Federal Election Commission

Agency Financial Report

Fiscal Year 2019

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Federal Election Commission
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Message from the Chair

FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20463

OFFICE OF THE CHAIR

November 19, 2019

I am pleased to present the Federal Election Commission's (FEC) Agency Financial Report (AFR) for Fiscal Year (FY) 2019. 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 FEC continues to seek opportunities to make its systems and processes more efficient and effective, including efforts to redesign the FEC website and to migrate data to a cloud environment. As a result, the FEC has been able to accommodate a steep rise in the number of financial transactions reported to the agency over the last several years. At the same time, the FEC has continued to prioritize improving the customer service it provides and ensuring that campaign finance information is readily available to the public.

With respect to the agency's FY 2019 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 fairly present the agency's fiscal position.

Management, which consists of senior managers including the Chief Financial Officer, Acting General Counsel and Staff Director, continue to respond to risks included in the agency Risk Profile (see Section I) and challenges identified by the Inspector General (see Section III).

In addition, the performance data described in the FEC's FY 2019 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 is committed to continuing to fulfill the mission of the agency in the most efficient manner possible.

On behalf of the Commission,

Ellen L. Weintraub

Ellen L. Weintraub
Chair

How to Use This Report

This Agency Financial Report presents financial information, as well as relevant performance information, on the Federal Election Commission's (FEC) 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, 2018 through September 30, 2019.

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/. This Agency Financial Report as well as other reports about the agency can be found at https://www.fec.gov/about/reports-about-fec/strategy-budget-and-performance/.

The FY 2019 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, details the FEC's financial performance by highlighting the agency's financial position and audit results.

Section III – Other Information includes 1) our Inspector General's (IG) assessment of the FEC's management challenges and the FEC's response and 2) a description the FEC's compliance with key legal and regulatory requirements.

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 an Annual Performance Report (APR) pursuant to the Government Performance and Results Act of 1993, as amended. The FEC will include its FY 2019 APR with its Congressional Budget Justification and will post it on the FEC's website at https://www.fec.gov/about/reports-about-fec/strategy-budget-and-performance/ in 2020.

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[1] The Commission's primary responsibilities pertain to the *Federal Election Campaign Act of 1971,* Public Law 92-225, 86 Stat. 3 (1972) as amended (*codified at 5*2 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

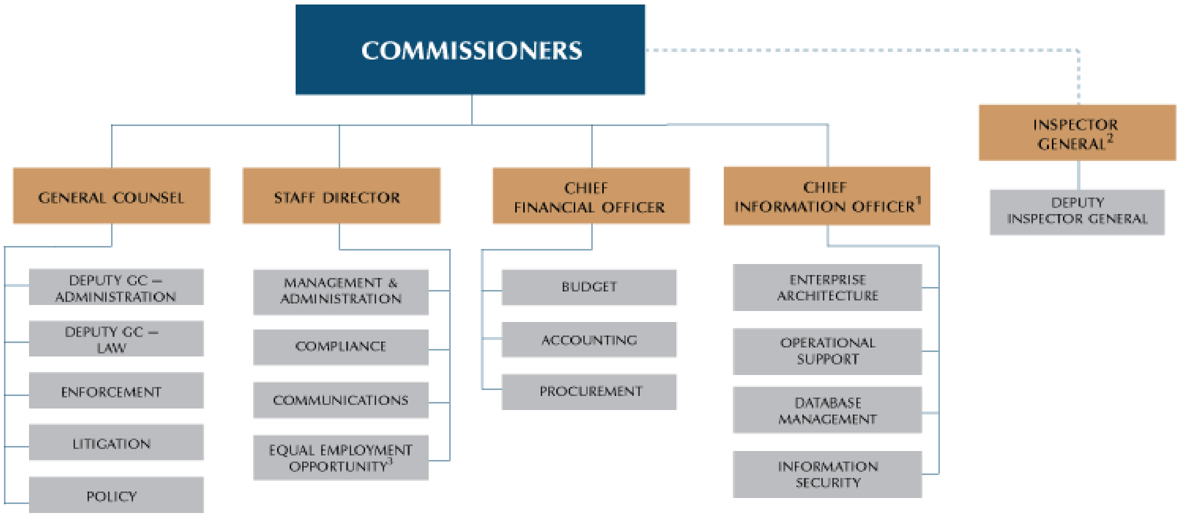
The FEC's mission is to protect the integrity of the Federal campaign finance process by providing transparency and fairly enforcing and administering Federal campaign finance laws.

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.

On September 1, 2019, the Federal Election Commission began working without a quorum of four Commissioners. While the *Act* requires an affirmative vote by four Commissioners to make decisions in many areas, including regulations, advisory opinions, audit matters and enforcement, staff continues to further the agency's vital mission of administering the nation's campaign finance laws. The requirements of the *Act* and Commission regulations remain in effect, and political committees and other filers must continue to disclose their campaign finance activity to the Commission on the regular schedule. FEC staff continues to help committees and the public understand and comply with the law, process and review committee reports, and provide public access to campaign finance data. While the Commission cannot take action on many legal matters, staff continues to litigate ongoing court cases, process new enforcement complaints and responses, conduct audits that were previously authorized by the Commission, and investigate matters previously authorized by the Commission.

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.



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).

Figure 1: FEC Organizational Chart

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.

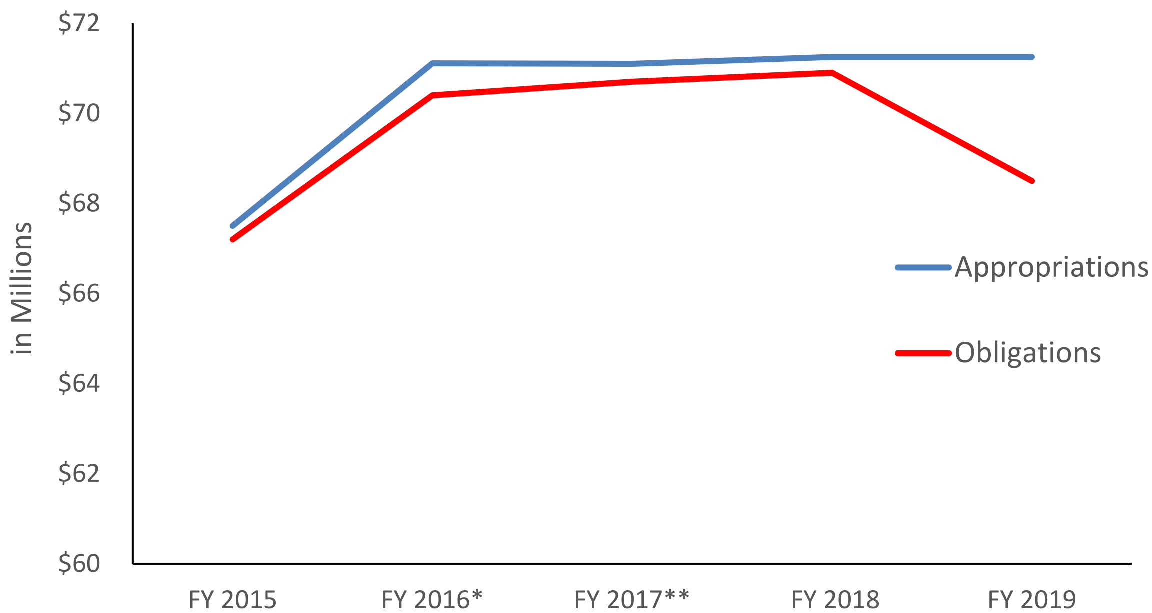
Office of the Chief Financial Officer (OCFO)

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

In addition to its annual appropriation, the FEC 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. 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 2019 were $147,598.

Figure 2 shows the agency's appropriations and obligations from FY 2015 to FY 2019. December 22, 2018 through January 25, 2019 the FEC was shut down for 35 days. The shutdown affected the agency's ability to obligate funds at a rate similar to past fiscal years. The shutdown and its residual impacts significantly slowed the procurement process, spending, and hiring initiatives. The FEC has developed procedures to address and reduce, but not eliminate, the risks any future shutdown has on the efficiency of agency operations.



* $5 million in 2 year funds related to the FEC office move not included in total.
** $8 million in 2 year funds related to the FEC office move not included in total.

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

Personnel vs. Non-Personnel Costs

Figure 3 represents the Commission's FY 2019 obligations by personnel and non-personnel costs. Personnel costs, which are primarily composed of salaries and employee benefits, accounted for 69 percent of the FEC's costs. The remaining 31 percent of the Commission's costs was spent on non-personnel items, such as infrastructure and support, software and hardware, office rent, building security and other related costs.

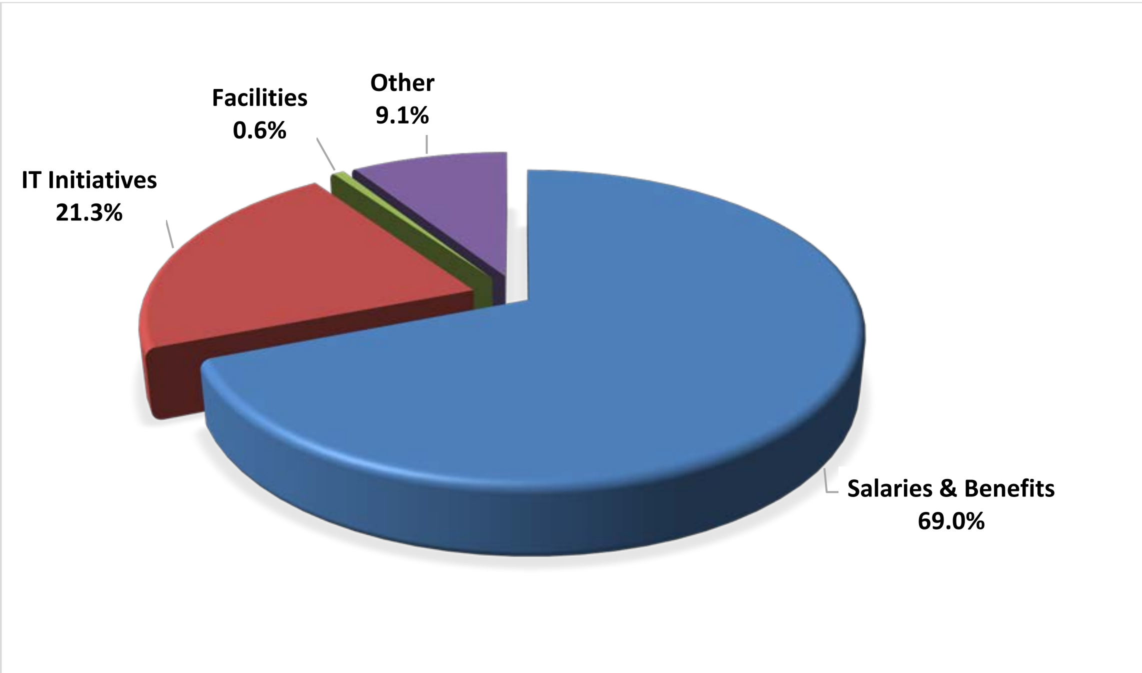


Figure 3: Fiscal Year 2019 by Major Category

Risk Identification and Mitigation

In Fiscal Year (FY) 2017, the FEC formed a Senior Management Council (SMC) to manage internal control and Enterprise Risk Management (ERM) efforts in response to new requirements outlined in OMB Circular A-123. The SMC delivered to OMB an agency-wide Risk Profile to assist in the effective management of risk areas impacting FEC strategic, operational, reporting, and compliance objectives. In FY 2018, the SMC took further steps toward effective management of risk by updating Commission Directive 53 *Implementation of OMB Circular A-123: Internal Control Program* to comply with ERM requirements. In FY 2018 and 2019 the SMC submitted an updated Risk Profile to OMB.

As part of the annual Internal Control Review (ICR) process, program offices reported on risks from the Risk Profile that affect their operations and identified mitigating activities. In addition, program offices thoroughly identified and evaluated fraud risk to support the Fraud Reduction Report. The current Agency-wide Risk Profile is shown below and further discussion on risk is included in the remaining MD&A sections.

Agency Risk Profile

Identified Significant Risk	Inherent Risk Rating	Current Risk Response	Residual Risk Rating	Proposed Additional Action	Proposed Implementation/ Monitoring Process
Significant and Substantive Amendments to FECA/Pending Judicial Opinions	Medium	Acceptance: monitoring	Medium	Not in Management's Control	OGC and Congressional Affairs
Absence of Quorum/Confirmation of Commissioners	Very High	Reduction: Directive 10	Very High	Not in Management's Control	OGC and Congressional Affairs
Significant Increase in Federal Election Campaign Disclosure Activity	High	Reduction: infrastructure improvements	High	Move to scalable cloud- based computing and development of new e- filing platform.	OCIO Performance/ Monitoring Reports
Changes to Government-wide Directives including Human Capital and Operating Requirements	Medium	Acceptance: monitoring	Medium	Establish centralized repository for new executive orders, directives, memorandums, and other guidance.	OGC and OHR

Multiple Agency Vacancies, including key positions	Very High	Reduction: temporary assignments	High	Continue to support hiring initiatives and streamline hiring process.	Personnel and Finance Committees
High Volume of Retirement Eligible Employees	Medium	Reduction: succession planning	Medium	Encourage succession planning, cross-training, and pooling support services.	Retirement Eligibility Report
HR Process Improvements	Medium	Reduction: corrective actions and internal controls	Medium	Continue to implement corrective actions and enhance internal controls. Partnership with OPM HR Solutions.	Corrective Action Plan/Internal Controls
Privacy and Data Protection	Medium	Reduction: corrective actions and internal controls	Medium	Continue to implement corrective actions and enhance internal controls.	Corrective Action Plan/Internal Controls
Assessments and System Authorizations	Medium	Reduction: corrective actions and internal controls	Medium	Continue to implement corrective actions and enhance internal controls.	Corrective Action Plan/Internal Controls
Procurement and Contract Management	Medium	Reduction: corrective actions and internal controls	Medium	Continue to implement corrective actions and enhance internal controls.	Corrective Action Plan/Internal Controls
Disaster Recovery Plan and COOP	Medium	Reduction: corrective actions	Medium	Modifications to the COOP due to the recent FEC move, and continue to implement corrective actions.	Corrective Action Plan

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 2019 APR.[2] This report will be part of the FEC's FY 2021 Congressional Budget Justification, which will be available in 2020 at https://www.fec.gov/about/reports-about-fec/strategy-budget-and-performance/.

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 FYs 2019 and 2020, the FEC will continue work to upgrade the agency's eFiling platform. In 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.[3] The FEC will rely on the recommendations of this study to improve its

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[2] The FEC has identified senior-level staff and key managers to serve as goal leaders for each area of the strategic and performance plans. In addition, each strategic activity in the Strategic Plan has been assigned one or more program managers, who are responsible for the delivery and performance reporting of that activity. These managers serve as measure managers and data quality leads to ensure the completeness, consistency and accuracy of the reported data of their respective strategic activity.

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

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

The Commission is continuing the redesign of its website by 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. These initiatives respond to the risk significant increases in Federal election campaign disclosure activity pose to the agency meeting its strategic objective to engage and inform the public about campaign finance data.

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 2014 Actual	FY 2015 Actual	FY 2016 Actual	FY 2017 Actual	FY 2018 Actual	FY 2019 Target	FY 2019 Actual	FY 2020 Target	FY 2021 Target
79%	92%	100%	96%	100%	95%	94%[4]	95%	95%

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.

[4] The agency's ability to meet its target for this performance goal during FY 2019 was negatively impacted by the lapse in appropriations from December 22, 2018 to January 25, 2019.

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. The FEC's Public Disclosure and Media Relations Division and Congressional Affairs Office also respond to inquiries.

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 http://www.youtube.com/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. These efforts are also important in monitoring and mitigating the risk that amendments to FECA or judicial opinions have on the campaign finance environment and the FEC's goal of encouraging voluntary compliance with the *Act*.

