Federal Election Commission

Agency Financial Report

Fiscal Year 2015

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Federal Election Commission
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Message from the Chairman

FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20463

OFFICE OF THE CHAIR

November 13, 2015

I am pleased to present the Federal Election Commission's (FEC) Agency Financial Report (AFR) for Fiscal Year (FY) 2015. 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. By providing the public with transparency regarding campaign financing, and ensuring that the campaign finance law is fairly and effectively enforced and administered, the Commission provides the public with crucial information by which to evaluate candidates for Federal office. To support this mission, the FEC must provide the public with unsurpassed access to campaign finance information as well as ensuring that timely advice and support is provided so that candidates, committees, and the public can fully understand and comply with the requirements of campaign finance law.

The Commission took a number of steps during FY 2015 to ensure that it would be fully successful in its mission to make campaign finance disclosure information quickly available and easily accessible to the public. The FEC must ensure that it provides the public with timely, reliable, useful and accessible campaign finance data to meet the public's right to access campaign finance information. During FY 2015, the FEC received 76,790 documents filed disclosing more than 28.4 million transactions. In an effort to decrease data processing time, increase the accuracy of data and reduce the overall costs of capturing campaign finance data from paper forms, the FEC has continued to develop an automated data capture process to convert paper-filed reports into structured, machine-readable data.

During FY 2015, the Commission also continued its efforts on an extensive redesign of the FEC website in order to improve the delivery of campaign finance data and information to the public. The Commission, in partnership with 18F, a digital services delivery team within the General Services Administration, has been taking steps towards creating a new website design that is user-driven and meets the needs of the FEC's diverse audience. On October 29, 2015, the Commission launched the beta version of the new FEC website featuring an agile, navigable, user-based online platform to deliver campaign finance information. The new design and infrastructure is a big step forward in providing data in a usable, intuitive format to political professionals, citizens, journalists and researchers. The Commission will continue to actively engage the public in this effort to provide easy, intuitive and comprehensive campaign finance data and information.

With respect to the agency's FY 2015 annual financial statements, the Commission received an unmodified opinion from its independent auditors. This unmodified opinion reflects the continued commitment by the Commissioners and FEC staff to ensure that the FEC's financial statements present fairly the agency's fiscal position.

The performance data described in the FEC's FY 2015 AFR were compiled and evaluated using appropriate techniques for achieving the desired level of credibility for the verification and validation of performance data relative to its intended use.

The efforts described in this report reflect the work and dedication of the agency's staff. The Commission looks forward to building on its achievements in FY 2015 in order to fulfill the mission of the agency in the most efficient manner possible.

On behalf of the Commission,

Ann M. Ravel, 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 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, 2014 through September 30, 2015.

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

The FY 2015 Agency Financial Report is organized into three primary sections:

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

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

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

SECTION I – Management's Discussion and Analysis

Section I.A: Mission and Organizational Structure

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

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

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

The FEC has chosen to produce an Agency Financial Report and Annual Performance Report (APR) pursuant to the *Government Performance and Results Act of 1993*, as amended. The FEC will include its FY 2015 Annual Performance Report with its Congressional Budget Justification and will post it on the FEC website at http://www.fec.gov/pages/budget/budget.shtml in February 2016.

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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).

