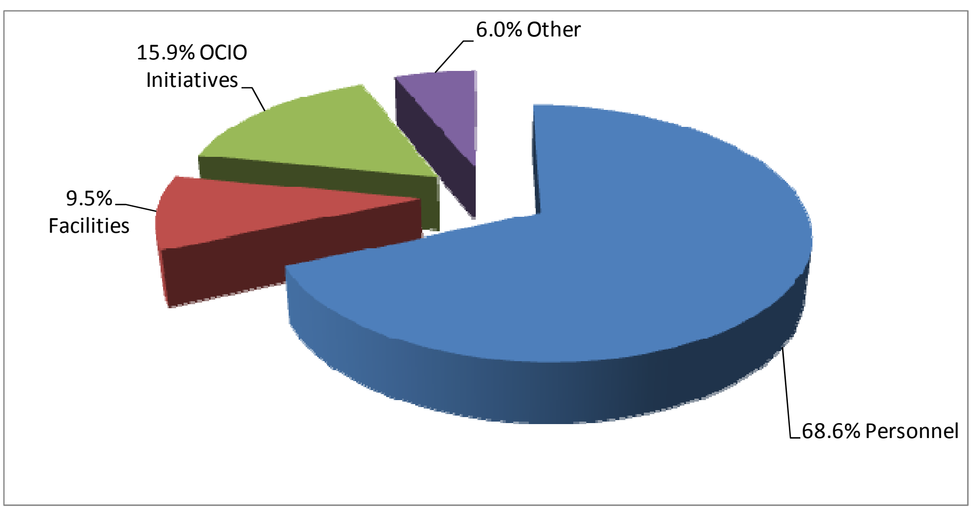


Figure 3: Fiscal Year 2014 by Major Category

Section I.B: Performance Goals, Objectives and Results

This section provides a summary of the results of the FEC's key performance objectives, which are discussed in greater detail in the FEC's FY 2014 APR. This report will be part of the FEC's FY 2016 Congressional Budget Justification, which will be available at http://www.fec.gov/pages/budget/budget.shtml in February 2015.

Strategic Goal

The strategic goal of the Federal Election Commission is to fairly, efficiently and effectively administer and enforce the *Federal Election Campaign Act*, promote compliance and engage and inform the public about campaign finance data and rules, while maintaining a workforce that delivers results.

Strategic Objectives

The *Act* reflects a belief that democracy works best when voters can make informed decisions in the political process—decisions based in part on knowing the sources of financial support for Federal candidates, political party committees, other political committees and other political actors. As a result, the FEC's first strategic objective is to inform the public about how Federal campaigns and committees are financed. Public confidence in the political process also depends on the knowledge that participants in Federal elections follow clear and well-defined rules and face real consequences for non-compliance. Thus, the FEC's second strategic objective focuses on the Commission's efforts to promote voluntary compliance through educational outreach and to enforce campaign finance laws effectively and fairly. The third strategic objective is to interpret the *FECA* and related statutes, providing timely guidance to the public regarding the requirements of the law. The Commission also understands that organizational performance is driven by employee performance and that the agency cannot successfully achieve its mission without a high-performing workforce that understands expectations and delivers results. The FEC's fourth strategic objective is to foster a culture of high performance in order to ensure that the agency delivers its mission efficiently and effectively.

Objective 1: Engage and Inform the Public about Campaign Finance Data

The FEC provides the public with campaign finance disclosure information necessary to make educated, informed decisions in the political process based on data concerning the sources and amounts of funds used to finance Federal elections. In order to ensure that this data is quickly available and fully accessible to the public, the agency is committed to ensuring that information is easy to view, sort and download from the FEC website and that FEC staff have the tools and knowledge to help the public find and understand the campaign finance information relevant to their questions and needs.

The FEC's e-filing system acts as the point of entry for submission of electronically filed campaign finance reports, providing faster access to reports and streamlining operations. Specifically, the system provides for public disclosure of electronically filed reports, via the FEC website, within minutes of being filed. The Commission's Public Disclosure Division ensures reports filed on paper are available for public inspection within 48 hours of receipt, both electronically on the website and at the FEC's offices in Washington, D.C.[2] The FEC is committed to providing timely and transparent campaign finance disclosure to the public and delivering data in accessible and easy-to-use formats. The FEC has launched an initiative to develop an automated data capture process to convert paper-filed reports into structured, machine-readable data. Automating this labor-intensive process will decrease data processing time, increase the accuracy of data and reduce the overall costs of capturing data from paper forms.

To make campaign finance data more accessible to the public, the Commission provides several interactive, graphic presentations, including maps and charts, of complex data. In addition to the graphic presentations, the Commission provides campaign finance data through the Candidate and Committee Viewer and the Data Catalog. During Presidential election years, users can access through the Presidential Map the amount of funds raised on a state-by-state basis, contributions, cash-on-hand and the distribution of contributions by amount with a simple click at www.fec.gov. Users can also access lists of contributors by name, city and amounts of contributions within the first three digits of any zip code. Contribution and disbursement data is updated within one day of the FEC's receipt of electronically filed disclosure reports. The Candidate and Committee Viewer, the House and Senate Map and the Data Catalog are updated nightly with all data that has been entered into the Commission's database. Generally, summary financial data is available the day following receipt of the report. Transactions—detailed information about receipts and disbursements—are processed on a rolling basis and added to the Commission's database nightly. The agency also provides a Compliance Map to assist members of the public in their efforts to comply with campaign finance law. The Compliance Map lists all reporting dates and other significant information tied to each state's election calendar, such as the time periods when special requirements for electioneering communications and Federal election activity apply. Like the interactive Disclosure Map of contribution information, the Compliance Map provides quick access to information on a state-by-state basis in an easy-to-use

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[2] The Commission's mandatory electronic filing ("e-filing") rules require any committee that receives contributions or makes expenditures in excess of $50,000 in a calendar year, or that has reason to expect to do so, to submit its reports electronically. Under the *Act*, these mandatory e-filing provisions apply to any political committee or other person required to file reports, statements or designations with the FEC, except for Senate candidate committees (and certain other persons who support Senate candidates only).

format.

In June 2014, the FEC launched an extensive effort to redesign the FEC website to improve the delivery of campaign finance data to the public. In partnership with 18F, a newly formed organization within the General Services Administration (GSA), the FEC is developing an agile, navigable, user-based online platform to deliver campaign finance information to its diverse base of users. Once complete, the redesigned FEC website will better meet the needs of an audience that spans from individual citizens seeking information about candidates on the ballot in their state to journalists and researchers who specialize in campaign finance issues to filers and other political participants seeking legal guidance and compliance information. This effort will ensure that the FEC provides full and meaningful campaign finance data and information in a manner that meets the public's increasing expectations for data customization and ease of use.

In addition, as a milestone, the FEC is developing internal tools to help improve the service provided by staff members who give daily guidance to the public and the press. In order to better guide the public through the FEC's vast quantity of campaign finance information and promote voluntary compliance with the campaign finance law, FEC staff is developing a web-based knowledge management tool for staff use. Like many Federal agencies, the FEC faces challenges in preserving staff knowledge lost through turnover and attrition, as well as finding meaningful ways to share this information with staff to achieve the agency's mission efficiently and effectively. This knowledge management tool will capture and organize staff knowledge in a way that is accessible and useful and will enable FEC staff to provide the public with quick, comprehensive and consistent responses. During FY 2014, FEC staff completed much of the collection and categorization of information and procedures across public-facing offices.

The level of availability and accessibility of campaign finance data serves as a measurement of success in improving the public's access to information about how campaign funds are raised and spent. This key indicator represents a new area of performance reporting for the agency. The FEC collected baseline performance data during FY 2014 in order to establish an appropriate target for FYs 2015 and 2016, as detailed below.

Performance Goal 1-1: Improve the public's access to information about how campaign funds are raised and spent.

Key Indicator: Enhanced availability of campaign finance data as measured by increased capabilities to retrieve and analyze data.							
FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Actual	FY 2014 Target	FY 2014 Actual	FY 2015 Target	FY 2016 Target
N/A	N/A	N/A	N/A	Set baseline	75%	75%	75%

Objective 2: Promote Compliance with the FECA and Related Statutes

Helping the public understand its obligations under the *Act* is an essential component of voluntary compliance. The FEC places a significant emphasis on encouraging compliance through its Information Division, Reports Analysis Division (RAD), Press Office and Office of Congressional, Legislative and Intergovernmental Affairs. The FEC measures its progress in meeting this Objective through two performance measures: one that measures the agency's efforts to encourage voluntary compliance through educational outreach and information and another that measures the FEC's efforts to seek adherence to *FECA* requirements through fair, effective and timely enforcement and compliance programs. Progress against these measures is detailed in the charts below.

Encourage voluntary compliance with FECA requirements through educational outreach and information.

The FEC's education and outreach programs provide information necessary for compliance with the campaign finance law and give the public the context necessary to interpret the campaign finance data filers disclose. The FEC maintains a toll-free line and public email accounts to respond to inquiries regarding the campaign finance law and data. Additionally, Campaign Finance Analysts in RAD provide assistance with completing and filing disclosure reports. The FEC also operates Press and Congressional Affairs offices.

One way the Commission encourages voluntary compliance is by hosting conferences across the country, where Commissioners and staff explain how the *Act* applies to candidates, parties and political action committees. These conferences address recent changes in the law and focus on fundraising, methods of candidate support and reporting regulations.

The FEC also devotes considerable resources to ensuring that staff can provide distance learning opportunities to the public. The Commission's website is one of the most important sources of instantly accessible information about the *Act*, Commission regulations and Commission proceedings. In addition to viewing campaign finance data, anyone with Internet access can use the website to track Commission rulemakings, search advisory opinions, audits and closed enforcement matters, view campaign finance data and find reporting dates. The Commission places a high emphasis on providing educational materials about the campaign finance law and its requirements. Toward this end, the FEC has moved its focus away from the printing and manual distribution of its educational materials and instead looked for ways to leverage available technologies to create and disseminate dynamic and up-to-date educational materials through the website. While the Commission continues to make available printed copies of its educational brochures and publications, transitioning to primarily web-based media has already allowed the agency to reduce significantly its printing and mailing costs and use of resources while at the same time encouraging new and expanded ways of communicating with the public via the website.

As part of this broad effort to improve its Internet communications and better serve the educational needs of the public, the Commission has added an E-Learning section to its Educational Outreach web page and launched its own YouTube channel, which can be found at http://www.youtube.com/FECTube. The E-Learning page offers instructional videos and tutorials, as well as interactive presentations that enable users to obtain guidance tailored to their specific activities. The curriculum currently includes a variety of presentations about the Commission and the campaign finance law.

The agency’s educational outreach program has been significantly enhanced with the addition of FEC Connect, a new online training service that enables political committees and other groups to schedule live, interactive online training sessions with FEC staff. FEC Connect, launched in May 2014, allows the FEC to provide tailored, distance learning presentations and training to the public in a manner that will significantly increase the availability of FEC staff to serve the public. FEC Connect also offers an efficient and effective way for alternative dispute resolution and other enforcement respondents to satisfy the terms of their agreements with the agency. The FEC has historically measured the success of its educational outreach programs based on satisfaction surveys of conference attendees. Beginning in FY 2014, the agency initiated a program to measure user satisfaction across all aspects of its outreach program by developing methods for effectively and consistently surveying user satisfaction with publications, webinars and E-Learning presentations. This program will be implemented during FY 2015 to help the FEC better understand and meet the public’s expectations and needs regarding the agency’s educational outreach efforts.

Performance Goal 2-1: Encourage voluntary compliance with FECA requirements through educational outreach and information.

Key Indicator: Percent of educational outreach programs (webinars, seminars, publications and E-Learning presentations) and events that achieve targeted satisfaction rating on user surveys.							
FY 2010 Actual	**FY 2011 Actual**	**FY 2012 Actual**	**FY 2013 Actual**	**FY 2014 Target**	**FY 2014 Actual**	**FY 2015 Target**	**FY 2016 Target**
N/A	N/A	N/A	N/A	Develop methods for surveying user satisfaction with webinars, publications and E-Learning presentations.	N/A	4.0 or higher on a 5.0 scale	4.0 or higher on a 5.0 scale

Seek adherence to FECA requirements through fair, effective and timely enforcement and compliance programs.

The FEC has also set strategies for ensuring that its enforcement and compliance programs are fair, effective and timely. The Commission's statutory obligation is to administer, interpret and enforce the *Federal Election Campaign Act*, which serves the compelling governmental interest in deterring corruption and the appearance of corruption in financing elections. In doing so, the Commission remains mindful of the First Amendment's guarantees of freedom of speech and association, and the practical implication of its actions on the political process.

The FEC has exclusive jurisdiction over civil enforcement of Federal campaign finance laws and consults with the U.S. Department of Justice, as appropriate, on matters involving both civil and criminal enforcement of the *Act*. Commission enforcement actions, which are handled primarily by the Office of General Counsel, originate from a number of sources, including external complaints, referrals from other government agencies and matters generated by information ascertained by the Commission in the normal course of carrying out its supervisory responsibilities.

To augment OGC's traditional enforcement role, the Office of Compliance manages several programs that seek to remedy alleged violations of the *Act* and encourage voluntary compliance. These programs include: 1) the Alternative Dispute Resolution Program, 2) the Administrative Fine Program and 3) the Audit Program. The Commission's Alternative Dispute Resolution Program is designed to resolve matters more swiftly by encouraging the settlement of less-complex enforcement matters with a streamlined process that focuses on remedial measures for candidates and political committees, such as training, internal audits and hiring compliance staff. Violations involving the late submission of, or failure to file, disclosure reports are subject to the Administrative Fine Program. This Program is administered by RAD and the Office of Administrative Review (OAR), which assess monetary penalties and handle challenges to the penalty assessments. Finally, the Audit Program performs "for cause" audits under the *FECA* in those cases where political committees have failed to meet the threshold requirements for demonstrating substantial compliance with the *Act* and conducts mandatory audits under the public funding statutes. Threshold requirements approved by the Commission and used by RAD and the Audit Division are public, subject to limited redactions.

If the Commission cannot settle or conciliate a matter involving an alleged violation of the *Act*, the Commission may initiate civil litigation by filing and prosecuting a civil action in Federal district court to address the alleged violation.

Performance Goal 2-2: Seek adherence to FECA requirements through fair, effective and timely enforcement and compliance programs.

Key Indicator: Of the enforcement matters resolved during the fiscal year, the percentage that was resolved within 15 months of the date of receipt.							
FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Actual	FY 2014 Target	FY 2014 Actual	FY 2015 Target	FY 2016 Target
75%	89%	70%	72%	75% by FY 2015	28%	75%	75%

Objective 3: Interpret the FECA and Related Statutes

The Commission responds to questions from the public about how the *Act* applies to specific situations by issuing advisory opinions (AO). In addition, Commission initiatives, Congressional action, judicial decisions, petitions for rulemaking or other changes in campaign finance law may necessitate that the Commission update or adopt new regulations. Consequently, the FEC undertakes rulemakings either to write new Commission regulations or revise existing regulations. The FEC has set as a performance goal to provide timely legal guidance to the public.

Regulations

The Policy Division of OGC drafts Notices of Proposed Rulemaking (NPRM) for Commission consideration. NPRMs provide an opportunity for members of the public to review proposed regulations, submit written comments to the Commission and testify at public hearings, which are conducted at the FEC, when appropriate. The Commission considers the comments and testimony and deliberates publicly regarding the adoption of the final regulations and the corresponding Explanations and Justifications, which provide the rationale and basis for the new or revised regulations.

Advisory Opinions

Advisory opinions are official Commission responses to questions regarding the application of Federal campaign finance law to specific factual situations. The *Act* generally provides the Commission with 60 days to respond to an AO request. For AO requests from candidates in the two months leading up to an election, the *Act* provides the Commission with 20 days to respond to the request. On its own initiative, the Commission also makes available an expedited process for handling certain time-sensitive requests that are not otherwise entitled to expedited processing under the *Act*. The Commission strives to issue these advisory opinions in 30 days.

Defending Challenges to the Act

The Commission represents itself in most litigation before the Federal district courts and courts of appeals and before the Supreme Court with respect to cases involving publicly financed Presidential candidates. It also has primary responsibility for defending the *Act* and Commission regulations against court challenges. In addition, the *FECA* authorizes the Commission to institute civil actions to enforce the *FECA*.

Performance Goal 3-1: Provide timely legal guidance to the public.[3]

Key Indicator: Percent of legal guidance provided within statutory and court-ordered deadlines.							
FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Actual	FY 2014 Target	FY 2014 Actual	FY 2015 Target	FY 2016 Target
N/A	N/A	N/A	N/A	100%	100%	100%	100%

[3] The Commission obtained extensions to consider ten advisory opinion requests in FY 2014; four of those extensions were attributable to the Federal government shutdown during October 2013. The Commission did not have any rulemakings during FY 2014 with statutory or court-ordered deadlines.

Objective 4: Foster a Culture of High Performance

One of the management objectives from the FEC's Strategic Plan, FY 2014-2019, Foster a Culture of High Performance, cuts across the organization and reflects the agency's strategic priorities for improving the efficiency and effectiveness of its workforce and management processes. The Commission understands that the success of its programs depends upon the skills and commitment of its staff. The FEC remains committed to increased engagement between leaders and employees. A component of the FEC's engagement is to build an effective and collaborative relationship with the National Treasury Employee Union (NTEU), which is the exclusive representative of bargaining unit employees. In accordance with Executive Order 13522, Creating Labor-Management Forums to Improve Delivery of Government Services, the FEC and the NTEU have established the FEC Labor-Management Forum (Forum). The Forum is intended to promote improvements in overall FEC efficiency and effectiveness, improve employee satisfaction, assist in the development of cooperative and productive labor-management relations and encourage the involvement of employees in workplace issues through their union representatives. During FY 2014, the Forum launched a multi-year program to assess and improve employee workplace engagement and satisfaction based, in part, on the results of OPM's annual Federal Employee Viewpoint Survey.