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

Key Indicator: Educational outreach programs and events achieve targeted satisfaction rating on user surveys.								
FY 2014 Actual	**FY 2015 Actual**	**FY 2016 Actual**	**FY 2017 Actual**	**FY 2018 Actual**	**FY 2019 Target**	**FY 2019 Actual**	**FY 2020 Target**	**FY 2021 Target**
N/A	4.34	4.53	4.43	4.53	4.0 or higher on a 5.0 scale	4.45	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 the Reports Analysis Division (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 2014 Actual	FY 2015 Actual	FY 2016 Actual	FY 2017 Actual	FY 2018 Actual	FY 2019 Target	FY 2019 Actual	FY 2020 Target	FY 2021 Target
28%	49%	38%	68%	62%	50%	56%	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 the courts of appeals. 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

Advisory opinions (AO) are official Commission responses to questions regarding the application of Federal campaign finance law to specific factual situations. The *Act* generally 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 that present a specific transaction or activity related to that 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 court and courts of appeals and before the Supreme Court with respect to cases involving publicly financed Presidential candidates. It also has primary responsibility for defending the *Act* and Commission regulations against court challenges. In addition, the *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 2014 Actual	FY 2015 Actual	FY 2016 Actual	FY 2017 Actual	FY 2018 Actual	FY 2019 Target	FY 2019 Actual	FY 2020 Target	FY 2021 Target
100%[5]	100%[6]	100%[7]	100%[8]	100%[9]	100%	100%[10]	100%	100%

Objective 4: Foster a Culture of High Performance

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 engage and productive workforce. The FEC is also focused on decreasing the time to hire, improving the agency's performance management systems and developing a supervisory and managerial training program for senior leaders, mid-career managers and first time supervisors. As identified in the Risk Profile, these efforts, along with other mitigation initiatives, support reduction of the identified human resource related risks. However, a high volume of retirement eligible employees and vacancies across the agency remains a continuing challenge.

The FEC is also implementing a multi-phase plan to reduce reliance on physical servers and migrate appropriate systems and data to a cloud environment. In conjunction with the redesign of the agency's website, the FEC successfully migrated its largest database, the campaign finance database, to a cloud environment and shut down one physical data center during FY 2018. Cloud hosting offers a number of benefits for the FEC's campaign finance database and website. The agency's Internet traffic is variable, with many more visitors accessing the website during election years and near reporting deadlines. With a cloud-hosted application and database infrastructure, the FEC only needs to pay for the actual usage, rather than constantly maintaining the capacity to support peak usage, even during periods of reduced usage. Website downtime is minimized and server maintenance is managed by the

[5] 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.
[6] The Commission obtained extensions to consider two advisory opinion requests in FY 2015.
[7] The Commission obtained extensions to consider six advisory opinion requests in FY 2016.
[8] The Commission obtained extensions to consider seven advisory opinion requests in FY 2017.
[9] The Commission obtained an extension to consider one advisory opinion request in FY 2018.
[10] The Commission obtained extensions to consider six advisory opinion requests in FY 2019; two of those extensions were lengthened by the partial Federal government shutdown during the first and second quarters of FY 2019.

cloud computing provider. During FY 2020, the FEC will conduct a study to determine how best to migrate other appropriate systems and databases to the cloud, allowing the agency to realize greater efficiency and performance in future years.

The Commission's records management program continues to make advancements. In accordance with the Transition to Electronic Records Memorandum, which superseded the Managing Government Records Presidential Directive as of June 28, 2019, the Commission has made important progress toward the Memorandum's goal of managing all permanent records in an electronic format with appropriate metadata by 2022. In support of that goal, the Commission received approval from the Archivist of the United States for its National Archives and Records Administration (NARA) form 1005 (NA-1005) *Verification for Implementing GRS 6.1*. This established the Commission's agency-wide Email Management Policy via the Capstone approach. The Commission also received approval from the Archivist of the United States for its Commission Meeting Records Schedule. The Commission is seeking approval of its January 2018 request, pending with NARA, to electronically maintain all records associated with the Office of Alternative Dispute Resolution's case files, as NARA seeks to finalize and formally add to its regulations digitization standards applicable to paper records that are ultimately digitized.

Fiscal Years 2020 and 2021 will bring continued focus on updating the agency's records schedules in compliance with the Transition to Electronic Records Memorandum, updating the agency's Records Management Program, and training all staff on the agency and government-wide records schedules, policies and responsibilities.

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

Key Indicator: Commission-required quarterly updates meet targeted performance goals.								
FY 2014 Actual	**FY 2015 Actual**	**FY 2016 Actual**	**FY 2017 Actual**	**FY 2018 Actual**	**FY 2019 Target**	**FY 2019 Actual**	**FY 2020 Target**	**FY 2021 Target**
73%	80%	76%	85%	73%	65%	53%[11]	65%	65%

[11] The agency's ability to meet its target for this performance goal during FY 2019 was negatively impacted by the lapse in appropriations from December 22, 2018 to January 25, 2019.

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

The FEC's FY 2019 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 2019:

Net Financial Condition	FY 2019	FY 2018	Increase (Decrease)	% Change
Assets	$42,400,892	$37,958,046	$4,442,846	12%
Liabilities	$15,238,967	$ 15,288,642	($49,675)	-0.3%
Net Position	$27,161,925	$22,669,404	$4,492,521	20%
Net Cost	$69,259,101	$78,532,451	($9,273,350)	-12%
Budgetary Resources	$75,551,616	$80,846,191	($5,294,575)	-7%
Custodial Revenue	$2,906,662	$1,183,237	$1,723,425	146%

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 $5.8 million, or 29 percent, from the prior year.

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 $136 thousand dollars from the prior year.

Total assets increased by $4.4 million from the prior year to $42 million. Total liabilities decreased by approximately $50 thousand.

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* experienced a 12% fluctuation from the prior year.

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 20 percent, or approximately $5 million. In FY 2017, the FEC received approximately $8 million in two-year appropriated funds, which expired at the end of FY 2018.

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 decreased by approximately $5 million, or seven percent, from the prior year.

Statement of Custodial Activity

The Statement of Custodial Activity 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 Statement of Custodial Activity consist of collections on new assessments, prior year(s) receivables and Miscellaneous Receipts. In FY 2019, the total custodial revenue and collections increased by approximately $1.7 million from the prior year.

The chart below displays the assessment history for the past 20 years.[12]

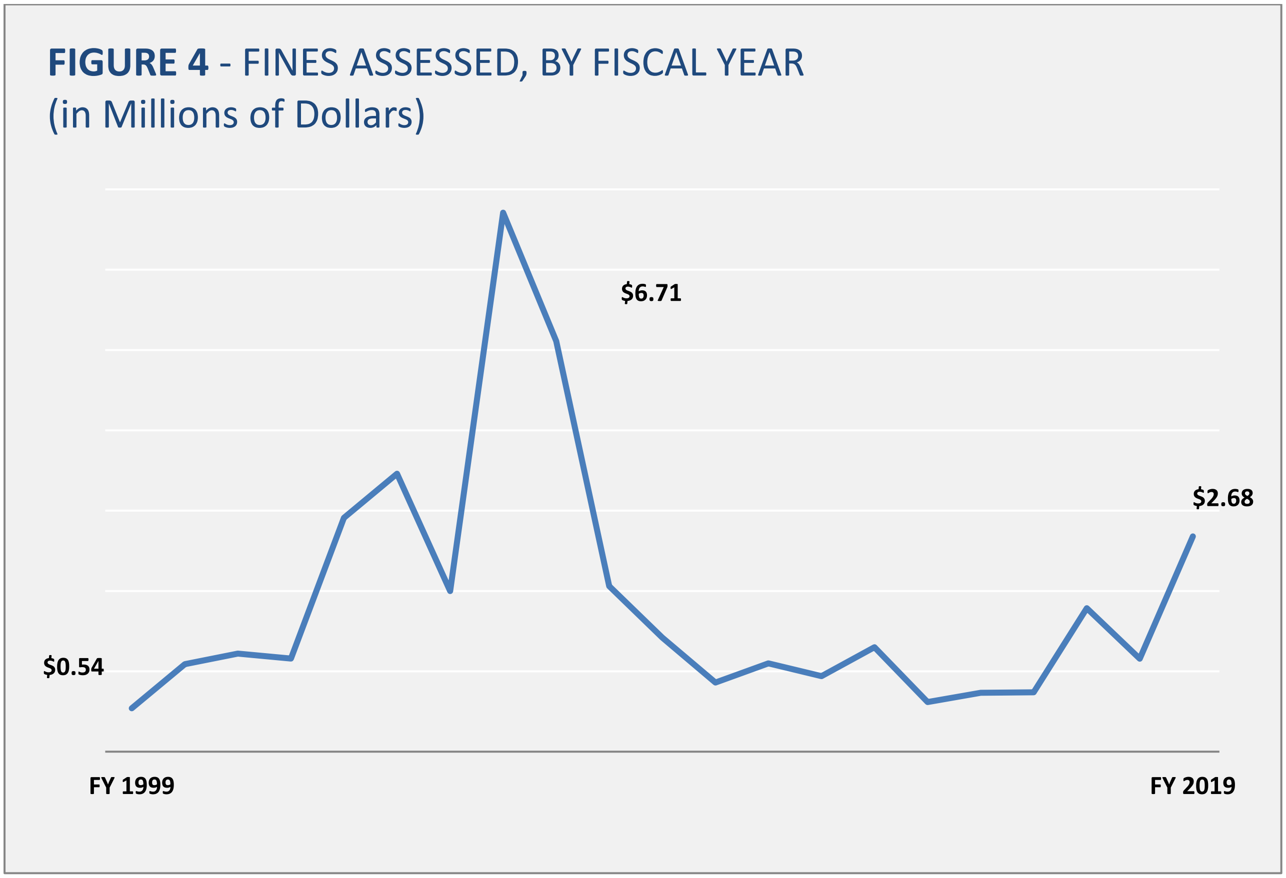


Figure 4: Fines Assessed, by Fiscal Year (in millions of dollars)

[12] 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;

The Antideficiency Act of 1884, as amended*;*

Inspector General Act of 1978, as amended;

Federal Managers' Financial Integrity Act of 1982;

Federal Civil Penalties Inflation Adjustment Act of 1990;

Government Performance and Results Act of 1993, as amended;

Federal Financial Management Improvement Act of 1996;

Clinger-Cohen Act of 1996;

Debt Collection Improvement Act of 1996, as amended;

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

The Digital Accountability and Transparency Act of 2014; and

Fraud Reduction and Data Analytics Act of 2015

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 Enterprise Risk Management and 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 2019 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 18) 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 the current fiscal year, the FEC – led by the Senior Management Council (SMC) – successfully updated its Enterprise Risk Management (ERM) 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 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 2019 was nearly 100 percent, with less than 0.51 percent of all invoices paid after the date required by the *PPA*.

Improper Payments

The Improper Payments *Information Act of 2002 (IPIA), the Improper Payments Elimination and Recovery Act of 2010 (IPERA), Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA)* and OMB guidance require agencies to identify programs that are susceptible to significant erroneous payments, and determine an annual estimated amount of erroneous payments made in their operations. The FEC reviewed all of its programs and activities to identify those susceptible to significant erroneous payments. Approximately 69 percent of the FEC's obligations pertain to salaries and benefits, which represents a low risk for improper payments, based on established internal controls. The FEC also reviewed all of its FY 2019 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 managing risks and maintaining effective internal controls to meet the objectives of Sections 2 and 4 of the *Federal Managers' Financial Integrity Act*. The FEC conducted its assessment of risk and internal controls in accordance with OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. Based on the results of the assessment, the Agency can provide reasonable assurance that internal controls over operations, reporting, and compliance were operating effectively as of September 30, 2019.

Ellen L. Weintraub
Chair

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

The Inspector General's (IG) *Statement Summarizing the Major Management and Performance Challenges Facing the FEC* can be found in Section III. In the Statement, the IG identifies the following five management challenges, in order of significance: 1) Lack of quorum, 2) Improve IT Governance to prevent external threats into FEC systems, 3) Lack of full-time support to the Chief Information Officer (CIO) position and vacancies to key leadership positions, 4) Address outstanding OIG audit recommendations, and 5) Address results from the annual Federal Employee Viewpoint Survey (FEVS) and 2016 *Root Causes of Low Employee Morale Study*. FEC Management's full response to the IG's assessment of its challenges appears in Section III.

Section I.E: Limitations of the Financial Statements

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

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

SECTION II – Auditor’s Report and Financial Statements

Message from the Chief Financial Officer

November 19, 2019

I am pleased to present the Commission's financial statements for Fiscal Year (FY) 2019. 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 eleventh consecutive year with no material weaknesses identified. This is the eighth 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 and all FEC staff who strived diligently throughout the fiscal year to achieve these results and maintain a commitment to excellence.

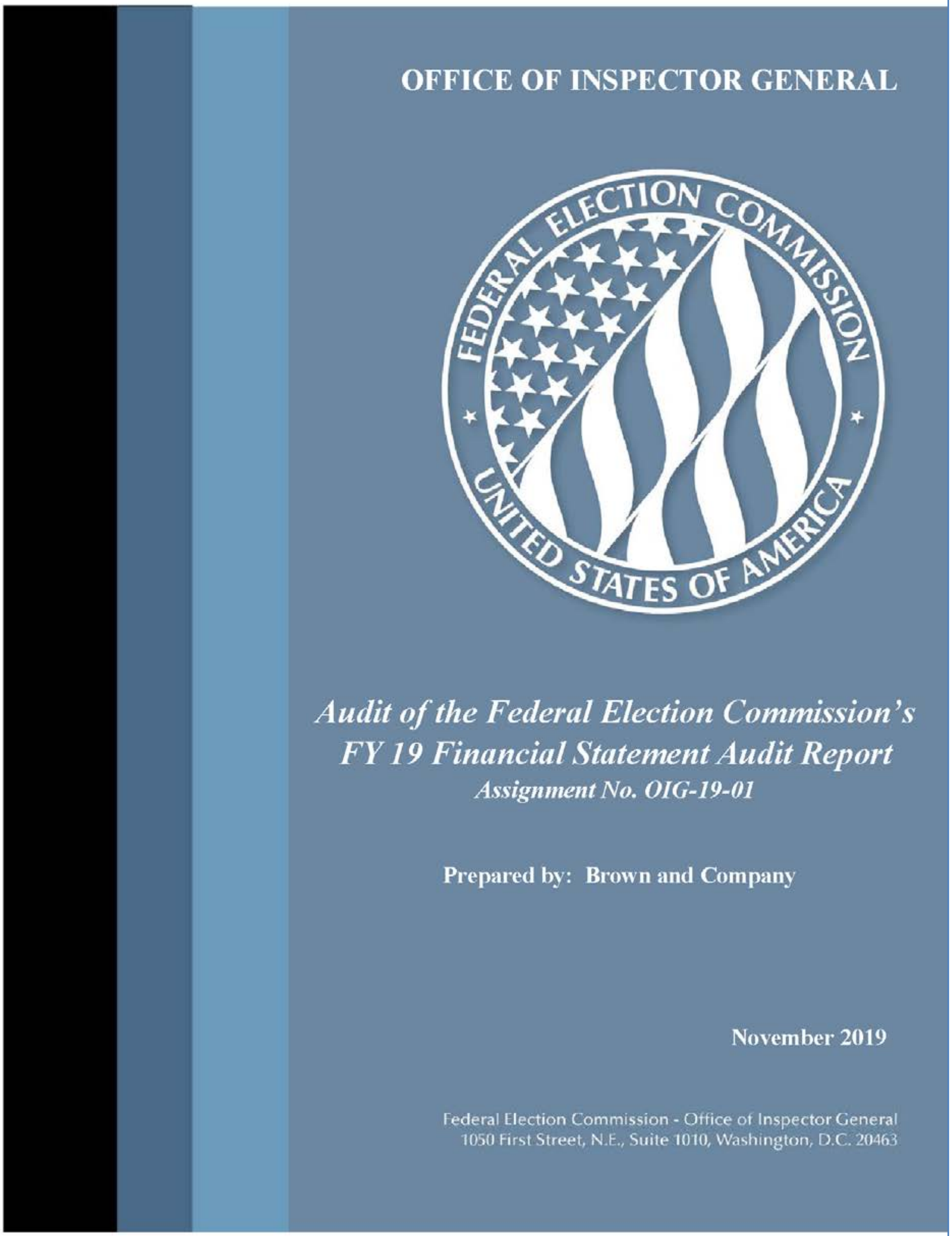
During fiscal year 2019, FEC made considerable progress improving internal controls and agency operations. These efforts include strengthening FEC's annual review of internal controls by better aligning individual program office and enterprise risks as well as reviewing fraud risks and the controls in place to prevent it. In addition, I am pleased to see the progress in reducing outstanding recommendations made by the Office of the Inspector General (OIG). Working through the FEC's Senior Management Council and OIG, the agency was able to reduce outstanding recommendations by over 20 percent. We look forward to continuing to work with the OIG to improve agency operations and further reduce outstanding recommendations.