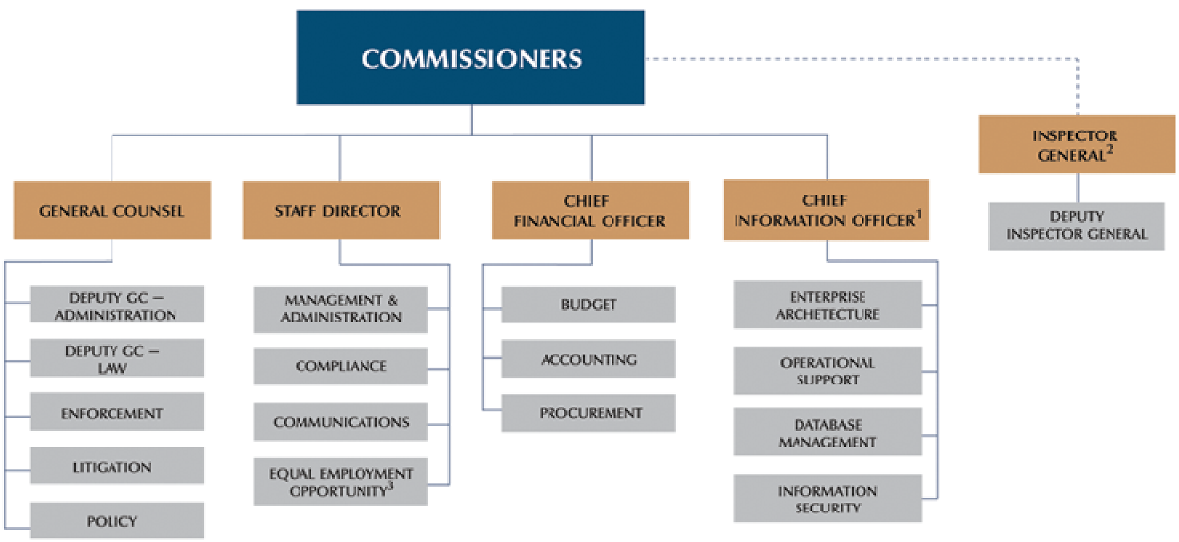
Mission Statement

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. The Chairmanship of the Commission rotates among the members, with no member serving as Chair more than once during his or her term. The Commissioners are responsible for administering and enforcing the *FECA* and meet regularly to formulate policy and to vote on significant legal and administrative matters. The *Act* requires the affirmative vote of four members of the Commission to approve official actions, thus requiring bipartisan decision-making. The FEC has its headquarters in Washington, D.C. and does not have any regional offices.

Figure 1: FEC Organizational Chart



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

2 The Office of the Inspector General (OIG) independently conducts audits, evaluations, and investigations. OIG keeps the Commission and Congress informed regarding major developments associated with their work.

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

As noted in Figure 1, the offices of the Staff Director, General Counsel, Chief Information Officer and Chief Financial Officer support the agency in accomplishing its mission. The Office of the Inspector General, established within the FEC in 1989 under the 1988 amendments to the *Inspector General Act*, is independent and reports both to the Commissioners and to Congress. The specific roles and responsibilities of each office are described in greater detail below.

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

The Office of the Staff Director consists of four offices: 1) Management and Administration; 2) Compliance; 3) Communications; and 4) Equal Employment Opportunity. The Office of Management and Administration is responsible for the FEC's strategic planning and performance and works with the Commission to ensure the agency's mission is met efficiently. In addition, this office houses the Commission Secretary, the Office of Human Resources (OHR) and the Administrative Services Division (ASD). The primary responsibilities of the Office of Compliance are review of campaign finance reports, 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 Division; (3) the Policy Division; (4) the Enforcement Division; and (5) the Litigation Division. The Deputy General Counsel—Administration directly supervises the Administrative Law Team, the Office of Complaints Examination and Legal Administration, the Law Library and all OGC administrative functions. The Deputy General Counsel—Law has the primary responsibility for assisting the General Counsel in all of the substantive aspects of the General Counsel's duties and shares in the management of all phases of OGC programs, as well as directly supervises the Compliance Advice Team and the agency's ethics program. The Policy Division drafts for Commission consideration advisory opinions and regulations interpreting the Federal campaign finance law. The Enforcement Division recommends to the Commission appropriate action to take with respect to administrative complaints and apparent violations of the *Act*. Where authorized, the Enforcement Division investigates alleged violations and negotiates conciliation agreements, which may include civil penalties and other remedies. If an enforcement matter does not resolve through conciliation during the administrative process, the Commission may authorize suit in district court, at which point the matter is transferred to the Litigation Division. The Litigation Division represents the Commission before the Federal district courts and courts of appeals in all civil litigation involving the campaign finance statutes. This Division assists the Department of Justice's Office of the

Solicitor General when the Commission's *FECA* cases are before the Supreme Court.

