Federal Election Commission

Agency Financial Report

Fiscal Year 2017

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Federal Election Commission
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Message from the Chairman

FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20463

OFFICE OF THE CHAIRMAN

November 15, 2017

I am pleased to present the Federal Election Commission's (FEC) Agency Financial Report (AFR) for Fiscal Year (FY) 2017. 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 FEC protects the integrity of the Federal campaign finance process by providing the public with accurate and accessible information about how candidates raise and spend funds to support their campaigns, enforcing the campaign finance laws, and encouraging voluntary compliance through timely advice and educational outreach. By furnishing the public with timely and transparent campaign finance data and fairly and effectively enforcing the law, the Commission safeguards against corruption or its appearance and provides the citizenry with crucial information by which to evaluate candidates for Federal office.

The Commission has taken a number of steps to make campaign finance disclosure information more readily available. In an effort to decrease data processing time, increase the accuracy of data and reduce the overall costs of capturing campaign finance data from paper forms, the FEC has fully implemented a data capture process to convert paper-filed reports into structured, machine-readable data. During FY 2017, the Commission also launched a redesigned website at fec.gov. Developed in partnership with 18F, a digital services delivery team within the General Services Administration, the new website's user-driven design improves public access to campaign finance data and information.

With respect to the agency's FY 2017 annual financial statements, the Commission received an unmodified opinion from its independent auditors. 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 performance data described in the FEC's FY 2017 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 2017 in order to fulfill the mission of the agency in the most efficient manner possible.

On behalf of the Commission,

Steven T. Walther, 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, 2016 through September 30, 2017.

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 https://www.fec.gov/about/reports-about-fec/strategy-budget-and-performance/.

The FY 2017 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 Federal Election Commission 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 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 and other political committees. Public confidence in the political process also depends on the knowledge that participants in Federal elections follow clear and well-defined rules and face consequences for non-compliance.

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 (AFR) and Annual Performance Report (APR) pursuant to the *Government Performance and Results Act of 1993*, as amended. The FEC will include its FY 2017 Annual Performance Report with its Congressional Budget Justification and will post it on the FEC website at https://www.fec.gov/about/reports-about-fec/strategy-budget-and-performance/ in 2018.

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).

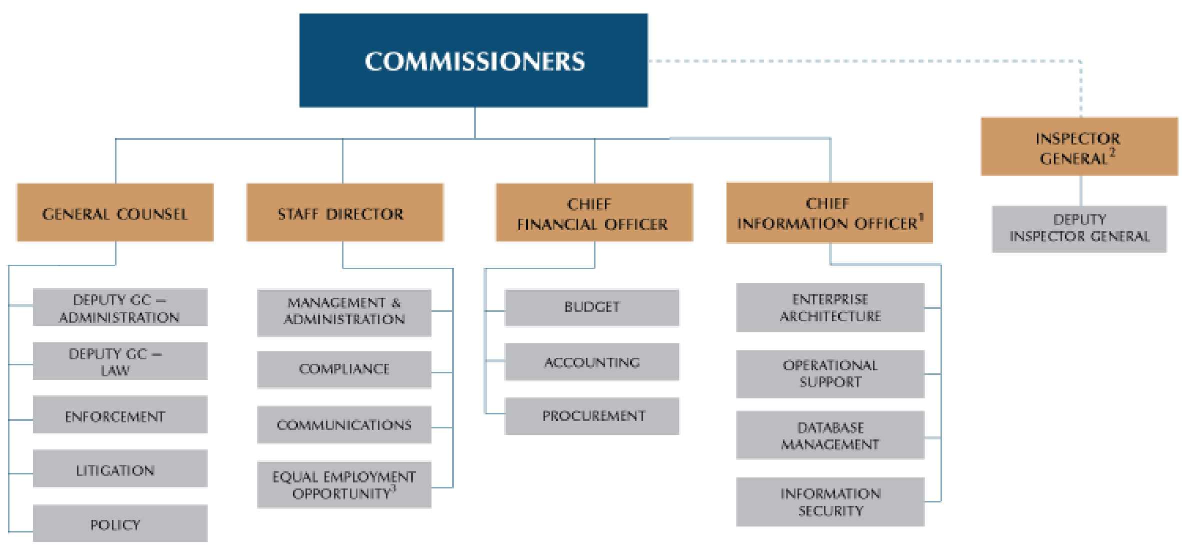
Mission Statement

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. Commissioners may serve beyond their six-year terms until new Commissioners are confirmed. The Chairmanship of the Commission rotates among the members, with no member serving as Chair more than once during his or her six-year term. The Commissioners are responsible for administering and enforcing the *Act* 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 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 Office of the Inspector General (OIG) independently conducts audits, evaluations, and investigations. OIG keeps the Commission and Congress informed regarding major developments associated with their work.

3 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 efficiently. In addition, this office houses the Commission Secretary, 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 and filing assistance, audits, administrative fines and alternative dispute resolution. The Office of Communications includes divisions charged with making campaign finance reports available to the public, encouraging voluntary compliance with the *Act* through educational outreach and training and ensuring effective communication with Congress, executive branch agencies, the media and researchers and the general public. The Equal Employment Opportunity 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 CFR 1614.102(b).

- **Office of General Counsel (OGC)**

The Office of General Counsel 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 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 supervising the Agency's ethics program. The Policy Division drafts for Commission consideration advisory opinions and regulations interpreting the Federal campaign finance law and provides legal advice to the FEC's compliance programs. 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 is not resolved 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 and appellate courts in all civil litigation involving 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 (OCIO)**

The Office of the Chief Information Officer (OCIO) consists of four units: (1) Enterprise Architecture; (2) Operational Support; (3) Data Administration; and (4) IT Security. The OCIO provides secure, stable and robust technology solutions for Commission staff and the public. OCIO both develops and maintains the systems that serve as the public's primary source of information about campaign finance data and law and ensures agency employees have a technology infrastructure that allows them to perform their day-to-day responsibilities administering and enforcing campaign finance law. OCIO also develops and supports analytic reporting tools that help staff perform their disclosure and compliance duties.

- **Office of the Chief Financial Officer (OCFO)**

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

Sources of Funds

The FEC usually receives a single, one-year appropriation for Salaries and Operating Expenses each year. However, because the FEC's lease expires September 30, 2017, the Agency received $8 million in two-year lease expiration funds in FY 2017. These funds are in addition to the $71.1 million in one-year funds for Salaries and Operating Expenses, which brings the total FY 2017 appropriation to $79.1 million.

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 2017 were $116,200.

Figure 2 shows the Agency's appropriations and obligations from FY 2013 to FY 2017.

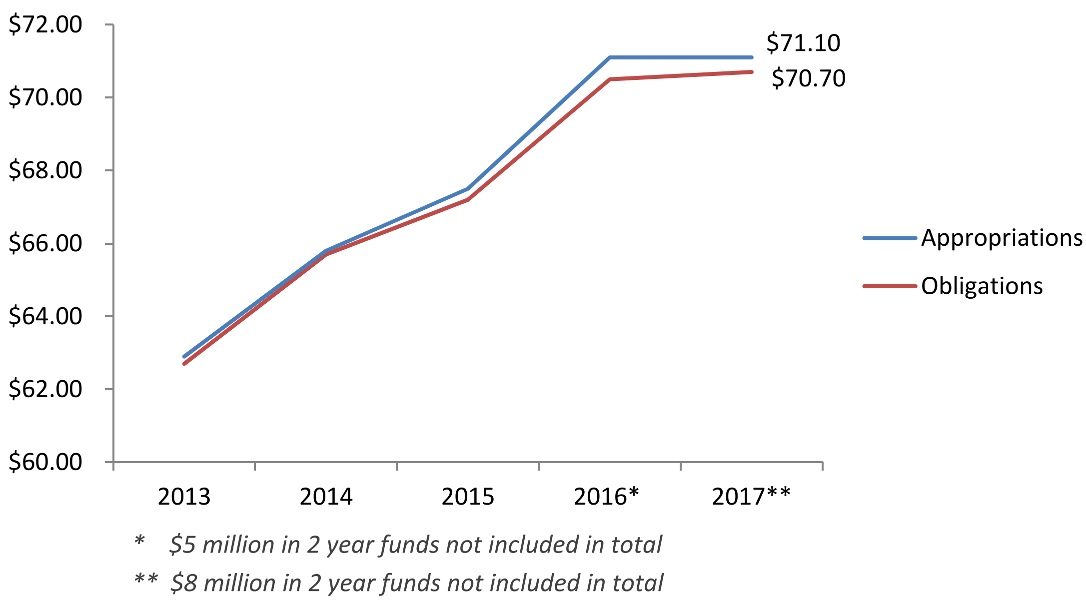


Figure 2: Summary of Funding (in millions of dollars)

Personnel vs. Non-Personnel Costs

Figure 3 represents the Commission's FY 2017 obligations by personnel and non-personnel costs. Personnel costs, which are primarily composed of salaries and employee benefits, accounted for 68 percent of the FEC's costs. The remaining 32 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.

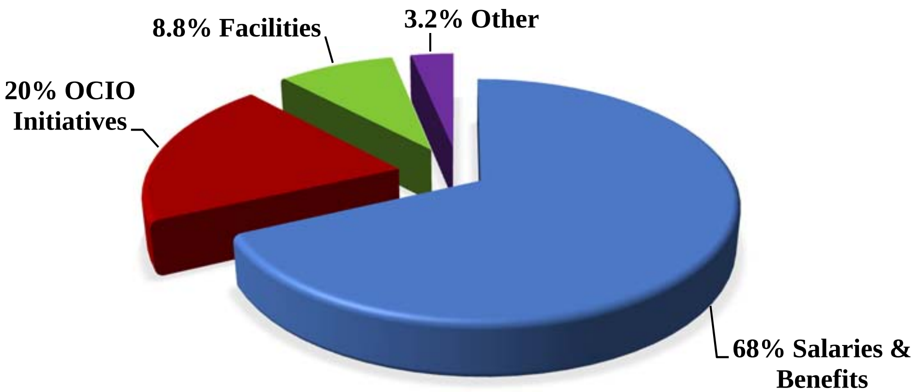


Figure 3: Fiscal Year 2017 by Major Category

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 2017 APR. This report will be part of the FEC's FY 2019 Congressional Budget Justification, which will be available at https://www.fec.gov/about/reports-about-fec/strategy-budget-and-performance/ in 2018.

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 and other political committees. 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 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. Consequently, the FEC's fourth strategic objective is to foster a culture of high performance in order to ensure that the Agency accomplishes its mission efficiently and effectively.

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

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. This system provides for public disclosure of electronically filed reports, via the FEC website, within minutes of being filed. During FY 2017, the Commission published a study of its current eFiling platform, including a survey of the existing functionality of the FEC's free filing software and an in-depth investigation of needs expressed by filers.[2] Based on the recommendations revealed through this study, the FEC plans to improve its eFiling platform to allow greater operating system flexibility for users when generating filings for submission to the Commission and increase the consistency and accuracy of reporting. The FEC's new eFiling platform is also expected to improve the process

[2] Available at https://fec.gov/about/reports-about-fec/agency-operations/e-filing-study-2016/.

for validating filings prior to acceptance and generate modern file outputs that will provide for more flexibility in accessing data.

When a committee files a financial disclosure report on paper, the Commission ensures that a copy is available for public inspection within 48 hours of receipt, both electronically on the website and at the FEC's offices in Washington, D.C.[3] 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 implemented an automated data capture process to convert paper-filed reports into structured, machine-readable data. Automating the data capture process decreases data processing time and increases the timeliness in making data available to the public. In addition, the Agency is undertaking a long-term project to convert all remaining microfilm reels of financial reports to images, making this historical campaign finance data easily accessible to the public.

The Commission is also completing the redesign of its website. In partnership with 18F, a data services delivery team within the General Services Administration (GSA), the FEC is developing a user-centered online platform to deliver campaign finance information to its diverse base of users. 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.

Performance measures for assessing progress on this Strategic Objective include measures to ensure that data from campaign finance reports are quickly made available to the public and that the FEC pursues programs to make data more accessible to the public.

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

Key Indicator: Percent of reports processed within 30 days of receipt.								
FY 2012 Actual	**FY 2013 Actual**	**FY 2014 Actual**	**FY 2015 Actual**	**FY 2016 Actual**	**FY 2017 Target**	**FY 2017 Actual**	**FY 2018 Target**	**FY 2019 Target**
94%	88%	79%	92%	100%	95%	95%	95%	95%

3 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).

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 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 campaign finance data disclosed to the public and questions about how to comply with campaign finance law and its reporting requirements.

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 general 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 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 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 maintains its own YouTube channel, which can be found at https://www.youtube.com/user/FECTube. The YouTube channel offers a variety of instructional videos and tutorials that enable users to obtain guidance tailored to their specific activities.
The Agency's educational outreach program has been significantly enhanced with the addition of an online training service that enables political committees, reporters, students and other groups to

schedule live, interactive online training sessions with FEC staff. This on-demand service 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. The service 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.

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

Key Indicator: Percent of educational outreach programs and events that achieve targeted satisfaction rating on user surveys.								
FY 2012 Actual	**FY 2013 Actual**	**FY 2014 Actual**	**FY 2015 Actual**	**FY 2016 Actual**	**FY 2017 Target**	**FY 2017 Actual**	**FY 2018 Target**	**FY 2019 Target**
N/A	N/A	N/A	4.34	4.53	4.0 or higher on a 5.0 scale	4.43	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 formed 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. It 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 (OGC), 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. Enforcement matters are handled by OGC pursuant to the requirements of the *FECA*. 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. Closed enforcement matters are available via the FEC website.

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. The Audit Program conducts "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. Subject to limited redactions, threshold requirements approved by the Commission and used by RAD and the Audit Division are public.

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 2012 Actual	**FY 2013 Actual**	**FY 2014 Actual**	**FY 2015 Actual**	**FY 2016 Actual**	**FY 2017 Target**	**FY 2017 Actual**	**FY 2018 Target**	**FY 2019 Target**
70%	72%	28%	49%	38%	75%	68%	50%	50%

Objective 3: Interpret the FECA and Related Statutes

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 Commission also provides guidance on how the *Act* applies to specific situations through the advisory opinion process and represents itself in most litigation before the Federal district court and appellate courts. The Commission's three primary means for providing interpretive guidance for the *Act* and related statutes are discussed below.