The FEC continues to seek opportunities to modernize and upgrade business systems to improve operational effectiveness and 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,

John Quinlan
Chief Financial Officer

OIG Transmittal Letter



OFFICE OF INSPECTOR GENERAL

Audit of the Federal Election Commission's FY 19 Financial Statement Audit Report
Assignment No. OIG-19-01

Prepared by: Brown and Company

November 2019

Federal Election Commission - Office of Inspector General
1050 First Street, N.E., Suite 1010, Washington, D.C. 20463

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

TRANSMITTAL MEMORANDUM

TO: The Commission

FROM: Christopher Skinner
Inspector General

SUBJECT: The Federal Election Commission's (FEC) Fiscal Year (FY) 2019 Financial Statement Audit Report

DATE: November 19, 2019

ENCLOSURE: Independent Audit of the U.S. Federal Election Commission's Fiscal Year 2019 Financial Statement Audit Report

Pursuant to the Chief Financial Officers Act of 1990, as amended, this memorandum transmits the subject audit report issued by Brown & Company Certified Public Accountants and Management Consultants, PLLC (Brown & Company).[1] Enclosed you will find the Independent Auditor's final audit report on the FEC FY 2019 Financial Statements. The final audit report is additionally included in Section II of the FEC's FY 2019 Agency Financial Report.

The audit was performed under a contract with, and monitored by the 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.[2]

In Brown & Company's opinion, the FEC 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, 2019, in conformity with accounting principles generally accepted in the United States of America.

Additionally, due to the agency's position 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. Therefore, the audit included an examination of FEC IT security in comparison to government-wide best practices. The OIG acknowledges that the independent auditors are only required to explicitly opine on internal controls that have a material impact on agency financial statement reporting.

The audit report identified internal control deficiencies related to IT security and as a result, documented seven (7) recommendations[3] to address the internal control deficiencies.

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[1] The FEC Office of Inspector General (OIG) contracted with Brown & Company, an Independent Auditor, to perform the FEC FY 2019 Financial Statement Audit.

[2] And applicable provisions of Office of Management and Budget (OMB) Bulletin No. 17-03, Audit Requirements for Federal Financial Statements.

[3] Five (5) recommendations were repeated from prior years' Financial Statement Audit Reports.

FEC OIG 2020-11-004

The OIG acknowledges that corrective actions by management resulted in the closure of two (2) recommendations from the FY 2018 Financial Statement Audit Report. The OIG provided FEC management a draft copy of the audit report for review and comment. The official management response to the report can be found in Exhibit C of the enclosed report.

The OIG reviewed Brown & Company's report and related documentation and provided the required oversight throughout the course of the audit. Our review is permitted to ensure the accuracy of the audit conclusions but not to express an opinion of its results. The OIG's review indicated that Brown & Company complied, in all material respects, with Government Auditing Standards.

In accordance with *OMB Circular No. A-50*, Audit Follow-up, revised, the FEC is to prepare a corrective action plan (CAP) that will set forth the specific actions planned, as well as other detail requirements, to implement the agreed upon recommendations. Per Commission Directive 50, Audit Follow-up, the Commission has designated the Chief Financial Officer as the audit follow-up official (AFO) for FEC financial statement audits. The AFO has thirty (30) days from the issuance of the final audit report release date to provide the OIG with a draft CAP that outlines the agencies strategy to address the report findings and recommendations. The OIG will review the CAP and provide any comments within fifteen (15) days of receipt. Then, the AFO will finalize the CAP and provide it to the Commissioners with a courtesy copy to the OIG.

We appreciate the collaboration and support from FEC staff and the professionalism that Brown & Company exercised throughout the course of the audit. If you have any questions concerning the enclosed report, please contact my office at (202) 694-1015.

Thank you.

cc: John Quinlan, Chief Financial Officer
Alec Palmer, Staff Director/Chief Information Officer
Gilbert A. Ford, Director of Budget
Lisa Stevenson, Acting General Counsel

Independent Auditor's Report

FEDERAL ELECTION COMMISSION

INDEPENDENT AUDITOR'S REPORT

FOR THE YEARS ENDED
SEPTEMBER 30, 2019 AND 2018

Prepared By:
Brown & Company CPAs and Management Consultants, PLLC
November 19, 2019

BROWN & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS, PLLC

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BROWN & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS, PLLC

Independent Auditor's Report

Inspector General
Federal Election Commission
Washington, D.C.

In our audit of the fiscal year 2019 financial statements of the Federal Election Commission (FEC), we found:

- FEC's financial statements as of and for the fiscal year ended September 30, 2019, are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles;
- no material weaknesses in internal control over financial reporting based on the limited procedures we performed; and
- no reportable noncompliance for fiscal year 2019 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

The following sections discuss in more detail (1) our report on the financial statements, which includes required supplementary information (RSI) and other information included with the financial statements; (2) our report on internal control over financial reporting; and (3) our report on compliance with laws, regulations, contracts, and grant agreements.

Report on the Financial Statements

In accordance with the provisions of Accountability of Tax Dollars Act of 2002 (ATDA) (Pub. L. No. 107-289), we have audited FEC's financial statements. FEC's **financial** statements comprise the balance sheets as of September 30, 2019, the related statements of net cost, changes in net position, budgetary resources, and custodial activity for the fiscal years then ended; and the related notes to the financial statements.

We conducted our audit in accordance with U.S. generally accepted government auditing standards and the provisions of Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*. We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinions.

Management's Responsibility

FEC's management is responsible for (1) the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; (2) preparing, measuring, and presenting the RSI in accordance with U.S. generally accepted accounting principles; (3) preparing and presenting other information included in documents containing the audited financial statements and auditor's report, and ensuring the consistency of that information with the audited financial statements and the RSI; and (4) maintaining effective internal control over financial reporting, including 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 fraud or error.

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PHONE: (240) 770-4900 • FAX: (301) 773-2090 • mail@brownco-cpas.com • www.brownco-cpas.com

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. U.S. generally accepted government auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. We are also responsible for applying certain limited procedures to RSI and other information included with the financial statements.

An audit of financial statements involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the auditor's assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, 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 an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit of financial statements also involves evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit also included performing such other procedures as we considered necessary in the circumstances.

Opinion on Financial Statements

In our opinion, FEC's financial statements present fairly, in all material respects, FEC's financial position as of September 30, 2019, and its net cost of operations, changes in net position, budgetary resources, and custodial activity for the fiscal years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Prior Period Financial Statements Audited by a Predecessor Auditor

The FEC's financial statements as of and for the period ending September 30, 2018 were audited by a predecessor auditor, Leon Snead & Company, P.C. The predecessor auditor expressed an unmodified opinion on the financial statements. The audit report was dated November 15, 2018.

Required Supplementary Information

U.S. generally accepted accounting principles issued by the Federal Accounting Standards Advisory Board (FASAB) require that the RSI be presented to supplement the financial statements. Although the RSI is not a part of the financial statements, FASAB considers this information to be an essential part of financial reporting for placing the financial statements in appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with U.S. generally accepted government auditing standards, which consisted of inquiries of management about the methods of preparing the RSI and comparing the information for consistency **with management**'s responses to the auditor's inquiries, the financial statements, and other knowledge we obtained during the audit of the financial statements, in order to report omissions or material departures from FASAB guidelines, if any, identified by these limited procedures.

We did not audit and we do not express an opinion or provide any assurance on the RSI because the limited procedures we applied do not provide sufficient evidence to express an opinion or provide any assurance.

Other Information

FEC's other information contains a wide range of information, some of which is not directly related to the financial statements. This information is presented for purposes of additional analysis and is not a required part of the financial statements or the RSI. We read the other information included with the financial statements in order to identify material inconsistencies, if any, with the audited financial statements. Our audit was conducted for the purpose of forming an opinion on FEC's financial statements. We did not audit and do not express an opinion or provide any assurance on the other information.

Report on Internal Control over Financial Reporting

In connection with our audit of FEC's financial statements, we considered FEC's internal control over financial reporting, consistent with our auditor's responsibility discussed below. We performed our procedures related to FEC's internal control over financial reporting in accordance with U.S. generally accepted government auditing standards.

Management's Responsibility

FEC management is responsible for maintaining effective internal control over financial reporting, including 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 fraud or error.

Auditor's Responsibility

In planning and performing our audit of FEC's financial statements as of and for the year ended September 30, 2019, in accordance with U.S. generally accepted government auditing standards, we considered the FEC's internal control over financial reporting 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 FEC's internal control over financial reporting. Accordingly, we do not express an opinion on FEC's internal control over financial reporting. We are required to report all deficiencies that are considered to be significant deficiencies or material weaknesses. We did not consider all internal controls relevant to operating objectives, such as those controls relevant to preparing performance information and ensuring efficient operations.

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 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.

Definition and Inherent Limitations of Internal Control over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, the objectives of which are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition, and (2) transactions are executed in accordance with provisions of applicable laws, including those governing the use of budget authority, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements due to fraud or error.

Results of Our Consideration of Internal Control over Financial Reporting

Our consideration of internal control was for the limited purpose described above, and was not designed to identify all deficiencies in internal control that might be material weaknesses and significant deficiencies or to express an opinion on the effectiveness of FEC's internal control over financial reporting. Therefore, material weaknesses or significant deficiencies may exit that have not been identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, we identified certain deficiencies in internal control, described below and in Exhibit A that we consider to be significant deficiencies.

1. Agency corrective action plans are not compliant with government requirements.
2. FEC shall review information system accounts.
3. FEC needs to update the separation of duties policy.
4. USGCB[1] requirements need to be implemented Agency-wide.
5. FEC has not fully implemented and tested their Agency Continuity of Operations Plan and Disaster Recovery Plan for IT systems.
6. FEC shall develop system-specific Contingency Plans.
7. FEC needs to apply session lock requirements to all workstations.

Intended Purpose of Report on Internal Control over Financial Reporting

The purpose of this report is solely to describe the scope of our consideration of FEC's internal control over financial reporting and the results of our procedures, and not to provide an opinion on the effectiveness of the FEC's internal control over financial reporting. This report is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering internal control over financial reporting. Accordingly, this report on internal control over financial reporting is not suitable for any other purpose.

Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

In connection with our audit of FEC's financial statements, we tested compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements consistent with our auditor's responsibility discussed below. We caution that noncompliance may occur and not be detected by these tests.

1 United States Government Configuration Baseline (USGCB).

We performed our tests of compliance in accordance with U.S. generally accepted government auditing standards.

Management's Responsibility

FEC management is responsible for complying with laws, regulations, contracts, and grant agreements applicable to FEC.

Auditor's Responsibility

Our responsibility is to test compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements applicable to FEC that have a direct effect on the determination of material amounts and disclosures in FEC's financial statements, and perform certain other limited procedures. Accordingly, we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to FEC.

Results of Our Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements

Our tests for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance for FY 2019 that would be reportable under U.S. generally accepted government auditing standards. However, the objective of our tests was not to provide an opinion on compliance with laws, regulations, contracts, and grant agreements applicable to FEC. Accordingly, we do not express such an opinion.

Intended Purpose of Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

The purpose of this report is solely to describe the scope of our testing of compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements, and the results of that testing, and not to provide an opinion on compliance. This report is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering compliance. Accordingly, this report on compliance with laws, regulations, contracts, and grant agreements is not suitable for any other purpose.

Status of Prior Year's Findings and Recommendations

We have reviewed the status of open recommendations from the prior year's Independent Auditor's Report, dated November 15, 2018. The status of prior year recommendations is presented in Exhibit B.

Management's Response to the Auditor's Report

Management has presented a response to the findings identified in our report. Management's response to the report is presented in Exhibit C. We did not audit FEC's response and, accordingly, we express no opinion on it.

Evaluation of Management's Response to the Auditor's Report

In response to the draft report, FEC provided its plans to address the findings, and agreed with the recommendations to improve information system security controls. FEC comments are included in their entirety in Exhibit C.

This report is intended solely for the information and use of the management of FEC, OMB, and the U.S. Congress, and is not intended for any other purpose.

Brown & Company

Greenbelt, Maryland

November 19, 2019

Exhibit A - Significant Deficiencies

Findings and Recommendations

IT Finding 2019-01: Agency Corrective Action Plans Are Not Compliant With Government Requirements (Repeat Finding)

Condition:

During the fiscal year (FY) 2019 audit, the FEC Deputy Chief Information Officer informed the auditor that the agency has not implemented the FY 2018 recommendation to update the corrective action plans (CAP). As stated in FY 2018 audit report, FEC's corrective action plan for the internal control deficiencies reported in prior financial statement audit reports does not meet the OMB requirements. Also, FEC was not able to provide an updated plan of action and milestone report as of June 30, 2019.

To determine whether the agency met federal standards and their own internal requirements, the auditor reviewed the June 2018 CAP. The 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 and Commission Directive 50, that the agency must promptly resolve and perform internal control testing to validate the correction of the control deficiency.

Criteria:

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 are 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.

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.

National Institute of Standards and Technology (NIST) Special Publication (SP) 800-37, Revision (Rev.) 2, *Risk Management Framework (RMF) for Information Systems and Organizations*, December 2018, states the following in regard to plan of action and milestones:

> *Plan of Action and Milestones, Task A-6*: Prepare the plan of action and milestones based on the findings and recommendations of the assessment reports.
>
> Discussion: The plan of action and milestones is included as part of the authorization package. The plan of action and milestones describes the actions that are planned to correct deficiencies in the controls identified during the assessment of the controls and during continuous monitoring. The plan of action and milestones includes tasks to be accomplished with a recommendation for completion before or after system authorization; resources required to accomplish the tasks; milestones established to meet the tasks; and the scheduled completion dates for the milestones and tasks.

NIST SP 800-53A, Rev. 4, *Assessing Security and Privacy Controls in Federal Information Systems and Organizations, - Building Effective Assessment Plans,* December 2014, Security Control CA-5, Plan of Action and Milestones, states the following:

> Determine if the organization:
>
> - Develops a plan of action and milestones for the information system to:
>   - document the organization's planned remedial actions to correct weaknesses or deficiencies noted during the assessment of the security controls;
>   - reduce or eliminate known vulnerabilities in the system;
> - Defines the frequency to update the existing plan of action and milestones;
> - Updates the existing plan of action and milestones with the organization-defined frequency based on the findings from:
>   - security controls assessments;
>   - security impact analyses; and
>   - continuous monitoring activities

Cause:

FEC lacks procedures to comply with the requirements for a plan of actions and milestones that meet federal requirements. This condition is also caused by a need for additional oversight and monitoring to ensure the agency meets Commission Directive A-50 and related OMB regulations.

Effect:

Without an adequate CAP, the agency is unable to:

- Track the implementation of corrective actions for reported deficiencies;
- Ensure that realistic milestones are established;
- Ensure that targeted resolution dates are consistently met to reduce the agency's risk exposure; and
- Determine if risks are not accepted, mitigated or responded to with actionable plans and decisions.