The FEC is also participating in and contributing to the government-wide Records Management initiative. In compliance with the *Federal Records Act*, the FEC is updating its records management program. The program will increase efficiency and improve performance by eliminating paper and using electronic recordkeeping to the fullest extent possible.

The FEC's primary measure of success in developing and maintaining a result-driven workforce is at the program level: a workforce that delivers results will meet the internal performance targets set by the Commission. This performance goal represents a new area of performance measurement for the agency. The Commission set a baseline for this measure during FY 2014 in order to set appropriate targets for future years.

Performance Goal 4-1: Foster a workforce that delivers results.

Key Indicator: Commission-required quarterly updates meet targeted performance goals.							
FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Actual	FY 2014 Target	FY 2014 Actual	FY 2015 Target	FY 2016 Target
N/A	N/A	N/A	N/A	Set baseline in FY 2014	73%	60%	65%

Section I.C: Analysis of FEC Financial Statements and Stewardship Information

The FEC's FY 2014 financial statements and notes are presented in the required format in accordance with OMB Circular A-136, as revised, Financial Reporting Requirements. The FEC's current-year financial statements and notes are presented in a comparative format in Section II of this report.

The following table summarizes the significant changes in the FEC's financial position during FY 2014:

Net Financial Condition	FY 2014	FY 2013	Increase (Decrease)	% Change
Assets	$ 16,181,803	$ 14,030,297	$ 2,151,506	15%
Liabilities	$ 6,062,609	$ 5,851,011	$ 211,598	4%
Net Position	$ 10,119,194	$ 8,179,286	$ 1,939,908	24%
Net Cost	$ 65,789,981	$ 65,424,803	$ 365,179	1%
Budgetary Resources	$ 69,492,382	$ 66,897,140	$ 2,595,242	4%
Custodial Revenue	$ 549,587	$ 1,443,141	$ (893,554)	-62%

The following is a brief description of the nature of each required financial statement and its relevance. The effects of some significant balances or conditions on the FEC's operations are explained.

Balance Sheet

The Balance Sheet presents the total amounts available for use by the FEC (assets) against the amounts owed (liabilities) and amounts that comprise the difference (Net Position). As a small independent agency, all of the FEC's assets consist of Fund Balance with Treasury (FBWT), Property and Equipment (P&E) and Accounts Receivable. Fund Balance with Treasury (e.g., cash) is available through the Department of Treasury accounts, from which the FEC is authorized to make expenditures (i.e., obligations) and payments. FBWT increased by approximately $1.76 million, or 17 percent, from the prior year. This increase is primarily attributed to an increase in the FY 2014 appropriation, when compared to the previous year.

Accounts Receivable represent amounts due from the public for fines and penalties assessed by the FEC and referred to Treasury for collection, as deemed appropriate. In compliance with the *Debt Collection Improvement Act of 1996 (DCIA)*, the OCFO takes into consideration the most appropriate approach to debt management. These amounts are not available for FEC operations and are sent to the U.S. Treasury as miscellaneous receipts. Net accounts receivable increased by approximately $91 thousand from FY 2013 to $152 thousand in FY 2014.

Property and equipment consists of software, general-purpose equipment used by the agency and software development. In FY 2014, the FEC continued to evaluate existing systems and retired outdated software systems, and initiated a series of upgrades to existing systems to support regulated reporting requirements. Net property and equipment increased by $297 thousand from FY 2013 to $3.9 million. Total liabilities increased by approximately four percent, primarily resulting from an increase in accrued payroll and benefits liability due to timing differences associated with pay period end dates, which adds one more day to the accrual.

Statement of Net Cost

The Statement of Net Cost presents the annual cost of operating the FEC program. Gross costs are used to arrive at the total net cost of operations. The FEC's total gross costs in administering the *FECA* did not experience significant fluctuation from FY 2013, as there was a 1 percent change from FY 2013 to FY 2014.

Statement of Changes in Net Position

The Statement of Changes in Net Position presents in greater detail the net position section of the Balance Sheet, including Cumulative Results of Operations and Unexpended Appropriations. This statement identifies the activity that caused the net position to change during the reporting period. Total Net Position increased by 24 percent, or approximately $1.9 million. This increase is primarily attributed to an increase in the FY 2014 appropriation, when compared to the previous year.

Statement of Budgetary Resources

The Statement of Budgetary Resources provides information on the source and status of budgetary resources made available to the FEC during the reporting period. It presents the relationship between budget authority and budget outlays, as well as the reconciliation of obligations to total outlays. Total Budgetary Resources and Status of Budgetary Resources increased by approximately $2.6 million, or four percent, from FY 2013. This included a four percent increase in obligations incurred, which is primarily attributed to an increase in the FY 2014 appropriation, when compared to the previous year.

Statement of Custodial Activity

The Statement of Custodial Activity (SCA) represents an accounting of revenue and funds collected by the FEC that are owed to the U.S. Treasury's general fund. These monies are not available for the FEC's use. Collection and revenue activity primarily result from enforcement actions that come before the Commission during the fiscal year. Revenue and collections on the SCA consist of collections on new assessments, prior year(s) receivables and Miscellaneous Receipts. In FY 2014, the total custodial revenue and collections decreased by approximately $894 thousand or 62 percent from FY 2013.

The chart below displays the assessment history for the past five years.

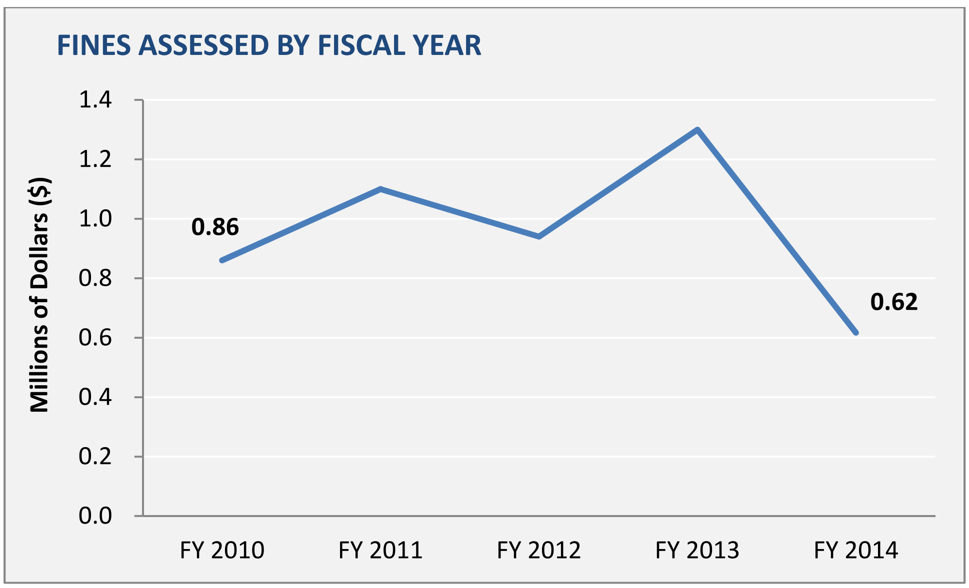

Figure 4: Fines Assessed, by Fiscal Year (in millions of dollars)

Section I.D: Analysis of FEC's Systems, Controls and Legal Compliance

I.D.i – FEC Integrated Internal Control Framework and Legal Compliance

The Commission is subject to numerous legislative and regulatory requirements that promote and support effective internal controls. The FEC complies with the following laws and regulations:

Annual Appropriation Law – establishes the FEC's budget authority;

Inspector General Act of 1978, as amended;

Federal Managers' Financial Integrity Act of 1982;

Government Performance and Results Act of 1993, as amended;

Federal Financial Management Improvement Act of 1996;

Clinger-Cohen Act of 1996;

Debt Collection Improvement Act of 1996, as amended; and

Chief Financial Officers Act, as amended by the *Accountability of Tax Dollars Act of 2002*.

The proper stewardship of Federal resources is a fundamental responsibility of the FEC. These laws help the FEC improve the management of its programs and financial operations, and assure that programs are managed in compliance with applicable law.

I.D.ii – Management Assurances

The *Federal Managers' Financial Integrity Act of 1982* (*FMFIA*) is implemented by OMB Circular A-123, revised, Management's Responsibility for Internal Control, with applicable appendices. The FEC management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the *FMFIA* and for performing a self-assessment under the guidance of its Directive 53, Implementation of OMB Circular A-123, Internal Control Review. Directive 53 outlines the process and describes roles and responsibilities for conducting risk assessments and internal control reviews.

Section 2 of the *FMFIA* requires Federal agencies to report, on the basis of annual assessments, any material weaknesses that have been identified in connection with their internal and administrative controls. The reviews that took place during FY 2013 provide unqualified assurance that FEC systems and management controls comply with the requirements of the *FMFIA*.

Section 4 of the *FMFIA* requires that agencies annually provide assurance on programmatic internal controls and financial management systems, and effectiveness of internal control over financial reporting. The FEC evaluated its financial management systems in accordance with the *FMFIA*, OMB Circular A-123, as applicable, and reviewed the Statements on Standards for Attestation Engagements, Reporting on Controls at a Service Organization (SSAE 16) reports received from its shared service providers. The results of management reviews provided an unmodified opinion that the FEC's financial systems controls generally conform to the required principles and standards as per Section 4 of the *FMFIA*.

Prompt Payment Act

The *Prompt Payment Act* (*PPA*) requires Federal agencies to make timely vendor payments and to pay interest penalties when payments are late. The FEC's on-time payment rate for FY 2014 was nearly 100 percent, with less than 0.02 percent of all invoices paid after the date required by the *PPA*.

Improper Payments

The *Improper Payments Information Act of 2002* (*IPIA*), the *Improper Payments Elimination and Recovery Act of 2010 (IPERA), Improper Payments Elimination and Recovery Improvement Act of 2012* (*IPERIA*) and OMB guidance require agencies to identify those programs that are susceptible to significant erroneous payments, and determine an annual estimated amount of erroneous payments made in their operations. The FEC reviewed all of its programs and activities to identify those susceptible to significant erroneous payments. Approximately 69 percent of the FEC's obligations pertain to salaries and benefits, which represents a low risk for improper payments, based on established internal controls. The FEC also reviewed all of its FY 2014 procurements for non-personnel costs to verify their accuracy and completeness. Accordingly, the FEC is unaware of any improper payments. The FEC continues to monitor its payment process to ensure that the risk of improper payments remains low.

THE FEDERAL ELECTION COMMISSION
Washington, DC 20463

Annual Assurance Statement on Internal Control

The Federal Election Commission (FEC) is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the *Federal Managers' Financial Integrity Act of 1982 (FMFIA)*, as implemented by OMB Circular A-123, revised, *Management's Responsibility for Internal Control*. Internal control is an integral component of management to provide reasonable assurance that (1) programs operate effectively and efficiently, (2) financial reports are reliable, and (3) programs comply with applicable laws and regulations.

The FEC conducted its evaluation of internal control in accordance with OMB Circular A-123. Based on the results of the Fiscal Year 2014 internal control review, the FEC reports no material weakness under the FMFIA and is able to provide an unqualified statement of assurance that the internal controls and financial management systems meet the objectives of FMFIA.

Lee E. Goodman
Chairman

I.D.iii – Management's Response to the Inspector General's Management and Performance Challenges

The Inspector General's report in Section III identifies three areas specific to management and performance challenges: 1) Information Technology Security, 2) Governance Framework and 3) Human Capital Management / Human Resources Operations. The agency continues to maintain the highest level of commitment to information technology security and has taken significant steps to implement a robust program that can meet the IT security threats currently facing Federal agencies. The FEC also continues to make significant progress in its human capital management and operations. The FEC's full response to the Inspector General's assessment of its performance in these areas appears in Section III.

Section I.E: Limitations of the Financial Statements

The principal financial statements have been prepared to report the financial position and results of operations of the FEC pursuant to the requirements of 31 U.S.C. §3515(b). While the statements have been prepared from the books and records of the FEC in accordance with United States generally accepted accounting principles (GAAP) for Federal entities and the formats prescribed by the OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

SECTION II – Auditor's Report and Financial Statements

THE FEDERAL ELECTION COMMISSION
Washington, DC 20463

Message from the Chief Financial Officer

November 17, 2014

I am pleased to present the Commission's financial statements for Fiscal Year (FY) 2014. The financial statements are an integral part of the Agency Financial Report. The Commission received an unmodified (clean) opinion on the agency's financial statements from the independent auditors. This marks the sixth consecutive year with no material weaknesses identified. This is the third year with no significant deficiencies reported for the Office of the Chief Financial Officer (OCFO). I applaud the efforts of OCFO staff who worked diligently throughout the fiscal year to achieve these results, maintaining a commitment to excellence.

The Commission continues to identify ways to improve its overall financial management, and the dedication of the FEC employees to the mission and sound fiscal operations can be seen through the results of the financial statement audit.

In FY 2014, the OCFO achieved a major milestone in transitioning to Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS). This system has helped the agency efficiently provide timely information to the Department of Treasury (Treasury) and support the Treasury's Transparency Initiative under the *Digital Accountability and Transparency Act* (DATA Act).

The agency continues to improve its information technology (IT) security controls. Although the auditors identified IT security controls as a significant deficiency for FY 2014, the agency is making progress in this area. The agency understands the importance of IT security and is committed to the timely implementation of the FY 2013 Financial Statement Audit Corrective Action Plan (CAP). Over the past year, the FEC has taken significant actions to improve the agency's IT infrastructure generally and our IT security posture specifically and the agency has a robust plan and leadership support to continue IT enhancements in future years. Many of the Commission's future decisions with respect to IT security enhancements will be informed by the ongoing NIST study to identify and document gaps between best practices for IT security controls and the agency's existing security controls. The agency will continue to remedy deficiencies by continuing to evaluate and strengthen IT-related controls as applicable to the Commission.

For FY 2015, as mandated by the Office of Management and Budget's (OMB) Memorandum M-13-08, *Improving Financial Systems Through Shared Services,* to consolidate shared services across government for financial management, the OCFO began planning to transition from General Service Administration's (GSA) shared services to U.S. Department of Agriculture (USDA), National Finance Center (NFC) shared services. NFC has agreed to acquire GSA's Financial Management Line of Business operations including the current Momentum financial system and the support staff, making the transition as seamless as possible. I expect this approach to comply will be the least disruptive to our current operations and the best solution for the agency.

The FEC will continue to seek opportunities to modernize and upgrade business systems to improve operational efficiency. We are confident that the FEC's employee's commitment to the agency's mission will provide an opportunity to build on the prior year's financial management successes. The OCFO looks forward to another successful year.

Sincerely,

Judy Berning
Acting Chief Financial Officer

FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20463
Office of Inspector General

MEMORANDUM

TO: The Commission

FROM: Inspector General

SUBJECT: Audit of the Federal Election Commission's Fiscal Year 2014 Financial Statements

DATE: November 17, 2014

Pursuant to the Chief Financial Officers Act of 1990, commonly referred to as the "CFO Act," as amended, this letter transmits the Independent Auditor's Report issued by Leon Snead & Company (LSC), P.C. for the fiscal year ending September 30, 2014. The audit was performed under a contract with, and monitored by, the Office of Inspector General (OIG), in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable provisions of Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*.

Opinion on the Financial Statements

LSC audited the balance sheet of the Federal Election Commission (FEC) as of September 30, 2014 and the related statements of net cost, changes in net position, budgetary resources, and custodial activity (the financial statements) for the year then ended. The objective of the audit was to express an opinion on the fair presentation of those financial statements. In connection with the audit, LSC also considered the FEC's internal control over financial reporting and tested the FEC's compliance with certain provisions of applicable laws and regulations that could have a direct and material effect on its financial statements. The financial statements of the FEC as of September 30, 2013 were also audited by LSC whose report dated December 13, 2013, expressed an unmodified opinion on those statements.

In LSC's opinion, the financial statements present fairly, in all material respects, the financial position, net cost, changes in net position, budgetary resources, and custodial activity of the FEC as of, and for the year ending September 30, 2014, in conformity with accounting principles generally accepted in the United States of America.

Report on Internal Control

In planning and performing the audit of the financial statements of the FEC, LSC considered the FEC's internal control over financial reporting (internal control) as a basis for designing auditing procedures for the purpose of expressing their opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the FEC's internal control. Accordingly, LSC did not express an opinion on the effectiveness of the FEC's internal control.

Because of inherent limitations in internal controls, including the possibility of management override of controls; misstatements, losses, or noncompliance may nevertheless occur and not be detected. According to the American Institute of Certified Public Accountants:

- A **deficiency** in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements 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 attention by those charged with governance.
- 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.

LSC's consideration of internal control was for the limited purpose described in the first paragraph in this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. LSC did not identify any deficiencies in internal control that LSC would consider to be material weaknesses, as defined above. However, LSC did identify a significant deficiency in internal controls related to Information Technology security.

Report on Compliance with Laws and Regulations

FEC management is responsible for complying with laws and regulations applicable to the agency. To obtain reasonable assurance about whether FEC's financial statements are free of material misstatements, LSC performed tests of compliance with certain provisions of laws and regulations, noncompliance which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*. LSC did not test compliance with all laws and regulations applicable to FEC.