Regulations

The Policy Division of OGC drafts various rulemaking documents, including Notices of Proposed Rulemaking (NPRMs), for Commission consideration. NPRMs provide an opportunity for the public to review proposed regulations, submit written comments to the Commission and, when appropriate, testify at public hearings at the FEC. 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

An advisory opinion (AO) is an official Commission response to questions regarding the application of Federal campaign finance law to specific factual situations. The *Act* requires the Commission to respond to AO requests within 60 days. For AO requests from candidates in the two months leading up to an election, the *Act* requires the Commission to respond within 20 days. 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 and appellate courts 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 *Act* authorizes the Commission to institute civil actions to enforce the *Act*.

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

Key Indicator: Percent of legal guidance provided within statutory and court-ordered deadlines.								
FY 2012 Actual	**FY 2013 Actual**	**FY 2014 Actual**	**FY 2015 Actual**	**FY 2016 Actual**	**FY 2017 Target**	**FY 2017 Actual**	**FY 2018 Target**	**FY 2019 Target**
N/A	N/A	100%[4]	100%[5]	100%[6]	100%	100%[7]	100%	100%

4 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.

5 The Commission obtained extensions to consider two advisory opinion requests in FY 2015. The Commission did not have any rulemakings during FY 2015 with statutory or court-ordered deadlines.

6 The Commission obtained extensions to consider six advisory opinion requests in FY 2016.

7 The Commission obtained extensions to consider seven advisory opinion requests in FY 2017.

Objective 4: Foster a Culture of High Performance

One of the objectives in the FEC's Strategic Plan, 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 Commission is focused on ensuring that staff training needs are assessed and met at every level of the Agency and that Agency leaders receive training necessary to help manage and maintain a fully engaged and productive workforce.

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 updated program will increase efficiency and improve performance by eliminating paper and using electronic recordkeeping to the fullest extent possible.

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

Key Indicator: Commission-required quarterly updates meet targeted performance goals.								
FY 2012 Actual	**FY 2013 Actual**	**FY 2014 Actual**	**FY 2015 Actual**	**FY 2016 Actual**	**FY 2017 Target**	**FY 2017 Actual**	**FY 2018 Target**	**FY 2019 Target**
N/A	N/A	73%	80%	76%	65%	85%	65%	65%

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

The FEC's FY 2017 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 2017:

Net Financial Condition	FY 2017	FY 2016	Increase (Decrease)	% Change
Assets	$34,142,240	$23,755,737	$ 10,386,503	44%
Liabilities	$ 6,278,907	$ 7,104,541	$ (825,633)	-12%
Net Position	$27,863,333	$16,651,197	$ 11,212,136	67%
Net Cost	$69,133,455	$70,529,282	$ (1,395,827)	-2%
Budgetary Resources	$84,280,790	$77,650,460	$ 6,630,330	9%
Custodial Revenue	$ 1,910,206	$ 879,853	$ 1,030,353	117%

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 $5.9 million, or 33 percent, from the prior year. This increase coincides with additional costs incurred by the FEC in preparing to relocate its staff, material, and equipment to a new physical location.

Accounts Receivable primarily 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 a half million dollars from the prior year.

Property and equipment consists of software, general-purpose equipment used by the agency and software development. In FY 2017, the FEC continued a series of upgrades to existing systems to support regulated reporting requirements. Net property and equipment increased by $4 million from the prior year to $10 million, reflecting additional property and equipment costs incurred by the FEC in preparation for the agency's office relocation. Total liabilities decreased by approximately 12 percent.

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 the prior year, as there was a two percent change from FY 2016 to FY 2017.

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 67 percent, or approximately $11 million. However in FY 2017, the FEC received approximately $8 million in two-year appropriated funds, which will not expire until the end of FY 2018. Excluding this two-year appropriation, Total Net Position increased by approximately $3 million.

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 $6.6 million, or nine percent, from the prior year. This included a four percent increase in new obligations incurred.

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 2017, the total custodial revenue and collections increased by approximately $1 million from the prior year. This included an accrual adjustment of $516 thousand, to account for inflation.

The chart below displays the assessment history for the past 20 years.[8]

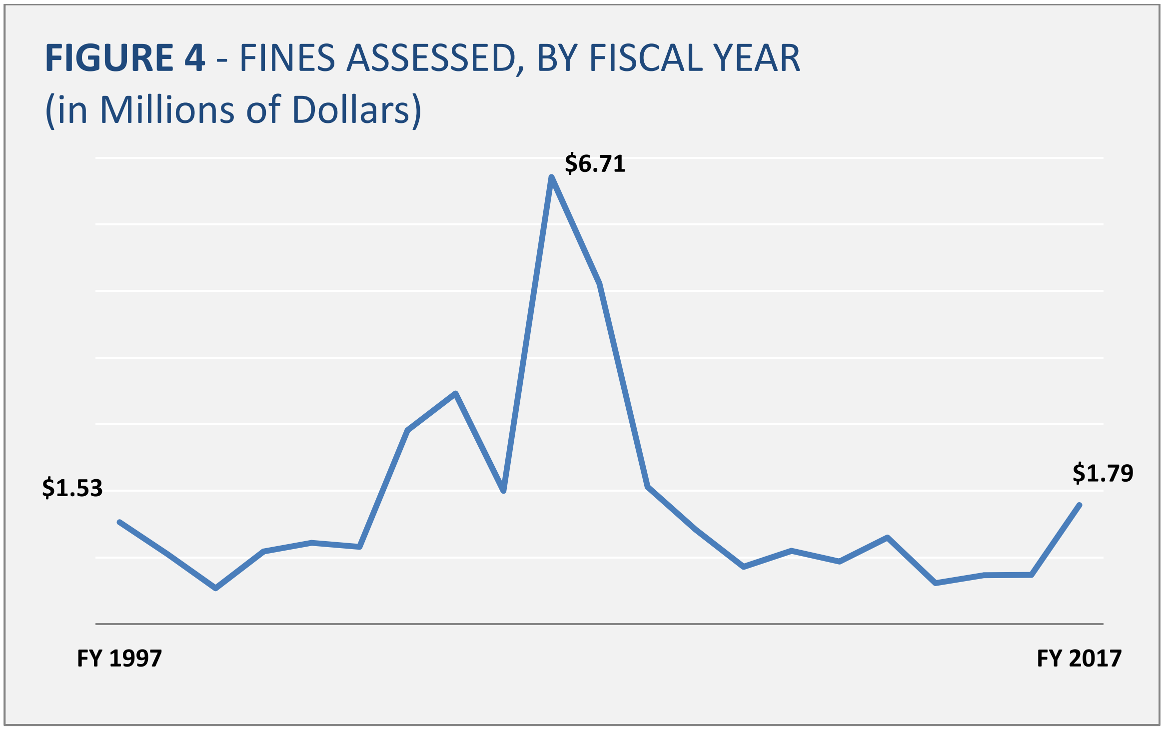


Figure 4: Fines Assessed, by Fiscal Year (in millions of dollars)

8 One MUR resolved during 2006 yielded the largest civil penalty in agency history, which was $3.8 million paid by Federal Home Loan Mortgage Corporation (Freddie Mac) for prohibited corporate activity. This 2006 penalty is the primary reason for the largest Fines Assessed (approximately $6.71 million) in Figure 4.

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;

Federal Civil Penalties Inflation Adjustment Act of 1990;

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 2017 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*.

Enterprise Risk Management

In FY 2017, the FEC – led by the newly formed Senior Management Council (SMC) – successfully completed its Initial Risk Profile of enterprise risks, as required by the revised OMB Circular A-123. The SMC identified a total of 11 enterprise risks in the areas of Strategic, Operational, and Compliance objectives rated as being a Medium or High inherent risk, and delivered the Initial Risk Profile to the Office of the Inspector General (OIG) and to OMB. The SMC looks forward to continuing to work closely with the Office of the Inspector General to remediate any weaknesses which the OIG may deem to be at the level of a material weakness.

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 2017 was nearly 100 percent, with less than .11 percent of all invoices paid after the date required by the *PPA*.

Improper Payments

The Improper Payment*s 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 68 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 2017 non-personnel procurements, charge card, and payroll costs to verify their accuracy and completeness. Accordingly, the FEC is unaware of any improper payments. The FEC continues to monitor its payment and internal control process to ensure that the risk of improper payments remains low.

Civil Monetary Penalties Adjustment for Inflation

The FEC Civil Monetary Penalties Adjustment for Inflation is included in Section III.

Annual Assurance Statement on Internal Control

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 2017 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.

Steven T. Walther
Chair

I.D.iii – Management's Response to the Office of Inspector General's Statement on the Federal Election Commission's Management and Performance Challenge [9]

November 13, 2017

In its Statement on the FEC's Management and Performance Challenges ("Statement"), the Office of the Inspector General ("OIG") identified three overarching management and performance challenges for inclusion in the FEC's Agency Financial Report for Fiscal Year 2017. Management's response to the OIG statement is below.

<u>Challenge 1: Governance Accountability</u>

A. Low Employee Morale

Management is committed to investing the resources and effort needed to make lasting improvements to employee morale. We recognize that there are multiple causes of low morale at the agency, and there are no simple solutions. The Commission has an exceptional workforce filled with dedicated professionals whose hard work and commitment to excellence enables the agency to carry out its essential mission. For this reason, it is vital that we create a workplace that is more positive and productive, where everyone feels valued. Since the results of the Morale Study were released, management has undertaken numerous initiatives to address this problem, some of which are summarized below:

Management Performance Plans. The following items are included in all management performance plans for the 2017-18 review year:

- Engage in efforts to improve morale and foster a culture of trust within the manager's area of responsibility, including implementing recommendations from the Morale Study.
- Engage in efforts to improve as a manager, including training, participation in a 360 Review, and development and implementation of a Leadership Development Plan.
- Provide training opportunities (both formal and informal) for all staff. Utilize in-house resources including Skillport and OCIO one-on-one trainings.
- Meet with each employee at least one time during the performance year in addition to the six-month and annual reviews to get the employee's input on how things are going and ideas for improvement.

Involving the Union. Managers and Commissioners met several times with members of NTEU Chapter 204 to discuss its concerns regarding the Morale Study. Subsequent to these meetings, the Office of General Counsel and the Office of the Staff Director provided detailed documents to the Commission on all the efforts of managers and staff to improve morale at the FEC.

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9 Management consists of the agency's senior managers, including the Staff Director, General Counsel and Chief Financial Officer.

Involving Staff in Preparation for the FEC's Office Space Move. Over the past year, management has been wholly committed to engaging and informing staff throughout the FEC's process of moving to a new office space location. Bargaining Unit members serve on the Lease Renewal Advisory Team (LRAT) and on each of its subcommittees. Many workgroups surveyed all staff members to get their preferences for new office furniture, and the Commission held an agency-wide "Chair Fair" in which employee votes determined the finalists for acquisition of new office chairs. Commuter transportation providers, such as the Washington Metropolitan Area Transit Authority, have been available on-site to discuss with employees their options for getting to the new building; a similar session will be held in January 2018. Management also established an internal portal, "FEC Move," on the agency's intranet page that is routinely updated with LRAT meeting minutes, photos of construction progress, and news about the move.

Management Training. The agency has undertaken multiple training programs to target some of the areas where improved management performance is necessary to boost employee morale. Trainings have been held on areas including diversity and inclusion, conflict resolution, general management skills, and individual leadership training. Since September 2016, over half of agency managers have undertaken 360 Reviews conducted by OPM and developed leadership plans to develop strengths and improve. As part of the review, if shared areas are identified where further training would be beneficial, management has arranged for training to be conducted in that area. Importantly, language has been added to all managers' performance plans requiring that the managers demonstrate a commitment to improving morale and documenting steps taken within his or her area of responsibility.

Staff Professional Development. Divisions throughout the agency have taken numerous steps to give staff opportunities for professional growth and development, including:

- OGC detail program with the US Attorney's Office in the District of Columbia, which provides staff attorneys the opportunity to prosecute general misdemeanor cases and develop their investigative and litigation skills;
- OGC staff opportunities to serve details within different divisions in the Office;
- OCIO staff partnering one-on-one with staff from the General Services Administration's 18F to learn new information technology skills;
- Information Division conducted training sessions for agency staff that participate in outreach efforts to learn how to maximize webinar participation;
- RAD conducted branch-wide professional development months focused on skills training and one-on-one coaching sessions available to all staff; and
- Brown-bag lunches and informational sessions where staff can learn about what other divisions do and ask questions of senior staff and Commissioners.

Diversity in Hiring and Promotion. Agency managers have undertaken a substantial effort to expand the diversity of the pool of applicants that apply for FEC positions, including OGC reaching out to local law schools, and having ongoing dialogs with Black Law Students Associations and Hispanic Latino Law Student Associations. OGC also launched an ongoing externship opportunity with Howard Law School, as well as participated in a Latina/o Alumni Association of the Washington College of Law (American University) externship program offered for displaced law students from the University of Puerto Rico. Agency managers continue to ensure that hiring panels are diverse and inclusive, ensuring that multiple viewpoints are present.

Communication. Management has undertaken efforts to communicate more clearly and consistently across the agency as well as within divisions. Each division has been encouraged to hold regular division meetings, and senior leaders routinely attend those meetings to answer questions on any topic, as schedules have allowed. We have also attempted to be more proactive in getting information out. Some divisions are holding brown bag lunch and learn programs and are undertaking other, informal activities to give staff and managers a chance to interact. Most importantly, management continues to encourage an open door policy for employees to come with any questions or concerns at any time.

Management understands that improving morale is not a one-off, "check the box" project. Our efforts on this front will continue.

B. Enforcing Required Management Roles and Responsibilities

Management follows FEC Commission Directive 50, reporting semi-annually on the progress of all outstanding recommendations identified in OIG audits.

Pursuant to the Federal Managers Financial Integrity Act (FMFIA) and OMB Circular A-123, the FEC established guidance to describe a Senior Management Council (SMC) for oversight of internal control and enterprise risk management (ERM) activities throughout the agency. The SMC meets, at minimum, on a quarterly basis and includes senior agency officials from all divisions of the FEC. The SMC is chaired by the agency Chief Financial Officer (CFO), who – with the agency Staff Director and General Counsel – is responsible for discussing recommendations for action with the FEC Commissioners regarding internal control and ERM actions, required for the agency to remain compliant with the FMFIA and OMB Circular A-123.