Recommendation 1:

We recommend that the FEC Chief Information Officer develop and update, a plan of action and milestones for the information system that documents the organization's planned, implemented, and evaluated remedial actions to correct deficiencies noted during the assessment of the security controls and to reduce or eliminate known vulnerabilities in the system.

Finding 2019-02: FEC Shall Review Information System Accounts (Repeat Finding)

Condition:

The *FEC Account Management Policy*, Policy Number 58-2.2 was adopted in September 2004 and updated in February 2017. The policy states the following:

> It is FEC policy that: All user account access rights and privileges should be reviewed annually and validated in accordance with General Support System and Major Application system security plans by the user's Direct Manager.

The FEC relies on the effectiveness of account management controls for users to gain and maintain access to FEC's systems, and does not enforce the requirement for the Direct Manager to annually review information system accounts.

Criteria:

NIST *Framework for Improving Critical Infrastructure Cybersecurity (Cybersecurity Framework)*, Version 1.1, April 2018, states the following in regard to segregation of duties:

> *Access Control (PR.AC):* Access to assets and associated facilities is limited to authorized users, processes, or devices, and to authorized activities and transactions. PR.AC-4: Access permissions are managed, incorporating the principles of least privilege and separation of duties.

NIST Special Publication (SP) 800-53A, Revision 4 (Rev. 4), *Assessing Security and Privacy Controls in Federal Information Systems and Organizations, - Building Effective Assessment Plans,* December 2014, Security Control AC-5, Separation of Duties, states the following:

> Determine if the organization:
>
> - Defines the frequency to review accounts for compliance with account management requirements;
> - Reviews accounts for compliance with account management requirements with the organization-defined frequency.

Cause:

Due to lack of resources, FEC has not provided the Direct Manager with information required to review information system accounts on a periodic basis.

Effect:

The lack of review of information system accounts increases the risk of unauthorized access to FEC's information and information systems.

Recommendation 2:

We recommend that the FEC review information system accounts in accordance with organization-defined frequency; and the FEC initiates required actions on information system accounts based on the review.

Finding 2019-03: FEC Needs to Update the Separation of Duties Policy

Condition:

The *FEC Segregation of Duties Policy*, Policy Number 58-2.7 was adopted in September 2004 and updated in February 2010. The policy states the following:

> As resources permit, a division of roles and responsibilities relating to electronic information and computing resources should be implemented to exclude the possibility for a single individual to subvert a critical process.
>
> In particular, a segregation of duties should be maintained between the following functions:
>
> - Information systems use,
> - Data entry,
> - Computer operation,
> - Network management,
> - System administration,
> - Systems development and maintenance,
> - Change management,
> - Security administration, and
> - Security audit.

As stated above, FEC's policy defines duties of individuals to be separated as recommended by federal guidelines. However, FEC's policy does not "define information system access authorizations to support separation of duties between users," which is also recommended for federal agencies. Information system access authorization is the function of specifying access rights/privileges to resources related to information security and computer security in general and to access control in particular. Separation of duties includes, for example, ensuring security personnel administering access control functions do not also administer audit functions.

Criteria:

NIST Special Publication (SP) 800-37, Revision (Rev.) 2, *Risk Management Framework (RMF) for Information Systems and Organizations*, December 2018, states the following in regard to segregation of duties:

> *Risk Management Roles, Task P-1*: Identify and assign individuals to specific roles associated with security and privacy risk management.

NIST *Framework for Improving Critical Infrastructure Cybersecurity (Cybersecurity Framework)*, Version 1.1, April 2018, states the following in regard to segregation of duties:

> *Access Control* (PR.AC): Access to assets and associated facilities is limited to authorized users, processes, or devices, and to authorized activities and transactions. PR.AC-4: Access permissions are managed, incorporating the principles of least privilege and separation of duties

NIST SP 800-53A, Rev. 4, *Assessing Security and Privacy Controls in Federal Information Systems and Organizations, - Building Effective Assessment Plans,* December 2014, Security Control AC-5, Separation of Duties, states the following:

Determine if the organization:

- Defines duties of individuals to be separated;
- Separates organization-defined duties of individuals;
- Documents separation of duties; and
- Defines information system access authorizations to support separation of duties.

Cause:

FEC is in the process of re-assessing FEC's information system security controls. Due to competing priorities and lack of resources, FEC has not updated the *Separation of Duties Policy* to include information system access authorizations.

Effect:

The lack of defining information system access authorizations as part of the *Segregation of Duties Policy* increases the risk of agency's intended policy and procedures not being implemented and monitored. Lack of compliance with agency's procedures increases the risk of unauthorized or unintentional modification or misuse of the organization's information assets.

Recommendation 3:

We recommend that the FEC update the FEC's *Segregation of Duties Policy* to include defining information system access authorizations to support separation of duties.

IT Finding 2019-04: USGCB Requirements Need to be Implemented Agency-wide (Repeat Finding)

Condition:

During the FY 2019 audit, the FEC Deputy Chief Information Officer informed the auditor that the FEC has not fully implemented The United States Government Configuration Baseline (USGCB)[2] configuration standards for all workstations. The agency is currently conducting tests and reviews to install Windows 10 on agency laptops and workstations. Since the FEC is in the process of replacing Windows 7 with Windows 10, the agency did not take action to implement USGCB on all Windows 7 laptops and workstations.

Criteria:

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 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 Chief Information Officers Council, "the USGCB initiative falls within FDCC and comprises the configuration settings component of FDCC."

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[2] The United States Government Configuration Baseline (USGCB) initiative is to create security configuration baselines for Information Technology products widely deployed across the federal agencies. The USGCB baseline evolved from die Federal Desktop Core Configuration mandate. The USGCB is a Federal Government-wide initiative that provides guidance to agencies on what should be done to improve and maintain effective configuration settings focusing primarily on security.

NIST Special Publication (SP) 800-53A, Revision 4 (Rev. 4), *Assessing Security and Privacy Controls in Federal Information Systems and Organizations, - Building Effective Assessment Plans,* December 2014, Security Control CA-6, Configuration Settings, states the following:

Determine if the organization:

- Establishes and documents configuration settings for information technology products employed within the information system using organization-defined security configuration checklists;
- Implements the configuration settings;
- Identifies any deviations from established configuration settings for organization-defined information system components based on organizational-defined operational requirements; and
- Monitors changes to the configuration settings in accordance with organizational policies and procedures.

Cause:

FEC's implementation of Windows 10 is expected to be completed in January 2020 and to include the USGCB configuration requirements. Therefore, the agency did not apply resources to ensure USGCB configuration settings are installed on all laptops and workstations that have Windows 7.

Effect:

The FEC's systems and information remain at risk until full implementation of the USGCB configuration requirements.

Recommendation 4:

We recommend that the FEC implement USGCB baseline configuration standards for all workstations regardless of the current hardware in use.

IT Finding 2019-05: FEC Has Not Fully Implemented and Tested Their Agency Continuity of Operations Plan and Disaster Recovery Plan for IT Systems (Repeat Finding)

Condition:

During the FY 2019 audit, the FEC Deputy Chief Information Officer informed the auditor that the agency has not tested the Continuity of Operations Plan (COOP) or Disaster Recovery Plan. The FEC *Continuity of Operations and Disaster Recovery Policy*, Policy Number 58-2.9, was adopted in September 2004, and updated in February 2010. The FEC policy states:

Business continuity and disaster recovery plans should be tested/re-assessed on a regular basis.

- Plans should not be considered valid until tested for practicality, executability, errors and/or omissions. The initial validation test should consist of a simulation or tactical test.
- Once validated, plans should be tested annually, or when substantive changes occur to the system, to the system environment, or to the plan itself.
- Test results should be maintained in a journal format and retained for analysis.
- Validated change recommendations resulting from testing activities should be incorporated into plans immediately.

However, the FEC did not comply with standard business continuity plans. For example, the FEC has operated for 15 years without an approved and tested COOP and Disaster Recovery Plan to ensure that in the event of a disaster, the Commission would have the ability to continue normal business operations within a reasonable timeframe. FEC provided a COOP specific Corrective Action Plan related to the Office Inspector General's, *Inspection of the FEC's Disaster Recovery Plan and Continuity of Operations Plans,* released in January 2013. The auditor reviewed this document and noted the following:

- The plan lists seven remaining OIG recommendations from 2013,
- The original completion dates were from June to December 2013, and
- The current estimated completion date for this important project has been extended repeatedly and was estimated to be completed by the end of December 2018.

The FEC held a meeting to develop a strategy for testing the plans, but the FEC has not formulated a plan to test the COOP and Disaster Recovery plan.

Criteria:

NIST Special Publication (SP) 800-34, Revision (Rev.) 1, *Contingency Planning Guide for Federal Information Systems*, dated May 2010, 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.

NIST SP 800-84, *Guide to Test, Training and Exercise Programs for Information Technology Plans and Capabilities,* September 2006, provides guidelines on designing, developing, conducting, and evaluating test, training, and exercise (TT&E) events so that organizations can improve their ability to prepare for, respond to, manage, and recover from adverse events.

NIST SP 800-53A, Rev. 4, *Assessing Security and Privacy Controls in Federal Information Systems and Organizations, - Building Effective Assessment Plans,* December 2014, Security Control CP-4, Contingency Plan Testing, states the following:

> Determine if the organization:
>
> - Tests the contingency plan for the information system with the organization-defined frequency, using organization-defined tests to determine the effectiveness of the plan and the organizational readiness to execute the plan;
> - Reviews the contingency plan test results; and
> - Initiates corrective actions, if needed.

Cause:

FEC has not made it a high priority to apply resources to test the COOP and Disaster Recovery Plan and determine the agency's readiness to execute the plans.

Effect:

The disaster recovery plans could fail because they were not tested, maintained or re-assessed. 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.

Recommendation 5:

We recommend that the FEC update, reassess, test, and maintain the COOP and Disaster Recovery Plan regularly to determine that they are up to date and effective.

IT Finding 2019-06: FEC Shall Develop System-Specific Contingency Plans (Repeat Finding)

Condition:

The FEC has not developed system specific contingency plans. The FEC *Continuity of Operations and Disaster Recovery Policy*, Policy Number 58-2.9, was adopted in September 2004, and updated in February 2010. The FEC policy states:

> Business continuity and disaster recovery plans should be developed within a common framework; each plan should contain the following minimum elements:
>
> - Application-specific or system-specific definitions of outages, emergencies, crises and disasters;
> - Identification of the person (or persons) by functional title who are authorized to declare information system outages, emergencies, crises and disasters;
> - Resumption, recovery, and restoration objectives and options, including the information systems' resumption and restoration priorities, operational and monetary costs, escalation criteria and key decision-points;
> - Team assignments, to include the names, functional titles, and current contact data for primary and alternate personnel who make up the response team. As appropriate, similar information will be provided for alternate processing/recovery site team members; and
> - Contact and coordination information for federal emergency management authorities.

However, the FEC did not implement the agency's policy to develop system-specific contingency plans for critical information systems.

Criteria:

NIST Special Publication (SP) 800-34, Revision (Rev.) 1, *Contingency Planning Guide for Federal Information Systems*, dated May 2010, 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.

NIST SP 800-53A, Rev. 4, *Assessing Security and Privacy Controls in Federal Information Systems and Organizations - Building Effective Assessment Plans,* December 2014, Security Control CP-2, Contingency Plan, states the following:

Determine if the organization:

- Develops a contingency plan for the information system that:
  - Identifies essential missions and business functions and associated contingency requirements;
  - Provides recovery objectives, restoration priorities, and metrics;
  - Addresses contingency roles, responsibilities, assigned individuals with contact information;
  - Addresses maintaining essential missions and business functions despite an information system disruption, compromise, or failure; and
  - Addresses eventual, full information system restoration without deterioration of the security safeguards originally planned and implemented.

Cause:

FEC has not made it a high priority to apply resources to develop system-specific contingency plans and determine the agency's readiness to execute the plans.

Effect:

Without system-specific contingency plans, the FEC increases the risk of not implementing preventive measures, recovery strategies, and technical considerations appropriate to the system's information confidentiality, integrity, and availability requirements and the system impact level.

Recommendation 6:

We recommend that the FEC develop system-specific contingency plans, as appropriate for the agency risk level.

Finding 2019-07: FEC Needs to Apply Session Lock Requirements to All Workstations

Condition:

We examined FEC's group policy for session lock after invalid attempts by privilege users and non-privilege users and noted the setting for "account lockout duration" is 30 minutes. The agency's Group Policy is computer-based (as opposed to user-based) and therefore the settings are the same for non-privilege and privilege accounts.

The FEC *Account Management Procedures*, was adopted in September 2004 and updated in February 2017. The document, which includes LAN Account Procedures for Disable/Suspend Account, states that "FEC will automatically terminate session after sixty (60) minutes of inactivity."

We noted that FEC needs to update the account management procedures to agree with the group policy.

We also noted that FEC does not apply the session lock group policy consistently across all workstations. We tested the effectiveness of this control at the workstation assigned to the auditor, and found that group policy was not assigned to the workstation. Therefore, the session continued for over an hour without any activity.

Criteria:

NIST Special Publication (SP) 800-53A, Revision 4 (Rev. 4), *Assessing Security and Privacy Controls in Federal Information Systems and Organizations - Building Effective Assessment Plans,* December 2014, Security Control AC-11, Session Lock states the following:

Determine if:

- The organization defines the time period of user inactivity after which the information system initiates a session lock;
- The information system prevents further access to the system by initiating a session lock after organization-defined time period of user inactivity or upon receiving a request from a user; and
- The information system retains the session lock until the user reestablishes access using established identification and authentication procedures.

Cause:

Due to lack of monitoring and oversight, FEC has not consistently implemented policies for session lockout.

Effect:

The lack of review of session lockout controls increases the risk of unauthorized access to FEC's information and information systems.

Recommendation 7:

We recommend that the FEC implement session lockout control in accordance with organization-defined procedures.

Exhibit B - Status of Prior Year's Findings and Recommendations

Number	Status of FY 2018 and Prior Year's Audit Recommendations	Status as of September 30, 2019
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. 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.	Closed in FY 2019
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.	Open See Finding 1
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.	Open See Finding 2
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.	Open See Finding 2
5.	Implement USGCB baseline configuration standards for all workstations regardless of the current hardware in use.	Open See Finding 4
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 requires tests in a timely manner.	Open See Finding 5
7.	Develop system specific contingency plans, as required by the NIST RMF.	Open See Finding 6
8.	Strengthen controls around the remediation program to ensure that critical and high vulnerabilities identified though the vulnerability scanning and other processes are completed within 60 days of identification or document an analysis and acceptant of risks for longer term remediation.	Closed in FY 2019

Exhibit C - Management's Response to the Auditor's Report

FEDERAL ELECTION COMMISSION
Washington, DC 20463

November 18, 2019

On behalf of Federal Election Commission (FEC) Management, I would like to thank the FEC Office of the Inspector General and Brown & Company for their diligent work auditing the FEC's FY 2019 financial statements. The unmodified opinion you rendered is reflective of the hard work and continued process improvements made by the FEC staff. The close-out of two reoccurring recommendations from the FY 2018 financial statement audit demonstrates significant progress in improving the FEC's IT security posture. We also note that the financial statement audit made several other recommendations related to IT systems and corrective action plan reporting. Enclosed herein is responses to those recommendations, as provided by the FEC Chief Information Officer.

On behalf of Management,

John Quinlan
Chief Financial Officer

Agency Response to the Draft Report

FEDERAL ELECTION COMMISSION
Washington, DC 20463

The FEC continues on the path to remediate all findings. Our responses provide an overview of how we plan to remediate each of the findings.

Findings and Recommendations

Recommendations

1. We recommend the FEC Chief Information Officer develop and update, a plan of action and milestones for the information system that documents the organization's planned, implemented, and evaluated remedial actions to correct deficiencies noted during the assessment of the security controls and to reduce or eliminate known vulnerabilities in the system.