The results of LSC's tests of compliance with laws and regulations described in the audit report disclosed one instance of noncompliance with The Homeland Security Presidential Directive 23, and National Security Presidential Directive 54, *Cyber Security and Monitoring,* establishing the Comprehensive National Cyber Security Initiative (the CNCI), and relating to Initiative No. 1, *Manage the Federal Enterprise Network as a Single*

Enterprise with a Trusted Internet Connection (TIC). Additional details can be found on page 13 of the audit report.

Audit Follow-up

The independent auditor's report contains recommendations to address deficiencies found by the auditors. Management was provided a draft copy of the audit report for comment and generally concurred with some of the findings and recommendations. In accordance with OMB Circular No. A-50, *Audit Follow-up*, revised, the FEC is to prepare a corrective action plan that will set forth the specific action planned to implement the agreed upon recommendations and the schedule for implementation. The Commission has designated the Chief Financial Officer to be the audit follow-up official for the financial statement audit.

OIG Evaluation of Leon Snead & Company's Audit Performance

We reviewed LSC's report and related documentation and made necessary inquiries of its representatives. Our review was not intended to enable the OIG to express, and we do not express an opinion on the FEC's financial statements; nor do we provide conclusions about the effectiveness of internal control or conclusions on FEC's compliance with laws and regulations. However, the OIG review disclosed no instances where LSC did not comply, in all material respects, with *Government Auditing Standards*.

We appreciate the courtesies and cooperation extended to LSC and the OIG staff during the audit. If you should have any questions concerning this report, please contact my office on (202) 694-1015.

Lynne A. McFarland

Lynne A. McFarland
Inspector General

Attachment

cc: Judy Berning, Acting Chief Financial Officer
Alec Palmer, Staff Director/Chief Information Officer
Gregory Baker, Deputy General Counsel for Administration
Lisa Stevenson, Deputy General Counsel for Law

Federal Election Commission

Audit of Financial Statements

As of and for the Years Ended September 30, 2014 and 2013

Submitted By

Leon Snead & Company, P.C.

Certified Public Accountants & Management Consultants

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LEON SNEAD
& COMPANY, P.C.

Certified Public Accountants
& Management Consultants

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Independent Auditor's Report

THE COMMISSION, FEDERAL ELECTION COMMISSION
INSPECTOR GENERAL, FEDERAL ELECTION COMMISSION

We have audited the accompanying financial statements of Federal Election Commission (FEC), which comprise the balance sheet as of September 30, 2014 and 2013, and the related statements of net cost, changes in net position, budgetary resources, and custodial activity for the years then ended. The objective of our audit was to express an opinion on the fair presentation of those financial statements. In connection with our audit, we also considered the FEC's internal control over financial reporting, and tested the FEC's compliance with certain provisions of applicable laws, regulations, and certain provisions of contracts.

SUMMARY

As stated in our opinion on the financial statements, we found that the FEC's financial statements as of and for the years ended September 30, 2014 and 2013, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

Our consideration of internal control would not necessarily disclose all deficiencies in internal control over financial reporting that might be material weaknesses under standards issued by the American Institute of Certified Public Accountants. Our testing of internal control identified no material weakness in internal controls over financial reporting. However, we identified a significant deficiency related to the Information Technology (IT) security program established by the FEC. We also noted one other control issue that did not rise to the level of a reportable condition which is included in a separate letter, dated November 14, 2014, for management's consideration.

It should be noted that during this fiscal year, FEC has initiated actions to address many of the findings and recommendations in our 2013 audit report. For example, the agency has taken actions to close 9 of the 27 open audit recommendations, and has obtained software, hardware, and technical support services totaling in excess of $1.5 million, to date, to address findings and recommendations in the audit report.

Our tests of compliance with certain provisions of laws, regulations, and significant provisions of contracts, disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standards* and the OMB audit bulletin. This issue deals with noncompliance with The Homeland Security Presidential Directive 23 and National Security Presidential Directive 54, *Cyber Security and Monitoring,* establishing the Comprehensive National Cyber Security Initiative, and relating to Initiative No. 1, *Manage the Federal Enterprise Network as a Single Enterprise with a Trusted Internet Connection (TIC)*.

The following sections discuss in more detail our opinion on the FEC's financial statements, our consideration of the FEC's internal control over financial reporting, our tests of the FEC's compliance with certain provisions of applicable laws and regulations, and management's and our responsibilities.

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of FEC, which comprise 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 custodial activity for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. Such responsibility includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to error or fraud.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; standards applicable to financial statement audits contained in *Government Auditing Standards (GAS)*, issued by the Comptroller General of the United States; and OMB Bulletin 14-02, *Audit Requirements for Federal Financial Statements* (the OMB audit bulletin). Those standards and the OMB audit bulletin 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 professional 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 in a Federal agency, the auditor considers internal control relevant to the entity'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 opinions on the effectiveness of the FEC's internal control or its compliance with laws, regulations, and significant provisions of contracts. An audit also includes evaluating the appropriateness of accounting policies used, and the reasonableness of significant accounting 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 audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of FEC as of September 30, 2014 and 2013, and the related net cost, changes in net position, budgetary resources, and custodial activity for the years then ended in accordance with accounting principles generally accepted in the United States of America.

OTHER MATTERS

Required Supplementary Information

Accounting principles generally accepted in the United States require that Management's Discussion and Analysis (MDA) 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 (FASAB) who 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The performance measures and other accompanying information are presented for the purposes of additional analysis and are not required parts of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

OTHER AUDITOR REPORTING REQUIREMENTS

Report on Internal Control

In planning and performing our audit of the financial statements of FEC, as of and for the years ended, September 30, 2014 and 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the FEC's internal control over financial reporting (internal control) as a basis for designing 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 on the effectiveness of the FEC's internal control. Accordingly, we do not express an opinion on the effectiveness of the FEC'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. Therefore, material weaknesses or significant deficiencies may exist that were not identified. However, given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be a material weakness. As discussed below, we identified a deficiency in internal control that we consider to be a significant deficiency.

Because of inherent limitations in internal controls, including the possibility of management override of controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the 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 attention by those charged with governance.

Findings and Recommendations

FEC IT Security Program Does Not Yet Meet Applicable IT Security Best Practices *(Modified Repeat Findings)*

FEC has initiated corrective actions[1] on many of our prior year's audit recommendations; advised us that the agency has completed corrective actions on eight (8) others[2]; and has contracted for a review of IT security operations to identify gaps between FEC's current IT security controls and best practice controls, and the costs to meet identified security

[1] FEC officials provided us with documentation detailing the actions being taken and planned to address the audit recommendations in the 2013 financial statement audit.

[2] This information was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it at this time.

gaps. Although the agency is currently gathering this review information, it has not yet agreed to adopt applicable IT security best practices[3] which can improve the agency's IT security program. A decision on this key area will not be made until after the completion of the review contract, scheduled for May 2015. Governance has emphasized improving IT security within the agency, and FEC officials have implemented actions that reduce risks to its information and information systems. However, until corrective actions are fully implemented, including the adoption of applicable government-wide IT security best practices, the agency's information and information systems remain at risk.

As required by GAS, we conducted follow-up testing to determine whether FEC had implemented corrective actions to address the findings and recommendations in the FY 2013 FEC financial statement audit. The following paragraphs detail the actions taken by the agency to address the open findings and recommendations, and, as appropriate, our analysis of these actions.

a. <u>Information Technology Security Best Practices Need to be Implemented</u>

FEC financial statement audit reports issued since 2009 have recommended that the agency adopt federal government IT security best practices as other agencies have done that are also exempt from the Federal Information Security Management Act (FISMA) requirements. Our prior audits have also recommended that FEC officials make a risk-based analysis to support the agency's decision to not adopt minimum government-wide IT security requirements, and document these decisions. We reported in prior audits that the agency made decisions to reject government IT security requirements based upon whether the agency was exempt from the legislative requirement, rather than making a risk-based assessment to determine if the control would provide an effective reduction of risks to FEC's information and information systems. **(See Recommendation Nos. 1 & 2)**

On August 15, 2014, the FEC awarded a contract to identify and document gaps between best practices IT security controls and FEC's existing security controls, and to provide a "…cost analysis for implementing the recommended security controls. The scope of this project is extensive and will require the contractor to map the FEC's information systems, develop a high-level understanding of the FEC's strategic dependency on each system and the information it contains, develop an analysis of the impact that a loss of the Confidentiality, Integrity or Availability of the information contained in each system would have on the agency and formally document the organizational impact statement for each information system and the mission impact in the event of a loss of Confidentiality, Integrity or Availability of that information. This process will establish the initial baseline of security controls for each system necessary to fully understand the FEC's risks and

[3] IT security best practices are detailed in National Institute of Standards and Technology (NIST) Special Publication No. 53, Recommended Security Controls for Federal Information Systems and Organizations, and other related NIST publications. The (best practices) IT controls detailed in these documents provide generally accepted minimum control processes that provide a sufficient level of security to protect FEC's information and information systems.

needs as defined by FIPS 199, FIPS 200 and SP 800-53." At the completion of the contract, the contractor will prepare a report of recommendations of the costs for and resources needed to implement any or all of NIST. The agency advised us that this information, due in May 2015, will be used to determine whether the agency will adopt any or all applicable IT security best practices. Additionally, the FEC's FY 2015 draft budget includes approximately $500,000 to implement NIST IT controls, including but not limited to hiring staff and purchasing tools."

We believe that the actions taken by FEC's governance during FY 2014 reflect positive steps in addressing this long standing problem area. With the data provided by the contractor, the agency will have sufficient information to make risk-based decisions.

b. <u>Planning, Oversight and Monitoring of FEC's Corrective Action Plan (CAP)</u>

FEC has made progress in addressing problems reported in prior years' concerning the lack of effective corrective actions. Of the 27[4] prior year recommendations, 9 have been closed, and FEC has advised us that corrective actions are ongoing on the remaining recommendations. However, we believe that additional progress could have been made had the agency developed more comprehensive project plans that include: key tasks, assignments, timeframes, resource information, and other necessary information. **(See Recommendations Nos. 3, 4 and 17)**

<u>Oversight and Monitoring of CAP</u>

FEC had not timely implemented actions necessary to remediate weaknesses in IT controls, some of which we first reported in 2009, as required by OMB's Circular A-123, *Management's Responsibility for Internal Control,* Section II.E and Section V, or OMB's Circular A-50, *Audit Follow-up*. During our FY 2014 financial statement audit, we tested the actions taken by FEC to address the audit recommendations included in our 2013 audit report. Our FY 2014 audit found that for the first time since reporting on IT control weaknesses in our FY 2009 financial statement audit report, FEC has begun to take significant actions to address some of the more critical IT security deficiencies that impact the agency's information and information systems. As discussed later in this report, FEC governance over the past year has taken significant actions to improve the agency's IT infrastructure overall; the agency's IT security posture specifically; and has a plan to continue IT enhancements in future years.

However, until all corrective actions are fully implemented, including adoption of government-wide IT security best practices, the agency's systems remain at risk.

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[4] The 2013 financial statement audit report included a recommendation to implement the CAP developed by the CISO to address the October 2012 *Threat Assessment Program* (Mandiant) Report. The open recommendations from the Mandiant report are included in the 27 open recommendations (see recommendation no. 3).

Planning for Corrective Actions

During our FY 2014 audit, we requested individual project plans relating to corrective actions on 16 of the recommendations in the 2013 financial statement audit report. We selected these 16 from the 27 recommendations in the report because the level of effort involved in implementing the recommendation would require a detailed project plan. For example, corrective actions for several areas were estimated to last a year or more, involved use of contractors on a large scale, many FEC offices, and complex, interrelated tasks. However, when we requested project plans for these tasks, we were advised by FEC officials that detailed plans were not required, and it was up to the project leader to ensure that the tasks are completed in an effective and timely manner. These officials further advised that the agency's "FY 2013 Financial Statement Audit Corrective Action Plan (CAP)" provides information on each specific project and its status.

We reviewed the CAP to determine if it met Project Management Body of Knowledge (PMBOK) guidelines[5]; or could be used in any meaningful manner to track the specific tasks for the project, the estimated and actual timeframes for initiation and completion of the actions, or other key project management requirements. Our review of this document determined that it could not be used in any meaningful manner to meet either of the above criteria.

In addition, we believe that FEC Directive 50, *Audit Follow-up*, requires agency personnel to develop more comprehensive corrective action planning documents. For example, Directive 50 requires personnel to "… (1) Develop a written corrective action plan, including specific steps and/or tasks to be taken to implement the corrective action plan and a projected time frame for completion of each step or task." Directive 50 also notes that "…reports shall include the status of all unresolved audit reports, the outstanding steps or tasks required to be completed in order to resolve the recommendations raised in the audit report, and a timetable for resolution of those steps or tasks…"

The FEC CAP for the 2013 audit meets few, if any, of the requirements of Directive 50, and would not be a meaningful substitute for proper project planning. Due to a lack of proper planning, FEC has struggled in prior years to implement corrective actions that address the vulnerabilities to FEC's information and information systems.

c. Assessment and Accreditation of the General Support System (GSS)

The FEC has not completed a full assessment and accreditation of its GSS, or updated its policies relating to assessment and accreditation. In our 2013 financial statement audit, we reported that: "FEC needs to perform an assessment of its

[5] A Guide to the Project Management Body of Knowledge (PMBOK Guide), issued by the Project Management Institute, and recognized by the American National Standards Institute (ANSI), and the Institute of Electrical and Electronics Engineers, establishes standards and guidelines for effective project management (best practices).

general support system to identify vulnerabilities that could allow further network intrusions and data breaches. In addition, FEC has not followed FEC (Office of the Chief Information Officer (OCIO) policy 58-2.4, *Certification and Accreditation Policy*, which establishes controls over the process of obtaining independent assurance that FEC major applications and general support system (GSS) are capable of enforcing the security policies that govern their operations." During our 2014 audit, we discussed this problem area with FEC officials. FEC officials advised us that a risk assessment was completed by Department of Homeland Security (DHS), and that this risk assessment addressed the audit recommendation. **(See Recommendation Nos. 13 & 14)**

Our review of the report showed that DHS used the National Institute of Standards and Technology (NIST) controls and conducted a limited scope review that included web scanning, penetration testing, and phishing tests of selected control areas. We noted eight applicable control areas were not tested. As all controls applicable to the FEC's business processes were not tested, this limited scope review was not sufficient, by itself, to meet best practice testing required of a system's security plan[6] in order to accredit the system.

d. <u>Access Controls and Recertification of Users' Access Authorities</u>

In prior audits, we reported weaknesses in overall access controls within the agency, including the need for a periodic review of users' access authorities[7]. These control weakness were first reported in our 2009 financial statement audit report, and FEC corrective actions to address this problem area were not effective and/or fully implemented; therefore, access control weaknesses continue to be an issue in FY 2014. **(See Recommendation Nos. 5, 6, 9, 10 & 11)**

Our FY 2014 financial statement audit testing identified that FEC has begun to implement corrective actions to address these problem areas. For example, FEC officials advised us that the agency has appointed the Chief Information Security Officer (CISO) as the project manager, and has establish procedures for performing periodic reviews of users' access authorities. FEC officials noted that they have obtained additional resources to implement this IT control, additional access controls will be implemented by November 2014, and estimated that by mid-March 2015, processes will be in place to review users' access authorities annually.

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[6] FEC had not performed an assessment of its key medium risk GSS since December 2008.

[7] Periodic reviews of users access authorities is an IT security control required by best practices, and FEC's own policies. IT policy 58-2.2, Account Management Policy, states "All user account access rights and privileges will be periodically reviewed and validated in accordance with General Support System...system security plans..." The security plan for the General Support System, dated 2009, contains a control requirement that the users' accounts will be reviewed every six months.

e. **<u>Configuration Management and Vulnerability Scanning Programs</u>**

FEC needs to continue to strengthen its configuration security controls by completing its project to implement U.S. Government Configuration Baseline (USGCB)[8] security configurations. In addition, FEC's vulnerability scanning program (which tests that established configuration requirements have been implemented) did not meet best practices; and system vulnerabilities identified from the scanning process were not timely mitigated. **(See Recommendation Nos. 7, 8 & 12)**

FEC officials advised us that the FEC has made progress on the implementation of USGCB requirements. FEC has divided this project into five groups, has completed testing for three of the five groups, and is working toward having the control fully deployed by the end of December 2014. Concerning security patches and vulnerability scanning, FEC officials advised that actions are being taken in these areas also. For example, FEC has established controls that require servers to be scanned and patched monthly. Concerning laptops and desktop computers, FEC has just implemented controls to patch these types of devices, and perform scanning on a monthly basis.

f. **<u>Continuity of Operations Plan (COOP)</u>**

FEC has not yet fully and effectively tested and exercised the Continuity of Operations Plan (COOP) – a critical element in the development of a comprehensive and effective plan. As discussed in Federal Continuity Directive (FCD) No. 1[9], until the COOP plan is tested and exercised, any deficiencies in the plan cannot be determined, and the agency remains at risk of not being able to carry out the mission of the agency in the event of a disruption to normal business operations. **(See Recommendation Nos. 15 & 16)**

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[8] OMB M-08-22: In March 2007, OMB Memorandum M-07-11 announced the "Implementation of Commonly Accepted Security Configurations for Windows Operating Systems," directing agencies … to adopt the Federal Desktop Core Configuration (FDCC) security configurations developed by the National Institute of Standards and Technology (NIST), the Department of Defense and the Department of Homeland Security. The USGCB is the security configuration and policy developed for use on Federal government Windows 7 and Internet Explorer 8 and as stated by the CIO Council, 'the USGCB initiative falls within FDCC and comprises the configuration settings component of FDCC.'