- **Office of the Chief Information Officer (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 laws. 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

On an annual basis, the FEC receives a single appropriation for Salaries and Expenses. In FY 2015, the FEC's authorized funding level included an appropriation of $67,500,000.

The FEC also has the authority to collect fees from attendees of agency-sponsored educational conferences. The Commission may use those fees to defray the costs of conducting those conferences. In an effort to keep the fees as low as possible, the agency has not fully exercised that authority. Rather, the Commission sets its registration fees at a level that covers only the costs incurred by the agency's conference-management contractor, including meeting room rental and conference meals and compensation. All other conference-related expenses, such as materials and staff travel, are paid using appropriated funds. Registration fees for FY 2015 were $110,875.

Figure 2 shows the agency's appropriations and obligations from FY 2011 to 2015.

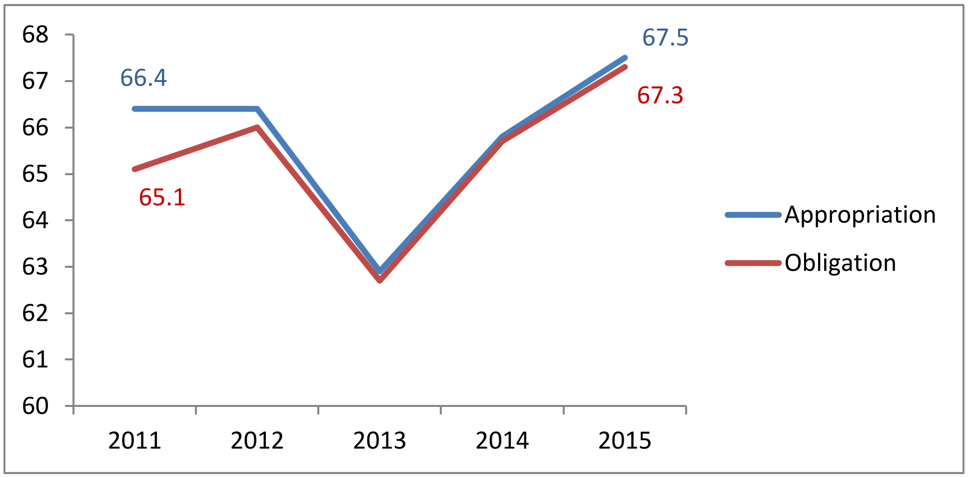


Figure 2: Summary of Funding (in millions of dollars)

Personnel vs. Non-Personnel Costs

Figure 3 represents the Commission's FY 2015 obligations by personnel and non-personnel costs. Personnel costs, which are primarily composed of salaries and employee benefits, accounted for 68 percent of the FEC's costs. The remaining 32 percent of the Commission's costs was spent on non-personnel items, such as infrastructure and support, software and hardware, office rent, building security and other related costs.