   Management's Response

   Management continued to update and report on corrective action plans throughout FY 2019, in accordance with the timeline identified in Commission Directive-50, and remains fully committed to reducing or eliminating known vulnerabilities in the agency's information system. However, Management agrees with the Auditor's recommendation to improve the process for documenting and tracking the agency's planned, implemented and evaluated remedial actions to correct deficiencies noted during the assessment of security controls. The agency was challenged in its efforts to complete these documentation improvements during FY 2019, in part by time and staff resources lost during the lapse in appropriations from December 22, 2018 to January 25, 2019, and by vacancies in the Information Security Office, which have now been filled.

2. We recommend the FEC reviews information system accounts in accordance with organization-defined frequency; and the FEC initiates required actions on information system accounts based on the review.

   Management's Response

   The OCIO agrees with the recommendation but notes that this finding has no impact on the actual security of FEC systems. In 2017, the OCIO implemented strict account management procedures that included detailed steps for users to gain and maintain access to FEC systems. In 2019, the OCIO additionally implemented strict account management

Agency Response to the Draft Report

procedures for Active Directory Domain Administrators and Office 365 Global Administrators by enforcing multi-factor authentication. These Administrators are now required to provide an additional level of authentication to access their respective systems. OCIO also began work on a multi-phase project to redevelop the current FEC System Access system to improve steps for users to gain and maintain access to FEC systems. OCIO continues to research effective ways to review account management procedures. If an effective procedure is found for a reasonable cost, it will be implemented to enable supervisors to review user access authorities annually.

3. We recommend the FEC updates the FEC's *Segregation of Duties Policy* to include defining information system access authorizations to support separation of duties.

Management's Response

Management concurs with this finding. The OCIO will work to update the *Separation of Duties Policy* to include information access authorizations, with a target completion date of June 2020. The final adoption of any proposed policy change is contingent up the restoration of a quorum of four FEC Commissioners.

4. We recommend the FEC implement USGCB baseline configuration standards for all workstations regardless of the current hardware in use.

Management's Response

Management concurs with the Auditor regarding the implementation of the USGCB as applied to the Windows 7 environment used by the agency in past years. As a result, the OCIO initially accelerated the review and testing of USGCB to analyze and determine the best approaches in meeting the FEC's infrastructure needs. However, following the announcement that Windows 7 was nearing end-of-life, the OCIO determined that the best use of internal resources in 2018 would be to focus on enterprise system and application compatibility running on the Windows 10 platform. In 2019, the OCIO actively started the process of replacing the Windows 7 operating system with Windows 10 for all users and contractors, which includes a hardware refresh. USGCB does not apply to the Windows 10 platform, so these settings will not be applied.

NIST has published a security technical implementation guide (STIG) for Windows 10 to improve the security of DoD systems to be used by other government agencies in conjunction with browser, antivirus and other third -party tools. In an effort to remove Windows 7 from our infrastructure as soon as possible, the OCIO has not finalized testing of these STIGs but has successfully implemented various security tools on the desktop level which include antivirus, 24-hr security operations center and virtualization-based security.

5. We recommend the FEC updates, reassesses, tests, and maintains the COOP and Disaster Recovery Plan regularly to determine that they are up to date and effective.

Management's Response

In 2019, Management received funding approval to seek consulting services to update the

Agency Response to the Draft Report

agency's COOP Plan. As part of the update to our plan, Management anticipates reviewing, with the assistance of the consultant, best practice for table top exercises, taking into consideration FEC's culture and infrastructure. To date, an award has been issued for these consulting services, and the OCIO is actively engaged in updating the COOP Plan as well as reviewing test plans and exercises.

6. We recommend the FEC develop system-specific contingency plans, as appropriate for the agency risk level.

Management's Response

The OCIO completed an ISCP for the Presidential Matching funds system; however Management has ceased work on the remaining systems. In 2019, Management received funding approval to seek consulting services to update the COOP Plan and has since issued an award. As part of the update process, existing DRPs will be reviewed and, if possible, incorporated into ISCPs after a completed BIA is performed. Work is planned to resume on completing ISCPs after the list of critical systems has been updated, per the BIA.

7. We recommend the FEC implement session lockout control in accordance with organization-defined procedures

Management's Response

Management agrees with this recommendation. The OCIO has a group policy object (GPO) that defines the time period of user inactivity enforced at the domain level. Management, in coordination with the OCIO team, will review this GPO to ensure it is applied to all active directory organizational units and not blocked by a competing policy.

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

Financial Statements

BALANCE SHEET

As of September 30, 2019 and 2018 (in dollars)

	2019	2018
Assets: (Note 2)		
Intragovernmental:		
Fund Balance With Treasury (Note 3)	$ 26,164,174	$ 20,287,566
Total Intragovernmental	26,164,174	20,287,566
Accounts Receivable, net (Note 4)	583,160	447,136
General Property, Plant and Equipment, Net (Note 5)	15,653,558	17,223,344
Total Assets	**$ 42,400,892**	**$ 37,958,046**
Liabilities: (Note 6,8)		
Intragovernmental:		
Accounts Payable	$ 276,752	$ 206,652
Other: (Note 7)		
Employer Contributions and Payroll Taxes Payable	413,442	369,966
Other Post Employment Benefits Due and Payable	3,500	3,500
Unfunded FECA Liability	61	6,052
Custodial Liability (Note 13)	583,160	447,136
Deferred Rent (Note 9)	7,850,409	8,446,642
Total Intragovernmental	9,127,324	9,479,949
Accounts Payable	1,363,678	1,876,045
Federal Employees and Veterans Benefits	7,792	8,122
Other: (Note 7)		
Accrued Funded Payroll and Leave	1,505,528	1,352,064
Employer Contributions and Payroll Taxes Payable	65,896	57,390
Unfunded Leave	3,112,591	2,515,072
Liability for Advances and Prepayments	56,158	-
Total Liabilities	**15,238,967**	**15,288,642**
Net Position:		
Unexpended Appropriations - All Other Funds (Consolidated Totals)	22,479,219	16,421,949
Cumulative Results of Operations - All Other Funds (Consolidated Totals)	4,682,706	6,247,456
Total Net Position - All Other Funds (Consolidated Totals)	27,161,925	22,669,404
Total Net Position	**27,161,925**	**22,669,404**
Total Liabilities and Net Position	**$ 42,400,892**	**$ 37,958,046**

The accompanying notes are an integral part of these statements.

STATEMENT OF NET COST

For The Years Ended September 30, 2019 and 2018 (in dollars)

	2019	2018
Program Costs:		
Administering and Enforcing the *FECA*		
Gross Costs	$ 69,333,519	$ 78,532,995
Less: Earned Revenue	74,418	544
Net Program Costs	69,259,101	78,532,451
Net Cost of Operations (Note 10)	**$ 69,259,101**	**$ 78,532,451**

The accompanying notes are an integral part of these statements.

STATEMENT OF CHANGES IN NET POSITION

For The Years Ended September 30, 2019 and 2018 (in dollars)

FY 2019

	All Other Funds (Consolidated Totals)	Consolidated Total
Unexpended Appropriations:		
Beginning Balance	$ 16,421,949	$ 16,421,949
Budgetary Financing Sources:		
Appropriations received	71,250,000	71,250,000
Other adjustments	(386,245)	(386,245)
Appropriations used	(64,806,485)	(64,806,485)
Total Budgetary Financing Sources	**6,057,271**	**6,057,271**
Total Unexpended Appropriations	**22,479,219**	**22,479,219**
Cumulative Results from Operations:		
Beginning Balances	6,247,456	6,247,456
Beginning balance, as adjusted	6,247,456	6,247,456
Budgetary Financing Sources:		
Appropriations used	64,806,485	64,806,485
Other Financing Sources (Non-Exchange):		
Imputed financing (Note 11)	2,887,867	2,887,867
Total Financing Sources	67,694,351	67,694,351
Net Cost of Operations	69,259,101	69,259,101
Net Change	(1,564,750)	(1,564,750)
Cumulative Results of Operations	**4,682,706**	**4,682,706**
Net Position	**$ 27,161,925**	**$ 27,161,925**

The accompanying notes are an integral part of these statements.

STATEMENT OF CHANGES IN NET POSITION

For The Years Ended September 30, 2019 and 2018 (in dollars)

FY 2018

	All Other Funds (Consolidated Totals)	Consolidated Total
Unexpended Appropriations:		
Beginning Balance	$ 21,012,019	$ 21,012,019
Budgetary Financing Sources:		
Appropriations received	71,250,000	71,250,000
Other adjustments	(312,874)	(312,874)
Appropriations used	(75,527,196)	(75,527,196)
Total Budgetary Financing Sources	**(4,590,071)**	**(4,590,071)**
Total Unexpended Appropriations	**16,421,949**	**16,421,949**
Cumulative Results from Operations:		
Beginning Balances	6,851,313	6,851,313
Beginning balance, as adjusted	6,851,313	6,851,313
Budgetary Financing Sources:		
Appropriations used	75,527,196	75,527,196
Other Financing Sources (Non-Exchange):		
Imputed financing	2,401,397	2,401,397
Total Financing Sources	77,928,593	77,928,593
Net Cost of Operations	78,532,451	78,532,451
Net Change	(603,858)	(603,858)
Cumulative Results of Operations	**6,247,456**	**6,247,456**
Net Position	**$ 22,669,404**	**$ 22,669,404**

The accompanying notes are an integral part of these statements.

STATEMENT OF BUDGETARY RESOURCES

For The Years Ended September 30, 2019 and 2018 (in dollars)

	2019 Budgetary	2018 Budgetary
BUDGETARY RESOURCES		
Unobligated balance from prior year budget authority, net (discretionary and mandatory)	$ 4,169,352	$ 9,595,647
Appropriations (discretionary and mandatory)	71,250,000	71,250,000
Spending authority from offsetting collections (discretionary and mandatory)	132,264	544
Total budgetary resources (Note 12)	**$ 75,551,616**	**$ 80,846,191**
STATUS OF BUDGETARY RESOURCES		
New obligations and upward adjustments (total)	69,232,534	77,411,365
Unobligated balance, end of year:		
Apportioned, unexpired account	2,851,236	1,810,910
Unapportioned, unexpired accounts	7,264	-
Unexpired unobligated balance, end of year	2,858,500	1,810,910
Expired unobligated balance, end of year	3,460,582	1,623,916
Unobligated balance, end of year (total)	6,319,082	3,434,826
Total budgetary resources	**$ 75,551,616**	**$ 80,846,191**
OUTLAYS, NET		
Outlays, net (discretionary and mandatory)	64,987,148	74,144,210
Agency outlays, net (discretionary and mandatory) (Note 12, 15)	**$ 64,987,148**	**$ 74,144,210**

The accompanying notes are an integral part of these statements.

STATEMENT OF CUSTODIAL ACTIVITY

For The Years Ended September 30, 2019 and 2018

	2019	2018
Revenue Activity		
Sources of cash collections		
Civil penalties	$ 2,046,477	$ 1,100,416
Administrative fines	362,800	148,770
Miscellaneous receipts	361,361	115,443
Total cash collections	2,770,638	1,364,629
Accrual adjustments	136,024	(181,392)
Total custodial revenue (Note 13)	**$ 2,906,662**	**$ 1,183,237**
Disposition of Collections		
Transferred to Treasury	$ 2,770,638	1,364,629
Amount yet to be transferred	136,024	(181,392)
Total disposition of collections	**$ 2,906,662**	**$ 1,183,237**
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, 2019, the FEC recognized approximately $ 2,824,200 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 1% increase when compared to the $ 2,808,853 of imputed cost and related financing source recognized in Fiscal Year 2018.

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 2019, 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 2019, 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 2019. For both FERS-RAE and FERS-FRAE covered employees, the FEC made contributions of 11.9% of basic pay for FY 2019.

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 2019. 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, *Recognition of Contingent Liabilities Arising from Litigation,* contains the criteria for recognition and disclosure of contingent liabilities. A contingency is recognized in the financial statements 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 in the footnotes when 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. In other words, contingent losses that are assessed as probable and measurable are accrued in the financial statements. Losses that are assessed to be at least reasonably possible are disclosed in the notes.

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.

Classified Activities

Accounting standards require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information. The FEC has no classified activities.

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, 2019 and September 30, 2018:

	2019	2018
With the Public		
Accounts Receivable - Custodial	583,160	447,136
Total non-entity assets	583,160	447,136
Total entity assets	41,817,732	37,510,910
Total Assets	42,400,892	37,958,046

Note 3 Fund Balance with Treasury

Fund Balance with Treasury consisted of the following as of September 30, 2019 and September 30, 2018:

	2019	2018
Fund Balances		
Appropriated Funds	$ 26,164,174	$ 20,287,566
Total	$ 26,164,174	$ 20,287,566

	2019	2018
Status of Fund Balance with Treasury		
Unobligated Balance		
Available	$ 2,851,236	$ 1,810,910
Unavailable	3,467,846	1,623,916
Obligated Balance not yet Disbursed	19,845,092	16,852,740
Total	$ 26,164,174	$ 20,287,566

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, 2019 and September 30, 2018:

	2019		
	Gross Accounts Receivable	Allowance	Net Accounts Receivable
Intragovernmental			
Intragovernmental	$ -	$ -	$ -
Total Intragovernmental	$ -	$ -	$ -
With the Public			
Fines and Penalties	$ 714,855	$ 131,695	$ 583,160
Total Non-Entity	714,855	131,695	583,160
Total	$ 714,855	$ 131,695	$ 583,160

	2018		
	Gross Accounts Receivable	Allowance	Net Accounts Receivable
Intragovernmental			
Intragovernmental	$ -	$ -	$ -
Total Intragovernmental	$ -	$ -	$ -
With the Public			
Fines and Penalties	$ 619,091	$ 171,955	$ 447,136
Total Non-Entity	619,091	171,955	447,136
Total	$ 619,091	$ 171,955	$ 447,136

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.

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 2017, the estimated useful life of assets such as office furniture and motor vehicles is five years. The estimated useful life of assets such as office equipment, IT equipment, IT software, telecommunications equipment, and audio/visual 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, 2019 and September 30, 2018, respectively:

2019				
Asset Class	**Service Life (years)**	**Acquisition Value**	**Accumulated Depreciation/Amortization**	**Net Book Value**
Software	3	$ 18,703,643	$ 14,228,331	$ 4,475,312
Computers and peripherals	3	$ 3,067,116	$ 3,067,116	$ -
Furniture	5	$ 852,754	$ 852,754	$ -
Leasehold Improvements	5	$ 9,964,256	$ 2,697,201	$ 7,267,055
Software-in-Development	n/a	$ 3,911,191	$ -	$ 3,911,191
Total		$ 36,498,960	$ 20,845,402	$ 15,653,558

2018				
Asset Class	**Service Life (years)**	**Acquisition Value**	**Accumulated Depreciation/Amortization**	**Net Book Value**
Software	3	$ 18,703,644	$ 11,297,633	$ 7,406,011
Computers and peripherals	3	$ 3,067,116	$ 3,063,508	$ 3,608
Furniture	5	$ 852,754	$ 852,754	$ -
Leasehold Improvements	5	$ 8,577,986	$ 744,712	$ 7,833,274
Software-in-Development	n/a	$ 1,980,451	$ -	$ 1,980,451
Total		$ 33,181,951	$ 15,958,607	$ 17,223,344

Note 6 Liabilities Not Covered by Budgetary Resources

Liabilities Not Covered by Budgetary Resources consisted of the following as of September 30, 2019 and September 30, 2018:

	2019		2018	
Intragovernmental:				
Custodial Fines and Civil Penalties	$	583,160	$	447,136
Deferred Rent		7,850,409		8,446,642
Unfunded FECA Liability		61		6,052
Total Intragovernmental		8,433,630		8,899,830
With The Public:				
Unfunded Annual Leave		3,112,591		2,515,072
Liabilities for Advances and Prepayments		56,158		-
Actuarial FECA Liability		7,792		8,122
Total Liabilities Not Covered by Budgetary Resources	$	11,554,013	$	11,423,024
Total Liabilities Covered by Budgetary Resources	$	3,628,796	$	3,865,618
Total Liabilities Not Requiring Budgetary Resources	$	56,158	$	-
Total Liabilities	$	15,238,967	$	15,288,642

Beginning FY 2018, the FEC entered into a new lease agreement for its office building that provided a rent abatement of $8,943,504, which covers the equivalent of 22 months of rent. Consistent with generally accepted accounting principles, the FEC has recorded rent abatement as deferred rent, which is amortized over the life of the ten-year lease.