[9] Federal Continuity Directive No.1, Federal Executive Branch National Continuity Program, Appendix K, Test, Training and Exercise, require that COOP documents must be validated through tests, training, and exercises (TT&E), and that all agencies must plan, conduct, and document periodic TT&Es to prepare for all-hazards continuity emergencies and disasters, identify deficiencies, and demonstrate the viability of their continuity plans and programs. Deficiencies, actions to correct them, and a timeline for remedy must be documented in an organization's CAP (corrective action plan). FEC Policy No. 58.2.9 provides that plans should not be considered valid until tested for practicality, executability, errors and/or omissions. The initial validation test should consist of a simulation or tactical test. Once validated, plans should be tested annually, or when substantive changes occur to the system, to the system environment, or to the plan itself. Test results should be maintained in a journal format and retained for analysis. Validated change recommendations resulting from testing activities should be incorporated into plans immediately.

FEC officials have advised us that funds have been approved to replace obsolete equipment; the agency is updating the COOP, and intends to create a milestone plan to complete this project.

FEC officials provided information showing the actions FEC is taking to strengthen its IT security program. A summary of the information provided to us is discussed below.

"The FEC understands the importance of IT security and is committed to the timely implementation of the FY 2013 Financial Statement Audit Corrective Action Plan (CAP). Over the past year, the FEC has taken significant actions to improve the agency's IT infrastructure generally and our IT security posture specifically and the agency has a robust plan and leadership support to continue IT enhancements in future years. Many of the Commission's future decisions with respect to IT security enhancements will be informed by the ongoing NIST study, with results to be reported in or about May 2015…."

FEC officials also advised that "While the FEC faces budgetary challenges across the full range of its activities and divisions, a unanimous Commission has placed special emphasis on the audit corrective process over the past year." These officials further advised that the agency increased the IT budget by"… $640,000 over the planned budget for FY 2014. The additional $640,000 was specifically targeted to addressing issues raised in the FY 2013 Financial Statement Audit…With the increased funding corrective actions are underway for most of the areas reported in the FY 2013 Financial Statement Audit. Although work remains to be completed, the agency has seen a number of IT security successes over the past year…"

FEC officials advised that "… the FEC has moved forward to aggressively address IT security vulnerabilities and enhance OCIO's ability to detect and deter cyber threats. During FY 2014, OCIO successfully completed a number of IT security projects that have already substantially improved the agency's IT security posture…" Some of the projects identified by FEC officials are as follows:

- In January 2014, OCIO completed a risk vulnerability assessment that identified those network assets at highest risk and assessed potential vulnerabilities and impacts. Results from this assessment have already helped to inform decisions regarding how best to protect the FEC's networks and to establish audit readiness.
- OCIO has implemented (a) tool…to identify missing patches and areas of vulnerability in managed devices and mitigate those security risks.
- OCIO has launched (a tool)…to detect and stop web-based and email attacks that exploit emerging, "zero-day" vulnerabilities.
- OCIO has improved the security of its web servers….
- Security for the electronic filing system has been enhanced through implementation of firewall security software.
- OCIO initiated a project to…provide unified security monitoring and analytics….

- In September 2014, the FEC acquired an additional tool…to help OCIO identify, rank and remove vulnerabilities early in the software development process and help OCIO find and fix security issues with software, code and applications. This tool will be fully implemented during FY 2015.
- OCIO has additionally taken concrete steps during FY 2014 to meet crucial milestones for projects to be completed in future years. For example, in October 2013, OCIO began work on an ongoing effort, in partnership with the Department of Homeland Security (DHS), to employ continuous vulnerability scanning and cyber hygiene monitoring. In February 2014, the FEC put in place an agreement with DHS and… (a vendor) to deploy Intrusion Prevention System capabilities during FY 2015.

We believe the actions, as discussed above, taken by governance during FY 2014 to address the longstanding problems discussed in our 2013 audit report are significant steps that should strengthen FEC's IT security program and reduce risk to the agency's information and information systems. These actions enabled us to close 9 of the 27 recommendations in the 2013 audit. In addition, we have been advised that corrective actions have recently been completed to address additional open audit recommendations.

Listed below are open *(repeat)* recommendations from our FY 2013 financial statement audit report, and a recommendation to address issues relating to project planning that was first addressed in FY 2014.

Recommendations

1. Formally adopt as a model for FEC, the NIST IT security controls established in FIPS 199, FIPS 200, SP 800-53, and other applicable guidance that provides best practice IT security control requirements. *(Repeat)*

   Agency's Response

   The OCIO concurs with this recommendation. The OCIO awarded a contract in August 2014 to obtain a system inventory, GAP analysis, and provide study results concerning the feasibility in cost of implementing NIST Guidelines. Phase I of work started in September 2014. This phase is for Systems Inventory portion and expected to conclude by the end of November 2014. Phase II will then begin by December 2014, which will be the GAP/Analysis portion of this contract. It is expected to conclude approximately in April 2015. At the end of Phase II the contractor will prepare a report of recommendations of cost and resources needed to implement any or all of NIST.

   Auditor's Comments

   OCIO officials have agreed to implement this recommendation; however, until FEC adopts government-wide IT security best practices, the agency's information and information systems remain at risk.

2. Revise FEC policies and procedures to require a documented, fact-based, risk assessment prior to declining adoption of any government-wide IT security best practice, or IT security requirement. Require the Chief Information Officer (CIO) to approve, and accept the risk of any deviation from government-wide IT security best practices that are applicable to the FEC business operations. Retain documentation of these decisions. *(Repeat)*

   Agency's Response

   The OCIO concurs with this recommendation. The policies and procedures will be updated upon completion of the study from recommendation no. 1 and the Commission's approval.

   Auditor's Comments

   Since OCIO officials have agreed to implement this recommendation, we have no additional comments.

3. Complete the implementation of the open contractor's recommendations contained in the October 2012 Threat Assessment Program report. Provide sufficient budgetary and personnel resources to this project to ensure that actions are properly accomplished. *(Modified Repeat)*

   Agency's Response

   The OCIO concurs with this recommendation. The OCIO has implemented all the core recommendations from the contractors report. Further, OCIO has implemented additional countermeasures to help the Agency respond to malicious attacks, such as FireEye, IPSS and Tenable Continuous View.

   Auditor's Comments

   Since OCIO officials have agreed to implement this recommendation, we have no additional comments.

4. Revise all pertinent FEC policies and procedures to ensure that they address proper prevention and detection controls, and provide a current and authoritative control structure for addressing Advance Persistent Threat (APT), and other types of intrusions. *(Modified Repeat)*

   Agency's Response

   The OCIO concurs with this recommendation. The agency expects to have documented standard operating procedures (SOPs) in place by November 2014. Once this action is completed the agency will consider this item closed.

   Auditor's Comments

   Since OCIO officials have agreed to implement this recommendation, we have no additional comments.

5. Complete the project relating to review of user access authorities, and ensure necessary budgetary and personnel resources are provided to complete this project. *(Modified Repeat)*

   <u>Agency's Response</u>

   The OCIO concurs with this recommendation and plans to implement user access authorities and reviews by mid February 2015.

   <u>Auditor's Comments</u>

   Since OCIO officials have agreed to implement this recommendation, we have no additional comments.

6. Reissue FEC Policy 58-2.2 to require annual recertification of users' access authorities by supervisory personnel who would have knowledge of the users' requirements for accessing FEC information and information systems. Ensure that the policy contains sufficient operational details to enable an effective review and update process. *(Repeat)*

   <u>Agency Response</u>

   The OCIO concurs with this recommendation and is the same as recommendation no. 5.

   <u>Auditor's Comments</u>

   Since OCIO officials have agreed to implement this recommendation, we have no additional comments.

7. Revise FEC policies and operating procedures to require the minimum best practices controls contained in the United States Government Configuration Baseline (USGCB). *(Modified Repeat)*

   <u>Agency's Response</u>

   The OCIO concurs with this recommendation and is currently working to implement USGCB by December 2014.

   <u>Auditor's Comments</u>

   Since OCIO officials have agreed to implement this recommendation, we have no additional comments.

8. Implement USGCB baseline configuration standards for all workstations and require documentation by the CIO to approve and accept the risk of any deviation. *(Modified Repeat)*

Agency's Response

The OCIO concurs with this recommendation and is the same as response no. 7.

Auditor's Comments

Since OCIO officials have agreed to implement this recommendation, we have no additional comments.

9. Undertake a comprehensive review of user accounts that have been granted non-expiring passwords. Require detailed information from account owners on the need for non-expiring accounts, including the development of other alternatives, before reauthorizing the accounts' access. Develop FEC policies and operating procedures to implement this recommendation. *(Repeat)*

Agency's Response

The OCIO concurs with this recommendation and considers it closed.

Auditor's Comments

OCIO officials have agreed to implement this recommendation, and advised that they believe the recommendation is closed.[10]

10. Whenever possible, require accounts with non-expiring passwords to be changed at least annually. Establish substantially more robust password requirements for accounts granted non-expiring passwords. Develop FEC policies and operating procedures to implement this recommendation. *(Repeat)*

Agency's Response

The OCIO concurs with this recommendation and considers it closed.

Auditor's Comments

OCIO officials have agreed to implement this recommendation, and advised that they believe the recommendation is closed.[11]

11. Immediately terminate those accounts with non-expiring passwords that have not accessed their accounts within the last 12 months. Develop FEC policies and operating procedures to implement this recommendation to include a data retention policy for historical data. *(Repeat)*

Agency's Response

The OCIO concurs with this recommendation and considers it closed.

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[10] An independent evaluation of the actions taken by the agency has not been made as the corrective actions were not completed in the audit timeframe to be reviewed for the FY 2014 audit. Therefore, we offer no comments on the recommendation's closure status.

[11] See footnote 10.

Auditor's Comments

OCIO officials have agreed to implement this recommendation, and advised that they believe the recommendation is closed.[12]

12. Strengthen controls to ensure that vulnerabilities/weaknesses identified through the vulnerability scanning tests are completed within 60 days of identification, or document an analysis and acceptance of risks for longer term remediation. *(Repeat)*

Agency's Response

The OCIO concurs with this recommendation and considers it closed.

Auditor's Comments

OCIO officials have agreed to implement this recommendation, and advised that they believe the recommendation is closed.[13]

13. Perform within this fiscal year a new assessment and accreditation of the GSS using NIST SP 800-53 as the review criteria. *(Repeat)*

Agency's Response

The OCIO concurs with this recommendation and is the same as response no. 1.

Auditor's Comments

Since OCIO officials have agreed to implement this recommendation, we have no additional comments. (Also see our comments for recommendation no. 1)

14. Strengthen FEC Policy 58-2.4 so that it provides additional guidance on what decision points determine when a new assessment and accreditation is required; and the specific documentation requirements that need to be maintained in order for the agency to track changes so it can make informed decisions on when major changes drive the need for a new assessment and/or updated accreditation. *(Repeat)*

Agency's Response

The OCIO concurs with this recommendation and is the same as response no. 1.

Auditor's Comments

Since OCIO officials have agreed to implement this recommendation, we have no additional comments. (Also see our comments for recommendation no. 1)

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[12] See footnote 10.
[13] See footnote 10.

15. Ensure that sufficient resources are assigned to the task of testing the COOP, a critical IT control process, in order to reduce risk to the FEC, and complete all required tests in a timely manner. Ensure that appropriate documentation is retained as required by FCD No. 1 to support that FEC has met all applicable federal requirements. *(Repeat)*

Agency's Response

The OCIO concurs with this recommendation and plans to move forward to implement this in the second quarter of 2015.

Auditor's Comments

Since OCIO officials have agreed to implement this recommendation, we have no additional comments.

16. Develop a detailed Plan of Action and Milestone (POA&M) to ensure that required COOP testing and exercises are completed as soon as possible. *(Repeat)*

Agency's Response

The OCIO concurs with this recommendation and plans to move forward to implement in FY 2015.

Auditor's Comments

Since OCIO officials have agreed to implement this recommendation, we have no additional comments.

17. Issue a FEC policy that requires project managers to prepare project plans that address FEC Directive 50 requirements for projects that are implemented to address audit recommendations. Require that the project plan includes information, such as: identification of key tasks and/or steps; personnel responsible for completing the task and/or step; the timeframe for beginning and completing the task and/or step; resources required; and that documentation be maintained, as part of the project plan, to support the accomplishment of key plan tasks, issues that impacted the project, and the completion of the overall project.

Agency's Response

The OCIO concurs with this recommendation in part. The agency concurs that the current financial statement CAP needs to be improved to provide more information to enable the audit follow-up officials and OIG to more effectively monitor the actions that are taking place. Management agrees to enhance the current CAP to provide additional information on the specific tasks and actions being taken to address findings and recommendations. Management will implement alternative corrective actions which are more efficient and will provide the information needed to address the intent of this recommendation.

Auditor's Comments

The agency concurs, in part, with this recommendation, and agrees that the current CAP needs to be improved. Until FEC completes its proposed corrective actions in this area, we are unable to determine whether these alternative actions will address the audit recommendation.

We noted another control deficiency over financial reporting that we do not consider a significant deficiency, but still needs to be addressed by management. We have reported this matter to FEC's management, and those charged with governance in a separate letter dated November 14, 2014.

A summary of the status of prior year recommendations is included as Attachment 1.

REPORT ON COMPLIANCE

As part of obtaining reasonable assurance about whether the agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and significant provisions of contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to the FEC. Providing an opinion on compliance with certain provisions of laws, regulations, and significant contract provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

In connection with our audit, we noted one instance described below of noncompliance that is required to be reported according to *Government Auditing Standards* and the OMB audit bulletin guidelines. No other matters came to our attention that caused us to believe that FEC failed to comply with applicable laws, regulations, or significant provisions of laws, regulations, and contracts that have a material effect on the financial statements insofar as they relate to accounting matters. Our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the FEC's noncompliance with applicable laws, regulations, or significant provisions of laws, regulations, and contracts insofar as they relate to accounting matters.

Noncompliance with Comprehensive National Cyber Security Initiative

We first reported that the FEC was noncompliant with The Homeland Security Presidential Directive 23, and National Security Presidential Directive 54, *Cyber Security and Monitoring* in our FY 2012 audit report. These directives establish the Comprehensive National Cyber Security Initiative, and relate to Initiative No. 1, *Manage the Federal Enterprise Network as a Single Enterprise with a Trusted Internet Connection (TIC)*.

TIC was introduced in OMB Memorandum M-08-05, *Implementation of Trusted Internet Connections*, dated November 20, 2007. The initiative was described in the memorandum as an effort to develop "a common [network] solution for the federal government" that would reduce the number of external Internet connections for the entire government. The memorandum stated that "each agency will be required to develop a comprehensive POA&M (Plan of Action and Milestones)" to implement TIC, but it neither defined "agency" nor referred to any legal authority supporting the initiative.

FEC's Office of General Counsel (OGC) analyzed this document and initially determined that the FEC was exempt from implementing TIC. However, at our request, OGC reassessed this determination, and in an August 2012 memorandum to the Staff Director, the OGC stated that "…we conclude that FEC must comply with all requirements of…TIC." Based upon this OGC opinion, FEC officials agreed in 2012 to implement TIC.

Our 2014 audit tests found that limited actions have been taken by the agency to address this Presidential directive. FEC officials advised us that the "OCIO has completed preparatory work to implement MTIPS—Trusted Internet Connection (TIC). However, the initial cost of implementing a TIC at the FEC is estimated at $555,000, which does not include substantial recurring costs necessary to maintain the system. The agency must consider whether to fund the TIC project during FY 2015 or other mission-critical projects. Throughout its efforts to improve the FEC's IT security posture and to implement the corrective action plan, the agency has remained mindful of the limits to its financial and staff resources and the need to ensure the most impactful results for the resources expended. By working with DHS on IT security projects, the FEC has saved approximately $900,000—freeing critical resources for other IT security initiatives. As the FEC moves forward to implement additional projects necessary to address audit recommendations, the Commission has indicated it will continue to proceed thoughtfully in order to ensure the best overall use of the agency's resources and the greatest long-term improvements to IT security systems."

We continue to believe that the FEC is in non-compliance with laws and regulations that have mandated since 2007 that agencies strengthen and consolidate internet connections, and implement Homeland Security Presidential Directive 23, and National Security Presidential Directive 54, *Cyber Security and Monitoring*. These directives establish the Comprehensive National Cyber Security Initiative, and relate to "Manage the Federal Enterprise Network as a Single Enterprise with a Trusted Internet Connection (TIC)".

Recommendation

18. Develop a time-phased corrective action plan to address the prompt implementation of Homeland Security Presidential Directive 23, and National Security Presidential Directive 54, Cyber Security and Monitoring. *(Repeat)*

<u>Agency's Response</u>

The OCIO concurs with this recommendation. However, we are currently under a Continuing Resolution for FY 2015 and do not have funding available to cover costs associated with this recommendation.

<u>Auditor's Comments</u>

OCIO officials have agreed this recommendation needs to be implemented, but that funding is unavailable to cover the costs. We continue to believe that the FEC should develop a plan to implement this long-standing presidential and DHS directive to adequately plan for the project's implementation.