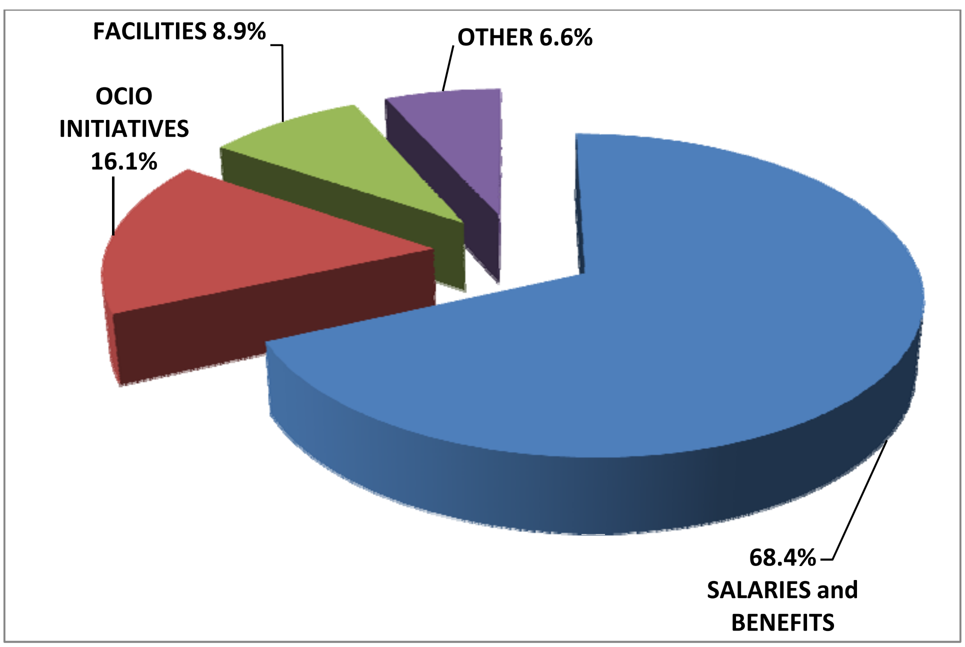


Figure 3: Fiscal Year 2015 by Major Category

Section I.B: Performance Goals, Objectives and Results

This section provides a summary of the results of the FEC's key performance objectives, which are discussed in greater detail in the FEC's FY 2015 APR. This report will be part of the FEC's FY 2017 Congressional Budget Justification, which will be available at http://www.fec.gov/pages/budget/budget.shtml in February 2016.

Strategic Goal

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

Strategic Objectives

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

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

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

The FEC's e-filing system acts as the point of entry for submission of electronically filed campaign finance reports, providing faster access to reports and streamlining operations.

Specifically, the system provides for public disclosure of electronically filed reports, via the FEC website, within minutes of being filed. When a committee files a financial disclosure report on paper, the Commission ensures that a copy is available for public inspection within 48 hours of receipt, both electronically on the website and at the FEC's offices in Washington, D.C.[2] The eFiling platform is a crucial component of the Commission's campaign finance disclosure system. During the 2013-2014 election cycle, over 8,000 committees and other filers used the eFiling platform to file campaign finance disclosure reports.

The FEC is committed to providing timely and transparent campaign finance disclosure to the public and delivering data in accessible and easy-to-use formats. The FEC has launched an initiative to develop an automated data capture process to convert paper-filed reports into structured, machine-readable data. Automating this labor-intensive process will decrease data processing time, increase the accuracy of data and reduce the overall costs of capturing data from paper forms.

The Commission is also currently redesigning its website, in part, to increase the public's access to and understanding of the agency's extensive data offerings. In partnership with 18F, a newly formed data services delivery team within the General Services Administration (GSA), the FEC is developing a user centered online platform to deliver campaign finance information to its diverse base of users. Once complete, the redesigned FEC website will better meet the needs of an audience that spans from individual citizens seeking information about the candidates on the ballot in their state to journalists and researchers who specialize in campaign finance issues, to filers and other political participants seeking legal guidance and compliance information. The FEC provides the public with a wealth of complex information, including current and historical campaign finance data, detailed information regarding the requirements of the campaign finance law and legal resources, such as advisory opinions issued by the Commission and information on closed enforcement matters. This multiyear 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.

The FEC's first new offerings as a result of its website redesign project are a publicly available application programming interface (API) to increase public access to campaign finance data and an online tool to help filers and the general public better understand filing requirements and deadlines. The new API and online tool, created in collaboration with 18F, supplement the campaign finance data offerings developed and maintained by FEC staff. The Commission continues to provide detailed and comprehensive campaign finance data through the Candidate and Committee Viewer and the Data Catalog. During Presidential election

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

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

The level of availability and accessibility of campaign finance data serves as a measurement of success in improving the public's access to information about how campaign funds are raised and spent.