The SMC helps ensure that the FEC implements and maintains a strong internal control framework including a positive internal control environment featuring top management commitment to the values of promoting the highest ethical standards and organizing all program and administrative processes to promote accuracy, efficiency, and compliance with all applicable laws and regulations, and to minimize, prevent, or promptly detect and correct any instances of fraud, waste, abuse, and mismanagement. The control environment will include promoting internal control knowledge and awareness among all staff.

While the concept of strong internal controls requires the active involvement of all agency personnel, this council recognizes that the most effective means of maintaining a robust internal controls environment requires a definitive and united "tone at the top." This council involves the senior leaders and key managers who are all committed to this mission and the continual improvement of the internal controls environment of the FEC.

Challenge 2: Longstanding Vacancies in Senior Leadership Positions

Management acknowledges that there are vacancies throughout the agency. Management continues to work with the Personnel and Finance committees for approval to post and hire qualified individuals for all of the identified positions. As identified by the OIG, the positions of Chief Financial Officer, General Counsel, Deputy Staff Director for Management and Administration, and the Deputy Chief Information Officer for Operations are all currently filled by qualified full-time employees on an acting basis. By statute, only the Commission can select a permanent General Counsel, and by agency practice the same is true of the Chief Financial Officer.

Challenge 3: Organizational Structure

A. Dual Senior Leader Positions

OIG raises the concern that having the positions of Staff Director and Chief Information Officer filled by the same individual concentrates oversight of a significant portion of the agency's operating budget under a single individual. It should be noted that prior to the current incumbent becoming Staff Director, the Chief Information Officer reported to the Staff Director. When the current incumbent became Staff Director, the Commission made the CIO position one that reported directly to the Commission. Assuming the Commission would return to prior practice if the current incumbent left one or both positions, the OCIO would again report to the Staff Director and the portions of the budget identified by OIG would still be under the ultimate control of a single individual – that is, the Staff Director. Moreover, all agency IT projects are required to be approved by the Finance Committee prior to OCIO initiating the project, and approval of the full Commission is required before undertaking long-term projects of high magnitude, such as the redesign of the Commission's website. This reporting structure does not put the FEC at any greater risk for fraud, waste, or abuse. In reality, it allows for expedited decisions through the proper change control processes of the Finance, Personnel, and IT committees.

The following are other concerns that OIG expresses with the management of OCIO that it attributes, explicitly or implicitly, to the same individual's holding both positions:

1. **"Since reported in FY 2004, the OCIO still does not have a formal entity-wide security program to sufficiently protect information and information systems."**

   The agency has developed and approved policies adopting the NIST IT Security Best Practices and Other Government-wide IT Security Requirements for a formal entity-wide information security program. OCIO has updated the 58A Information Systems Security Program Policy, signed April 4, 2017, and Policy 58-2.4 Assessment and Authorization Policy, signed January 6, 2017, which identify as one of the FEC CIO's responsibilities to "make final authorization determinations" (i.e., full authorization to operate/conditional authorization/denial of authorization). Within the same policy, "Authorization" (to operate) is defined as, "The official management decision given by a senior organizational official to authorize operation of an information system and to explicitly accept the risk to organizational operations based on the implementation of an agreed-upon set of security controls."

During the FY 2017 Financial Statement Audit, auditors re-opened an issue closed in the FY 2014 Financial Statement Audit regarding the FEC's adoption of National Institute of Standards and Technology (NIST) IT security best practices. In response to IG recommendation 1 in the FY 2017 Financial Statement Audit, "*FEC Needs to Formally Adopt NIST IT Security Best Practices and other Government-wide IT Security Requirements,"* the agency notes that OCIO has formally adopted the Commission-approved NIST 800-37 rev 1 for the FEC's critical systems. Even with the exemption the FEC has in the FISMA arena, leadership decided to adopt the NIST risk management framework (RMF) as a best practice for the FEC's major and critical systems. The Commission's adoption of the RMF, specifically NIST 800-37 rev 1, covered the agency's most critical systems, including the Enterprise General Support System. As part of the adoption of the RMF, the OCIO continuously monitors the FEC's critical systems to ensure protection of the agency's information and information systems.

2. "The OCIO does not have adequate inventory controls in place to safeguard OCIO assets from theft, or the ability to readily account for all procured assets."

As stated in the FEC IT Inventory Procedure Manual, OCIO has a documented process for securing assets which includes safeguarding equipment before and after it is barcoded and inventoried. OCIO has taken additional steps to secure its assets by enrolling in Apple's Device Enrollment Program to securely and remotely manage its iOS devices along with Microsoft's InTune server.

3. "For 13 years, the agency has operated without an approved and tested contingency plan for the agency, and currently still does not have a finalized plan in place."

In accordance with the NIST Special Publication 800-53 rev 4, "Security and Privacy Controls for Federal Information Systems and Organizations," the OCIO has fully met the Contingency Planning Testing Control required for Moderate systems. The FEC has met CP-4(1) by testing the contingency plan for the information system (only testing control required by NIST for moderate systems – see NFR-rect2.pdf). On September 17, 2015, COOP Personnel were notified that COOP Testing would be scheduled during the September 23 – 24, 2015, Washington, DC Papal Visit. Staff were instructed to telework on both days using their government issued Tablet or Laptop. Staff were asked to complete and submit a COOP Test Questionnaire which would be used to collect basic information pertaining to their testing experience. The information collected in the questionnaire would be reviewed and used to identify any issues or concerns within our COOP Test Plan. Upon review of the data, it was determined that the test was a success and no changes were necessary. Although not classified as official "COOP Testing," recent tests of our systems and its availability that fall in line with COOP Testing, occur throughout the year when the government is following an operating status of "telework ready." Given the opportunity of an impromptu COOP Test, OCIO personnel monitor various aspects of our general support system which are the same monitoring practices during an official COOP Test.

Finally, in accordance with the NIST SP 800-53 rev 4, the FEC is not required to conduct simulated training nor automated testing. The FEC is also not required to conduct testing of alternate site, and full recovery test (e.g., controls CP-4(2-4)).

4. "Management does not have the capability to verify that all FEC staff only have access to authorized agency information."

OCIO has the capability to verify FEC staff system access to applications on the GSS by reviewing audit and system logs and databases. Under NIST SP 800-53 revision 4, Account Management control for moderate baseline, the FEC is not required to conduct annual reviews of all accounts (NIST 800-53: AC-2(13)) as long as reviews occurs and this is done through FSA during initial on boarding process. However, the OCIO has completed updating and has implemented a stronger account management policy (58-2.2) and was published on 8/08/2017. The policy mandates that all users account access rights and privileges be reviewed annually and validated in accordance with the GSS and major applications system security plans by the user's direct manager. The level of approval authority granted for user accounts is based on the role and the need to know. As far as "process," the OCIO has developed an account management procedures and was published August 08, 2017.

The OCIO continues to make great strides with implementing CDM. However, CDM implementation is dictated by DHS's schedule. The FEC is currently scheduled to be implemented FY18 Q3.

B. Shared Role for Senior Agency Officials for Privacy

The OIG raises the concern that designating the Deputy Staff Director, Management and Administration (Acting) and the Deputy General Counsel — Administration as the Co-Senior Agency Officials for Privacy (Co-SAOPs) is ineffective. Management respectfully disagrees, as the official in each of those positions has significant oversight over a discrete portion of the agency's Privacy Program. Designating each of these officials with jurisdiction over the portion of the Privacy Program that is within his expertise makes more sense in a small agency like the FEC where adding additional responsibilities to a Senior Level Manager would create a redundant level of bureaucracy. The Co-SAOPs and their teams—the CISO and ISSO in OCIO and the Administrative Law Team in OGC—work together on privacy issues on a nearly daily basis, with each ensuring that the other part of the Privacy Team is kept informed. Indeed, each one of these staff members would need to be included in any agency response to a privacy-related issue. Thus, keeping the same reporting structure these employees have for their other responsibilities promotes efficiencies for the Privacy Program. Moreover, the Co-SAOPs and the Privacy Team as a whole report, through memoranda and reports, directly to the Commission who provide the necessary oversight and accountability in meeting Privacy requirements. Finally, OIG cites no harm from this dual-leadership structure besides inefficiency, which the structure actually lessens.

Outstanding Recommendations

The OIG states that the current Privacy Audit has 25 outstanding recommendations and that the Co-SAOPs have not made any significant progress on the Privacy Audit's outstanding recommendations since June of 2013. Referring to these alleged outstanding recommendations, OIG claims that during the most recent review, "the SAOPs did not respond to any of the OIG's inquiries to discuss the current open recommendations." OIG helpfully shared with Management the 25 Privacy CAP recommendations considered to be outstanding earlier this year. Management respectfully disagrees with this assessment, concluding that there are only nine outstanding recommendations. Indeed OIG has re-opened multiple closed recommendations, including some recommendations closed more than six years ago. Moreover, OIG's claim that the Co-SAOPs have not made "any significant progress" since June 2013 ignores ten of these "outstanding recommendations" that have been completed since that date.[10]

The breakdown of OIG's 25 "outstanding recommendations" is displayed below (recommendations Management considers completed and closed are highlighted):

Outcomes of the 25 OIG "Outstanding Recommendations"

Recommendation Number	Management Response	Completion Date
2a	Completed	November 2011
2b	Completed	June 2011
2c	Completed	May 2015
3b	Completed	June 2011
4a	To be completed by Mgmt	N/A
4b	To Be Determined by Mgmt (Management is reconsidering strategy for meeting this recommendation)	N/A
4c	Completed	December 2012
4d	To Be Determined by Mgmt (Management is reconsidering strategy for meeting this	N/A

10 Additionally, in a January 23, 2017 memorandum to the Inspector General, the Co-SAOPs accepted the identified risks of not implementing OIG's recommendations for two outstanding recommendations (1a and 7b). In that memorandum, Management also noted that although two other recommendations (6c and 6e) had been implemented and Management had provided documentation that the recommended tasks were completed in May and June of 2015, Management would accept the identified risks "[t]o the extent OIG believes the identified tasks are insufficient to meet the recommendations." It appears that recommendation 6e remains open for OIG's purposes.

	recommendation)	
5a	To Be Determined by Mgmt (Management is reconsidering strategy for meeting this recommendation)	N/A
5b	To Be Determined by Mgmt (Management is reconsidering strategy for meeting this recommendation)	N/A
6e	Completed	June 2015
7a	Completed	June 2015
7d	Completed	June 2015
7e	Completed	June 2015
7f	Completed	June 2015
8d	Completed	October 2012
10b	Completed	June 2015
11a	To Be Determined by Mgmt	N/A
11b	Completed	June 2015
11c	Completed	June 2015
12a	Completed	May 2012
12b	To be completed by Mgmt	N/A
12d	To be completed by Mgmt	N/A
12e	To be completed by Mgmt	N/A
13	Completed	June 2015

As can be seen from this chart, OIG has sought to re-open multiple recommendations that had been completed years before. Indeed, Management has previously spoken with representatives of OIG about this re-opening of ostensibly closed recommendations but Management has not been able to discern the rationale for such re-openings nor to convince OIG that these recommendations had been completed. Additionally, although OIG claims that Management has made no significant progress in the last four years, ten of these "outstanding recommendations" were completed after the June 2013 date OIG cites. However, Management has signaled its willingness to work on and close four of the outstanding recommendations (4a, 12b, 12d, and 12e), and its continued desire and intent is to close out those recommendations in the near future.

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

Message from the Acting Chief Financial Officer

November 9, 2017

I am pleased to present the Commission's financial statements for Fiscal Year (FY) 2017. The financial statements are an integral part of the Agency Financial Report. The Commission received an unmodified (clean) opinion on its financial statements from the independent auditors. This marks the ninth consecutive year with no material weaknesses identified. This is the sixth consecutive year with no significant deficiencies reported for the Office of the Chief Financial Officer (OCFO). I appreciate and applaud the good work of OCFO staff who strived diligently throughout the fiscal year to achieve these results, maintaining a commitment to excellence.

The agency understands that information technology (IT) security is a continuing process of detecting risks, process improvements and hardening defenses. For that reason, the agency is committed to the timely implementation of the FY 2017 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. The agency has a robust plan and leadership support to continue IT enhancements in future years.

In FY 2017, the OCFO took a lead role in establishing a Senior Management Council (SMC) to oversee activities relevant to agency-wide internal controls and Enterprise Risk Management (ERM), as described in the revised OMB Circular A-123. The SMC successfully created the FEC's Initial Risk Profile in FY 2017, identifying enterprise-wide risks and appropriate responses relevant to the FEC's strategic, operational, reporting and compliance objectives.

The FEC also made significant progress this year toward the agency's goal of improving operational efficiency by reducing reliance on physical servers and migrating the FEC website and campaign finance database to a cloud environment. The FEC launched its new, cloud-hosted website in May 2017. The new website, developed in partnership with the General Services Administration's 18F, provides open, intuitive ways for the public to access and utilize compliance tools and legal resources and to search and download campaign finance information contained in the FEC's cloud hosted campaign finance database. In addition to this achievement, the FEC completed a Cloud Study during FY 2017 to develop a road map for migrating other applicable databases, systems and applications to a cloud environment.

Across all agency functions, the FEC continues to seek opportunities to modernize and upgrade business systems to improve operational efficiency. We are confident that FEC employees' 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,

Gilbert Ford
Acting Chief Financial Officer

OIG Transmittal Letter

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

MEMORANDUM

TO: The Commission

FROM: J. Cameron Thurber
Deputy Inspector General

SUBJECT: Audit of the Federal Election Commission's Fiscal Year 2017 Financial Statements

DATE: November 15, 2017

Pursuant to the Chief Financial Officers Act of 1990, as amended, this memorandum transmits the Independent Auditor's Report issued by Leon Snead & Company (LSC), P.C. for the fiscal year ending September 30, 2017. 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. 17-03, *Audit Requirements for Federal Financial Statements*.

In addition, due to the agency's determination that they are legally exempt from the Federal Information Systems Management Act (FISMA), the OIG requires auditing of the agency's Information Technology (IT) security against government-wide best practices at a level sufficient to express an opinion on the FEC's financial statements, and report on internal controls and assess compliance with laws and regulations as they relate to the financial operations of the FEC. LSC's report identifies a significant deficiency in internal controls related to IT security and contains recommendations to address the deficiencies noted. Management was provided a draft copy of the audit report for review and comment, and the official management comments to the report can be found in Attachment 2 of the report.