The FEC accrued a liability related to the *Federal Employees' Compensation Act* as of September 30, 2019 and September 30, 2018.

Liabilities for Advances and Prepayments consist of unearned revenue from registration fees collected for the Regional Campaign Finance Conferences. As part of its program to encourage voluntary compliance with the Federal Election Campaign Act, the Federal Election Commission hosts educational conferences throughout the country. The FEC has received additional reimbursable authority for FY 2019 for conferences.

Note 7 Other Liabilities

As of September 30, 2019, components of amounts reported on the Balance Sheet as Other Intragovernmental Liabilities and Other Liabilities along with a categorization of current versus long-term are as follows:

	2019 Non-Current	2019 Current	2019 Total
Other Intragovernmental Liabilities:			
Employer Contributions and Payroll Taxes Payable	$ -	$ 413,442	$ 413,442
Other Post Employment Benefits Due and Payable	-	3,500	3,500
Unfunded FECA Liability	-	61	61
Custodial Liability	27,030	556,130	583,160
Deferred Rent	7,254,175	596,234	7,850,409
Total Other Intragovernmental Liabilities:	**$ 7,281,205**	**$ 1,569,367**	**$ 8,850,572**
Other Non-Federal Liabilities			
Accrued Funded Payroll and Leave	-	1,505,528	1,505,528
Employer Contributions and Payroll Taxes Payable	-	65,896	65,896
Unfunded Leave	-	3,112,591	3,112,591
Liability for Advances and Prepayments	-	56,158	56,158
Total Other Non-Federal Laibilities	**$ -**	**$ 4,740,173**	**$ 4,740,173**
Total Other Liabilities	**$ 7,281,205**	**$ 6,309,540**	**$ 13,590,745**

Note 8 Commitments and Contingencies

As of September 30, 2019, in the opinion of the FEC's OGC, the FEC was not party to any legal actions which result in a probable, measurable future outflow of resources that require recognition in the financial statements. However, the FEC was party to legal actions which could result in losses that are at least reasonably possibly. Furthermore, there are cases where amounts have not been accrued or disclosed because the amounts of the potential loss cannot be estimated or the likelihood of an unfavorable outcome is considered remote.

As of September 30, 2018, the FEC was not party to any legal action that required recognition.

Contingent Loss Table

	Accrued Liabilities	Estimated Range of Loss	
		Lower End	**Upper End**
As of September 30, 2019 Legal Contingencies:			
Probable	$ -	$ -	$ -
Reasonably Possible	$ -	$ 255,401	$ 255,401
As of September 30, 2018 Legal Contingencies:			
Probable	$ -	$ -	$ -
Reasonably Possible	$ -	$ -	$ -

Note 9 Leases

The FEC did not have any capital leases as of September 30, 2019 or September 30, 2018. The FEC has a non-cancellable operating lease for its office space through November 30, 2032.

As contained in the FEC's Occupancy Agreement with the General Services Administration (GSA), as amended July 30, 2019, future payments under the operating lease are as follows:

Future Payments Due for Non-Cancelable Operating Lease - Building

	2019
Fiscal Year	**Lease Payment**
2020	4,241,448
2021	5,161,065
2022	5,215,071
2023	5,270,698
2024	5,327,993
2025	5,387,007
2026	5,447,791
2027	5,510,399
2028	5,708,203
2029	5,801,287
2030	5,869,701
2031	5,940,166
2032	6,012,746
2033	933,755
Total	**$ 71,827,330**

As per the terms of the lease agreement, the FEC was granted a total of $8,943,504, or 22 months, in free rent from the lessor. Per the FEC's policy, the total free rent will be amortized as deferred rent over the life of the lease.

The table above represents the actual cash outlays for rent payments as contained in the FEC's Occupancy Agreement with GSA, and does not include the amortized Deferred Rent referenced above.

Note 10 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, 2019 and September 30, 2018, respectively:

	2019	2018
Intragovernmental:		
Intragovernmental gross costs	$ 15,229,562	$ 27,336,005
Less: Intragovernmental earned revenue	-	(544)
Intragovernmental net costs	$ 15,229,562	$ 27,335,461
Public:		
Gross costs with the public	54,103,957	51,196,990
Less: Earned Revenue with the public	(74,418)	-
Net costs with the public	$ 54,029,539	$ 51,196,990
Net cost of operations	$ 69,259,101	$ 78,532,451

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 11 Inter-Entity Costs

The FEC recognizes certain inter-entity costs for goods and services that are received from other Federal entities at no cost or at a cost less than the full cost. Certain costs of the providing entity that are not fully reimbursed are recognized as imputed cost and are offset by imputed revenue. Such imputed costs and revenues relate to employee benefits and claims to be settled by the Treasury Judgement Fund. The FEC recognizes as inter-entity costs the amount of accrued pension and post-retirement benefit expenses for current employees. The assets and liabilities associated with such benefits are the responsibility of the administering agency, OPM. For the periods ended September 30, 2019 and 2018, respectively, inter-entity costs were as follows:

	2019	`	2018
Office of Personnel Management	$ 2,887,867		$ 2,401,397
Total Imputed Financing Sources	$ 2,887,867		$ 2,401,397

Note 12 Explanation of Differences between the Statement of Budgetary Resources and the Budget of the U.S. Government

The Statement of Budgetary Resources (SBR) compares budgetary resources with the status of those resources. For the year ended September 30, 2019, budgetary resources were $75,551,616 and net outlays were $64,987,148. For the year ended September 30, 2018, budgetary resources were $80,846,191 and net outlays were $74,144,210.

Apportionment Categories of Obligations Incurred

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

For the years ended September 30, 2019 and September 30, 2018, direct obligations incurred amounted to $69,100,270 and $77,410,821, respectively. For the years ended September 30, 2019 and September 30, 2018, reimbursable obligations incurred amounted to $132,264 and $544, 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 2019 actual budgetary execution information is scheduled for publication in February 2020, which will be available through OMB's website at http://www.whitehouse.gov/omb/budget. Accordingly, information required for such disclosure is not available at the time of publication of these financial statements.

Balances reported in the FY 2018 SBR and the related President's Budget reflected the following:

FY 2018	Budgetary Resources	New Obligations & Upward Adjustments	Distributed Offsetting Receipts	Net Outlays
Statement of Budgetary Resources	$ 80,846,191	$ 77,410,821	$ -	$ 74,144,210
Budget of the U.S. Government	79,000,000	77,000,000	-	74,000,000
Difference	$ 1,846,191	$ 410,821	$ -	$ 144,210

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

Note 13 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	**2019**	**2018**
Fines, Penalties, and Other Miscellaneous Revenue	$ 2,906,662	$ 1,183,237
Custodial Liability		
Receivable for Fines and Penalties	$ 714,855	$ 619,091
Less: Allowance for Doubtful Accounts	$ (131,695)	$ (171,955)
Total Custodial Liability	$ 583,160	$ 447,136

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 $119,000 for FY 2019 and a net decrease of approximately $186,000 for FY 2018, respectively. The accrual adjustment for administrative fines is composed of a net decrease of approximately $74,000 in FY 2019 and a net decrease of approximately $58,000 in FY 2018, respectively.

Note 14 Undelivered Orders at the End of the Period

For Fiscal Year 2019, Unpaid Undelivered orders were $16,582,115, of which $3,331,937 were Federal and $ 13,250,178 were non Federal. As of September 30, 2019 there were no Fiscal Year 2019 Paid Delivered Orders.

For Fiscal Year 2018, Unpaid Undelivered Orders were $12,059,857, of which $1,763,481 were Federal and $10,296,376 were non Federal. As of September 30, 2018 there were no Fiscal Year 2018 Paid Delivered Orders.

Note 15 - Reconciliation of Net Cost to Net Outlays

Budgetary and financial accounting information differ. Budgetary accounting is used for planning and control purposes and relates to both the receipt and use of cash, as well as reporting the federal deficit. Financial accounting is intended to provide a picture of the government's financial operations and financial position so it presents information on an accrual basis. The accrual basis includes information about costs arising from the consumption of assets and the incurrence of liabilities. The reconciliation of net outlays, presented on a budgetary basis, and the net cost, presented on an accrual basis, provides an explanation of the relationship between budgetary and financial accounting information. The reconciliation serves not only to identify costs paid for in the past and those that will be paid in the future, but also to assure integrity between budgetary and financial accounting. The analysis below illustrates this reconciliation by listing the key differences between net cost and net outlays.

	Intragovernmental	With the Public	Total FY 2019
Net Operating Cost (SNC)	**$ 69,259,101**	**$ -**	**$ 69,259,101**
Components of Net Operating Cost Not Part of the Budgetary Outlays			
Property, plant, and equipment depreciation	-	(4,886,795)	(4,886,795)
(Increase)/Decrease in Liabilities not affecting Budget Outlays:			
Accounts payable	(70,099)	456,209	386,109
Salaries and benefits	(43,476)	(161,970)	(205,446)
Other liabilities (Unfunded leave, unfunded FECA, actuarial FECA)	602,225	(597,190)	5,036
Other financing sources			
Federal employee retirement benefit costs	(2,887,867)	-	(2,887,867)
Total Components of Net Operating Cost Not Part of the Budget Outlays	**(2,399,217)**	**(5,189,746)**	**(7,588,963)**
Components of the Budget Outlays That Are Not Part of Net Operating Cost			
Acquisition of capital assets	-	3,317,010	3,317,010
Total Components of the Budgetary Outlays That Are Not Part of Net Operating Cost	-	**3,317,010**	**3,317,010**
Other Temporary Timing Differences	-	-	-
Net Outlays	**$ 66,859,884**	**$ (1,872,736)**	**$ 64,987,148**
Related Amounts on the Statement of Budgetary Resources			
Outlays, net (SBR)			64,987,148
Agency Outlays, Net (SBR)			**$ 64,987,148**

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: Christopher Skinner
Inspector General

SUBJECT: Inspector General (IG) Statement Summarizing the Major Management and Performance Challenges Facing the Federal Election Commission (FEC) for FY 2020

DATE: October 17, 2019

ENCLOSURE: (1) IG Statement Summarizing the Major Management and Performance Challenges Facing the FEC

In accordance with the Reports Consolidation Act of 2000,[1] the Inspector General (IG) is required to provide a summary and assessment of the most significant management and performance challenges facing the Federal Election Commission (FEC), for inclusion into the FEC's Fiscal Year (FY) 2019 Agency Financial Report (AFR). We believe that the challenges discussed herein, if not addressed, are most likely to impede the Commission's accomplishment of its mission objectives.

We identified the Commission's major management challenges by recognizing and assessing key themes from our audits, evaluations, special reviews, and investigative work, as well as reports published by oversight bodies such as the Office of Personnel Management (OPM) and the U.S. Government Accountability Office (GAO). Additionally, we reviewed previous management challenge reports to determine if those challenges remain significant for this submission. As a result, the major management challenges, in order of significance, are as follows:

1. The resignation of a Commissioner leaves Commission without a four-person quorum,
2. Improve Information Technology (IT) governance to prevent external threats into FEC systems,
3. The lack of a dedicated, full-time, Chief Information Officer (CIO) and vacancies to key leadership positions within the agency,
4. Address outstanding Office of Inspector General (OIG) audit recommendations to improve agency operations for compliance and effectiveness, and

[1] The Reports Consolidation Act of 2000 (amending 31 U.S.C. § 3516).

FEC OIG 2020-10-003

5. Address the results from the annual Federal Employee Viewpoint Survey (FEVS) and *2016 Root Causes of Low Employee Morale Study* to inform and guide management decisions to increase employee morale.

We hope that continued attention to the management challenges identified in this report will improve the Commission's ability to execute its mission objectives. The FEC OIG encourages the Commission to continue to focus on addressing the management challenges discussed herein. We hope that this report, accompanied by the oversight work we perform throughout the year, assists the Commission in its efforts to improve the effectiveness and efficiency of its programs and operations.

We appreciate the Commission's cooperation throughout the year in addressing the management challenges process. Please contact me if you have any concerns regarding the identified challenges.[2]

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

[2] The Reports Consolidation Act of 2000 permits agency comment on the IG's statements.

Office of Inspector General

Major Management and Performance Challenges Facing the Federal Election Commission for FY 2020

October 2019

Federal Election Commission - Office of Inspector General
1050 First Street, N.E., Suite 1010, Washington, D.C. 20463

Table of Contents

Introduction

We identified the Commission's major management challenges by recognizing and assessing key themes from our audits, evaluations, special reviews, and investigative work, as well as reports published by oversight bodies such as the Office of Personnel Management (OPM) and the U.S. Government Accountability Office (GAO). Additionally, we reviewed previous management challenge reports to determine if those challenges remain significant for this submission. As a result, we determined to identify and highlight five key challenges that the FEC currently faces, which are detailed herein.

Management Challenge #1: Lack of a quorum

The most significant management and performance challenge for FY 2020 resides with the announcement of the resignation of vice chairman, Matthew Petersen, in August 2019, leaving the Commission without a four-person quorum. The Commission is required to be composed of six commissioners, appointed by the President, with no more than three members affiliated with the same political party.[3] Furthermore, 52 U.S.C. § 30106 requires the affirmative vote of four members to take action on particular matters. As of September 2019, the FEC no longer has a quorum to carry out critical mission tasks for the first time in 11 years. The lack of a quorum prevents the agency from among other things, issuing decisions on pending enforcement actions, opening investigations, and issuing advisory opinions.

The lack of a quorum prominently directly and indirectly impacts agency programs and procedures. The OIG understands that this management challenge is beyond the control of the agency; but the OIG would be remiss if it failed to identify the lack of a quorum as the most significant management challenge facing the Commission in FY 2020. Furthermore, this challenge has potential to directly impact the subsequent management concerns.

Management Challenge #2: Improve IT Governance to prevent external threats into FEC Systems

The FEC has struggled to implement an IT governance approach that establishes effective oversight to meet security standards in efforts to prevent external and internal threats into FEC systems. The National Institute of Standards and Technology (NIST) developed the minimum security standards for Federal information systems. Since the release of those standards in 2014, technology has become increasingly multifaceted, with cybersecurity and privacy continuing to be key areas of nationwide importance. As a result, NIST published an updated version in 2018.[4] The updated version identifies among other things, a five core function framework, as illustrated below, that "should be performed concurrently and continuously to form an operational culture to address the dynamic cybersecurity risk."

[3] See 52 U.S.C. § 30106.

[4] Framework for Improving Critical Infrastructure Cybersecurity Version 1.1.

[5]

The FEC is in need of an adequate government-wide framework to support the agency's information security program. The agency has determined that it is legally exempt from the *Federal Information Systems Management Act* (FISMA), an applicable framework for information security. The OIG has recommended that the FEC formally adopt the standards of the NIST as its framework, but the agency has not implemented this recommendation.

We acknowledge that the agency has made significant improvements by updating many policies and procedures to address identified control weaknesses, reducing the number of outstanding vulnerabilities, and most notably, assessing and authorizing the operations of major agency systems. In order to continue addressing outstanding information security control issues and ensure the agency is compliant with applicable security requirements, the agency should develop a plan to fully implement an acceptable government-wide security framework, and work to develop a sufficiently mature FEC information security program.