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

Key Indicator: Enhanced availability of campaign finance data as measured by increased capabilities to retrieve and analyze data.								
FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Actual	FY 2014 Actual	FY 2015 Target	FY 2015 Actual	FY 2016 Target	FY 2017 Target
N/A	N/A	N/A	N/A	75%	75%	86%	75%	75%

Objective 2: Promote Compliance with the FECA and Related Statutes

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

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

The FEC's education and outreach programs provide information necessary for compliance with the campaign finance law and give the public the context necessary to interpret the campaign finance data filers disclose. The FEC maintains a toll-free line and public email accounts to respond to inquiries regarding campaign finance data disclosed to the public and questions about how to comply with the campaign finance law and its reporting requirements. The FEC also operates Press and Congressional Affairs offices.

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

The FEC also devotes considerable resources to ensuring that staff can provide distance learning opportunities to the public. The Commission's website is one of the most important sources of instantly accessible information about the *Act*, Commission regulations and Commission proceedings. In addition to viewing campaign finance data, anyone with Internet access can use the website to track Commission rulemakings, search advisory opinions, audits and closed enforcement matters, view campaign finance data and find reporting dates. The Commission places a high emphasis on providing educational materials about the campaign finance law and its requirements. Toward this end, the FEC has moved its focus away from the printing and manual distribution of its educational materials and instead looked for ways to leverage available technologies to create and disseminate dynamic and up-to-date educational materials through the website. While the Commission continues to make available printed copies of its educational brochures and publications, transitioning to primarily web-based media has 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 an E-Learning section on its Educational Outreach web page and its own YouTube channel, which can be found at http://www.youtube.com/FECTube. The E-Learning page offers instructional videos and tutorials, as well as interactive presentations that enable users to obtain guidance tailored to their specific activities. The curriculum currently includes a variety of presentations about the Commission and the campaign finance law.

The agency's educational outreach program has been significantly enhanced with the addition of an online training service that enables political committees 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. The FEC has historically measured the success of its educational outreach programs based on satisfaction surveys of conference attendees. Beginning in FY 2014, the agency initiated a program to measure user satisfaction across all aspects of its outreach program.

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

Key Indicator: Percent of educational outreach programs (webinars, seminars, publications and E-Learning presentations) and events that achieve targeted satisfaction rating on user surveys.								
FY 2010 Actual	**FY 2011 Actual**	**FY 2012 Actual**	**FY 2013 Actual**	**FY 2014 Actual**	**FY 2015 Target**	**FY 2015 Actual**	**FY 2016 Target**	**FY 2016 Target**
N/A	N/A	N/A	N/A	Develop methods for surveying user satisfaction with webinars, publications and E-Learning presentations.	4.0 or higher on a 5.0 scale	4.34	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 set strategies for ensuring that its enforcement and compliance programs are fair, effective and timely. The Commission's statutory obligation is to administer, interpret and enforce the *Federal Election Campaign Act*, which serves the compelling governmental interest in deterring corruption and the appearance of corruption in financing elections. In doing so, the Commission remains mindful of the First Amendment's guarantees of freedom of speech and association, and the practical implication of its actions on the political process.

The FEC has exclusive jurisdiction over civil enforcement of Federal campaign finance laws. 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 online through the Commission's Enforcement Query System at http://eqs.fec.gov/eqs/searcheqs.

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

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

Key Indicator: Of the enforcement matters resolved during the fiscal year, the percentage that was resolved within 15 months of the date of receipt.								
FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Actual	FY 2014 Actual	FY 2015 Target	FY 2015 Actual	FY 2016 Target	FY 2017 Target
75%	89%	70%	72%	28%	75%	48%	75%	75%

Objective 3: Interpret the FECA and Related Statutes

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

Regulations

The Policy Division of OGC drafts 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* requires the Commission to respond to AO requests within 60 days. For AO requests from candidates in the two months leading up to an election, the *Act* requires the Commission to respond within 20 days. On its own initiative, the Commission also makes available an expedited process for handling certain time-sensitive requests that are not otherwise entitled to expedited processing under the *Act*. The Commission strives to issue these advisory opinions in 30 days.