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, 2017, in conformity with accounting principles generally accepted in the United States of America.

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's 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 the OIG on (202) 694-1015.

Attachment

Cc: Gilbert A. Ford, Acting Chief Financial Officer
Alec Palmer, Staff Director/Chief Information Officer
Lisa Stevenson, Acting General Counsel

Independent Auditor’s Report

The following pages are intended to show the Independent Auditor’s Report.

Federal Election Commission

Audit of Financial Statements

As of and for the Years Ended September 30, 2017 and 2016

Submitted By

Leon Snead & Company, P.C.
Certified Public Accountants & Management Consultants

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LEON SNEAD
& COMPANY, P.C.

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& 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, 2017 and 2016, 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 significant 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, 2017 and 2016, 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. We continue to report a significant deficiency related to FEC's Information Technology (IT) security program. However, FEC continues to strengthen its IT security program, and has corrective actions currently in progress to further address identified weaknesses. We also reported a significant deficiency noting that FEC's corrective action plan does not meet Office of Management and Budget's (OMB) requirements. In addition, we identified another control issue that did not rise to the level of a reportable condition which is included in a separate letter, dated November 15, 2017, for management's consideration.

Our tests of compliance with certain provisions of laws, regulations, and significant provisions of contracts, disclosed no instance of noncompliance that is required to be reported under Government Auditing Standards and the OMB audit bulletin.

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of FEC, which comprise the balance sheets as of September 30, 2017 and 2016, 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 17-03, 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 on Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of FEC as of September 30, 2017 and 2016, 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, 2017 and 2016, 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 deficiencies in internal control that we consider to be significant deficiencies.

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

1. FEC Needs to Formally Adopt NIST IT Security Best Practices and other Government-wide IT Security Requirements

We reported in our FY 2014 audit report that FEC Officials agreed to formally adopt the National Institute of Standards and Technology's (NIST) best practices IT security controls, and agreed to issue a policy to require a documented, fact-based, risk assessment prior to declining adoption of any government-wide IT security best practice or IT security requirement. Since then, management has made substantial efforts in addressing identified gaps in complying with best practices such as the development of a system security plan for the General Support System (GSS), along with having a signed Authorization to Operate (ATO) document for the GSS. However, our current audit disclosed that a policy has not yet been issued to mandate compliance with best practices, NIST and other government-wide security standards, that will help ensure security over the agency's information and information systems. In addition, there is disagreement from the FEC's Chief Information Officer (CIO) and Office of General Counsel that the Commission had voted[1] to adopt NIST best practices. Therefore, we have reopened prior audit recommendations that address these issues[2].

Recommendation

Adopt NIST IT security best practices and other government-wide information security requirements that are applicable to the agency's business and information systems operations, and document this policy through the issuance of a Commission Directive or a OCIO policy.

[1] The OCIO awarded a contract to SD Solutions LLC to conduct an IT GAP Analysis to obtain a system inventory, GAP analysis, and provide study results concerning the feasibility in cost of implementing NIST Guidelines. SD Solutions provided recommendations to OCIO, in which the Commissioners voted in July 2015 to approve the funding for OCIO to implement these recommendations. The SD Solutions report states that the failure to "adopt an "enterprise Risk Management Framework" (NIST best practices) has an adverse impact on the agency meeting IT security objectives.

[2] Government Auditing Standards require that auditors evaluate whether the audited entity has taken appropriate corrective action to address findings and recommendations from previous engagements that are significant within the context of the audit objectives.

Conduct and document a fact-based risk assessment prior to declining to implement government-wide IT security requirements that are applicable to FEC's business operations.

Management's Response

Management notes that OCIO has formally adopted the Commission-approved NIST 800-37 rev 1 for the FEC's critical systems. Even with the exemption the FEC has in the FISMA arena, leadership decided to adopt the NIST risk management framework (RMF) as a best practice for the FEC's major and critical systems. The Commission's adoption of the RMF, specifically NIST 800-37 rev 1, covered the agency's most critical systems, including the Enterprise General Support System (GSS). As part of the adoption of the RMF, the OCIO continuously monitors the FEC's critical systems to ensure protection of the agency's information and information systems.

The agency has developed and approved policies adopting the NIST IT Security Best Practices and Other Government-wide IT Security Requirements. OCIO has updated the 58A Information Systems Security Program Policy, signed April 4, 2017, and Policy 58-2.4 Assessment and Authorization Policy, signed January 6, 2017, which identify as one of the FEC CIO's responsibilities to "make final authorization determinations" (i.e., full authorization to operate/conditional authorization/denial of authorization). Within the same policy, "Authorization" (to operate) is defined as, "The official management decision given by a senior organizational official to authorize operation of an information system and to explicitly accept the risk to organizational operations based on the implementation of an agreed-upon set of security controls."

Auditor's Comments

As noted in the finding above, discussed in detail in the Notice of Findings and Recommendations (NFR) provided to FEC management on this issue, and discussed with FEC governance, our audit identified that FEC had not yet issued a policy that requires compliance with NIST best practices, and other government-wide security standards. In addition, FEC had not yet issued a policy to conduct and document a fact-based risk assessment prior to declining to implement government-wide IT security requirements that are applicable to FEC's business operations. In addition, contrary to management's response above, we were advised by the Office of General Counsel that there is disagreement from the FEC that the Commission had voted to adopt NIST best practices in FY 2015, or to fully implement NIST risk management framework. As we have reported over the last nine years, we believe that if FEC adopted such a policy it would significantly strengthen security over the agency's information and information systems by mandating that FEC security policies are aligned with government-wide standards, as appropriate.

We obtained the policies discussed in the FEC response directly from FEC officials, and we determined that neither of the two policies address recommendation number one. Therefore, this recommendation remains open.

2. Agency Corrective Action Plans

FEC's corrective action plan (CAP) for the internal control deficiencies reported in the FY 2016 financial statement audit report does not meet OMB requirements. We attributed this condition to a need for additional oversight and monitoring to ensure the agency meets Commission Directive A-50, and related OMB regulations. Without an adequate CAP, the agency is unable to track the implementation of corrective actions for reported deficiencies, ensure realistic milestones are established, and ensure targeted resolution dates are consistently met to reduce the agency's risk exposure.

OMB Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Control, dated July 2016, requires each agency's CAP to address the following areas:

- Resources required to correct a control deficiency. The corrective action plan must indicate the types of resources needed (e.g., additional personnel, contract support, training, etc.), including non-financial resources, such as Senior Leadership support for correcting the control deficiency.
- Critical path milestones that affect the overall schedule for implementing the corrective actions needed to resolve the control deficiency. The milestones must lead to a date certain of the correction of the control deficiency.
- Require prompt resolution and internal control testing to validate the correction of the control deficiency.
- Procedures to ensure that accurate records of the status of the identified control deficiency are maintained and updated throughout the entire process.

To determine whether the agency met these and the agency's own requirements, we reviewed the June 2017 CAP. Our review identified the following areas where improvements were needed.

- The plan does not identify the resources required to correct a deficiency, including the types of resources needed to correct the deficiency.
- The plan does not have critical path milestones that affect the overall schedule or the corrective actions needed to resolve the deficiency, including a "date certain" that the deficiency will be corrected.
- Concerning the requirement in OMB Circular A-123 that the agency must promptly resolve and perform internal control testing to validate the correction of the control deficiency, many of the deficiencies contained in this report and in the CAP, have been outstanding for years, and some of the deficiencies have been reported outstanding since FY 2004.

We have reported problems with the agency's CAP and related areas in several prior audit reports, and corrective action has yet to be implemented for several of the recommendations. Corrective action for audit recommendations, to include the timely implementation of audit recommendations, is required by Office of Management and Budget Circular A-50, Audit Follow-up, as revised, Commission Directive 50, and OMB Circular A-

123. OMB Circular A-123, Section V, provides that agency managers are responsible for taking timely and effective action to correct deficiencies; correcting deficiencies is an integral part of management accountability and must be considered a priority by the agency; corrective action plans should be developed for all material weaknesses, and progress against plans should be periodically assessed and reported to agency management. Management should track progress to ensure timely and effective results.

Recommendation

2. Take actions to ensure that the agency's CAP includes all of the requirements of Commission Directive A-50 and OMB Circular A-123.

Agency's Response

Management generally concurred with the OIG's recommendation and has already started an action plan accordingly. In March 2017, management successfully established the Federal Election Commission Senior Management Council (SMC) for oversight of internal control and Enterprise Risk Management (ERM) activities throughout the agency. The SMC meets, at minimum, on a quarterly basis and includes senior agency officials from all divisions of FEC. Part of the mission of the SMC is to ensure that FEC implements and maintains a strong internal control framework. This includes a positive internal control environment featuring top management commitment to the values of promoting the highest ethical standards and organizing all program and administrative processes to promote accuracy, efficiency and compliance with all applicable laws. The Agency anticipates filling the vacant Director of Accounting position in FY 2018 to take the lead on Internal Control and ERM activities throughout the Agency.

Auditor's Comments

We have reviewed the documents provided by FEC relating to the actions it has taken to implement the ERM requirements of OMB Circular A-123 within the agency. Our initial reviews of these documents showed that FEC has revised its monitoring processes, and has begun to implement the circular's requirements relating to ERM.

However, our finding and recommendation relates to requirements for development, implementation and monitoring of specific corrective actions plans for past audit findings and recommendations. As discussed above, we noted that key portions of an effective corrective plan were missing from the document. FEC indicated it generally concurred with the recommendation; however, we need the specific actions the agency plans to take to address the issues noted in this report before we can determine if the actions proposed by the agency will address the findings and recommendations.

3. FEC Continues to Make Progress in Addressing Outstanding Information Technology Control Issues – However Problem Areas Remain

As required by Government Auditing Standards, we reviewed the actions taken and proposed by the FEC to address the recommendations that remained open from FY 2016. During our FY 2017 audit, we were able to close six of the audit recommendations that remained open from prior years' reports. The actions taken by FEC to enable us to close these six recommendations is a further significant step in addressing the vulnerabilities that have been identified in our prior audit reports.

Completion dates for the remaining eight are currently estimated to be implemented in FY 2018. However, as we have reported in prior audits, completion dates have changed repeatedly since the problems were first reported without any significant progress made, in some cases, since FY 2004. The following paragraphs discuss the findings and recommendations that remain open.

a. Review of User Access Authorities *(Open since FY 2004)*

FEC has not yet established a process that will provide supervisors with the necessary information to recertify user access authorities for their staff. While FEC officials agreed after our first report that such a control process was needed (and required by its own policies), limited progress has been made to implement this control process. Until this control is implemented, FEC officials have reduced assurance that users only have access to information and information systems that are necessary to accomplish their specific job responsibilities.

Best practices (NIST Special Publication (SP) 800-53 and related publications) provide that an organization should review user accounts on a periodic basis. The currently approved FEC Policy 58-2.2 provides that "All user account access rights and privileges will be periodically reviewed and validated in accordance with General Support System...system security plans…."

Recommendations

3. Complete the project relating to review of user access authorities, and ensure necessary budgetary and personnel resources are provided to complete this project in a timely manner.

Agency's Response

Management believes this recommendation is already completed. A complete review of privilege accounts was completed on June 17, 2017, and was submitted to the OIG. Under NIST SP 800-53 revision 4, Account Management control for moderate baseline, FEC is not required to conduct reviews of all accounts (NIST 800-53: AC-2(13). However, a review of all accounts is conducted during the on-boarding process using the FSA. Additionally, the OCIO completed updating and has implemented a stronger account management policy (58-2.2) which was published on 8/08/2017. The policy mandates that all users account access rights and privileges be reviewed annually and validated in accordance with the GSS and major applications system security plans by the user's direct manager. The level of approval authority granted for user accounts is based on the need to know and roles of each users. As far as "process," the OCIO has developed an account management procedure which was published on 8/08/2017.

Auditor's Comments

While the FEC did conduct a review this year of users with privilege accounts, it has not yet implemented actions to provide supervisors with the ability to review and recertify access authorities for all FEC user accounts, as agreed in responses to prior years' reports. Further, based on information provided by the OIG and prior year reviews of FSA, this system is not structured to meet this outstanding security requirement and is not a reliable data source. This requirement is part of NIST best practices IT security controls, and required by FEC policies. Until an effective process is developed and implemented by FEC to address this recommendation, the finding and recommendation will remain open. In addition, we disagree with the FEC's comments that the review of user access authorities is no longer required. Our review of NIST policies showed it was moved, and is now part of a related control process.

4. Finalize the draft FEC policies that require annual recertification of users' access authorities. Ensure that the policies address privileged accounts, and require validation to actual system access records, by supervisory personnel who would have knowledge of the users' requirements for accessing FEC information and information systems.

Agency's Response

The OCIO concurred with the finding and recommendation. The CISO has completed the review of this policy and procedures. The updated policy includes specific requirements for initial and continued access to FEC data by demonstrated business need to view, add, change or delete data via supervisory approval.

Auditor's Comments

FEC concurred in the recommendation, and is moving to issue the directive. Therefore, we have no additional comments.

b. USGCB Requirements Need to be Implemented Agency-wide *(Open since FY 2009)*

In prior audits, we reported that the FEC needed to implement the United States Government Configuration Baseline (USGCB). Our FY 2017 audit found that FEC's computer configuration was not in full compliance with these government-wide configuration standards. Until this project is completed, the agency's systems and information remain at risk. The FEC's CAP showed that the project had been deferred until the agency had completed its procurement of new laptops, estimated as "FY 2018-TBD".

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 computer equipment, and as stated by the CIO Council, 'the USGCB initiative falls within FDCC and comprises the configuration settings component of FDCC.'

It has been over ten years since OMB first issued minimum security requirements for windows operating systems. FEC has established several final implementation dates to meet this requirement, with the last project completion date has not yet been determined. FEC attributed this latest delay in implementation to the need to purchase new computers; however, we disagree that procuring new computers is a valid reason for further delays in this long-delayed implementation of minimum security configuration requirements as all appropriate computer devices in use should be in compliance with federal government configuration standards.