<u>Restricted Use Relating to Reports on Internal Control and Compliance</u>

The purpose of the communication included in the sections identified as "Report on Internal Control" and "Report on Compliance" is solely to describe the scope of our testing of internal control over financial reporting and compliance, and to describe any material weaknesses, significant deficiencies, or instances of noncompliance we noted as a result of that testing. Our objective was not to provide an opinion on the design or effectiveness of the FEC's internal control over financial reporting or its compliance with laws, regulations, or provisions of contracts. The two sections of the report referred to above are integral parts of an audit performed in accordance with *Government Auditing Standards* in considering the FEC's internal control over financial reporting and compliance. Accordingly, those sections of the report are not suitable for any other purpose.

AGENCY'S RESPONSE

The Acting Chief Financial Officer (ACFO) responded to the draft report in an email dated November 12, 2014, in which the agency responses to each recommendation were provided, along with an overall agency comments section. We have included FEC's response to each recommendation, and our comments after each numbered recommendation, summarized its overall comments in this section of the report.

The ACFO commented that "while the FEC concurs with each of the IT findings identified in the audit report, we do not agree that these issues result in a significant deficiency for financial statement purposes. We noted the auditors IT findings are almost solely related to the FEC's general support system (GSS) rather than the financial systems, which are outsourced. The likelihood of a material misstatement occurring due to weaknesses in the FEC GSS environment is extremely low. The current levels of IT controls do not impact the fair presentation of the agency's financial statements such that it would rise to the level of a significant deficiency in the scope of the financial statement audit."

AUDITOR'S COMMENTS

FEC officials concurred with 17 of the 18 recommendations, and concurred in part with the remaining recommendation in this report. However, FEC officials did not agree that these weaknesses should be reported as a significant deficiency in the financial statement audit report.

We disagree with FEC's position that the reported findings are not a significant deficiency. As noted in management's response, the OCFO has implemented many compensating controls to reduce the risk of misstatements in the financial statements; however, these compensating controls cannot mitigate the increased risk from all the IT control weaknesses identified. For instance, OCFO's compensating controls cannot mitigate the risk of the agency not having a fully implemented and tested Continuity of Operations Plan (COOP) to recover the Enterprise Content Management system (which resides on the GSS) that contains the OCFO's financial information. We conducted our audit of the FEC financial statements in accordance with professional standards as specified within this report. Our reporting of these IT control weaknesses which resulted in a significant deficiency in internal control meets the reporting standards discussed in these documents.

The FEC's November 12, 2014, response to the audit is included in its entirety as Attachment 2. The FEC's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Leon Snead & Company, P.C.
Leon Snead & Company, P.C.
November 14, 2014

Attachment 1

Status of Prior Year Recommendations

Rec. No.	Recommendation	Recommendation Status
1.	Formally adopt as a model for FEC, the NIST IT security controls established in FIPS 199, FIPS 200, SP 800-53, and other applicable guidance that provides best practice IT security control requirements.	Open
2.	Revise FEC policies to require that FEC contractors adhere to the FAR requirements which adopt FISMA and NIST IT security controls that contractors must follow when providing services to the federal government.	Closed
3.	Revise FEC policies and procedures to require a documented, fact-based, risk assessment prior to declining adoption of any government-wide IT security best practice, or IT security requirement, including those that FEC may be legally exempt. Require the Chief Information Officer (CIO) to approve, and accept the risk of any deviation from government-wide IT security best practices that are applicable to the FEC business operations. Retain documentation of these decisions.	Open
4.	Using the initial Corrective Action Plan (CAP) developed by the Chief Information Security Officer as a base, implement each of the contractor's recommendations in the October 2012 *Threat Assessment Program* report, and complete all remedial actions (i.e. changing of all user passwords) within the next 60 days, and all other tasks by February 2014. Provide sufficient budgetary and personnel resources to this project to ensure that actions are properly accomplished.	Open
5.	Provide biweekly updates to the CIO on the status of the implementation of the October 2012 *Threat Assessment Program* report recommendations to ensure that it continues on track, and issues that arise are addressed as soon as possible.	Closed
6.	Provide semiannual corrective action plan (CAP) updates to the Commission on the status of the implementation of the October 2012 Threat Assessment Program report recommendations in accordance with Commission Directive 50.	Closed
7.	Revise all pertinent FEC policies and procedures to ensure that they address proper prevention and detection controls, and provide a current and authoritative control structure for addressing APT, and other types of intrusions. Ensure that this review is completed, and policies and procedures are issued by March 2014.	Open
8.	Assure that the annual performance plans of all appropriate audit follow-up officials reflect their responsibility to monitor and ensure the timely implementation of audit recommendations, as required by OMB Circular A-50.	Closed
9.	Require the audit follow-up official to develop a tracking process that would include monthly reports to the CIO, and highlight key tasks, progress, and missed target dates, when applicable.	Closed
10.	Establish a project (relating to review of user access authorities) with the project manager reporting to the CIO to help ensure that this long-delayed project will be implemented within the next three months. Require the project director to provide biweekly updates to the CIO.	Open

	Provide necessary budgetary and personnel resources to ensure that this project is completed timely.	
11.	Reissue FEC Policy 58-2.2 to require annual recertification of users' access authorities by supervisory personnel who would have knowledge of the users' requirements for accessing FEC information and information systems. Ensure that the policy contains sufficient operational details to enable an effective review and update process.	Open
12.	Revise FEC policies and operating procedures to require the minimum best practices controls contained in the United States Government Configuration Baseline (USGCB) for those systems that require user identification and passwords.	Open
13.	Undertake a comprehensive review of user accounts that have been granted nonexpiring passwords. Require detailed information from account owners on the need for non-expiring accounts, including the development of other alternatives, before reauthorizing the accounts' access. Develop FEC policies and operating procedures to implement this recommendation.	Open
14.	Whenever possible, require accounts with non-expiring passwords to be changed at least annually. Establish substantially more robust password requirements for accounts granted non-expiring passwords. Develop FEC policies and operating procedures to implement this recommendation.	Open
15.	Immediately terminate those accounts with non-expiring passwords that have not accessed their accounts within the last 12 months. Develop FEC policies and operating procedures to implement this recommendation to include a data retention policy for historical data.	Open
16.	Strengthen controls over the establishment of initial and replacement (default) passwords, to include requiring that random passwords be used, and the default passwords used be changed monthly. Develop FEC policies and operating procedures to implement this recommendation.	Closed
17.	Establish written procedures and develop a policy for FEC contractor computer orientation that requires contractors to create their own unique login passphrase. Also, ensure that all current contractors have created their own unique login passphrase.	Closed
18.	Include all components of the general support system (GSS), including employees' workstations, and other FEC devices and applications into the organization's vulnerability/security scanning process and ensure that they are assessed at least semi-annually.	Closed
19.	Strengthen controls to ensure that vulnerabilities/weaknesses identified through the vulnerability scanning tests are completed within 60 days of identification, or document an analysis and acceptance of risks for longer term remediation.	Open
20.	Implement baseline configuration standards for all workstations and require documentation by the CIO to approve and accept the risk of any deviation.	Open
21.	Implement automated logging of all configuration changes and review logs regularly to ensure that all system changes, including changes to workstations, are processed through the change management framework.	Closed
22.	Fully implement USGCB standards and perform scanning of Internet Explorer configuration settings.	Open
23.	Perform within this fiscal year a new assessment and accreditation of the GSS using NIST SP 800-53 as the review criteria.	Open

24.	Strengthen FEC Policy 58-2.4 so that it provides additional guidance on what decision points determine when a new assessment and accreditation is required; and the specific documentation requirements that need to be maintained in order for the agency to track changes so it can make informed decisions on when major changes drive the need for a new assessment and/or updated accreditation.	Open
25.	Ensure that sufficient resources are assigned to the task of testing the COOP, a critical IT control process, in order to reduce risk to the FEC, and complete all required tests in a timely manner. Ensure that appropriate documentation is retained as required by FCD No. 1 to support that FEC has met all applicable federal TT&E requirements.	Open
26.	Develop a detailed POA&M to ensure that required COOP testing and exercises are completed as soon as possible.	Open
27.	Develop a time-phased corrective action plan to address the prompt implementation of the TIC by FEC.	Open

Attachment 2

Agency Response to Report

While the FEC concurs with each of the IT findings identified in the audit report, we do not agree that these issues result in a significant deficiency for financial statement purposes. We noted the auditors IT findings are almost solely related to the FEC's general support system (GSS) rather than the financial systems, which are outsourced. The likelihood of a material misstatement occurring due to weaknesses in the FEC GSS environment is extremely low.

The current levels of IT controls do not impact the fair presentation of the agency's financial statements such that it would rise to the level of a significant deficiency in the scope of the financial statement audit. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.[14] Since 2004, the agency has substantially reduced financial risks over financial reporting by:

(1) Changing the information technology environment in FY 2008 by outsourcing the financial management system and financial management services;
(2) Implementing a number of manual reconciliations and other compensating controls over financial management areas and transactions significant to the financial statements; and
(3) Eliminating financial weaknesses identified in prior audit reports.

Since 2004, the agency has drastically changed their IT environment from maintaining an internal financial management system (PeopleSoft) and producing financial statements in-house to leveraging shared service providers to provide the agency's financial management system, which is used to maintain the agency's general ledger and produce the financial statements. FEC personnel do not have the ability to enter financial data directly into the financial management system.

The agency has substantially reduced financial risks over financial reporting and reduced the financial risks imposed by existing weaknesses in the FEC's IT environment by establishing and maintaining internal controls that provide reasonable assurance that the agency provides reliable financial reporting through compensating controls such as manual reconciliations. These reconciliations act to ensure the completeness, accuracy and validly of recorded transactions within the financial management system and the payroll system, which significantly reduce financial risks over financial reporting. Competed financial transactions must be manually reviewed by FEC personnel other than the preparer prior to submission to the external service provider for processing. The external service provider may only process actions in accordance with the listing of authorized signatures that have approving authority provided by the Acting CFO and verified by manual review by the external service provider. If an unauthorized

[14] AU-C 265, *Communicating Internal Control Related Matters Identified in an Audit*

Agency Response to Report

transaction were to occur due to a weakness in the FEC IT environment the agency's manual reconciliations would catch the error.
The agency receives and now manually reviews reports from the external service providers on the Statements on Standards for Attestation Engagements (SSAEs) No. 16 *Reporting on Controls at a Service Organization* to identify existing controls and identify areas where the OCFO may need to implement a compensating control as applicable to FEC operational controls.

The agency has implemented improved quality review procedures as it relates to financial reporting to prevent and detect financial misstatements in a timely manner in the normal course of business. Therefore, in management's view the IT control risks identified do not rise to the level of a significant deficiency in the scope of the financial statement audit, as financial risks are effectively mitigated with compensating controls. The audit opinions issued in FY 2012, FY 2013, and FY 2014 recognize that the agency has implemented and maintained an effective financial reporting control environment, as the agency has not reported any significant deficiencies or material weakness over financial reporting over the past three years and received unqualified and unmodified opinions since 2004.

FINANCIAL STATEMENTS

BALANCE SHEET

As of September 30, 2014 and 2013 (in dollars)

Assets (Note 2)	**2014**	**2013**
Intragovernmental:		
Fund balance with Treasury (Note 3)	$ 12,126,547	$ 10,362,588
Total Intragovernmental	12,126,547	10,362,588
Accounts receivable, net (Note 4)	151,985	60,970
General property and equipment, net (Note 5)	3,903,271	3,606,739
Total Assets	**$ 16,181,803**	**$ 14,030,297**
Liabilities (Note 6)		
Intragovernmental:		
Accounts payable	$ 154,254	$ 24,821
Employer contributions and payroll taxes payable	229,281	198,299
Deferred rent	261,179	348,239
Custodial liability (Note 11)	151,985	60,970
Other	3,500	4,228
Total Intragovernmental	800,199	636,557
Accounts payable	1,765,917	1,805,706
Accrued payroll and benefits	951,214	826,103
Unfunded leave	2,545,279	2,582,193
Other	-	452
Total Liabilities	**6,062,609**	**5,851,011**
Commitments and contingencies (Note 7)		
Net Position		
Unexpended appropriations	9,022,381	7,503,431
Cumulative results of operations	1,096,813	675,855
Total Net Position	**10,119,194**	**8,179,286**
Total Liabilities and Net Position	**$ 16,181,803**	**$ 14,030,297**

The accompanying notes are an integral part of these statements.

STATEMENT OF NET COST

For The Years Ended September 30, 2014 and 2013 (in dollars)

Program Costs:	**2014**	**2013**
Administering and Enforcing the *FECA*		
Gross costs	$ 65,819,345	$ 65,431,075
Less: Earned revenues	(29,364)	(6,272)
Net program costs	65,789,981	65,424,803
Net Cost of Operations (Note 9)	**$ 65,789,981**	**$ 65,424,803**

The accompanying notes are an integral part of these statements.

STATEMENT OF CHANGES IN NET POSITION

For The Years Ended September 30, 2014 and 2013 (in dollars)

	2014	2013
Cumulative Results of Operations		
Beginning balances	$ 675,855	$ (539,750)
Budgetary Financing Sources		
Appropriations used	63,452,546	63,953,815
Other Financing Resources (non-exchange)		
Imputed financing	2,758,393	2,686,593
Total financing sources	66,210,939	66,640,408
Net cost of operations	(65,789,981)	(65,424,803)
Net change	420,958	1,215,605
Cumulative Results of Operations	**$ 1,096,813**	**$ 675,855**
Unexpended Appropriations		
Beginning balances	$ 7,503,431	$ 9,296,865
Budgetary Financing Sources		
Appropriations received	65,791,000	66,367,000
Other adjustments	(819,504)	(4,206,619)
Appropriations used	(63,452,546)	(63,953,815)
Total Budgetary Financing Sources	1,518,950	(1,793,434)
Total Unexpended Appropriations	**9,022,381**	**7,503,431**
Net Position	**$ 10,119,194**	**$ 8,179,286**

The accompanying notes are an integral part of these statements.

STATEMENT OF BUDGETARY RESOURCES
For The Years Ended September 30, 2014 and 2013 (in dollars)

	2014	2013
Budgetary Resources (Note 10)		
Unobligated balance brought forward, October 1	$ 3,833,815	$ 3,296,272
Recoveries of prior year unpaid obligations	644,005	1,422,711
Other changes in unobligated balance	(819,503)	(735,227)
Unobligated balance from prior year budget authority, net	3,658,317	3,983,756
Appropriations	65,791,000	62,895,608
Spending authority from offsetting collections	43,065	17,776
Total Budgetary Resources	**$ 69,492,382**	**$ 66,897,140**
Status of Budgetary Resources		
Obligations incurred	$ 65,780,983	$ 63,063,325
Apportioned	109,801	155,361
Unapportioned	3,601,598	3,678,454
Total unobligated balance, end of year	3,711,399	3,833,815
Total Budgetary Resources	**$ 69,492,382**	**$ 66,897,140**
Change in Obligated Balance		
Unpaid obligations, brought forward, October 1	$ 6,528,774	$ 10,176,146
Obligations incurred	65,780,983	63,063,325
Outlays (gross)	(63,250,604)	(65,287,986)
Recoveries of prior year unpaid obligations	(644,005)	(1,422,711)
Unpaid obligations, end of year	8,415,148	6,528,774
Obligated balance, start of year	6,528,774	10,176,146
Obligated balance, end of year	$ 8,415,148	$ 6,528,774
Budget Authority and Outlays, Net		
Budget authority, gross	$ 65,834,065	$ 62,913,383
Actual offsetting collections	(43,065)	(17,776)
Budget authority, net	65,791,000	62,895,607
Outlays, gross	63,250,604	65,287,986
Actual offsetting collections	(43,065)	(17,776)
Agency Outlays, net	**$ 63,207,539**	**$ 65,270,210**

The accompanying notes are an integral part of these statements.

STATEMENT OF CUSTODIAL ACTIVITY

For The Years Ended September 30, 2014 and 2013 (in dollars)

	2014	2013
Revenue Activity		
Sources of cash collections		
Civil penalties	$ 363,769	$ 748,440
Administrative fines	94,171	548,833
Miscellaneous receipts	632	136,341
Total Cash Collections	458,572	1,433,614
Accrual adjustments	91,015	9,527
Total Custodial Revenue (Note 11)	**$ 549,587**	**$ 1,443,141**
Disposition of Collections		
Transferred to Treasury	$ 458,572	$ 1,433,614
Amount yet to be transferred	91,015	9,527
Total Disposition of Collections	**$ 549,587**	**$ 1,443,141**
Net Custodial Activity	$ -	$ -

The accompanying notes are an integral part of these statements.

Notes to the Financial Statements

Note 1 – Summary of Significant Accounting Policies

Reporting Entity

The Federal Election Commission was created in 1975 as an independent regulatory agency with exclusive responsibility for administering, enforcing, defending and interpreting the *Federal Election Campaign Act of 1971*, as amended.[4] The Commission is also responsible for administering the public funding programs (26 U.S.C. §§ 9001- 9039) for Presidential campaigns, which include certification and audits of all participating candidates and committees, and enforcement of public funding legislation.

The financial activity presented relates to the execution of the FEC's Congressionally approved budget. Consistent with Federal Accounting Standards Advisory Board's *(*FASAB*) Statement of Federal Financial Accounting Concept No. 2, "Entity and Display,"* the Presidential Election Campaign Fund is not a reporting entity of the FEC. Financial activity of the fund is budgeted, apportioned, recorded, reported and paid by the U.S. Department of Treasury (Treasury). The accounts of the Presidential Election Campaign Fund are therefore not included in the FEC's financial statements.