Defending Challenges to the Act

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

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

Key Indicator: Percent of legal guidance provided within statutory and court-ordered deadlines.								
FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Actual	FY 2014 Actual	FY 2015 Target	FY 2015 Actual	FY 2016 Target	FY 2017 Target
N/A	N/A	N/A	N/A	100%[3]	100%	100%[4]	100%	100%

Objective 4: Foster a Culture of High Performance

One of the management objectives from the FEC's Strategic Plan, FY 2014-2019, Foster a Culture of High Performance, cuts across the organization and reflects the agency's strategic priorities for improving the efficiency and effectiveness of its workforce and management processes. The Commission understands that the success of its programs depends upon the skills and commitment of its staff. A focus for the Commission is to ensure 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 participating in and contributing to the government-wide Records Management initiative. In compliance with the *Federal Records Act*, the FEC is updating its records management program. The updated program will increase efficiency and improve performance by eliminating paper and using electronic recordkeeping to the fullest extent possible.

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

Key Indicator: Commission-required quarterly updates meet targeted performance goals.								
FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Actual	FY 2014 Actual	FY 2015 Target	FY 2015 Actual	FY 2016 Target	FY 2017 Target
N/A	N/A	N/A	N/A	73%	60%	80%	65%	65%

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

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

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

The FEC's FY 2015 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 2015:

Net Financial Condition	FY 2015	FY 2014	Increase (Decrease)	% Change
Assets	$ 17,056,461.67	$ 16,181,802.18	$ 874,659.49	5.41%
Liabilities	$ 5,924,714.17	$ 6,062,608.82	$ (137,894.65)	-2.27%
Net Position	$ 11,131,747.50	$ 10,119,193.36	$ 1,012,554.14	10.01%
Net Cost	$ 68,213,708.70	$ 65,789,981.48	$ 2,423,727.22	3.68%
Budgetary Resources	$ 71,084,848.49	$ 69,492,381.82	$ 1,592,466.67	2.29%
Custodial Revenue	$ 778,018.51	$ 549,586.76	$ 228,431.75	41.56%

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 $774 thousand, or 6.38 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 $518 from FY 2014.

Property and equipment consists of software, general-purpose equipment used by the agency and software development. In FY 2015, the FEC continued to evaluate existing systems and retired outdated software systems, and initiated a series of upgrades to existing systems to support regulated reporting requirements. Net property and equipment increased by $97 thousand from FY 2014 to $4 million. Total liabilities decreased by approximately two percent.

Statement of Net Cost

The Statement of Net Cost presents the annual cost of operating the FEC program. Gross costs are used to arrive at the total net cost of operations. The FEC's total gross costs in administering the *FECA* did not experience significant fluctuation from FY 2014, as there was a 3.6 percent change from FY 2014 to FY 2015. This is supported by the agency's having experienced only a slight fluctuation – about three percent – in net appropriations 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 10 percent, or approximately $1.01 million.

Statement of Budgetary Resources

The Statement of Budgetary Resources provides information on the source and status of budgetary resources made available to the FEC during the reporting period. It presents the relationship between budget authority and budget outlays, as well as the reconciliation of obligations to total outlays. Total Budgetary Resources and Status of Budgetary Resources increased by approximately $1.59 million, or 2.29 percent, from FY 2014. This included a 2.47 percent increase in obligations incurred.

Statement of Custodial Activity

The Statement of Custodial Activity (SCA) represents an accounting of revenue and funds collected by the FEC that are owed to the U.S. Treasury's general fund. These monies are not available for the FEC's use. Collection and revenue activity primarily result from enforcement actions that come before the Commission during the fiscal year. Revenue and collections on the SCA consist of collections on new assessments, prior year(s) receivables and Miscellaneous Receipts. In FY 2015, the total custodial revenue and collections increased by approximately $228 thousand, or 41.56 percent, from FY 2014.

The chart below displays the assessment history for the past 20 years[5].