Recommendation

5. Implement USGCB baseline configuration standards for all workstations regardless of the current hardware in use.

Agency's Response

Management agrees with the OIG's recommendation and plans to undertake the necessary steps to implement USGCB for all workstations. IT Operations believes that the FEC must understand IT requirements and implement USGCB in a manner which provides the best configuration for business requirements. As such, IT Operations has pushed USGCB to some workstations and not others. Our intent is to analyze and determine the best approaches in terms of functionality in meeting FEC infrastructure needs. In August 2017, the IT Operations is currently going through another round of USGCB testing before pushing settings FEC-wide.

Auditor's Comments

FEC agreed with the recommendation and plans to implement USGCB for all workstations. However, in order to consider this recommendation closed, a time-phased corrective action plan is needed, and the USGCB requirements need to be fully implemented agency-wide.

c. COOP Planning Not Completed *(Open since FY 2004)*

We reviewed the actions taken by FEC to address findings and recommendations relating to development and testing of the FEC's Continuity of Operations Plan (COOP). The FEC FY 2017 CAP did not show what progress, if any, has been made concerning this issue, and the document contained no estimated completion date. The prior year's CAP showed that the targeted implementation date for this recommendation was the second quarter FY 2017.

The FEC has operated for 13 years without an approved and tested COOP to ensure that in the event of a disaster, the Commission would have the ability to continue normal business operations within a reasonable timeframe. Without an up-to-date COOP document that has been validated through testing and exercises, any deficiencies in the plan cannot be determined, and the agency remains at high risk with the inability to carry-out the mission of the agency in the event of local disaster.

In addition, the absence of contingency plans for the agency's general support system, and its other major applications pose a separate and material threat to the agency's mission, particularly during election cycles.

FEC provided, at our request, a COOP specific CAP related to the OIG's, *Inspection of the FEC's Disaster Recovery Plan and Continuity of Operations Plans,* released in January 2013. We reviewed this document and noted the following:

- The plan lists ten remaining OIG recommendations from a 2013,
- The original completion dates were from June to December 2013, and
- The current estimated completion date for this important project has been moved repeatedly and is now estimated to be completed by the end of December 2017.

Government-wide best practices, NIST SP 800-34, *Contingency Planning Guides for the Federal Government,* states the following:

> "Information systems are vital elements in most mission/business processes. Because information system resources are so essential to an organization's success, it is critical that identified services provided by these systems are able to operate effectively without excessive interruption. Contingency planning supports this requirement by establishing thorough plans, procedures, and technical measures that can enable a system to be recovered as quickly and effectively as possible following a service disruption. Contingency planning is unique to each system, providing preventive measures, recovery strategies, and technical considerations appropriate to the system's information confidentiality, integrity, and availability requirements and the system impact level."

Recommendations

6. 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.

Agency's Response

Management concurred with the OIG's recommendations and corrective actions had been initiated to address the issues identified. Under the leadership of the Agency's Deputy Chief

Information Officer (DCIO), a number of actions have been taken to evaluate the viability of the COOP program and improve agency-wide adherence to the requirements of the Federal Continuity Directive 1 and NIST SP 800-34. The DCIO plans to distribute the final COOP plan to appropriate individuals. While devising a COOP training plan, per a previous recommendation, we have decided to follow best practice by identifying various roles within the plan for, “appropriate individuals”. Our new COOP Training Plan outlines these roles along with their responsibilities. One such role is the “Executive Role” for which best practice suggests that the plan be distributed and limited to individuals that maintain this role. We plan to leverage the telework program for the Disaster Recovery Plan. Each office/division will be responsible for their individual tailored plans to resume services as quickly as possible.

Finally, NIST RMF is guided by NIST Special Publication 800-37 and not NIST SP 800-34. In accordance with the NIST RMF, FEC has selected to follow the NIST RMF at moderate for the FEC GSS, which requires FEC to implement NIST SP 800-53 CP-2 control. This control does not specifically require FEC to conduct simulated training nor automated testing. We are also not required to conduct testing of alternate site, and full recovery test (e.g., controls CP-4(2-4).

<u>Auditor’s Comments</u>

FEC has concurred with this recommendation, and provided some information on the actions planned in this area. However, there are statements made above by management regarding required contingency planning guidance that are contradictory. FEC notes that they are adhering to Federal Continuity Directive 1 and NIST SP 800-34 for the agency’s COOP program, but concludes in the same response that they are not guided by NIST SP 800-34, and not required to conduct various types of testing and training. We conclude management’s response to be flawed since detailed guidance on implementing contingency controls in SP 800-53 are addressed in SP 800-34, and this linkage of the NIST IT security policies exist for all major security control categories. Further, FCD 1 issued January 17, 2017 requires that federal executive agency’s “plan and conduct routine internal TT&E [Test, Training and Exercise] events in order to evaluate program readiness and ensure adequacy and viability of continuity plans and communications and IT systems.” Without proper testing and training of an agency contingency plan and all its essential functions, there is no way FEC can attest that the developed plan will support the continuance of the agency’s mission. We believe this management approach exemplifies the narrow the agency has on IT security control processes, and further supports the recommendation made in finding number 1 above.

In order to consider this recommendation closed, the issues noted in this document and prior audit reports need to be fully implemented.

7. Develop system specific contingency plans, as required by the NIST RMF.

Agency's Response

Management generally concurred with the OIG's recommendation. Although management does not concur that specific contingency plans are always required by the NIST RMF (NIST SP 800-37), it endorses the recommendation in principle, but believes it is inappropriate to require all FEC systems to follow NIST guidelines. NIST SP 800-53 (Control CP-2), "Organizations identify critical information system assets so that additional safeguards and countermeasures can be employed (above and beyond those safeguards and countermeasures routinely implemented) to help ensure that organizational missions/business functions can continue to be conducted during contingency operations."

As such, the FEC will mature and maintain the Authorization to Operate for systems that management identified as critical (e.g., GSS, E-Filling and Website). The OCIO continues to follow the ITD Disaster Recovery Plan dated 11/08/2010 until updated.

Auditor's Comments

FEC generally concurred with the recommendations. The Commission adopted the use of NIST RMF within FEC, and we are uncertain of what aspects of this recommendation that FEC is not in full agreement with. NIST SP 800-34, Contingency Planning Guide for Federal Information Systems, provides government-wide guidance on a seven-step contingency planning process. We did not cite which systems should or should not have contingency plans. Instead, we recommended that FEC follow the above-cited guidance in developing contingency plans.

d. Improvements Made but Issues Remain in the Remediation of Vulnerabilities *(Open since FY 2004)*

In prior audits, we reported that FEC's vulnerability scanning and remediation program did not meet best practices. Our follow-up testing found that FEC has continued to make improvements in its vulnerability scanning program, including remediation of a number of critical vulnerabilities identified by these scans; however, problems remain. In addition, critical vulnerabilities remain uncorrected and have impacted FEC systems for extended periods.

We found that detailed plans were not developed to correct long-standing critical vulnerabilities that relate to changes needed in applications which prevent FEC from addressing these problem areas. Failure to correct known vulnerabilities is a significant internal control weakness as these vulnerabilities present opportunities for intrusions into FEC's information and information systems. Also, without the proper and complete information documented in the POA&M, management cannot effectively monitor the remediation plans. For example, we noted the following areas, while identified in the POA&M, did not contain any information that would be necessary for management to effectively monitor the corrective actions planned: resources required, overall remediation plan, scheduled completion date, and key milestones with completion dates.

FEC contracted with a vendor to develop a patch management program and is working to fully implement a program that meets IT security best practices. To access the progress made in remediating long-standing problems, we obtained information from FEC personnel on the progress made in remediating critical and high vulnerabilities. The data provided showed that significant progress has been made in vulnerability remediation.

OMB Circular A-130 states that agencies "should assure that each system appropriately uses effective security products and techniques, consistent with standards and guidance from NIST." NIST SP 800-53 addresses vulnerability scanning as one of the recommended security controls and part of the risk assessment process. NIST SP-800-115 states that as part of technical security assessments and to ensure that technical security testing and examinations provide maximum value, NIST recommends that organizations: "Analyze findings, and develop risk mitigation techniques to address weaknesses. To ensure that security assessments provide their ultimate value, organizations should conduct root cause analysis upon completion of an assessment to enable the translation of findings into actionable mitigation techniques. These results may indicate that organizations should address not only technical weaknesses, but weaknesses in organizational processes and procedures as well."

Recommendations

8. Strengthen controls around the remediation program to ensure that critical and high vulnerabilities identified through the vulnerability scanning and other processes are completed within 60 days of identification, or document an analysis and acceptance of risks for longer term remediation.

Agency's Response

The OCIO agrees with the OIG's recommendation. The OCIO will continue to improve the patch management process by proactively addressing critical and high vulnerabilities. Management has recognized that there is no such thing as perfect security, and that patch management is a continuing process of detecting risks, process improvements and hardening defenses. Reasons for delayed patching can be multifaceted largely because upgrades are often costly, complex, disruptive and in some instances, unachievable, due to application dependencies. We need to accept and understand that enterprises are not in a position to constantly patch and upgrade, and apply security that meets the need of the real world. For this reason, the OCIO has successfully acquired and currently testing Micro-virtualization technology whereby individual web pages, documents and workloads can be performed in isolated containers thus protecting FEC's environment from the absence of critical patches. This tool adds to the FEC's defense in depth security strategy.

Auditor's Comments

FEC agreed to the recommendation. However, it adds a statement that "We need to accept and understand that enterprises are not in a position to constantly patch and upgrade, and apply security that meets the need of the real world." NIST SP 800-40, Guide to Enterprise

Patch Management Technologies, provides that “Patches correct security and functionality problems in software and firmware. From a security perspective, patches are most often of interest because they are mitigating software flaw vulnerabilities; applying patches to eliminate these vulnerabilities significantly reduces the opportunities for exploitation. . . . there are several challenges that complicate patch management. Organizations that do not overcome these challenges will be unable to patch systems effectively and efficiently, leading to compromises that were easily preventable.” Unless FEC installs a patch management process that will ensure an ongoing and consistent process to patch and upgrade, and specifically address long outstanding vulnerabilities, it will be in jeopardy of losing what progress it has made through its current emphasis on patch management.

9. Establish Office of Chief Information Officer (OCIO) policies that require the development of POA&Ms to comply with best practices, to include key reporting areas such as: resources required; overall remediation plan; scheduled completion date; and key milestones with completion dates.

Agency’s Response

Management agrees with this recommendation. The CISO will review and enhance the existing POA&M tracking management procedures to better track and mitigate critical risks.

Auditor’s Comments

Since FEC agreed to this recommendation, we have no additional comments.

e. **Project Planning *(Open since FY 2014)***

During our FY 2017 audit, we followed up to determine the actions taken by the FEC officials to address the need for improved project planning and management, and develop policies to guide these areas. We reviewed the current CAP, and noted that the document provides that the “OCIO concurs that project planning is an important element in successful technological implementations. Project planning has evolved significantly over the past 5 years and as a result OCIO will support the new Agile development methodology that is consistent with GSA’s new technology engagement model as dictated by the President’s technology innovation agenda. The FEC is proactively leveraging the DHS Federal Network Resilience teams to augment the resources required to improve the IT Security Program management. Several of the recommendations require dedicated resources to consistently managing operations on an ongoing basis.” The CAP showed implementation in July 2017. To date, FEC is still working to develop appropriate guidance in this area.

Recommendations

10. Develop an Office of Chief Information Officer (OCIO) policy that requires project managers to develop a detailed project plan for all OCIO projects that require multiple resources, extended timeframes and/or have a total cost of $200,000 or more. (Revised)

Agency's Response

Management concurs with the OIG's recommendation that all projects within FEC OCIO with a budget of $200,000 and above shall adhere to the policy being developed in response to Recommendation 11. Smaller projects will be monitored but will not require formal project plans.

Auditor's Comments

Since FEC agreed to this recommendation, we have no additional comments.

11. Develop an OCIO policy that details the necessary information required for the development of a project plan such as:

    a. identification of key tasks and/or steps;
    b. personnel responsible for completing the task and/or step;
    c. the timeframe for beginning and completing the task and/or step;
    d. any associated cost;
    e. resources required; and
    f. documentation to 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

Management concurs with the recommendation. While revisions have been made to the Project Management Plan Policy, there is still some additional language on Agile Methodology that needs to be incorporated. The OCIO is consulting with the General Services Administration (GSA), experts in changing the paradigm of federal IT projects to Agile, to finalize these revisions and publish the policy for use. Once all revisions have been completed, the policy will be routed for review and approval. The OCIO anticipates completing this action by February 1, 2018.

Auditor's Comments

Since FEC agreed to this recommendation, we have no additional comments.

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 15, 2017.

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 no instance 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.

Restricted Use Relating to Reports on Internal Control and Compliance

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 FEC's response to the audit report, which has been summarized in the body of this report, 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, PC

Leon Snead & Company,
P.C. Rockville, MD 20850
November 15, 2017

Status of Prior Years' Audit Recommendations

Rec. No.	Open Recommendations	Status
1.	Develop an Office of Chief Information Officer (OCIO) policy that requires project managers to develop a detailed project plan for all OCIO projects that require multiple resources, extended timeframes and/or have a total cost of $200,000 or more. (Revised)	Open
2.	Develop an OCIO policy that details the necessary information required for the development of a project plan such as: identification of key tasks and/or steps; a. personnel responsible for completing the task and/or step; b. the timeframe for beginning and completing the task and/or step; c. any associated cost; d. resources required; and e. documentation to 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.	Open
3.	Promptly perform, after implementation of NIST best practice IT controls, an assessment and accreditation of the GSS.	Closed
4.	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.	Closed
5.	Implement procedures and processes to complete periodic reviews of user access authorities after the NIST best practices implementation project is completed.	Open
6.	Update 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
7.	Ensure that sufficient resources are assigned to the task of periodically testing newly created system contingency plans.	Open
8.	Implement USGCB baseline configuration standards for all workstations and require documentation by the CIO to approve and accept the risk of any deviation from these standards.	Open
9.	Implement a comprehensive vulnerability scanning and remediation program. Strengthen controls to ensure that critical and high vulnerabilities identified through the vulnerability scanning are completed within 60 days of identification, or document an analysis and acceptance of risks for longer term remediation.	Open
10.	Complete the implementation of the contractor's open recommendations contained in the October 2012 Threat Assessment Program report: a. Secure local administrator passwords by making them unique on every system or disabling the local administrator account from accessing systems over the network. b. Implement application "white listing" on domain controllers and other critical servers. c. Implement two-factor authentication for the VPN and for webmail. d. Remove "local administrator" level privileges from end-users.	Closed
11.	Work with the necessary divisions/offices to establish a process that ensures the agency is able to identify all on board contractors to address this security risk to the agency.	Closed

Status of Prior Years' Audit Recommendations

Rec. No.	Open Recommendations	Status
12.	Establish controls and process similar to those used for FEC personnel to track contractor security awareness training.	Closed
13.	Disable network access to contractors and personnel that do not complete security awareness training within a reasonable period after the required completion date.	Open
14.	Require those contractors who have not received security awareness training during FY 2016 to take required courses within the next 30 days.	Closed

Agency Response to the Draft Report

FEDERAL ELECTION COMMISSION
Washington, DC 20463

The FEC continues on the path to remediate all findings. The OIG incorporated our detailed responses to each of the findings and recommendations into the body of the audit report. Our responses provide an overview of how we plan to remediate each of the findings.