Basis of Accounting and Presentation

As required by the *Accountability of Tax Dollars Act of 2002*, the accompanying financial statements present the financial position, net cost of operations, changes in net position, budgetary resources and custodial activity of the FEC. While these financial statements have been prepared from the books and records of the FEC in accordance with U.S. generally accepted accounting principles for the Federal Government and in accordance with the form and content for entity financial statements specified by the Office of Management and Budget in Circular A-136, as revised, *Financial Reporting Requirements*, as well as the accounting policies of the FEC, the statements may differ from other financial reports submitted pursuant to OMB directives for the purpose of monitoring and controlling the use of the FEC's budgetary resources.

These financial statements reflect both accrual and budgetary accounting transactions. Under the accrual method of accounting, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting is designed to recognize the obligation of funds according to legal requirements.

[4] Public Law 92-225, 86 Stat. 3 (1972) (*codified at 5*2 U.S.C. §§ 30101-30145) (formerly at 2 U.S.C. §§ 431-55).

Budgetary accounting is essential for compliance with legal constraints and controls over the use of Federal funds.

Throughout these financial statements, assets, liabilities, revenues and costs have been classified according to the type of entity with which the transactions are associated. Intragovernmental assets and liabilities are those resulting from transactions with other Federal entities. Intragovernmental earned revenues are collections or accruals of revenue from other Federal entities and intragovernmental costs are payments or accruals to other Federal entities. These statements should be read with the understanding that they are for a component of the Federal Government, a sovereign entity.

Assets

Assets that an entity is authorized to use in its operations are termed entity assets, whereas assets that are held by an entity and are not available for the entity's use are termed non-entity assets. Most of the FEC's assets are entity assets and are available for use in carrying out the mission of the FEC as appropriated by Congress. The FEC also has non-entity assets which primarily consist of receivables from fines and penalties. These custodial collections are not available to the FEC to use in its operations and must be transferred to Treasury.

Fund Balance with Treasury

The FEC does not maintain cash in commercial bank accounts. Treasury processes cash receipts and disbursements. Fund Balance with Treasury consists of appropriated funds and custodial collections. With the exception of the custodial collections, these funds are available to pay current liabilities and finance authorized purchase commitments. Custodial collections, which are not available to finance FEC activities, are classified as non-entity assets.

Accounts Receivable

The FEC's Accounts Receivable represents amounts due from the public for fines and penalties assessed by the FEC and referred to Treasury for collection. The FEC establishes an allowance for the estimated loss on accounts receivable from the public that are deemed uncollectible accounts. This allowance is included in Accounts Receivable, net on the balance sheet. The allowance is a percentage of the overall receivable balance, based on the collection rate of past balances.

General Property and Equipment

General Property and Equipment is reported at acquisition cost, and consists of items that are used by the FEC to support its mission. Depreciation or amortization on these assets is calculated using the straight-line method with zero salvage value. Depreciation or amortization of an asset begins the day it is placed in service. Maintenance, repairs and minor renovations are expensed as incurred. Expenditures that materially increase the value, capacity or useful life of existing assets are capitalized. Refer to Note 5 *General Property and Equipment, Net* for additional details.

Liabilities

Liabilities represent amounts that are likely to be paid by the FEC as the result of transactions or events that have already occurred; however, no liabilities are paid by the FEC without an appropriation. Intragovernmental liabilities arise from transactions with other Federal entities. Liabilities classified as not covered by budgetary resources are liabilities for which appropriations have not been enacted (e.g., annual leave benefits and actuarial liability under the *Federal Employees Compensation Act*), or those resulting from the agency's custodial activities. The FEC has an intragovernmental liability to Treasury for fines, penalties and miscellaneous receipts which are due from the public but have not yet transferred. These funds may not be used to fund FEC operations.

Accounts Payable

Accounts Payable consists of liabilities to other entities or persons for amounts owed for goods and services received that have not yet been paid at the end of the fiscal year. Accounts Payable also consists of disbursements in-transit, which are payables that have been recorded by the FEC and are pending payment by Treasury.

Accrued Payroll and Employer Contribution

Accrued payroll and benefits represent salaries, wages and benefits earned by employees, but not yet disbursed as of the statement date. Accrued payroll and Thrift Savings Plan contributions are not classified as intragovernmental. Employer contributions and payroll taxes payable are classified as intragovernmental.

Annual, Sick and Other Leave

Annual leave is recorded as a liability when it is earned by FEC employees; the liability is reduced as leave is taken. On a quarterly basis, the balance in the accrued leave account is adjusted to reflect the current leave balances and pay rates. Accrued annual leave is paid from future funding sources and is reflected as a liability not covered by budgetary resources. Sick leave and other types of non-vested leave are expensed as taken.

Federal Employee Benefits

A liability is recorded for estimated and actual future payments to be made for workers' compensation pursuant to the *Federal Employees Compensation Act*. The liability consists of the net present value of estimated future payments calculated by the Department of Labor (DOL) and the actual unreimbursed cost paid by DOL for compensation paid to recipients under the *Federal Employee's Compensation Act*. The future workers' compensation estimate is generated by DOL through an application of actuarial procedures developed to estimate the liability for the *Federal Employee's Compensation Act*, which includes the expected liability for death, disability, medical and miscellaneous costs for approved compensation cases. The liability is calculated using historical benefit payment patterns related to a specific incurred period to estimate the total payments related to that period. These projected annual benefits payments are discounted to present value.

Employee Retirement Plans

Each fiscal year, the Office of Personnel Management (OPM) estimates the Federal Government service cost for all covered employees. This estimate represents an annuity dollar amount which, if accumulated and invested each year of an employee's career, would provide sufficient funding to pay for that employee's future benefits. As the Federal Government's estimated service cost exceeds the amount of contributions made by employer agencies and covered employees, this plan is not fully funded by the FEC and its employees. As of September 30, 2014, the FEC recognized approximately $2,758,000 as an imputed cost and related financing source, for the difference between the estimated service cost and the contributions made by the FEC and its employees. This represents a 2.6% increase when compared to the $2,687,000 of imputed cost and related financing source recognized in Fiscal Year 2013.

FEC employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS), which became effective on January 1, 1987. For employees participating in CSRS, the FEC withheld 7% of base pay earnings and provided a matching contribution equal to the sum of the withholding. For employees covered by FERS, the FEC withheld .8% of base pay earnings and provided the agency contribution. The majority of FEC employees hired after December 31, 1983, are automatically covered by FERS.

Effective January 1, 2013, the *Middle Class Tax Relief and Job Creation Act of 2012* created a new FERS retirement category, Revised Annuity Employees (RAE) for new Federal employees hired in calendar year (CY) 2013 or thereafter. In FY 2013 and FY 2014, the FERS-RAE employee contribution rate was 3.1%.

Effective January 1, 2014, the *Bipartisan Budget Act of 2013* introduced a new FERS retirement category, Further Revised Annuity Employees (FRAE) for new Federal employees hired in CY 2014 and thereafter. In FY 2014, the FERS-FRAE employee contribution rate was 4.4%.

FERS contributions made by employer agencies and covered employees are comparable to the Federal Government's estimated service costs. For FERS covered employees, the FEC made contributions of 11.9% of basic pay for FY 2013 and FY 2014. For FERS-RAE covered employees, the FEC made contributions of 9.6% of basic pay for FY 2013 and FY 2014 and for FERS-FRAE covered employees, the FEC made contributions of 9.6% of basic pay for FY 2014.

Employees participating in FERS are covered under the *Federal Insurance Contribution Act (FICA)*, for which the FEC contributed 6.2% to the Social Security Administration in FY 2014 and FY 2013. Effective in FY 2012 FERS and CSRS – Offset employees were granted a 2% decrease in Social Security for tax year 2012 under the *Temporary Payroll Tax Cut Continuation Act of 2011*; and the *Middle Class Tax Relief and Job Creation Act of 2012*. During FY 2013, employees contributed 4.2% to Social Security through December 31, 2012. Effective January 1, 2013 the employee contribution rate is 6.2%.

Thrift Savings Plan

The Thrift Savings Plan (TSP) is a retirement savings and investment plan for employees covered by either CSRS or FERS. The TSP is administered by the Federal Retirement Thrift Investment Board on behalf of Federal agencies. For employees belonging to FERS, the FEC automatically contributes 1% of base pay to their account and matches contributions up to an additional 4%. For employees belonging to CSRS, there is no governmental matching contribution.

The FEC does not report on its financial statements CSRS and FERS assets, accumulated plan benefits or unfunded liabilities, if any, which may be applicable to FEC employees. Reporting such amounts is the responsibility of the Office of Personnel Management. The portion of the current and estimated future outlays for CSRS and FERS not paid by the FEC is in accordance with *Statement of Federal Financial Accounting Standards (*SFFAS*) No. 5, Accounting for Liabilities of the Federal Government*, and is included in the FEC's financial statements as an imputed financing source.

Commitments and Contingencies

A contingency is an existing condition, situation or set of circumstances involving uncertainty as to possible gain or loss. The uncertainty will ultimately be resolved when one or more future events occur or fail to occur. SFFAS No. 5 as amended by SFFAS No. 12, contains the criteria for recognition and disclosure of contingent liabilities. A contingency is recognized when a past event or exchange transaction has occurred, a future outflow or other sacrifice of resources is probable and the future outflow or sacrifice of resources is measurable. A contingency is disclosed where any of the conditions for liability recognition are not met and the chance of the future confirming event or events occurring is more than remote but less than probable.

According to OMB Circular A-136, as revised, in addition to the contingent liabilities required by SFFAS No. 5, the following commitments should be disclosed: 1) an estimate of obligations related to cancelled appropriations for which the reporting entity has a contractual commitment for payment; and 2) amounts for contractual arrangements which may require future financial obligations. The FEC does not have commitments related to cancelled appropriations or amounts for contractual arrangements that would require future financial obligations.

Revenues and Other Financing Sources

Annual Appropriation

The FEC received its funding through an annual appropriation as provided by Congress. Additionally, the FEC received funding through reimbursement for services provided to other Federal agencies. Services performed for other Federal agencies under reimbursable agreements are financed through the account providing the service and reimbursements are recognized as revenue when earned.

Imputed Financing Sources

In accordance with OMB Circular A-136, as revised, all expenses should be reported by agencies whether or not these expenses would be paid by the agency that incurs the expense. The amounts for certain expenses of the FEC, which will be paid by other Federal agencies, are recorded in the Statement of Net Cost (SNC). A corresponding amount is recognized in the "Statement of Changes in Net Position" as an "Imputed Financing Source." These imputed financing sources primarily represent unfunded pension costs of FEC employees, as described above.

Statement of Net Cost

Net cost of operations is the total of the FEC's expenditures. The presentation of the statement is based on the FEC's strategic plan, which presents one program that is based on the FEC's mission and strategic goal. The program that reflects this strategic goal is to administer and enforce the *Federal Election Campaign Act* efficiently and effectively.

Net Position

Net position is the residual difference between asset and liabilities and consists of unexpended appropriations and cumulative results of operations. Unexpended appropriations include the portion of the FEC's appropriations represented by undelivered orders and unobligated balances. Unobligated balances associated with appropriations that expire at the end of the fiscal year remain available for obligation adjustments, but not for new obligations, until that account is cancelled, five years after the appropriations expire. Cumulative results of operations represent the excess of financing sources over expenses since inception.

Statement of Custodial Activity

The Statement of Custodial Activity summarizes collections transferred or transferable to Treasury for miscellaneous receipts, fines and penalties assessed by the FEC. These amounts are not available for FEC operations, and accordingly, are reported as custodial revenue.

Use of Estimates

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

Note 2 – Non-Entity Assets

Non–entity assets, which primarily represent amounts due to the FEC for fines and penalties on those that violated the requirements of the *Federal Election Campaign Act*, consisted of the following as of September 30, 2014 and September 30, 2013:

	2014	2013
With the Public		
Accounts Receivable - Custodial	$ 151,985	$ 60,970
Total non-entity assets	151,985	60,970
Total entity assets	16,029,818	13,969,327
Total Assets	$ 16,181,803	$ 14,030,297

Note 3 – Fund Balance with Treasury

Fund Balance with Treasury consisted of the following as of September 30, 2014 and September 30, 2013:

	2014	2013
Fund Balances		
Appropriated Funds	$ 12,126,547	$ 10,362,588
Total	$ 12,126,547	$ 10,362,588

	2014	2013
Status of Fund Balance with Treasury		
Unobligated Balance		
Available	$ 109,801	$ 155,361
Unavailable	3,601,598	3,678,454
Obligated Balance not yet Disbursed	8,415,148	6,528,773
Total	$ 12,126,547	$ 10,362,588

Available unobligated balances represent amounts that are apportioned for obligation in the current fiscal year. Unavailable unobligated balances represent amounts that are not apportioned for obligation during the current fiscal year and expired appropriations that are no longer available to incur new obligations. Obligated balances not yet disbursed include unpaid delivered and undelivered orders.

Note 4 – Accounts Receivables, Net

All accounts receivable are with the public and consisted of the following as of September 30, 2014 and September 30, 2013:

	2014		
	Gross Accounts Receivable	Allowance	Net Accounts Receivable
With the Public			
Fines and Penalties	$ 311,801	$ 159,816	$ 151,985
Total Non-Entity	$ 311,801	$ 159,816	$ 151,985

	2013		
	Gross Accounts Receivable	Allowance	Net Accounts Receivable
With the Public			
Fines and Penalties	$ 179,888	$ 118,918	$ 60,970
Total Non-Entity	$ 179,888	$ 118,918	$ 60,970

Non-Entity receivables consist of civil penalties and administrative fines assessed by the FEC through its enforcement processes or conciliation agreements reached with parties. The FEC has three offices that administer the penalties: the Office of General Counsel; the Office of Administrative Review; and the Office of Alternative Dispute Resolution. Each office has a distinct role in the enforcement and collection process. The allowance is based on the historical rate of collection and an overall assessment of the debtor's willingness and ability to pay. Delinquent debts are referred to Treasury in accordance with the *Debt Collection Improvement Act of 1996*. The terms of the agreement between the FEC and the parties establish the conditions for collection.

Note 5 – General Property and Equipment, Net

General Property and Equipment (P&E) is reported at acquisition cost. The capitalization threshold is established at $25,000 and a useful life of two or more years. For bulk purchases, items are capitalized when the individual useful lives are at least two years and have an aggregate value of $250,000 or more. Acquisitions of P&E that do not meet the capitalization criteria are recorded as operating expenses.

General P&E consists of items that are used by the FEC to support its mission. Depreciation or amortization on these assets is calculated using the straight-line method with no salvage value. Depreciation or amortization begins the day the asset is placed in service. Maintenance, repairs and minor renovations are expensed as incurred. Expenditures that materially increase values, change capacities or extend useful lives are capitalized.

Effective FY 2009, the estimated useful life of assets such as office furniture, office equipment, telecommunications equipment and audio/visual equipment is five years and the estimated useful life of information technology equipment is three years.

The office building in which the FEC operates is leased through the General Services Administration (GSA) under an occupancy agreement, which manages the lease agreement between the Federal Government and the commercial leasing entity. The FEC is billed by GSA for the leased space based upon estimated lease payments made by GSA plus an administrative fee. The cost of the office building is not capitalized. The costs of any leasehold improvements, which are managed through GSA, are financed with FEC appropriated funds. Construction costs of $25,000 or more are accumulated as construction in progress until completion and then are transferred and capitalized as a leasehold improvement. Leasehold improvements are amortized over the lesser of five years or the remaining life of the lease term.

The internal use software development and acquisition costs capitalization threshold changed as a result of a new policy that was implemented in FY 2011. Internal use software development and acquisition costs of $250,000 are capitalized as software in development until the development stage is completed and the software is tested and accepted. At acceptance, costs of software in development are reclassified as internal use software costs and amortized using the straight-line method over an estimated useful life of three years. Purchased commercial software that does not meet the capitalization criteria is expensed. In addition, enhancements which do not add significant new capability or functionality are also expensed.

The general components of capitalized property and equipment, net of accumulated depreciation or amortization, consisted of the following as of September 30, 2014 and September, 2013, respectively:

	2014			
Asset Class	Service Life (years)	Acquisition Value	Accumulated Depreciation/ Amortization	Net Book Value
Software	3	$ 6,396,225	$ 6,240,683	$ 155,542
Computers and peripherals	3	2,762,919	2,416,792	346,127
Furniture	5	852,754	852,754	-
Software-in-Development	n/a	3,401,602	-	3,401,602
Total		$ 13,413,500	$ 9,510,229	$ 3,903,271

	2013			
Asset Class	Service Life (years)	Acquisition Value	Accumulated Depreciation/ Amortization	Net Book Value
Software	3	$ 6,657,316	$ 5,813,777	$ 843,539
Computers and peripherals	3	3,128,543	2,666,208	462,335
Furniture	5	852,754	852,754	-
Software-in-Development	n/a	2,300,865	-	2,300,865
Total		$ 12,939,478	$ 9,332,739	$ 3,606,739

Note 6 – Liabilities Not Covered by Budgetary Resources

Liabilities Not Covered by Budgetary Resources consisted of the following as of September 30, 2014 and September 30, 2013:

Liabilities Not Covered by Budgetary Resources	2014	2013
Intragovernmental		
Custodial Fines and Civil Penalties	$ 151,985	$ 60,970
Deferred Rent	261,179	348,239
Total Intragovernmental	413,164	409,209
Unfunded Annual Leave	2,545,279	2,582,193
Actuarial FECA Liability	-	452
Total Liabilities Not Covered by Budgetary	2,958,443	2,991,854
Total Liabilities Covered by Budgetary Resources	3,104,166	2,859,157
Total Liabilities	$ 6,062,609	$ 5,851,011

Beginning FY 2008, the FEC entered into a new lease agreement for its office building that provided a rent abatement of $870,598, which covers the equivalent of two months of rent. Consistent with generally accepted accounting principles, the FEC has recorded rent abatement as deferred rent, which is amortized over the life of the ten-year lease.