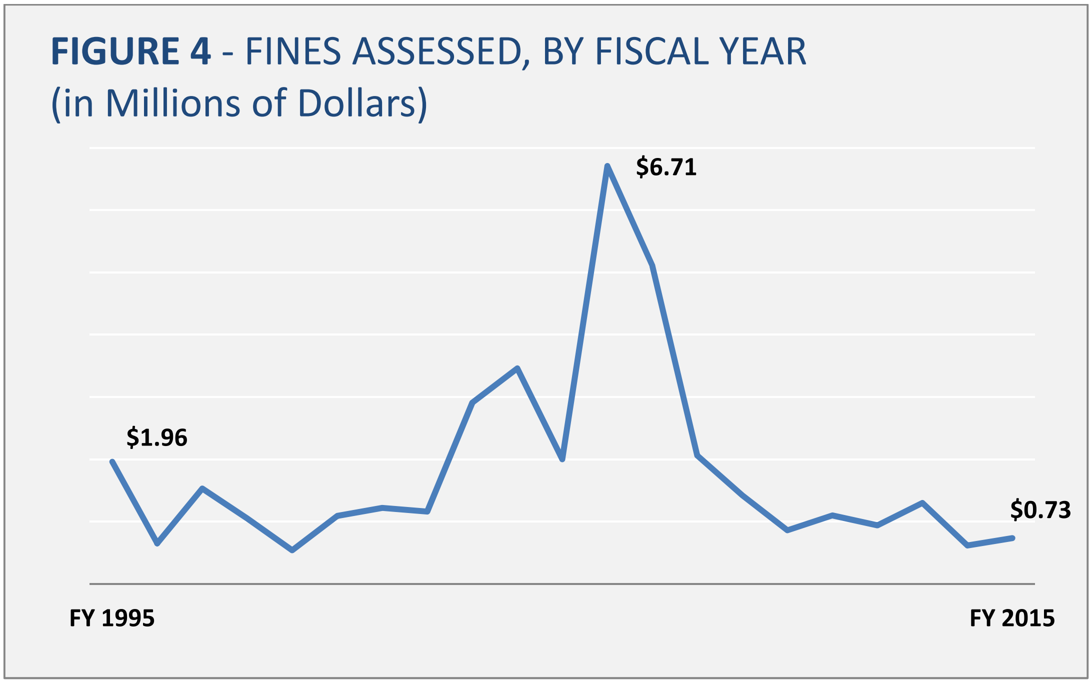


Figure 4: Fines Assessed, by Fiscal Year (in millions of dollars)

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

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

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

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

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

Inspector General Act of 1978, as amended;

Federal Managers' Financial Integrity Act of 1982;

Government Performance and Results Act of 1993, as amended;

Federal Financial Management Improvement Act of 1996;

Clinger-Cohen Act of 1996;

Debt Collection Improvement Act of 1996, as amended; and

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

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

I.D.ii – Management Assurances

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

Section 2 of the *FMFIA* requires Federal agencies to report, on the basis of annual assessments, any material weaknesses that have been identified in connection with their internal and administrative controls. The reviews that took place during FY 2015 provide unqualified assurance that FEC systems and management controls comply with the requirements of the *FMFIA*.

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

Prompt Payment Act

The *Prompt Payment Act* (PPA) requires Federal agencies to make timely vendor payments and to pay interest penalties when payments are late. The FEC's on-time payment rate for FY 2015 was nearly 100 percent, with less than 0.2 percent of all invoices paid after the date required by the PPA.

Improper Payments

The *Improper Payments Information Act of 2002* (IPIA), the *Improper Payments Elimination and Recovery Act of 2010* (IPERA), *Improper Payments Elimination and Recovery Improvement Act of 2012* (IPERIA) and OMB guidance require agencies to identify those programs that are susceptible to significant erroneous payments, and determine an annual estimated amount of erroneous payments made in their operations. The FEC reviewed all of its programs and activities to identify those susceptible to significant erroneous payments. Approximately 68 percent of the FEC's obligations pertain to salaries and benefits, which represents a low risk for improper payments, based on established internal controls. The FEC also reviewed all of its FY 2015 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.