Findings and Recommendations

1. Adopt NIST IT security best practices and other government-wide information security requirements that are applicable to the agency's business and information systems operations, and document this policy through the issuance of a Commission Directive or an OCIO policy. Conduct and document a fact-based risk assessment prior to declining to implement government-wide IT security requirements that are applicable to FEC's business operations.

   Management's Response (Updated)

   Management notes that OCIO has formally adopted the Commission-approved NIST 800-37 rev 1 for the FEC's critical systems. Even with the exemption the FEC has in the FISMA arena, leadership decided to adopt the NIST risk management framework (RMF) as a best practice for the FEC's major and critical systems. The Commission's adoption of the RMF, specifically NIST 800-37 rev 1, covered the agency's most critical systems, including the Enterprise General Support System (GSS). As part of the adoption of the RMF, the OCIO continuously monitors the FEC's critical systems to ensure protection of the agency's information and information systems.

   The agency has developed and approved policies adopting the NIST IT Security Best Practices and Other Government-wide IT Security Requirements. OCIO has updated the 58A Information Systems Security Program Policy, signed April 4, 2017, and Policy 58-2.4 Assessment and Authorization Policy, signed January 6, 2017, which identify as one of the FEC CIO's responsibilities to "make final authorization determinations" (i.e., full authorization to operate/conditional authorization/denial of authorization). Within the same policy, "Authorization" (to operate) is defined as, "The official management decision given by a senior organizational official to authorize operation of an information system and to explicitly accept the risk to organizational operations based on the implementation of an agreed-upon set of security controls."

Agency Response to the Draft Report

2. Take actions to ensure that the agency's CAP includes all of the requirements of Commission Directive A-50 and OMB Circular A-123.

   Agency's Response

   Management generally concurred with the OIG's recommendation and has already started an action plan accordingly. In March 2017, management successfully established the Federal Election Commission Senior Management Council (SMC) for oversight of internal control and Enterprise Risk Management (ERM) activities throughout the agency. The SMC meets, at minimum, on a quarterly basis and includes senior agency officials from all divisions of FEC. Part of the mission of the SMC is to ensure that FEC implements and maintains a strong internal control framework. This includes a positive internal control environment featuring top management commitment to the values of promoting the highest ethical standards and organizing all program and administrative processes to promote accuracy, efficiency and compliance with all applicable laws. The Agency anticipates filling the vacant Director of Accounting position in FY 2018 to take the lead on Internal Control and ERM activities throughout the Agency.

3. Complete the project relating to review of user access authorities, and ensure necessary budgetary and personnel resources are provided to complete this project in a timely manner.

   Agency's Response (Updated)

   Management believes this recommendation is already completed. A complete review of privilege accounts was completed on June 17, 2017 and was submitted to the OIG. Under NIST SP 800-53 revision 4, Account Management control for moderate baseline, FEC is not required to conduct reviews of all accounts (NIST 800-53: AC-2(13). However, a review of all accounts is conducted during the on-boarding process using the FSA. Additionally, the OCIO completed updating and has implemented a stronger account management policy (58-2.2) which was published on 8/08/2017. The policy mandates that all users account access rights and privileges be reviewed annually and validated in accordance with the GSS and major applications system security plans by the user's direct manager. The level of approval authority granted for user accounts is based on the need to know and roles of each users. As far as "process," the OCIO has developed an account management procedure which was published on 8/08/2017.

4. Finalize the draft FEC policies that require annual recertification of users' access authorities. Ensure that the policies address privileged accounts, and require validation to actual system access records, by supervisory personnel who would have knowledge of the users' requirements for accessing FEC information and information systems.

   Agency's Response

   The OCIO concurred with the finding and recommendation. The CISO has completed the review of this policy and procedures. The updated policy includes specific requirements for initial and continued access to FEC data by demonstrated business need to view, add, change or delete data via supervisory approval.

5. Implement USGCB baseline configuration standards for all workstations regardless of the current hardware in use.

   Agency's Response

   Management agrees with the OIG's recommendation and plans to undertake the necessary steps to implement USGCB for all workstations. IT Operations believes that the FEC must understand IT requirements and implement USGCB in a manner which provides the best configuration for business requirements. As such, IT Operations has pushed USGCB to some workstations and not others. Our intent is to analyze and determine the best approaches in terms of functionality in meeting FEC infrastructure needs. In August 2017, the IT Operations is currently going through another round of USGCB testing before pushing settings FEC-wide.

6. 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.

   Agency's Response (Updated)

   Management concurred with the OIG's recommendations and corrective actions had been initiated to address the issues identified. Under the leadership of the Agency's Deputy Chief Information Officer (DCIO), a number of actions have been taken to evaluate the viability of the COOP program and improve agency-wide adherence to the requirements of the Federal Continuity Directive 1 and NIST SP 800-34. The DCIO plans to distribute the final COOP plan to appropriate individuals. While devising a COOP training plan, per a previous recommendation, we have decided to follow best practice by identifying various roles within the plan for "appropriate individuals". Our new COOP Training Plan outlines these roles along with their responsibilities. One such role is the "Executive Role," for which best practice suggests that the plan be distributed and limited to individuals that maintain this role. We plan to leverage the telework program for the Disaster Recovery Plan. Each office/division will be responsible for their individual tailored plans to resume services as quickly as possible.

   Finally, NIST RMF is guided by NIST Special Publication 800-37 and not NIST SP 800-34. In accordance with the NIST RMF, FEC has selected to follow the NIST RMF at moderate for the FEC GSS, which requires FEC to implement NIST SP 800-53 CP-2 control. This control does not specifically require FEC to conduct simulated training nor automated testing. We are also not required to conduct testing of alternate site, and full recovery test (e.g., controls CP-4(2-4).

7. Develop system specific contingency plans, as required by the NIST RMF.

   Agency's Response (Updated)

Agency Response to the Draft Report

Management generally concurred with the OIG's recommendation. Although management does not concur that specific contingency plans are always required by the NIST RMF (NIST SP 800-37), it endorses the recommendation in principle, but believes it is inappropriate to require all FEC systems to follow NIST guidelines. NIST SP 800-53 (Control CP-2), "Organizations identify critical information system assets so that additional safeguards and countermeasures can be employed (above and beyond those safeguards and countermeasures routinely implemented) to help ensure that organizational missions/business functions can continue to be conducted during contingency operations."

As such, the FEC will mature and maintain the Authorization to Operate for systems that management identified as critical (e.g., GSS, E-Filling and Website). The OCIO continues to follow the ITD Disaster Recovery Plan dated 11/08/2010 until updated.

8. Strengthen controls around the remediation program to ensure that critical and high vulnerabilities identified through the vulnerability scanning and other processes are completed within 60 days of identification, or document an analysis and acceptance of risks for longer term remediation.

   Agency's Response

   The OCIO agrees with the OIG's recommendation. The OCIO will continue to improve the patch management process by proactively addressing critical and high vulnerabilities. Management has recognized that there is no such thing as perfect security, and that patch management is a continuing process of detecting risks, process improvements and hardening defenses. Reasons for delayed patching can be multifaceted, largely because upgrades are often costly, complex, disruptive and in some instances, unachievable, due to application dependencies. We need to accept and understand that enterprises are not in a position to constantly patch and upgrade, and apply security that meets the need of the real world. For this reason, the OCIO has successfully acquired and currently testing Micro-virtualization technology whereby individual web pages, documents and workloads can be performed in isolated containers thus protecting FEC's environment from the absence of critical patches. This tool adds to the FEC's defense in depth security strategy.

9. Establish Office of Chief Information Officer (OCIO) policies that require the development of POA&Ms to comply with best practices, to include key reporting areas such as: resources required; overall remediation plan; scheduled completion date; and key milestones with completion dates.

   Agency's Response

   Management agrees with this recommendation. The CISO will review and enhance the existing POA&M tracking management procedures to better track and mitigate critical risks.

Agency Response to the Draft Report

10. Develop an Office of Chief Information Officer (OCIO) policy that requires project managers to develop a detailed project plan for all OCIO projects that require multiple resources, extended timeframes and/or have a total cost of $200,000 or more. (Revised)

    Agency's Response (Updated)
    Management concurs with the OIG's recommendation that all projects within FEC OCIO with a budget of $200,000 and above shall adhere to the policy being developed in response to Recommendation 11. Smaller projects will be monitored but will not require formal project plans.

11. Develop an OCIO policy that details the necessary information required for the development of a project plan such as:

    a. identification of key tasks and/or steps;
    b. personnel responsible for completing the task and/or step;
    c. the timeframe for beginning and completing the task and/or step;
    d. any associated cost;
    e. resources required; and
    f. documentation to 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 (Updated)
    Management concurs with the recommendation. While revisions have been made to the Project Management Plan Policy, there is still some additional language on Agile Methodology that needs to be incorporated. The OCIO is consulting with the General Services Administration (GSA), experts in changing the paradigm of federal IT projects to Agile, to finalize these revisions and publish the policy for use. Once all revisions have been completed, the policy will be routed for review and approval. The OCIO anticipates completing this action by February 1, 2018.

Thank you for the opportunity to once again work with the OIG and the financial statement audit team during the audit process. We look forward to continue our work with the OIG for the Fiscal Year 2018 financial statement audit.

Gilbert Ford

Digitally signed by Gilbert Ford
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Date: 2017.11.13 13:08:42 -05'00'

Gilbert Ford
Acting Chief Financial Officer

This page marks the end of the Independent Auditor’s Report

Financial Statements

BALANCE SHEET

As of September 30, 2017 and 2016 (in dollars)

Assets (Note 2)	**2017**	**2016**
Intragovernmental:		
Fund balance with Treasury (Note 3)	$ 23,494,651.16	$ 17,614,242.04
Accounts receivable, net (Note 4)		
Total Intragovernmental	23,494,651.16	17,614,242.04
Accounts receivable, net (Note 4)	628,527.79	102,004.72
General property and equipment, net (Note 5)	10,019,060.93	6,039,490.47
Total Assets	**$ 34,142,239.88**	**$ 23,755,737.23**
Liabilities (Note 6)		
Intragovernmental:		
Accounts payable	$ 120,433.94	$ 342,353.19
Employer contributions and payroll taxes payable	374,495.00	370,421.33
Deferred rent	0.00	87,059.80
Custodial liability (Note 11)	628,527.79	102,004.72
Other	9,310.17	3,500.00
Total intragovernmental	1,132,766.90	905,339.04
Accounts payable	574,112.53	2,270,822.73
Accrued payroll and benefits	1,410,090.36	1,428,371.78
Unfunded leave	3,154,511.92	2,500,007.05
Other	7,425.66	-
Total Liabilities	**6,278,907.37**	**7,104,540.60**
Commitments and contingencies (Note 7)		
Net Position		
Unexpended appropriations	21,012,019.33	13,198,773.01
Cumulative results of operations	6,851,313.18	3,452,423.62
Total Net Position	**27,863,332.51**	**16,651,196.63**
Total Liabilities and Net Position	**$ 34,142,239.88**	**$ 23,755,737.23**

The accompanying notes are an integral part of these statements.

STATEMENT OF NET COST
For The Years Ended September 30, 2017 and 2016 (in dollars)

Program Costs:	**2017**	**2016**
Administering and Enforcing the *FECA*		
Gross costs	$ 69,135,721.14	$ 70,529,281.6400
Less: Earned revenues	(2,266.22)	0.00
Net program costs	69,133,454.92	70,529,281.64
Net Cost of Operations (Note 9)	**$ 69,133,454.92**	**$ 70,529,281.64**

The accompanying notes are an integral part of these statements.

STATEMENT OF CHANGES IN NET POSITION
For The Years Ended September 30, 2017 and 2016 (in dollars)

	2017	2016
Cumulative Results of Operations		
Beginning balances	$ 3,452,423.62	$ 1,388,012.40
Budgetary Financing Sources		
Appropriations used	70,616,331.42	70,426,937.21
Other Financing Resources (non-exchange)		
Imputed financing	1,916,013.06	2,166,755.65
Total financing sources	72,532,344.48	72,593,692.86
Net cost of operations	(69,133,454.92)	(70,529,281.64)
Net change	3,398,889.56	2,064,411.22
Cumulative Results of Operations	**$ 6,851,313.18**	**$ 3,452,423.62**
Unexpended Appropriations		
Beginning balances	$ 13,198,773.01	$ 9,743,735.10
Budgetary Financing Sources		
Appropriations received	79,119,000.00	76,119,000.00
Other adjustments	(689,422.26)	(2,237,024.88)
Appropriations used	(70,616,331.42)	(70,426,937.21)
Total Budgetary Financing Sources	7,813,246.32	3,455,037.91
Total Unexpended Appropriations	**21,012,019.33**	**13,198,773.01**
Net Position	**$ 27,863,332.51**	**$ 16,651,196.63**

The accompanying notes are an integral part of these statements.