Furthermore, a recent vulnerability report of FECs internal and external networks concludes that FEC is at risk of an internal user visiting a malicious website or clicking on a link in a phishing attack that would allow an external attacker to gain access to the FEC internal network. Consequently, the agency recently encountered a similar issue where an employee was terminated for downloading prohibitive software on their FEC issued laptop. This unforeseen event elevated the risk for malware or viruses to be injected into FEC networks which prompted FEC management to partner with the Cybersecurity and Infrastructure Security Agency (CISA) to provide an assessment to determine if an intrusion occurred within the FEC's network environment. As a result, the CISA team found no threat actor activity but recommended, among other things, that the FEC implement strict Network Access Control policies and review its Trusted Internet Connection data flow architecture.

The OIG supports the requirement for management to focus attention to these types of issues and improve the agencies IT cybersecurity framework and strengthen internal controls to mitigate external threats from entering the network. In addition to the need to prioritize cybersecurity, the OIG identifies an opportunity to restructure the agencies Information Security Office to ensure the agency meets its mission requirements efficiently and effectively.

[5] Image generated from https://www.nist.gov/cyberframework.

Management Challenge #3: Lack of full-time support to Chief Information Officer (CIO) position and vacancies to key leadership positions

Currently, the senior leadership roles of the Staff Director and CIO are occupied by the same individual. As a result, there are several reported control weaknesses within the FEC's information security program that have been identified and reported in several OIG reports, with a few recommendations remaining outstanding. Information technology is ever-evolving, which affects all government agencies and 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. Based on the foregoing, we encourage the agency to hire or appoint someone to carry out the agency CIO duties on a full-time basis.

While we acknowledge that the FEC has filled several key leadership positions (Chief Financial Officer, IG, and Deputy CIO), the agency continues to operate with vacancies to essential senior leader and management positions. Many of these positions are staffed with personnel in an acting capacity, which creates an unstable environment which increases the risk for noncompliance and creates inconsistency within the department. This has potential to put the agency at risk and inhibit the agency to efficiently meet its mission requirements.

Additionally, failure to fulfill these key leadership positions in a timely manner creates resource constraints. As a result, position voids are created with those in long-term acting positions which limits the management and oversight of personnel and operations.

The following critical FEC senior leadership and key management level positions are currently vacant or occupied by staff in an acting capacity:

- General Counsel
- Director of Human Resources (vacancy announced September 2019)
- Accounting Director
- Deputy General Counsel for Law
- Deputy Chief Information Officer of Operations
- Assistant Staff Director for the Audit Division
- Secretary and Clerk of the Commission

As many of these positions require specialized knowledge and skills to ensure office operations are effectively and efficiently supporting the overall mission of the agency, assigning acting personnel to many of these vacant positions on a long term basis is not an efficient solution. It is imperative that the agency Personnel Committee elevate the importance of fulfilling these vacant senior leader and management positions as a priority to ensure consistency and clear direction in the leadership of the agency.

Management Challenge #4: Address outstanding OIG audit recommendations

As depicted in the image below, the OIG currently has 40 outstanding audit recommendations dating back to 2010. FEC management has worked towards addressing and completing 11 recommendations since April 2019 but key recommendations continue to remain open.

OIG Audits/Inspections	Total Outstanding Recommendations as of March 31, 2019	Total Closed Recommendations (Apr 1 - Sep 2019)	Total Open as of September 2019[6]
2010 Follow-up Audit of Privacy and Data Protection *8 years outstanding*[7]	20	3	17
2010 Follow-up Audit of Procurement and Contract Management *7 years outstanding*	1	1	0
Inspection of the FEC's Disaster Recovery Plan and Continuity of Operations Plans *6 years outstanding*	7	0	7
Audit of the FEC's Office of Human Resources *5 years outstanding*	3	1	2
Inspection of FEC's Compliance with FMFIA/OMB A-123 *4 years outstanding*	2	1	1
Audit of the FEC Telework Programs *2 years outstanding*	7	5	2
Required Review Under the DATA Act *1.5 years outstanding*	3	0	3
Outstanding Recommendations from prior Annual Financial Statement Audits[8] *At least 1 year outstanding*	8	0	8
Totals	51	11	40
	Total Outstanding Recommendations		**40**

[6] FEC management has not adequately implemented the remaining recommendations and therefore, continue to remain open.

[7] Timelines are calculated based on the final report issuance date.

[8] OIG recommendations are tracked, reviewed, and updated during the annual financial statement audit. 33 (65%) of the recommendations have been outstanding for at least 4 years.

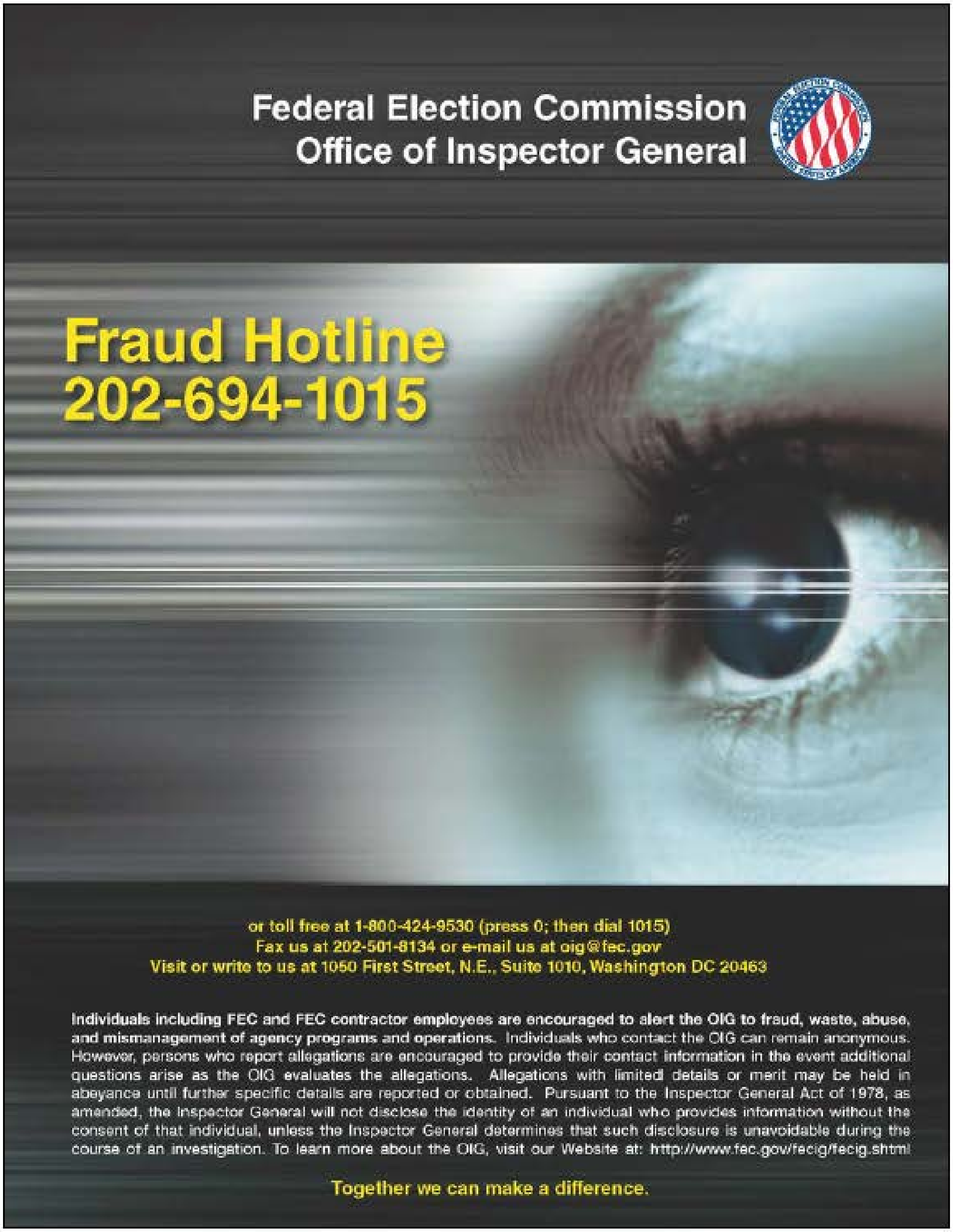
For example, currently the FEC's annual financial statement audit includes eight outstanding recommendations attributed to prior financial statement audits, of which several relate to the security of FEC information, that were reported since FY 2004. In addition, follow-up to the 2013 OIG audit report, *Inspection of the FEC's Disaster Recovery Plan and Continuity of Operations Plan*, and *the 2010 Follow-up Audit of Privacy and Data Protection* continue to note outstanding recommendations that identify areas of high risk to agency information and the continuity of operations. It is essential that all federal agencies protect personal identifiable information (PII) and restrict access to data in accordance with applicable guidance. The agency should devote attention to address the outstanding recommendations in efforts to ensure adequate internal controls are identified, documented, and implemented.

Management Challenge #5: Address results from the annual FEVS and 2016 Root Causes of Low Employee Morale Study

In the OPM Human Capital Management Evaluation report of the FEC dated August 13, 2019, OPM identified that FEC lacks a formal process for using FEVS results to inform management decisions and focus improvement efforts. As a result of the *2016 Root Causes of low Employee Morale Study*, the agency continues to make strides in improving agency morale through the improvements in management training, professional development, and increased communications. However, the OIG believes that implementing a formal process to address employee concerns would further benefit the agency and increase employee morale. Specifically, management should focus on FEC FEVS satisfaction scores that were significantly less than similarly sized agencies. Management should continue to develop and implement action plans to address these concerns which have potential to hinder efficiency and effectiveness.

Conclusion

The OIG presents these challenges as previous and evolving issues facing the FEC in FY 2019 and FY 2020. This report echoes previous management challenges reported over the last few years. However, the lack of a quorum is a new challenge facing the agency and has potential to further impact, among other things, the key challenges identified in this report. The challenges serve as impending barriers to promote efficiency and effectiveness in the management of FEC operations and procedures. The OIG remains dedicated to provide independent oversight to ensure accountability of the mission of the FEC.


Federal Election Commission
Office of Inspector General
Fraud Hotline
202-694-1015
or toll free at 1-800-424-9530 (press 0; then dial 1015)
Fax us at 202-501-8134 or e-mail us at oig@fec.gov
Visit or write to us at 1050 First Street, N.E., Suite 1010, Washington DC 20463
Individuals including FEC and FEC contractor employees are encouraged to alert the OIG to fraud, waste, abuse, and mismanagement of agency programs and operations. Individuals who contact the OIG can remain anonymous. However, persons who report allegations are encouraged to provide their contact information in the event additional questions arise as the OIG evaluates the allegations. Allegations with limited details or merit may be held in abeyance until further specific details are reported or obtained. Pursuant to the Inspector General Act of 1978, as amended, the Inspector General will not disclose the identity of an individual who provides information without the consent of that individual, unless the Inspector General determines that such disclosure is unavoidable during the course of an investigation. To learn more about the OIG, visit our Website at: http://www.fec.gov/fecig/fecig.shtml
Together we can make a difference.

Management's Response to the Office of Inspector General's Statement on the Federal Election Commission's Management and Performance Challenges [13]

November 7, 2019

In its Statement on the FEC's Management and Performance Challenges ("Statement"), the Office of the Inspector General ("OIG") identified five overarching management and performance challenges for inclusion in the FEC's Agency Financial Report for Fiscal Year 2019. Management's response to the OIG statement is below.

Challenge 1: Lack of a quorum
On September 1, 2019, the FEC began working without a quorum of four Commissioners. Management agrees that the present lack of a quorum presents challenges for agency staff and managers. In the agency's Enterprise Risk Profile, management has listed the potential lack of quorum as a very high risk since FY 2018.

While the Federal Election Campaign Act of 1971, as amended (the Act), requires an affirmative vote by four Commissioners to make decisions in many areas, including regulations, advisory opinions, audit matters and enforcement, the Commission remains open for business. Staff continues to further the agency's vital mission of administering the nation's campaign finance laws.

The requirements of the Act and Commission regulations remain in effect, and political committees and other filers must continue to disclose their campaign finance activity to the Commission on the regular schedule. FEC staff remains ready to help committees and the public understand and comply with the law, process and review committee reports including issuing Requests for Additional Information, and provide public access to campaign finance data. While the Commission cannot take action on many legal matters, staff continues to litigate ongoing court cases, process new enforcement complaints and responses, conduct audits that were previously authorized by the Commission, and investigate matters previously authorized by the Commission.

Commission Directive 10, Section L sets forth the rules of procedure to be followed when the Commission has fewer than four sitting members and includes a list of matters on which the Commission may still act. These include notices of filing dates, non-filer notices, debt settlement plans, administrative terminations, and appeals under the Freedom of Information and Privacy Acts. The Commission intends to comply with the statutory requirement set forth at 52 USC §30106(d) that the Commission meet at least once each month.

Challenge 2: Improve IT Governance to prevent external threats into FEC Systems
The FEC secures the agency's infrastructure and prevents intrusions through a holistic cybersecurity program led by the Chief Information Security Officer (CISO). The FEC's overarching strategy to protect the security and privacy of its systems and network begins with the adoption of the National Institute of Standards and Technology (NIST) Risk Management Framework and NIST IT security control "best practices." NIST Special Publication 800-37 2 – Risk Management Framework for

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

Information Systems and Organizations," identifies seven steps essential to the successful execution of the risk management framework (RMF):

• **Prepare** to execute the RMF from an organization- and a system-level perspective by establishing a context and priorities for managing security and privacy risk.

• **Categorize** the system and the information processed, stored, and transmitted by the system based on an analysis of the impact of loss.

• **Select** an initial set of controls for the system and tailor the controls as needed to reduce risk to an acceptable level based on an assessment of risk.

• **Implement** the controls and describe how the controls are employed within the system and its environment of operation.

• **Assess** the controls to determine if the controls are implemented correctly, operating as intended, and producing the desired outcomes with respect to satisfying the security and privacy requirements.

• **Authorize** the system or common controls based on a determination that the risk to organizational operations and assets, individuals, other organizations, and the Nation is acceptable.

• **Monitor** the system and the associated controls on an ongoing basis to include assessing control effectiveness, documenting changes to the system and environment of operation, conducting risk assessments and impact analyses, and reporting the security and privacy posture of the system.

The FEC currently employs this continuous monitoring and ongoing authorization approach to assess the risk to systems and networks and allow the authorizing official to determine whether that risk is acceptable. Three of the FEC's major systems follow the formal Authority to Operate (ATO) process: the General Support System, the FEC website and the FEC's eFiling system.

Robust Security Architecture

As a result of, and in support of, the RMF, the FEC's Office of the Chief Information Officer (OCIO) continues to take steps to implement a robust security architecture. For example, in partnership with the Department of Homeland Security (DHS), Massachusetts Institute of Technology and the Pacific Northwest National Laboratory, the OCIO has collaborated with FEC stakeholders and technical experts to identify, protect, detect, and respond to the impact of known and unknown threats, continuously assessing security controls and addressing the remaining residual risks. The FEC has also entered into an inter-agency agreement with DHS to participate in the Federal Continuous Diagnostics and Mitigation program (CDM) during this fiscal year. CDM will:

- Establish a consistent, government-wide set of information security continuous monitoring tools (commercial off-the-shelf) to help protect .gov networks;
- Leverage the buying power of government organizations to achieve savings for cybersecurity tools and services;
- Provide dashboards to improve situational awareness and enhance agencies' ability to identify and respond to the risk of emerging cyber threats on the agency and government-wide level;
- Move to stronger risk management, from checklist-based risk determination to automated management of assets and performance-based measures; and
- Provide CDM data feeds that report to an agency-level dashboard for display and action. Aggregation from agency dashboards feed into a federal-level dashboard to assist in security oversight and reporting.