Note 7 – Commitments and Contingencies

As of September 30, 2014, in the opinion of FEC management and legal counsel, the FEC was not a party to any legal actions which were likely to result in a material liability. Accordingly, no provision for loss is included in the financial statements.

As of September 30, 2013, the FEC had a lawsuit requesting attorneys' fees in the amount of $140,499. At that time, we were unable to determine the likelihood of an unfavorable outcome.

Note 8 – Leases

The FEC did not have any capital leases as of September 30, 2014 and September 30, 2013. The FEC has a commitment under an operating lease for its office space. Future payments due under the lease through September 30, 2017 are as follows:

Future Operating Lease Payments
2014

Fiscal Year	Lease Payment
2015	5,989,682
2016	6,058,864
2017	6,130,122
Total	**$ 18,178,668**

Note 9 – Statement of Net Cost

The FEC's costs are consolidated into one program, "Administering and Enforcing the FECA," and consisted of the following as of September 30, 2014 and September 30, 2013, respectively:

	2014	2013
Intragovernmental:		
Intragovernmental gross costs	$ 18,700,490	$ 18,374,526
Less: Intragovernmental earned revenue	(29,364)	(6,272)
Intragovernmental net costs	18,671,126	18,368,254
Public:		
Gross costs with the public	47,118,855	47,056,549
Net costs with the public	47,118,855	47,056,549
Net cost of operations	$ 65,789,981	$ 65,424,803

Costs incurred for goods and services provided by other Federal entities are reported in the full costs of the FEC's program and are indentified as "intragovernmental." The "intragovernmental earned revenue" is primarily attributed to the Deputy Inspector General servicing a Federal agency on a reimbursable basis pursuant to the *Inspector General Act*. All other costs are identified as "with the public."

Note 10 – Statement of Budgetary Resources

The Statement of Budgetary Resources (SBR) compares budgetary resources with the status of those resources. For the year ended September 30, 2014, budgetary resources were $69,492,382 and net outlays were $63,207,539. For the year ended September 30, 2013, budgetary resources were $66,897,140 and net outlays were $65,270,210.

Apportionment Categories of Obligations Incurred

The FEC receives apportionments of its resources from OMB. Apportionments are for resources that can be obligated without restriction, other than to be in compliance with legislation for which the resources were made available.

For the years ended September 30, 2014 and September 30, 2013, direct obligations incurred amounted to $65,751,619 and $63,057,053, respectively. For the years ended September 30, 2014 and September 30, 2013, reimbursable obligations incurred amounted to $29,364 and $6,272, respectively.

Comparison to the Budget of the United States Government

SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, requires an explanation of material differences between budgetary resources available, the status of those resources and outlays as presented in the Statement of Budgetary Resources to the related actual balances published in the *Budget of the United States Government* (Budget). The Budget that will include FY 2014 actual budgetary execution information is scheduled for publication in February 2015, which will be available through OMB's website at http://www.whitehouse.gov/omb. Accordingly, information required for such disclosure is not available at the time of publication of these financial statements.

Balances reported in the FY 2013 SBR and the related President's Budget reflected the following:

FY 2013	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Statement of Budgetary Resources	$ 66,897,140	$ 63,063,325	-	$ 65,270,210
Budget of the U.S. Government	63,000,000	63,000,000	-	65,000,000
Difference	$ 3,897,140	$ 63,325	$ -	$ 270,210

The difference between the Statement of Budgetary Resources and the *Budget of the United States Government* for budgetary resources is primarily due to expired unobligated balances. The differences for obligations incurred and net outlays are due to rounding.

Note 11 – Custodial Revenues and Liability

The FEC uses the accrual basis of accounting for the collections of fines, penalties and miscellaneous receipts. The FEC's ability to collect fines and penalties is based on the responsible parties' willingness and ability to pay:

Custodial Revenue	**2014**	**2013**
Fines, Penalties, and Other Miscellaneous Revenue	$ 549,587	$ 1,443,141
Custodial Liability		
Receivable for Fines and Penalties	$ 311,801	$ 179,888
Less: Allowance for Doubtful Accounts	(159,816)	(118,918)
Total Custodial Liability	$ 151,985	$ 60,970

The Custodial Liability account represents the amount of custodial revenue pending transfer to Treasury. Accrual adjustments reflected on the Statement of Custodial Activity represent the difference between the FEC's opening and closing accounts receivable balances. Accounts receivable are the funds owed to the FEC (as a custodian) and ultimately to Treasury. The accrual adjustment for civil penalties is composed of a net increase of approximately $80,000 for FY 2014 and a net increase of approximately $3,000 for FY 2013, respectively. The accrual adjustment for administrative fines is composed of a net increase of approximately $11,000 in FY 2014 and a net increase of approximately $6,000 in FY 2013, respectively.

Note 12 – Undelivered Orders at the End of the Period

Undelivered orders as of September 30, 2014 and September 30, 2013 totaled $5,310,983 and $3,670,344, respectively.

Note 13 – Reconciliation of Net Cost of Operations to Budget

The objective of this information is to provide an explanation of the differences between budgetary and financial (proprietary) accounting. This is accomplished by means of a reconciliation of budgetary obligations and non-budgetary resources available to the reporting entity with its net cost of operations.

	2014	**2013**
Resources used to finance activities		
Budgetary resources obligated		
Obligations incurred	$ 65,780,983	$ 63,063,325
Less: Recoveries and offsetting collections	(687,070)	(1,440,487)
Net obligations	65,093,913	61,622,838
Other resources		
Imputed financing from costs absorbed by others	2,758,393	2,686,593
Total resources used to finance activities	67,852,306	64,309,431
Resources used to finance items not part of the net cost of		
Change in budgetary resources obligated for goods, services, and benefits ordered but not yet provided	1,641,367	(2,330,976)
Resources that fund expenses recognized in prior periods	87,061	87,059
Resources that finance the acquisition of assets that do not affect net cost of operations	1,177,316	2,183,094
Total resources used to finance items not part of the net cost of operations	2,905,744	(60,823)
Total resources used to finance the net cost of operations	64,946,562	64,370,254
Components of the net cost of operations that will not require or generate resources in the current period		
Components requiring or generating resources in future periods		
Increase in annual leave liability	(36,914)	(82,972)
Other	(452)	(133)
Total	(37,366)	(83,105)
Components not requiring or generating resources		
Depreciation and amortization	880,785	1,137,654
Total	880,785	1,137,654
Total components of the net cost of operations that will not require or generate resources in the current period	843,419	1,054,549
Net cost of operations	$ 65,789,981	$ 65,424,803

SECTION III – Other Information

FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20463
Office of Inspector General

MEMORANDUM

TO: The Commission

FROM: Inspector General

SUBJECT: Inspector General Statement on the Federal Election Commission's Management and Performance Challenges

DATE: October 15, 2014

Each year, the Inspector General is required to provide a summary and assessment of the most serious management and performance challenges facing the Federal Election Commission (FEC). The requirement is contained in the *Reports Consolidation Act of 2000* (Public Law 106-531), an amendment to the *Chief Financial Officers (CFO) Act of 1990*. The attached document responds to the requirement, and provides the annual statement on Commission challenges to be included in the *Federal Election Commission Performance and Accountability Report (PAR) Fiscal Year (FY) 2014.*

The Inspector General has identified three management and performance challenges for inclusion in the FEC's FY 2014 PAR:

Information Technology Security
Governance Framework
Human Capital Management / Human Resources Operations

Since FY 2004, the Inspector General (IG) has identified information technology (IT) security as a challenge to the agency. The FEC has several IT security control related findings in the agency's annual financial statement audit[1] and other OIG audits and inspections that have been repeat findings for several years. Due to the agency's legal exemption from the *Federal Information Systems Management Act,* management has not formally adopted or implemented the applicable National Institute of Standards and Technology (NIST) IT security standards for the federal government. The current IT security program at the FEC is not structured to ensure that the IT controls identified as top priority government-wide, or those controls that are applicable to the FEC's business processes are implemented, or mitigated to the lowest possible risk.

Although IT security is considered a challenge at the FEC, the OIG notes that management has recently taken steps to address the on-going concerns of the IT security program.

[1] The FEC OIG has required a more in-depth review of IT security controls through the annual financial statement audits due to the agency's exemption from the Federal Information Systems Management Act.

As examples, the Office of the Chief Information Officer is working with the Department of Homeland Security on continuous monitoring efforts and has procured contract services to perform a full inventory review and gap analysis of FEC IT systems. The OIG looks forward to any improvements and enhancements to the agency's IT security program that will result from these efforts by management.

The agency's governance framework has also been a continued challenge for the FEC since FY 2008. Critical management positions that are directly linked to carrying out the agency's mission have remained vacant for more than a year. Stability and continuity in key leadership positions promotes an effective governance framework which improves the leadership and oversight of agency programs and functions, as these are key components to ensure that the agencies mission and objectives are achieved.

In addition, from FY 2005 to present, the IG has identified human capital management as another challenge for the agency. The OIG conducted an audit of the FEC's Office of Human Resources (OHR) in FY 2013. Several deficiencies related to leadership and critical human resource functions and processes were noted. The OIG notes that a new Director of OHR, who has extensive experience in HR management, was hired in May 2014. The OIG acknowledges that the new Director of OHR has already developed a roadmap to improve the OHR and has made customer service a top priority. As a result, OIG has removed leadership as a part of the OHR management challenges.

OHR has also begun to automate the hiring/selection process and personnel actions via the Federal Human Resources (FHR) system and Remedy (customer request tracking system). However, due to staff shortages and the number of corrective actions required, it will take time before additional improvements can be achieved with regards to key OHR functions.

The IG's annual assessment of management and performance challenges is based on information derived from a combination of several sources, including Office of Inspector General audit and inspection work, Commission reports, and a general knowledge of the Commission's programs and activities. The management and performance challenges are detailed in the attached report table. The *Reports Consolidation Act of 2000* permits agency comment on the IG's statements. Agency comments, if applicable, are due November 12, 2014.

Lynne A. McFarland

Lynne A. McFarland
Inspector General

Attachment

cc: Judy Berning, Acting Chief Financial Officer
Alec Palmer, Staff Director and Chief Information Officer
Greg Baker, Deputy General Counsel-Administration
Lisa Stevenson, Deputy General Counsel-Law
Edward Holder, Acting Deputy Staff Director for Management and Administration
Roger Cotton, Director, Office of Human Resources

FEDERAL ELECTION COMMISSION (FEC) MANAGEMENT and PERFORMANCE CHALLENGES FY 2014	
Information Technology Security	
The FEC places significant reliance on information technology (IT) to fulfill the agency's mission. Therefore, an agency-wide security management program should be in place to establish a framework to manage security risks, develop security policies, assign responsibilities and monitor the adequacy of computer security related controls. The FEC is in need of a more robust security program that will ensure that the agency is always meeting the applicable government-wide IT security standards.	
Challenge	**OIG Assessment / Comment**
1. Inadequate IT Security Program	
• The FEC has determined it is not subject to the Federal Information Systems Management Act (FISMA)[2] because FISMA uses the definition of agency found in the Paperwork Reduction Act, which specifically excludes the FEC. As a result, the agency has not implemented the applicable National Institute of Standards and Technology (NIST) IT controls that are used as best practice government wide.	• The agency has failed to adequately define the set of best practices used to secure the FEC's information technology. • The OIG believes that the IT security incidents that have occurred in recent years could possibly have been prevented or minimized if the agency had adopted and aligned with the government-wide security standards applicable to the FEC's business processes. Although IT risks can not be eliminated; having adequate controls in place can help reduce the risk and/or detect in a reasonable timeframe, standard security threats. • Management **must** perform risk assessments prior to declining to implement an IT control that is related to FISMA or NIST in order to determine what would be in the best interest of the agency, rather than opting not to implement the control because it is not legally required.
• Out of date IT security policies and procedures	• IT security policies and procedures are not updated in a timely manner or followed by the Information Technology Division (ITD). In addition, audits have revealed that FEC IT management and staff are not aware of their own policies in order to ensure compliance.

[2] Federal Information Systems Management Act is the law that requires federal agencies to follow government-wide IT security standards.

2. Disaster Recovery Plan (DRP) Continuity of Operations Plans (COOP)	
• Management has yet to fully implement a plan for ensuring the agency can continue to carry out its mission in the event of a local disaster or temporary disruption (i.e. flooding, fire, etc.) to the FEC's headquarters.	• Management has not properly planned or provided the necessary resources to the COOP project. FEC procured contract services in 2008 to assist in developing the DRP and COOPs, however, the work and resources put into developing these plans has diminished in the past six (6) years because testing, training, and updates have not been thoroughly conducted and completed. Thus, the agency is planning to spend additional funding on similar contract services to implement a COOP for the agency. • The OIG initiated an inspection of the FEC's DRP/COOP implementation, and released the report in January 2013 identifying 30 recommendations for improvement. All 30 recommendations remain open, and management has consistently stated that no progress has been made in this area since the release of the report. These recommendations are critical to the agency's ability to effectively respond, recover, and continue agency business in the event of a disaster or disruption to business operations.

Governance Framework	
A governance framework consists of the structure and stability of an organization's senior leadership that are accountable for the organization's mission and objectives. The absence or weaknesses in a proper governance framework hinders the organization from efficiently and effectively carrying out the mission of the organization.	
Challenge	**OIG Assessment / Comment**
1. Vacant Key Leadership Positions	
• The agency experiences frequent turnover in key positions. Currently, there are three key positions that are vacant: **a)** General Counsel **b)** Chief Financial Officer **c)** Deputy Staff Director for Management and Administration	• **General Counsel (GC)** - this position has been vacant for over a year. The former GC was employed at the FEC for less than two (2) years. The GC has the responsibility of ensuring that the Office of General Counsel properly administers and enforces campaign finance laws, among other duties. This position is critical to the agency's mission • **Chief Financial Officer (CFO)** - this position has been vacant for two (2) years (since October 2012). The CFO is responsible for the agency's budget and for ensuring that the agency's funds are accounted for and accurately reported. The FEC has had an Acting CFO since the vacancy in October 2012. However, with the current budget constraints in the government, the FEC should make filling this position with a permanent CFO a priority to ensure that the FEC's appropriated funds are appropriately spent and accurately recorded. • **Deputy Staff Director for Management and Administration (Deputy Staff Director)** - the Deputy Staff Director is the direct supervisor over many of the program offices of the agency. This position has only been vacant since August 2014, and an Acting Deputy Staff Director has been appointed; however, the FEC is in the process of fully implementing their new Strategic Plan, and it is imperative that the Deputy Staff Director's position is filled with a qualified candidate to ensure the proper oversight.

2. Adequate Management Accountability & Oversight	
• Currently, the FEC lacks the accountability necessary to ensure compliance with all aspects of the agency's Audit Follow-Up process.	• The agency currently has eighty-seven (87) outstanding OIG recommendations. Some of these recommendations have been outstanding since 2010. OIG concludes that senior leaders should be held accountable for minimal progress on implementing outstanding recommendations. Without sufficient accountability to ensure corrective actions are taken by management, the mission of the agency is potentially operating under weaker controls that can increase cost, expose the agency to risks, and increase the potential of fraud, waste, and abuse to agency programs and operations.
• FEC needs a Chief Information Officer who is solely dedicated to the agency's Information Technology Division.	• The Staff Director and Chief Information Officer (CIO) positions at the FEC are filled by one FEC employee. At the FEC, information technology (IT) is: **a)** a critical part of the agency's mission in disclosing campaign finance information to the public; **b)** an area of concern regarding IT security; **c)** not aligned with government-wide IT control standards; and **d)** an area that consistently has open and repeat recommendations from OIG audits and inspections. Currently, the Information Technology Division (ITD) is making strides to improve their security postures and resolve IT vulnerabilities, which requires adequate oversight and leadership. Therefore, the OIG believes that the area of IT requires a CIO that can be fully dedicated to ensuring that ITD is able to adequately fulfill the agency's mission of disclosure, while ensuring that the agency's IT security program is adequately designed to comply with government-wide IT standards and ensure continuous monitoring to remain current on IT risks and controls.