STATEMENT OF BUDGETARY RESOURCES
For The Years Ended September 30, 2017 and 2016 (in dollars)

	2017	2016
Budgetary Resources (Note 10)		
Unobligated balance brought forward, Oct 1	$ 5,838,011.03	$ 3,679,467.16
Recoveries of prior year unpaid obligations	279.50	107,329.63
Other changes in unobligated balances (+ or -)	(678,766.95)	(2,236,774.88)
Unobligated balance from prior year budget authority, net	5,159,523.58	1,550,021.91
Appropriations (discretionary and mandatory)	79,119,000.00	76,119,000.00
Spending authority from offsetting collections (discretionary and mandatory)	2,266.22	(18,561.70)
Total Budgetary Resources	**$ 84,280,789.80**	**$ 77,650,460.21**
Status of Budgetary Resources		
New obligations and upward adjustments (total)	$ 74,465,666.03	$ 71,812,449.18
Unobligated balance, end of year:		
Apportioned, unexpired account	8,521,878.32	4,503,396.29
Unexpired unobligated balance, end of year	8,521,878.32	4,503,396.29
Expired unobligated balance, end of year	1,293,245.45	1,334,614.74
Unobligated balance, end of year (total)	9,815,123.77	5,838,011.03
Total Budgetary Resources	**$ 84,280,789.80**	**$ 77,650,460.21**
Change in Obligated Balance		
Unpaid Obligations:		
Unpaid obligations, brought forward, Oct 1	$ 11,776,231.01	$ 9,242,630.79
New obligations and upward adjustments	74,465,666.03	71,812,449.18
Outlays (gross) (-)	(72,562,090.15)	(69,171,519.33)
Recoveries of prior year unpaid obligations (-)	(279.50)	(107,329.63)
Unpaid obligations, end of year	13,679,527.39	11,776,231.01
Uncollected payments:		
Uncollected pymts, Fed sources, brought forward, Oct 1 (-)	-	(21,582.08)
Change in uncollected pymts, Fed sources (+ or -)	-	21,582.08
Memorandum (non-add) entries:		
Obligated balance, start of year (+ or -)	11,776,231.01	9,221,048.71
Obligated balance, end of year (+ or -)	$ 13,679,527.39	$ 11,776,231.01
Budget Authority and Outlays, Net		
Budget authority, gross (discretionary and mandatory)	$ 79,121,266.22	$ 76,100,438.30
Actual offsetting collections (discretionary and mandatory) (-)	(12,921.53)	(3,270.38)
Change in uncollected pymts, Fed sources (discretionary and mandatory) (+ or -	-	21,582.08
Recoveries of prior year paid obligations (discretionary and mandatory)	10,655.31	250.00
Budget Authority, net (total) (discretionary and mandatory)	79,119,000.00	76,119,000.00
Outlays, gross (discretionary and mandatory)	72,562,090.15	69,171,519.33
Actual offsetting collections (discretionary and mandatory) (-)	(12,921.53)	(3,270.38)
Outlays, net	**$ 72,549,168.62**	**$ 69,168,248.95**

The accompanying notes are an integral part of these statements.

STATEMENT OF CUSTODIAL ACTIVITY
For The Years Ended September 30, 2017 and 2016 (in dollars)

	2017	2016
Revenue Activity		
Sources of cash collections		
Civil penalties	$ 829,355.00	$ 600,798.55
Miscellaneous receipts	341,656.84	198,190.85
Administrative fines	222,565.90	131,361.74
Total Cash Collections	1,393,577.74	930,351.14
Accrual adjustments	516,627.96	(50,498.02)
Total Custodial Revenue (Note 11)	**$ 1,910,205.70**	**$ 879,853.12**
Disposition of Collections		
Transferred to Treasury	$ 1,393,577.74	$ 930,351.14
Amount yet to be transferred	516,627.96	(50,498.02)
Total Disposition of Collections	**$ 1,910,205.70**	**$ 879,853.12**
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 (FEC or 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* (FECA), 2 U.S.C. 431 et seq., as amended ("the Act"). 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 (GAAP) for the Federal Government and in accordance with the form and content for entity financial statements specified by the Office of Management and Budget (OMB) 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. 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 mainly 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 (P&E) 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. In addition to accounts payables recorded through normal business activities, unbilled payables are estimated based on historical data.

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, 2017, the FEC recognized approximately $ 1,916,013 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 12% decrease when compared to the $ 2,166,755 of imputed cost and related financing source recognized in Fiscal Year 2016.

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 2017, 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 2017, 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 13.7% of basic pay for FY 2017. For both FERS-RAE and FERS-FRAE covered employees, the FEC made contributions of 11.9% of basic pay for FY 2017.

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 2017. Effective in FY 2012 FERS and CSRS – Offset employees were granted a 2% decrease in Social Security for tax year (CY) 2012 under the *Temporary Payroll Tax Cut Continuation Act of 2011*; and *H.R. 3630, 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 all of 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, 2017 and September 30, 2016:

	2017	2016
With the Public		
Accounts Receivable - Custodial	628,527.79	102,004.72
Total non-entity assets	628,527.79	102,004.72
Total entity assets	33,513,712.09	23,653,732.51
Total Assets	$ 34,142,239.88	$ 23,755,737.23

Note 3 Fund Balance with Treasury

Fund Balance with Treasury consisted of the following as of September 30, 2017 and September 30, 2016:

	2017	2016
Fund Balances		
Appropriated Funds	$23,494,651.16	$17,614,242.04
Total	$ 23,494,651.16	$ 17,614,242.04

	2017	2016
Status of Fund Balance with Treasury		
Unobligated Balance		
Available	$ 8,521,878.32	$ 4,503,396.29
Unavailable	1,293,245.45	1,334,614.74
Obligated Balance not yet Disbursed	13,679,527.39	11,776,231.01
Total	$ 23,494,651.16	$ 17,614,242.04

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 amounts designated for payment of goods and services ordered but not received, or goods and services received but for which payment has not yet been made.

Note 4 - Accounts Receivables, Net

All accounts receivable are with the public and consisted of the following as of September 30, 2017 and September 30, 2016:

	2017		
	Gross Accounts Receivable	Allowance	Net Accounts Receivable
Intragovernmental			
Intragovernmental	$ -	$ -	$ -
Total Intragovernmental	$ -	$ -	$ -
With the Public			
Fines and Penalties	$ 786,706.30	$ 158,178.51	$ 628,527.79
Total Non-Entity	786,706.30	158,178.51	628,527.79
Total	$ 786,706.30	$ 158,178.51	$ 628,527.79

	2016		
	Gross Accounts Receivable	Allowance	Net Accounts Receivable
Intragovernmental			
Intragovernmental	$ -	$ -	$ -
Total Intragovernmental	$ -	$ -	$ -
With the Public			
Fines and Penalties	$ 247,553.75	$ 145,549.03	$ 102,004.72
Total Non-Entity	247,553.75	145,549.03	102,004.72
Total	$ 247,553.75	$ 145,549.03	$ 102,004.72

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 (OGC); the Office of Administrative Review (OAR); and the Office of Alternative Dispute Resolution (ADR). 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. The "intragovernmental accounts receivable" is primarily attributed to the Deputy Inspector General servicing a Federal agency on a reimbursable basis pursuant to the Inspector General Act.

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, 2017 and September 30, 2016, respectively:

	2017			
Asset Class	**Service Life (years)**	**Acquisition Value**	**Accumulated Depreciation/ Amortization**	**Net Book Value**
Software	3	$ 9,903,521.06	$ 9,586,978.32	$ 316,542.74
Computers and peripherals	3	3,067,115.95	2,962,201.29	104,914.66
Furniture	5	852,753.70	852,753.70	-
Leasehold Improvements	5	925,095.51	-	925,095.51
Software-in-Development	n/a	8,672,508.02	-	8,672,508.02
Total		$ 23,420,994.24	$ 13,401,933.31	$ 10,019,060.93

	2016			
Asset Class	**Service Life (years)**	**Acquisition Value**	**Accumulated Depreciation/ Amortization**	**Net Book Value**
Software	3	$ 9,903,521.06	$ 8,409,991.97	$ 1,493,529.09
Computers and peripherals	3	3,067,115.95	2,741,280.34	325,835.61
Furniture	5	852,753.70	852,753.70	-
Software-in-Development	n/a	4,220,125.77	-	4,220,125.77
Total		$ 18,043,516.48	$ 12,004,026.01	$ 6,039,490.47

Note 6 Liabilities Not Covered by Budgetary Resources

Liabilities Not Covered by Budgetary Resources consisted of the following as of September 30, 2017 and September 30, 2016:

Liabilities Not Covered by Budgetary Resources	**2017**	**2016**
Intragovernmental		
Custodial Fines and Civil Penalties	$ 628,527.79	$ 102,004.72
Deferred Rent	-	87,059.80
Unfunded FECA Liability	5,810.17	-
Total Intragovernmental	634,337.96	189,064.52
Unfunded Annual Leave	3,154,511.92	2,500,007.05
Contingent Liability	-	-
Actuarial FECA Liability	7,425.66	-
Total Liabilities Not Covered by Budgetary Resources	3,796,275.54	2,689,071.57
Total Liabilities Covered by Budgetary Resources	2,482,631.83	4,415,469.03
Total Liabilities	$ 6,278,907.37	$ 7,104,540.60

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

The FEC is in the process of obtaining a new operating lease – at a new location – to begin use during FY 2018. However the new lease agreement has not yet been finalized. Any applicable rent abatement resulting from the new lease will be amortized as deferred rent over the life of the new lease, beginning when the lease begins in FY 2018.

Note 7 Commitments and Contingencies

As of September 30, 2017 and September 30, 2016, in the opinion of FEC management and legal counsel, the FEC was not a party to any legal action which were likely to result in a material liability. Accordingly, no provision for loss was included in the financial statements.

Note 8 Leases

The FEC did not have any capital leases as of September 30, 2017 and September 30, 2016. The FEC had a commitment under an operating lease for its office space through September 30, 2017, which was extended through June 30, 2018.

Future payments under the lease extension through June 30, 2018 are as follows:

Future Operating Lease Payments
2017

Fiscal Year	Lease Payment
2018	5,761,232.40
Total	**$ 5,761,232.40**

The FEC is also in the process of obtaining a new operating lease – at a new location – to begin use when the current operating lease extension expires during FY 2018. However the new lease agreement has not yet been finalized. Future payments due under the new lease agreement will be reported in the financial statement footnotes beginning in Fiscal Year 2018.

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, 2017 and September 30, 2016, respectively:

	2017	2016
Intragovernmental:		
Intragovernmental gross costs	$ 19,339,654.86	$ 19,408,099.76
Less: Intragovernmental earned revenue	(2,266.22)	-
Intragovernmental net costs	19,337,388.64	19,408,099.76
Public:		
Gross costs with the public	49,796,066.28	51,121,181.88
Net costs with the public	49,796,066.28	51,121,181.88
Net cost of operations	$ 69,133,454.92	$70,529,281.64

Costs incurred for goods and services provided by other Federal entities are reported in the full costs of the FEC's program and are identified 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, 2017, budgetary resources were $84,280,789.80 and net outlays were $72,562,090.15. For the year ended September 30, 2016, budgetary resources were $77,650,460.21 and net outlays were $69,168,248.95.

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, 2017 and September 30, 2016, direct obligations incurred amounted to $74,463,399.81 and $71,812,449.18, respectively. For the years ended September 30, 2017 and September 30, 2016, reimbursable obligations incurred amounted to $2,266.22 and $0, 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 2017 actual budgetary execution information is scheduled for publication in February 2018, 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 2016 SBR and the related President's Budget reflected the following:

FY 2016	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Statement of Budgetary Resources	$ 77,650,460.21	$ 71,812,449.18	-	$ 69,168,248.95
Budget of the U.S. Government	76,000,000	71,000,000	-	69,000,000
Difference	$ 1,650,460.21	$ 812,449.18	$ -	$ 168,248.95

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	**2017**	**2016**
Fines, Penalties, and Other Miscellaneous Revenue	$ 1,910,205.70	$ 879,853.12
Custodial Liability		
Receivable for Fines and Penalties	$ 786,706.30	$ 247,553.75
Less: Allowance for Doubtful Accounts	(158,178.51)	(145,549.03)
Total Custodial Liability	$ 628,527.79	$ 102,004.72

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 $451,000 for FY 2017 and a net decrease of approximately $34,000 for FY 2016, respectively. The accrual adjustment for administrative fines is composed of a net increase of approximately $74,000 in FY 2017 and a net decrease of approximately $17,000 in FY 2016, respectively.

Note 12 Undelivered Orders at the End of the Period

Undelivered orders as of September 30, 2017 and September 30, 2016 totaled $11,196,896 and $7,360,762, 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.

	2017	2016
Resources used to finance activities		
Budgetary resources obligated		
Obligations incurred	$ 74,465,666.03	$ 71,812,449.18
Less: Recoveries and offsetting collections	(13,201.03)	(89,017.93)
Net obligations	74,452,465.00	71,723,431.25
Other resources		
Imputed financing from costs absorbed by others	1,916,013.06	2,166,755.65
Total resources used to finance activities	76,368,478.06	73,890,186.90
Resources used to finance items not part of the net cost of operations		
Change in budgetary resources obligated for goods, services, and benefits ordered but not yet provided	3,836,133.58	1,296,494.04
Resources that fund expenses recognized in prior periods	87,059.80	87,059.80
Resources that finance the acquisition of assets that do not affect net cost of operations	5,377,477.76	3,389,589.32
Total resources used to finance items not part of the net cost of operations	9,300,671.14	4,773,143.16
Total resources used to finance the net cost of operations	67,067,806.92	69,117,043.74
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	654,504.87	61,716.37
Other	13,235.83	-
Total	667,740.70	61,716.37
Components not requiring or generating resources		
Depreciation and amortization	1,397,907.30	1,350,521.53
Total	1,397,907.30	1,350,521.53
Total components of the net cost of operations that will not require or generate resources in the current period	2,065,648.00	1,412,237.90
Net cost of operations	$ 69,133,454.92	$ 70,529,281.64

SECTION III – Other Information

Inspector General's Statement on FEC Management and Performance Challenges

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

MEMORANDUM

TO: The Commission

FROM: J. Cameron Thurber
Deputy Inspector General

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

DATE: October 20, 2017

Each year, the Inspector General (IG) 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 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 Agency Financial Report (AFR) Fiscal Year (FY) 2017.*

For FY 2017, the Office of Inspector General (OIG) has identified one overarching and continued management and performance challenge for inclusion in the FEC's AFR, the agency's Governance and Management Framework.

The OIG believes the agency's management and performance challenges within specific performance and program areas, such as those reported in our prior year report, *Low Employee Morale* and *Information Technology Project Planning and Management*, are a result of an overarching management challenge in the overall governing framework of the agency. The OIG believes that the ability to effectively achieve the mission of the agency is reliant on the need for Governance and Senior Leadership to address the deficiencies within the framework, which sets the tone and structure of the organization.