In addition, the Chief Information Officer signed an agreement in September 2019 with DHS for services from the Cybersecurity and Infrastructure Security Agency (CISA). These services include: penetration testing, phishing campaign assessment, cyber hygiene scan, and risk and vulnerability assessment as well as a Red Team review. FEC OCIO remains deeply committed to ensuring the security of our network and systems and to continuing to build upon our partnerships with other federal government agencies as we make the best use of our limited resources.

Cloud-First Initiative

The FEC has also adopted a cloud first initiative for security, accessibility and recoverability. Hosting systems and data in a cloud environment allows the FEC to utilize our cloud service providers' significant resources that are dedicated to maintaining the highest level of security. In addition, by utilizing the cloud service providers' robust disaster recovery solutions, the FEC eliminates the need to maintain physical disaster recovery sites, which are costly to maintain and secure. The FEC has already completed the migration of its largest database, the campaign finance database, and its website to a cloud environment. The FEC's new website, launched in May 2017, uses FedRAMP Authorized cloud services, which provides a standardized approach to security assessment, authorization, and continuous monitoring for cloud products and services.

Building a Cybersecurity Culture

At the same time, the FEC is working to build a cybersecurity culture among its employees. The first line of defense in maintaining the protection and integrity of the agency's network is the ongoing education of employees about their role in identifying and preventing malicious actors—internal or external—from compromising the FEC's systems and networks. Efforts to build a cybersecurity culture include steps to educate staff about FEC IT security policies and to ensure staff awareness of potential cybersecurity threats, such as phishing scams. The FEC promotes this cybersecurity culture in part through annual, mandatory IT security trainings and through year-round communication and notices to staff from the CISO.

Earlier this year, FEC OCIO discovered, through its continuous monitoring processes, that an employee had violated FEC IT security policies by downloading prohibited software. Because the employee's violation of the FEC's IT security policies created a security concern, OCIO proactively engaged in an agreement with DHS CISA Hunt and Incident Response Team (HIRT) to identify any threat actor activity in the agency's network. HIRT did not identify any threat actor activity. However, HIRT recommended the FEC take additional steps to protect its network, including implementing a Network Access Control (NAC) solution and reviewing its Trusted Internet Connection (TIC) data flow architecture. In response to these recommendations, the FEC is currently reviewing its TIC data flow architecture. A NAC solution has been developed for the FEC and will be implemented at the FEC in November 2019.

Building Capacity in the Information Security Office

The FEC's Information Security Office is currently staffed by the CISO and an Information System Security Officer (ISSO), who joined the office on October 28, 2019. The FEC is seeking additional opportunities to recruit and train talent with cybersecurity expertise. In April 2019, the FEC entered into a partnership with the Partnership for Public Service to participate in the Cybersecurity Talent Initiative. This selective, cross-sector program, which provides loan forgiveness to top bachelors and masters graduates around the United States in exchange for at least two-years' service at a Federal agency, addresses the immediate cybersecurity talent deficiency faced by Federal government agencies by attracting service-minded individuals to government who might not otherwise have applied.

Challenge 3: Lack of full-time support to Chief Information Officer (CIO) position and vacancies to key leadership positions

Management fully supports the Commission's ongoing efforts to fill vacant leadership positions and to ensure senior leadership roles are filled by separate individuals. The Commission specifically addressed this issue in response to questions posed by the Committee on House Administration in a letter dated April 1, 2019. In their response, the Commission stated:

> All of the Commissioners agree that the Commission should have separate individuals filling the senior leadership roles of Staff Director and CIO. As is true of the General Counsel position, the salary limit placed on the Staff Director by the FECA (Level IV of the Executive Schedule) means that the Staff Director supervises personnel whose positions, on the GS-15 and Senior Level pay scales, often provide higher salaries than the statutory salary for the Staff Director. The Commission has long recommended that Congress de-link the Staff Director's salary from the Executive Schedule.
>
> When the Commission promoted our CIO to Staff Director, we allowed him to continue to serve as CIO and be compensated at that level rather than absorb a substantial pay cut in order to accept the promotion. This has allowed the Commission to maintain consistency in its most senior staff leadership.[14]

Because of the challenges in maintaining consistent senior leadership, the Commission unanimously adopted a Legislative Recommendation in 2018, 2017, 2016, 2015, 2014, 2013 and 2011 that urges Congress to address this situation. Specifically, the Commission recommends that Congress remove the statutory bar on the FEC's participation in the Senior Executive Service (SES) Program and remove the statutory references to the Executive Schedule in FECA with respect to the General Counsel and Staff Director, so that those two positions would be compensated under the same schedule as the Commission's other senior managers. This revision would remedy the current situation where the Commission's top managers are compensated at a lower rate than many of their direct reports, and would ensure that the Commission can retain highly qualified individuals to serve in those positions as well as enable it to remain competitive in the marketplace for Federal executives when filing the current vacancy or when further vacancies arise.

During FY 2019, the Commission made four permanent Senior Leadership appointments: Inspector General, Chief Financial Officer, Deputy Staff Director for Management & Administration, and Associate General Counsel for Policy. Additionally, permanent selections were made for the CISO, Deputy CIO for Operations, and Assistant General Counsel for Administrative Law. The Personnel Committee has approved the following positions to be filled on a permanent basis: Director of Human Resources, Assistant General Counsel for Litigation, and Assistant General Counsel for Enforcement. However, due to the lack of a quorum and in accordance with Commission Directive 10, the Commission is unable to approve the selections of GS-15 and Senior Level positions. Upon resumption of quorum, management anticipates the hiring process for these positions to be quickly completed.

[14] https://www.fec.gov/about/committee-on-house-administration-april-2019-questions/

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 the senior leadership vacancies are filled, the Personnel and Finance Committees will closely scrutinize any remaining vacancies. In light of recent budget guidance from the Office of Management and Budget, prudent management requires that close examination is paid to the potential impact of each vacancy that is approved to hire. The Personnel and Finance Committees are committed to analyzing the current FEC workforce and looking ahead to fiscal years in order to avoid having to implement a reduction in force.

Challenge 4: Address outstanding OIG audit recommendations

Management continues to address outstanding OIG audit recommendations and has made significant progress in FY 2019, closing 18 recommendations during the fiscal year. In late- FY 2019 and the first months of FY 2020, management has made additional progress in addressing findings from the Inspection of the FEC's Disaster Recovery Plan and Continuity of Operations Plans, Audit of the FEC's Office of Human Resources, and Audit of the FEC Telework Program, which management expects will close out additional recommendations during the next review period. With the appointment of a permanent Inspector General, management looks forward to continued discussions with the OIG on the remaining recommendations. Management believes these discussions will help focus attention on current processes and allow OIG to identify recommendations that align with current high-risk areas.

Challenge 5: Address results from the annual FEVS and *2016 Root Causes of Low Employee Morale Study*

The Commission understands that the success of its programs depends upon the skills and commitment of its staff. On July 26, 2016, the FEC's OIG released a Morale Study that identified causes of low employee morale at the agency, including poor communication, a perceived lack of effectiveness by management, and a perceived lack of diversity among managers. Following the release of the Morale Study, Commissioners met with staff members one-on-one and in small groups to hear their concerns. The FEC Staff Director expanded his open door policy to actively invite staff members to meet one-on-one to discuss their suggestions for process improvements, improvements to work-life balance issues and innovations. While we recognize there are multiple factors that contribute to agency morale, and there are no simple solutions, the Commission has outlined a plan based in part on the results of these discussions to continue to foster a workplace that is positive and productive, where everyone feels valued. The primary elements of this plan are outlined below and were published in the FEC's FY 2018 Agency Financial Report.

Notably, the FEC has already seen successes in improving morale. In the 2018 Federal Employee Viewpoint Survey (FEVS) results, the FEC achieved the second largest gain of all small agencies with more than 100 employees. The agency's improvement earned it the Most Improved Small Federal Agency award from the Partnership for Public Service, Best Places to Work in 2018.

The FEC's 2019 FEVS results show continued positive improvement in key areas. Since 2017, the FEC's results reflect a nine percentage point improvement in the employee engagement index, which measures employees' perception of the agency's senior leaders, supervisors, and work experience.

The FEC had a five percentage point increase in satisfaction with management communication and a ten percentage point increase in satisfaction with agency policies and programs to promote diversity in the workplace this year as compared to 2018. In addition, the 2019 results reflect that 88% of respondents were satisfied with the support, communication, assistance, and guidance that FEC leadership provided during the partial government shutdown. Employee satisfaction scores were also high across all of the work-life programs, including Health and Wellness (76%), Telework (79%), and Alternative Work Schedules (81%).

Employee Morale Plan for FYs 2018 and 2019

Management Performance Plans. The following items have been included in all managers' performance plans beginning with 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 Staff in Preparation for the FEC's Office Space Move. In the spring of 2018, the FEC moved its entire workforce to new office space. Throughout the entire FEC move process, management was committed to engaging staff and keeping staff informed. Bargaining Unit members served on the Lease Renewal Advisory Team (LRAT) and on each of its subcommittees. Management also regularly updated an internal communications portal, "FEC Move," on the agency's intranet page that provided LRAT meeting minutes, photos of construction progress, and news about the move. Management has continued to solicit feedback from staff about the new office space and remains responsive to employee concerns.

Management Training. The agency has implemented several training programs targeted to areas where improved performance by managers and supervisors can boost employee morale. Trainings have been held on topics such as diversity and inclusion, conflict resolution, general management skills, and individual leadership training. The Commission also partnered with OPM to deliver on-site supervisory training to managers in the fall of 2018. Moreover, the Commission has included the phased implementation of a supervisory training plan as FY 2018 and 2019 performance measures in its Annual Performance Report. FY 2020 will bring additional training to the FEC for managers including courses on Dealing with Poor Performance and Conduct, Engaging and Encouraging Employees, and Coaching and Mentoring for Excellence.

Since September 2016, over half of agency managers have undertaken 360 Reviews conducted by OPM and developed leadership plans to develop strengths and improve. 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 continue to give staff opportunities for professional growth. These opportunities include:

- Office of General Counsel (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, as well as on details to Commissioner's offices;
- OCIO staff partnering one-on-one with staff from the General Services Administration's 18F to learn new information technology skills;
- Reports Analysis Division (RAD) staff on detail to other agency divisions;
- 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;
- Brown-bag lunches and informational sessions where staff can learn about what other divisions do and ask questions of senior staff and Commissioners; and
- Expanded opportunities for eligible FEC staff to compete for detail positions and temporary promotions within the agency.

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. Every year OGC attends multiple internship fairs hosted by local law schools reaches out to other law schools in the country in its ongoing efforts to create diverse internship classes. OGC has also reached out to Black Law Students Associations from around the country and continues to reach out to Howard Law School about opportunities with its externship program. 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.

In FY 2020, management plans to launch an outreach program to learn from staff how best to build on the successes reported in the 2019 FEVS and how to address those employee issues that continue to require management's focused attention. To help ensure the success of this program, the agency's FEVS engagement coordinator will participate in the Partnership for Public Service's *Engagement Coordinator Collective* to learn strategies for achieving and maintaining high rates of satisfaction within our workforce. Additionally, in FY 2020 the Chief Human Capital Officer and Acting Director of Human Resources will participate in the Small Agency Human Resources Council and other forums targeted for small agencies to leverage partnerships and networking opportunities to learn best practices to improve employee morale.

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 2019, 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 2019, the FEC considered risk factors outlined in OMB Memorandum M-18-20, *Transmittal of Appendix C to OMB Circular A-123, Requirements for Payment Integrity Improvement,* which may significantly increase the risk of improper payments and determined that none are applicable to the 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 2019.

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, 83 Fed. Reg. 66593 (Dec. 27, 2018), https://sers.fec.gov/fosers/showpdf.htm?docid=401529	111.24(a)(1)	19,936
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, 83 Fed. Reg. 66593 (Dec. 27, 2018), https://sers.fec.gov/fosers/showpdf.htm?docid=401529	111.24(a)(2)(i)	42,530
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, 83 Fed. Reg. 66593 (Dec. 27, 2018), https://sers.fec.gov/fosers/showpdf.htm?docid=401529	111.24(a)(2)(ii)	69,743
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, 83 Fed. Reg. 66593 (Dec. 27, 2018), https://sers.fec.gov/fosers/showpdf.htm?docid=401529	111.24(b)	5,964
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, 83 Fed. Reg. 66593 (Dec. 27, 2018), https://sers.fec.gov/fosers/showpdf.htm?docid=401529	111.24(b)	14,910
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, 83 Fed. Reg. 66593 (Dec. 27, 2018), https://sers.fec.gov/fosers/showpdf.htm?docid=401529	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, 83 Fed. Reg. 66593 (Dec. 27, 2018), https://sers.fec.gov/fosers/showpdf.htm?docid=401529	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, 83 Fed. Reg. 66593 (Dec. 27, 2018), https://sers.fec.gov/fosers/showpdf.htm?docid=401529	111.43(c)	7,994
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, 83 Fed. Reg. 66593 (Dec. 27, 2018), https://sers.fec.gov/fosers/showpdf.htm?docid=401529	111.44	Penalty formula is 146+ (.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 Enterprise Risk Management and 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 2019 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 Communications
- Office of Compliance
- Office of Equal Employment Opportunity
- Office of Management and Administration
- Office of the Chief Financial Officer
- Office of the Chief Information Officer
- Office of the General Counsel
- Office of the Inspector General

Detailed assurances from 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.

Fraud Reduction Report

The Fraud Reduction and Data Analytics Act of 2015 (Pub. L. 114-186, 31 USC 3321) requires agencies to report on their progress in implementing financial and administrative controls to identify and assess fraud risks. In FY 2019, the FEC assessed its progress and can report that it has adequate financial and administrative controls in place to identify and assess fraud risks as well as monitor and mitigate the potential for fraud and improper payments.

The agency uses OMB Circular A-123, as revised, GAO-14-704G, *The Standards for Internal Control in the Federal Government* (the Green Book), GAO-15-593SP, *A Framework for Managing Fraud Risks in Federal Programs,* and the Association of Government Accountant's *Fraud Prevention Tool* as a guide for its fraud reduction efforts.

In FY 2017, the agency created the Senior Management Council (SMC) to monitor and manage risk to the agency achieving its operational, strategic, and compliance objectives. The SMC updates the agency Risk Profile on an annual basis, facilitates the detection and remediation of fraud risk throughout the agency, and addresses potential fraud issues during its quarterly meetings. The agency Risk Profile can be found in Section I, Management's Discussion and Analysis, under Risk Identification and Mitigation. In addition, the SMC oversees the agency's annual Internal Control Review (ICR) process which is based on GAO's Green Book. As part of the ICR, each program office conducts an evaluation of fraud risk, documents controls in place, and reports on mitigating activities.

The FEC uses a risk-based approach to design and implement controls. It has controls in place to address identified fraud risks related to payroll, procurement, information technology and security, asset safeguards, and purchase and travel cards. The agency does not issue beneficiary payments or grants.

Financial and administrative controls in place to monitor and mitigate potential fraud include documented system authorization procedures, manager oversight and approval of transactions, and separation of duties. Financial activity is tracked, monitored, and reviewed or reconciled on a periodic (monthly or quarterly) basis. The agency utilizes resources such as Treasury's Do Not Pay system, GSA's System for Award Management (SAM), and the Internal Revenue Service's Taxpayer Identification Number (TIN) Match Program to facilitate data analytics. To safeguard assets, the FEC has tracking processes in place, conducts a biannual physical inventory count, and maintains equipment in a secure location. The FEC has comprehensive controls in place to address information technology and security fraud risks to include automated system controls.

Payroll is the largest expenditure for the agency, with salaries and benefits constituting sixty-nine (69) percent of the FEC's costs. Payroll is tested for improper payments under the *Improper Payments Elimination and Recovery Act (IPERA*). Improper Payments Act reporting details can be found in Section III of the AFR under Other Information.

Finally, the FEC works closely with the OIG to identify and address fraud. The FEC had no reported instances of fraud in FY 2019.

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
FRDAA	Fraud Reduction and Data Analytics Act
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