<u>Human Capital Management / Human Resources Operations</u>	
The Office of Human Resources (OHR) and Labor Relations is vital to ensuring a human capital management framework is developed and implemented at the Commission, and that the framework supports the agency's overall goals and objectives. The OHR is also responsible (either directly or indirectly) for all FEC personnel related activities including hiring, benefits, and personnel actions (pay raises, status changes), among other activities. The numerous responsibilities of the OHR results in the office being one of the most important administrative functions of the FEC. The OIG has been reporting on FEC's human capital management and other OHR operational performance challenges (specifically customer service and updated policies and procedures) since FY 2010 and completed an audit of OHR in FY 2013. *The Audit of the FEC's Office of Human Resources* (OHR Audit) audit report was issued in July 2013. The OIG acknowledges that FEC has made progress with respect to human capital management that includes a final Strategic Human Capital Management Plan (HCMP) and standard performance management plans which are now aligned with FEC strategic goals for all employees with the exception of the Office of Inspector General (OIG). OIG also notes that the FEC hired a new Director of OHR in May 2014 who has extensive human resource management experience. The Director of OHR is making progress to implement corrective actions and is committed to improving customer service. However, based on the number of findings and recommendations (26) included in the OHR audit, it will take additional time and resources to address them all. The OIG has identified the major challenges that still face OHR as described below:	
Challenges	**OIG Assessment / Comment**
1. Customer Service	
• Customer service has been reported as a management challenge since FY 2011. In FY 2014, OHR implemented an automated customer request tracking system (Remedy) and has partially automated the selection/hiring process and personnel actions via the FHR system. However, per discussion with the Director of OHR, the Remedy system was not customized to meet the specific needs of the OHR environment. Therefore, the system may not be robust enough to optimize the tracking and reporting needed to improve OHR response time to inquiries. Also, it is going to take time for employees to get acclimated to using the new automated systems. OIG also notes that OHR lost another full time employee in January 2014 who has not been replaced. In order to make significant improvements in customer service, other factors that impact customer service including but not limited to proper staffing, implementation of streamlined operating procedures and creating an organizational structure that promotes efficiency need to be in place.	• Based on initial follow-up work on recommendations included in the OHR audit, OIG concludes that OHR is making progress with implementing corrective actions which should help improve customer service. Once corrective actions have been fully implemented, OIG will assess whether the efforts by OHR has resulted in significant improvements in customer service. .

2. Policies and Procedures	
• As reported since the 2011 OIG management challenges, there are many OHR policies (Directives) and/or standard operating procedures (SOPs) that are either outdated, do not exist, inadequate, or do not reflect current business practices. OIG notes that some of OHR related Directives have been updated over a year ago but have not yet been approved by the Commission. Timely updating and distribution of current policies and procedures are essential to ensure compliance, and to promote an effective and efficient workforce.	• OIG notes that updating and/or creating OHR Policies and SOPs is a priority of the new Director of OHR. However, due to the volume of documents to be updated/created, and the number of other priorities facing OHR, this will continue to be a challenge in FY 2015.

Response to the OIG's Statement on the Federal Election Commission's Management and Performance Challenges – Nov. 12, 2014

Although management generally agrees with the summary assessment contained in the body of OIG's memo, we do not concur with many of OIG's Assessment/Comments contained in the report table included with the memo. Most of management's disagreements with OIG's assessment are reported on in the semi-annual corrective action plans (CAP) for each OIG audit. The following addresses each instance where management disagrees with OIG's Assessment/Comment, as detailed in the table.

<u>Information Technology Security:</u>

1. **Inadequate IT Security Program**

OIG Assessment / Comment:

- The agency has failed to adequately define the set of best practices used to secure the FEC's information technology.

Management Response:

- The Commission is undertaking a thoughtful evaluation of the applicable NIST IT controls to define those that best apply to an agency of our size and mission. As OIG acknowledges, the FEC is legally exempt from FISMA and, therefore, is not required to implement the NIST IT controls. Nevertheless, to date, 32 NIST standards have been adopted by the agency. These standards, listed below, have been formalized as policies and enacted as part of Directive 58.

    - 58.1.1: Personnel Security Policy
    - 58.1.2: Security Training and Awareness Policy
    - 58.1.3: Information Classification Policy
    - 58-1.4: Hardware and Software Acquisition Security Policy
    - 58.1.5: Third Party Services Policy
    - 58.2.1: Risk Management Policy
    - 58.2.2: Account Management Policy
    - 58.2.3: Change Management Policy
    - 58.2.4: Certification and Accreditation Policy
    - 58.2.6: User Security Support Policy
    - 58.2.7: Segregation of Duties Policy
    - 58.2.8: Backup and Recovery Policy
    - 58.2.9: Continuity of Operations and Disaster Recovery Policy
    - 58.2.10: Security Incident Response Policy
    - 58.2.ll: Security Review (Continuous Monitoring) Policy
    - 58.3.1: Logical Access Policy
    - 58.3.2: Application and Operating System Policy

- 58.3.3: Auditing and Monitoring Policy
- 58.3.5: Electronic Mail and Internet Security Policy
- 58.3.6: Malicious Code Policy
- 58.3.7: Personally Owned Wireless Connectivity Security Policy
- 58.3.7: Wireless Security Policy
- 58.4.1: Physical Access Security Policy
- 58.4.2: Media Management Security Policy
- 58.4.3: Mobile Computing Security Policy
- 58.4.4: Personal Communication Devices Security Policy
- 58.4.5: Virtual Private Network (VPN) Policy
- 58.4.6: System Integrity Policy
- 58.4.7: Physical & Environmental Security Policy
- 58.4.8: Maintenance Security Policy
- 58.4.9: Systems & Communications Protection Security Policy
- 58A: FEC Information System Security Policy
- FEC Directive 58: Electronic Records, Software and Computer Usage
- IT Systems Security Program Policy Cover Letter

Additionally, the agency continues to review the applicable NIST IT controls. In FY2014, the agency contracted with an IT security consultant to perform a comprehensive review of implementing further NIST guidelines at the FEC. This study will evaluate any potential gaps in the agency's security controls, analyze which NIST standards are most applicable to the work of our agency, and determine the costs of implementing these recommended controls. Furthermore, the agency continues to evaluate the NIST study provided by the OIG to the Commission on October 7, 2014. This study includes recommendations for implementing differing levels of NIST controls, ranging from $451,375 (Small Firm, Primary Controls) to $1,291,075 (Large Firm, Moderate Controls). Upon the completion of these reviews, the Commission will evaluate the recommended policies and the cost analysis of implementing any additional security controls.

OIG Assessment / Comment:

- The OIG believes that the IT security incidents that have occurred in recent years could possibly have been prevented or minimized if the agency had adopted and aligned with the government-wide security standards applicable to the FEC's business processes. Although IT risks cannot be eliminated; having adequate controls in place can help reduce the risk and/or detect in a reasonable timeframe, standard security threats.

Management Response:

- The security of our systems is taken seriously by the agency. We have maintained network scanning processes to prevent and detect intrusions and, in recent years, enhanced and intensified the level of network scanning. The FEC servers are located in three redundant data centers under the control of a 24-hour a day contractor for FEC systems. This redundancy allows the agency to continue to carry out its mission even if we experience an IT security breach.

Despite our IT security controls, we have unfortunately experienced minor IT security breaches, which are similar to the incidents that other government agencies, large and small, have experienced, including agencies that have fully implemented and complied with FISMA and NIST. The most recent security incident occurred during the 2013 government shutdown, which impaired staff's ability to respond by manually applying patches and precautionary fixes to systems that require human intervention.

Following the shutdown, the agency made strides in mitigating our vulnerabilities during periods of non-human monitoring. We have strengthened firewalls and installed protective IT "moats" and alerts to mitigate our vulnerabilities.

As OIG acknowledges, IT risks cannot be eliminated even with full NIST and FISMA implementation. There is no guarantee that the FEC would avoid all future security incidents through full NIST and FISMA implementation as is evident by those agencies that have fully implemented FISMA and NIST requirements, but have still experienced IT security breaches. Nevertheless, because the agency is committed to protecting the FEC's infrastructure, we have made significant strides in enhancing IT controls to reduce the risk of and detect standard security threats.

OIG Assessment / Comment:

- Management **must** perform risk assessments prior to declining to implement an IT control that is related to FISMA or NIST in order to determine what would be in the best interest of the agency, rather than opting not to implement the control because it is not legally required.

Management Response:

- As acknowledged in OIG's memo, the Commission is undertaking a thoughtful evaluation of the applicable NIST IT controls in order to determine what would be in the best interest of the agency. In FY2014, we contracted with an IT security consultant to perform a comprehensive review of how the FEC should implement NIST policies. This review will include a recommendation of which policies are applicable to and should be adopted by the FEC. This review will take into consideration the agency's risk of not implementing any particular NIST standard and the cost analysis of implementing these recommended security controls. The agency's evaluation will take into consideration the NIST study provided by OIG to the Commission on October 7, 2014. OIG's study includes cost estimates that range from $451,375 (Small Firm, Primary Controls) to $1,291,075 (Large Firm, Moderate Controls).

OIG Assessment / Comment:

- IT security policies and procedures are not updated in a timely manner or followed by the Information Technology Division (ITD). In addition, audits have revealed that FEC IT management and staff are not aware of their own policies in order to ensure compliance.

Management Response:

- All current IT security policies and procedures are part of Directive 58. The IT Division's Security Officer is responsible for updating the policies as required or as changes occur. For example, due to recent changes and necessary updates, Policy 58-4.4 was updated in January 2014, and Policy 58-3.6 was updated in September 2014.

  FEC IT management and staff are aware of IT security policies and make every effort to ensure compliance. IT security is an agenda topic of the weekly IT Staff Meetings, which are attended by all IT supervisors. Security threat detection and protection techniques are discussed, as well as the weekly status of IT security systems. These weekly meetings are led by the IT security officer, and IT management is intimately involved in and aware of the IT security program. Additionally, all new employees are directed to familiarize themselves with all of the Commission's directives as a component of HR training. Furthermore, all employees and contractors are required to participate in IT security training each year. This training entails a recap of vital security polices, and, where appropriate, references the policies themselves.

  Upon completion of the training, employees certify that they have reviewed the appropriate policies.

2. Disaster Recovery Plan (DRP) Continuity of Operations Plan (COOP)

OIG Assessment / Comment:

- Management has not properly planned or provided the necessary resources to the COOP project. FEC procured contract services in 2008 to assist in developing the DRP and COOPs, however, the work and resources put into developing these plans has diminished in the past six (6) years because testing, training, and updates have not been thoroughly conducted and completed. Thus, the agency is planning to spend additional funding on similar contract services to implement a COOP for the agency.

Management Response:

- At this time, the agency is not planning to spend additional funds to procure additional services, similar to those contract services used in 2008 to implement a COOP for the agency. After management procured services in 2008 to develop a COOP, the COOP was adopted and approved by the Commission in 2009, and revised in November of 2010.

Due to a lack of resources during sequestration, the agency was required to delay several projects. Because the FEC is a category four agency as defined by Annex A of HSPD-20, full-scale testing of the COOP was deemed to be a lower priority and was among the FEC projects delayed. Currently, management is revising the COOP to specifically address the types of emergencies that would impact the FEC's mission. Due to the FEC's category four designation for continuity of operations, the necessary revisions to the COOP will be aligned accordingly.

OIG Assessment / Comment:

- OIG initiated an inspection of the FEC's DRP/COOP implementation, and released the report in January 2013 identifying 30 recommendations for improvement. All 30 recommendations remain open, and management has consistently stated that no progress has been made in this area since the release of the report. These recommendations are critical to the agency's ability to effectively respond, recover, and continue agency business in the event of a disaster or disruption to business operations.

Management Response:

- Currently, management is revising the COOP in an effort to respond to OIG's 2013 recommendations. To the extent that any outstanding recommendations remain, these on-going revisions to the COOP will close any remaining recommendations. Management, however, does not agree with some of OIG's COOP findings and has responded to those concerns in the response to OIG's January 2013 report.

<u>Governance Framework:</u>

1. Vacant Key Leadership Positions:

- The agency experiences frequent turnover in key positions. Currently, there are three key positions that are vacant:
  - **a)** General Counsel
  - **b)** Chief Financial Officer
  - **c)** Deputy Staff Director for Management and Administration

Management Response:

- Management understands the importance of filling these key, vacant positions. It remains a challenge, however, to permanently fill these high-level positions. It should be noted that in the interim, the responsibilities of these positions are being fulfilled by qualified, capable, hardworking individuals. Management is assisting the Commission in its recruitment, screening, and selection process.

2. **Adequate Management Accountability and Oversight:**

OIG Assessment / Comment:

- The agency currently has eighty-seven (87) outstanding OIG recommendations. Some of these recommendations have been outstanding since 2010. OIG concludes that senior leaders should be held accountable for minimal progress on implementing outstanding recommendations. Without sufficient accountability to ensure corrective actions are taken by management, the mission of the agency is potentially operating under weaker controls that can increase cost, expose the agency to risks, and increase the potential of fraud, waste, and abuse to agency programs and operations.

Management Response:

- Although management is appreciative of OIG's recommendations, management is committed to prudent management, the strategic distribution of resources, and minimal acceptance of risk. The proper emphasis and attention has been afforded to all areas of management. Accountability is essential to ensuring progress in completing OIG's recommendations where management and OIG agree, and will continue to take action to ensure such progress. Management has appropriately responded to the applicable recommendations across functional areas within the agency and will continue to do so.

OIG Assessment / Comment:

- The Staff Director and Chief Information Officer (CIO) positions at the FEC are filled by one FEC employee. At the FEC, information technology (IT) is:

  a) a critical part of the agency's mission in disclosing campaign finance information to the public;
  b) an area of concern regarding IT security;
  c) not aligned with government-wide IT control standards; and
  d) an area that consistently has open and repeat recommendations from OIG audits and inspections.

  Currently, the Information Technology Division (ITD) is making strides to improve their security postures and resolve IT vulnerabilities, which requires adequate oversight and leadership. Therefore, the OIG believes that the area of IT requires a CIO that can be fully dedicated to ensuring that ITD is able to adequately fulfill the agency's mission of disclosure, while ensuring that the agency's IT security program is adequately designed to comply with government-wide IT standards and ensure continuous monitoring to remain current on IT risks and controls.

Management Response:

- In 2011, the Commission approved, that the Staff Director and Chief Information Officer (CIO) positions would be filled by one FEC employee. IT is a critical part of the agency's mission in disclosing campaign finance information to the public and an area of concern regarding IT security and the current employee who fulfills both the Staff Director and CIO position is fulfilling his obligations as directed by the Commission.

  As OIG acknowledged, ITD has "ma[de] strides to improve their security postures and resolve IT vulnerabilities." These strides have been made under the current leadership.

<u>Human Capital Management / Human Resources Operations:</u>

- The FEC has recently hired a new Director of Human Resources, and the areas of Human Capital, Customer Service, and Policies and Procedures are his top priority to improve HR performance.

Improper Payments Information Act Reporting Details

The *Improper Payments Information Act* of 2002, as amended by the *Improper Payments Elimination and Recovery Act of 2010*, and *Improper Payments Elimination and Recovery Improvement Act of 2012* requires agencies to review all programs and activities they administer and identify those which may be susceptible to significant erroneous payments. In FY 2014, the FEC performed a systematic review of its program and related activities to identify processes which may be susceptible to significant erroneous payments. Significant erroneous payments are defined as annual erroneous payments in the program exceeding both $10 million and 1.5 percent or $100 million of total annual program payments. The risk assessment included the consideration of risk factors that are likely to contribute to significant improper payments. The risk assessment was performed for the FEC's only program area which is to administer and enforce the *Federal Election Campaign Act*.

Risk Assessment

In FY 2014 the FEC considered risk factors as outlined in OMB Memorandum M-15-02, *Appendix C to Circular No. A-123, Requirements for Effective Estimation and Remediation of Improper Payments* which may significantly increase the risk of improper payments and determined that none are applicable to FEC's operations. Based on the systematic review performed, the FEC concluded that none of its program activities are susceptible to significant improper payments at or above the threshold levels set by OMB.

Recapture of Improper Payments Reporting

The FEC has determined that the risk of improper payments is low; therefore, implementing a payment recapture audit program is not applicable to the agency.

IPIA (as amended by IPERA) Reporting Details	**Agency Response**
Risk Assessment	Reviewed as noted above.
Statistical Sampling	Not Applicable.*
Corrective Actions	Not Applicable.*
Improper Payment Reporting	Not Applicable.*
Recapture of Improper Payments Reporting	Not Applicable.*
Accountability	Not Applicable.*
Agency information systems and other infrastructure	Not Applicable.*
Barriers	Not Applicable.*
*The FEC does not have programs or activities that are susceptible to significant improper payments.	

APPENDIX – List of Acronyms

AFR	Agency Financial Report
AO	Advisory Opinion
APR	Annual Performance Report
ASD	Administrative Services Division
CFR	Code of Federal Regulations
CSRS	Civil Service Retirement System
CY	Calendar Year
DCIA	Debt Collection Improvement Act of 1996
DOL	Department of Labor
EEO	Equal Employment Opportunity
FASAB	Federal Accounting Standards Advisory Board
FBWT	Fund Balance With Treasury
FEC	Federal Election Commission
FECA	Federal Election Campaign Act
FERS	Federal Employees' Retirement System
FMFIA	Federal Managers' Financial Integrity Act
FRAE	Further Revised Annuity Employees
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GSA	General Services Administration
IG	Inspector General
IPERA	Improper Payments Elimination and Recovery Act
IPERIA	Improper Payments Elimination and Recovery Improvement Act
IPIA	Improper Payments Information Act
MD&A	Management's Discussion and Analysis
NPRM	Notices of Proposed Rulemaking
NTEU	National Treasury Employee Union
OAR	Office of Administrative Review
OCFO	Office of the Chief Financial Officer
OCIO	Office of the Chief Information Officer
OGC	Office of General Counsel
OHR	Office of Human Resources
OMB	Office of Management and Budget
OPM	Office of Personnel Management
OSD	Office of the Staff Director
P&E	Property and Equipment
PPA	Prompt Payment Act

RAD	Reports Analysis Division
RAE	Revised Annuity Employees
SBR	Statement of Budgetary Resources
SCA	Statement of Custodial Activity
SFFAS	Statement of Federal Financial Accounting Standards
SNC	Statement of Net Cost
SSAE	Statements on Standards for Attestation Engagements
TSP	Thrift Savings Plan