The OIG's annual assessment of management and performance challenges is based on information derived from a combination of several sources, including OIG audit and inspection work, Commission reports, government-wide risks factors, and a general knowledge of the Commission's programs and activities. The management and performance challenges are detailed in the attached report. The *Reports Consolidation Act of 2000* permits agency comment on the IG's statements. Agency comments, if any, are due November 15, 2017.

Attachment

cc: Alec Palmer, Staff Director and Chief Information Officer
Gilbert Ford, Acting Chief Financial Officer
Lisa Stevenson, Acting General Counsel

Overall Challenge: Governance and Management Framework

The FEC's overall governance framework needs improvement to contribute to the success of the agency. The lack of accountability from Governance regarding critical management issues and the inadequate leadership structure of management has a negative impact on the agency achieving its mission efficiently and effectively.

Challenge 1: Governance Accountability

A. Low Employee Morale

Due to the consistent low ranking of the FEC in the results of the annual Federal Employee Viewpoint Survey, the OIG contracted with a consultant company in July 2016 to conduct a study to determine the root causes of the low employee morale at the agency. Through survey questions and comments, and staff interviews, the study determined that the following factors are the root causes of low employee morale:

- Commissioners;
- Accountability;
- Management;
- Communication; and
- Other (diversity, career development)

As low employee morale has a direct effect on accomplishing the agency's mission, we believe that an action plan from top level management to address the root causes of low employee morale is critical. We acknowledge efforts from the current Commission Chair to conduct open forms and one-on-one meetings to allow staff the opportunity to discuss agency concerns, as well as management's improved process in communicating with agency staff regarding critical agency-wide projects. The latest Federal Employee Viewpoint Survey results have begun to show incremental improvements. However, the most important part of a solid control environment is the "Tone at the Top,"[1] which permeates down to create the philosophy and operational style that sets the tone of the agency. The OIG believes that without a continued, sincere effort by Governance and senior leadership to address morale issues, the ability of the agency to achieve its mission will be negatively impacted.

B. Enforcing Required Management Roles and Responsibilities

It is imperative to the success of the agency that Governance holds management accountable for adequately fulfilling their roles and responsibilities in addressing identified risks of fraud, waste, abuse, and program deficiencies. The OIG and external entities have reported risks and deficiencies in agency programs that management has not addressed or made a low priority for several years. According to Office of Management and Budget Circular A-123 (OMB A-123), *Management's Responsibility for Internal Control*, deficiencies reported "…through internal

[1] The term "Tone at the Top" is used to define the commitment of top level management to honesty, integrity, openness, and ethical behavior in achieving an organization's mission and objectives.

review or by external audit, should be evaluated and corrected." Further, FEC Commission Directive 50 states, "All management officials are responsible for receiving and analyzing audit reports, providing timely responses, and take corrective action, if needed." However, the agency has 55 OIG reported outstanding recommendations, in which many have been reported for more than 5 years. These outstanding issues address risks to the agency's mission, assets, government funding, and noncompliance with laws and regulations. As reported to the Commission in our most recent *Review of Outstanding Recommendation as of August 2017* report, these issues warrant Commission attention.

Challenge 2: Longstanding Vacancies in Senior Leadership Positions

The FEC lacks adequate structure and continued stability in key senior leadership positions that are accountable for the mission and objectives of the agency. Operating the agency with several unfilled permanent senior leader positions creates an unstable environment that runs the risk of noncompliance with applicable federal laws and regulations. This ultimately puts the agency at risk of not efficiently and effectively meeting its mission.

The following critical leadership positions do not have a permanent full time person executing the positions roles and responsibilities:

- Chief Financial Officer – vacant since October 2012
- General Counsel- vacant since July 2013
- Deputy Staff Director for Management and Administration - vacant since August 2014
- Inspector General - vacant since March 2017

Failure to fill these senior leadership positions in a timely manner with permanent full-time employees also creates resource gaps. When senior leader positions are vacant, voids are often created in management positions that are responsible for the adequate oversight of daily operations. In addition, some of those management positions are not filled with acting personnel to cover the daily supervisory duties.

The following management level positions are vacant:

- Accounting Director[2]
- Budget Director[3]
- Deputy General Counsel for Law[4]
- Deputy Chief Information Officer of Operations – filled in an acting capacity

[2] The permanent Accounting Director was the Acting Chief Financial Officer (CFO) from October 2012 until retirement in September 2016. No one is acting in this position.
[3] The permanent Budget Director became the Acting CFO in September 2016. No one is acting in this position.
[4] Although a Senior Level position, the position is currently vacant due to the permanent full time personnel acting as the agency's General Counsel. No one is currently acting in this position.

Challenge 3: Organizational Structure

Per OMB A-123, management is responsible for complying with the Control Environment standard. Specifically, "Within the organizational structure, management must clearly: define areas of authority and responsibility, appropriately delegate the authority and responsibility throughout the agency; establish a suitable hierarchy for reporting." Based on deficiencies noted within the agency's programs and business processes via OIG reports and reviews by external entities, management is not in compliance with the required Control Environment standard.

A. Dual Senior Leader Positions

Currently, the senior leadership roles of the Staff Director and Chief Information Officer (CIO) are filled by the same individual. As both senior leader positions are critical to the agency, we strongly believe these two positions should have separate full time personnel solely dedicated to each position. The current structure goes against OMB's control environment standard to "appropriately delegate the authority and responsibility throughout the agency," and "establish a suitable hierarchy for reporting." Specifically, FEC employees and supervisors have expressed concerns of inhibition with reporting significant personnel concerns or technology issues as the oversight of these issues are reported to the same individual. Further, this dual position presents at minimum an appearance of bias, as there is only one person with oversight over more than half of the agency's programs, and a large portion of the agency's operating budget.

From an agency mission perspective, the dual roles are impacting the overall effectiveness and efficiency of the Office of the CIO's (OCIO) business operations. Reported risks (internal and external) to information technology (IT) business operations often go unaddressed for several years, along with critical IT projects. Examples of some critical deficiencies within the OCIO's business operations are as follows:

- Since reported in FY 2004, the OCIO still does not have a formal entity-wide security program to sufficiently protect information and information systems;
- The OCIO does not have adequate inventory controls in place to safeguard OCIO assets from theft, or the ability to readily account for all procured assets;
- For 13 years, the agency has operated without an approved and tested contingency plan for the agency, and currently still does not have a finalized plan in place, and
- Management does not have the capability to verify that all FEC staff only have access to authorized agency information.

Information technology is ever-evolving, which affects the government as a whole. Without a fully dedicated CIO to focus on these issues to ensure resources are properly allocated, and adequate processes are in place for the protection and safety of the agency, the agency will remain at high risk for fraud, waste, and abuse.

B. Shared Role for Senior Agency Officials for Privacy

The agency's Privacy Program is currently a shared role between the Office of General Counsel (OGC) and the OCIO, with designated Senior Agency Official for Privacy (SAOP) roles assigned to the Deputy CIO of Operations[5] and the Deputy General Counsel. As both of these offices have critical roles in the achievement of the agency's mission, it is ineffective for the agency not to have one person solely dedicated and knowledgeable of Privacy issues to oversee the agency's Privacy Program. Per OMB Memorandum 16-24, *Role and Designation of Senior Agency Officials for Privacy*, the designated SAOP should serve in a "central leadership position at the agency," and have "agency-wide responsibility and accountability for the agency's privacy program." As the Deputy CIO and Deputy GC only have leadership roles over their particular office staff, and there is no one that the Deputy CIO and Deputy GC are reporting to for accountability in meeting Privacy requirements consistently and sufficiently, the oversight structure of this shared role is ineffective.

Although there are designated SAOPs, the agency still lacks a formal Privacy Program that is compliant with all applicable Privacy requirements. For instance, the OIG conducted the *2010 Follow-up Audit of Privacy and Data Protection* (Privacy Audit) which was released in March of 2011. Currently the audit has 25 outstanding recommendations, which include privacy issues that haven't been resolved since 2009.[6]

To further illustrate the inadequacy of this structure, the OIG performs follow-ups on open recommendations biannually, and the SAOPs have not made any significant progress on the outstanding recommendations for the Privacy Audit since June of 2013. Further, for the OIG's most recent review, the SAOPs did not respond to any of the OIG's inquiries to discuss the current open recommendations.

[5] The Deputy CIO for Operations has been assigned to the Acting Deputy Staff Director for Management and Administration since August 2014.

[6] An inventory of FEC systems containing Personally Identifiable Information (PII) was conducted by Solution Technology Systems Inc. who provided recommendations to enhance the protection of PII. The report was dated May 20, 2009 and not further action has been taken by management.

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 2017, 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 2017, 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.	

Civil Monetary Penalties Adjustment for Inflation

The following is the FEC's table of Civil Monetary Penalties Adjustment for Inflation for FY 2017.

US Code	Statutory Authority; Public Law	Year of Enactment/Adjustment Other Than Pursuant to IAA	Name/Description of Penalty	Latest Annual Inflation of Adjustment	Section in Title 11 of CFR for Penalty Update Detail	Current Penalty or Penalty Formula
52 U.S.C. 30109(a)(5)(A), (6)	Federal Election Campaign Act Amendments of 1976, PL 94-283 sec. 109	1976	Violations of FECA or chapters 95 or 96 of title 26 of U S Code	Civil Monetary Penalties Annual Inflation Adjustments, 82 Fed. Reg. 8986 (Feb. 2, 2017) http://sers.fec.gov/fosers/showpdf.htm?docid=355019	111.24(a)(1)	19,057
52 U.S.C. 30109(a)(5)(B)	Federal Election Campaign Act Amendments of 1976, PL 94-283 sec. 109	1976	Knowing and willful violations of FECA or chapters 95 or 96 of title 26 of U S Code	Civil Monetary Penalties Annual Inflation Adjustments, 82 Fed. Reg. 8986 (Feb. 2, 2017) http://sers.fec.gov/fosers/showpdf.htm?docid=355019	111.24(a)(2)(i)	40,654
52 U.S.C. 30109(a)(5)(B)	Bipartisan Campaign Reform Act of 2002, PL 107-155 sec. 312(a)	2002	Knowing and willful contributions in the name of another	Civil Monetary Penalties Annual Inflation Adjustments, 82 Fed. Reg. 8986 (Feb. 2, 2017) http://sers.fec.gov/fosers/showpdf.htm?docid=355019	111.24(a)(2)(ii)	66,666
52 U.S.C. 30109(a)(12)	Federal Election Campaign Act Amendments of 1976, PL 94-283 sec. 109	1980	Making public an investigation without consent	Civil Monetary Penalties Annual Inflation Adjustments, 82 Fed. Reg. 8986 (Feb. 2, 2017) http://sers.fec.gov/fosers/showpdf.htm?docid=355019	111.24(b)	5,701
52 U.S.C. 30109(a)(12)	94-283 sec. 109	1980	Knowingly and willfully making public an investigation without consent	Civil Monetary Penalties Annual Inflation Adjustments, 82 Fed. Reg. 8986 (Feb. 2, 2017) http://sers.fec.gov/fosers/showpdf.htm?docid=355019	111.24(b)	14,252
52 U.S.C. 30109(a)(4)(C)	Treasury and General Government Appropriations Act, 2000, PL 106-58 sec. 640	2003	Late and Non- Filed Reports	Civil Monetary Penalties Annual Inflation Adjustments, 82 Fed. Reg. 8986 (Feb. 2, 2017) http://sers.fec.gov/fosers/showpdf.htm?docid=355019	111.43(a)	Penalty formula that accounts for (a) level of activity in late or non-filed report; and (b) if report was filed late, (i) the number of days late and (ii) the number of previous violations; or (c) if the report was not filed, the number of previous violations)
52 U.S.C. 30109(a)(4)(C)	Treasury and General Government Appropriations Act, 2000, PL 106-58 sec. 640	2003	Election Sensitive Late and Non-Filed Reports	Civil Monetary Penalties Annual Inflation Adjustments, 82 Fed. Reg. 8986 (Feb. 2, 2017) http://sers.fec.gov/fosers/showpdf.htm?docid=355019	111.43(b)	Penalty formula that accounts for (a) level of activity in late or non-filed report; and (b) if report was filed late, (i) the number of days late and number of previous violations; or (c) if the report was not filed, the number of previous violations)
52 U.S.C. 30109(a)(4)(C)	Treasury and General Government Appropriations Act, 2000, PL 106-58 sec. 640	2000	Late or Non-Filed Reports where Commission cannot calculate amount of activity	Civil Monetary Penalties Annual Inflation Adjustments, 82 Fed. Reg. 8986 (Feb. 2, 2017) http://sers.fec.gov/fosers/showpdf.htm?docid=355019	111.43(c)	7,641
52 U.S.C. 30109(a)(4)(C)	Treasury and General Government Appropriations Act, 2000, PL 106-58 sec. 640	2000	Late or Non-Filed 48 hour notices	Civil Monetary Penalties Annual Inflation Adjustments, 82 Fed. Reg. 8986 (Feb. 2, 2017) http://sers.fec.gov/fosers/showpdf.htm?docid=355019	111.44	Penalty formula is 139+ (.10 x amount of contribution(s) not timely reported), subject to a 25% increase for each prior violation

Reporting on Internal Controls Assurances

The 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 2017 internal control review, the FEC reported no material weaknesses 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 the FMFIA.

The Annual Assurance Statement on Internal Control which was signed by the FEC Chair in accordance with OMB Circular A-123 and provided in "Section I.D: Analysis of FEC's Systems, Controls and Legal Compliance" is supported by detailed assurances from each of the FEC's assessable units.

The assessable units that participated in the internal controls review process and provided assurances were as follows:

- Office of the Chief Financial Officer
- Office of the Chief Information Officer
- Office of Communications
- Office of Compliance
- Office of the General Counsel
- Office of the Inspector General
- Management and Administration

Detailed assurances for each of these assessable units were provided to the FEC's OIG and independent auditor to support the single assurance statement signed by the FEC Chair.

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
ERM	Enterprise Risk Management
FAR	Financial Audit Report
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
SMC	Senior Management Council
SNC	Statement of Net Cost
SSAE	Statements on Standards for Attestation Engagements
TSP	Thrift Savings Plan