Annual Assurance Statement on Internal Control

THE FEDERAL ELECTION COMMISSION
Washington, DC 20463

Annual Assurance Statement on Internal Control

The Federal Election Commission (FEC) is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the *Federal Managers' Financial Integrity Act of 1982 (FMFIA),* as implemented by OMB Circular A-123, revised, *Management 's Responsibility for Internal Control.* Internal control is an integral component of management to provide reasonable assurance that (1) programs operate effectively and efficiently, (2) financial reports are reliable, and (3) programs comply with applicable laws and regulations. The FEC conducted its evaluation of internal control in accordance with OMB Circular A -123. Based on the results of the Fiscal Year 2015 internal control review, the FEC reports no material weakness under the FMFIA and is able to provide an unqualified statement of assurance that the internal controls and financial management systems meet the objectives of FMFIA.

Ann M Ravel

Ann M. Ravel
Chair

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

The Inspector General's report in Section III identifies three areas specific to management and performance challenges: 1) Information Technology Project Planning and Management, 2) Governance Framework and 3) Human Capital Management / Human Resources Operations. The agency continues its efforts to adhere to Directive 50, addressing project management requirements and creating corrective action plans (CAP) and creating project plans for specific CAP items. The FEC also continues to make significant progress in its human capital management and operations. The FEC's full response to the Inspector General's assessment of its performance in these areas appears in Section III.

Section I.E: Limitations of the Financial Statements

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

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

Message from the Chief Financial Officer

November 13, 2015

I am pleased to present the Commission's financial statements for Fiscal Year (FY) 2015. 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 seventh consecutive year with no material weaknesses identified. This is the fourth consecutive year with no significant deficiencies reported for the Office of the Chief Financial Officer (OCFO). I applaud the good work of OCFO staff who strived diligently throughout the fiscal year to achieve these results, maintaining a commitment to excellence.

The agency continues to improve its information technology (IT) security controls. Although the auditors identified IT security controls as a significant deficiency for FY 2015, the agency is making progress in this area. The agency understands the importance of IT security and is committed to the timely implementation of the FY 2015 Financial Statement Audit Corrective Action Plan (CAP). Over the past year, the FEC has taken significant actions to improve the agency's IT infrastructure generally and our IT security posture specifically. The agency has a robust plan and leadership support to continue IT enhancements in future years. The Agency has approved implementation of NIST standards based on the study completed in the fiscal year. The Agency will implement a trusted internet connection by the end of the calendar year.

During FY 2015, General Service Administration's (GSA) 18F and the FEC have worked to develop the IT infrastructure necessary to support a 21st century digital services model. The FEC's vast store of campaign finance data is arguably our most valuable and most durable asset. The agency holds 40 years' worth of detailed information on campaign finance transactions collected over time and via an array of media, including letters, paper forms and electronically filed documents. This year, we have taken the first steps toward moving this data and the systems that support it into a secure, scalable cloud environment. With a cloud-hosted system, we enjoy effectively limitless capacity but only pay for the capacity we use. Transitioning to a cloud environment allows us to continue to grow our database in the future, providing an agile, searchable system able to meet the public's peak demand for services.

For FY 2015, as mandated by the Office of Management and Budget's Memorandum M-13-08, *Improving Financial Systems Through Shared Services*, to consolidate shared services across government for financial management, the OCFO transitioned from GSA shared services to U.S. Department of Agriculture (USDA) shared services. USDA has agreed to acquire GSA's Financial Management Line of Business operations including the current Momentum financial system and the support staff, making the transition as seamless as possible. This approach to comply was least disruptive to our current operations and the best solution for the agency.

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

Sincerely,

Judy Berning
Acting Chief Financial Officer

OIG Transmittal Letter

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

MEMORANDUM

TO: The Commission

FROM: Inspector General

SUBJECT: Audit of the Federal Election Commission's Fiscal Year 2015 Financial Statements

DATE: November 16, 2015

Pursuant to the Chief Financial Officers Act of 1990, as amended, this letter transmits the Independent Auditor's Report issued by Leon Snead & Company (LSC), P.C. for the fiscal year ending September 30, 2015. The audit was performed under a contract with, and monitored by, the Office of Inspector General (OIG), in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable provisions of Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*.

Opinion on the Financial Statements

LSC audited the balance sheet of the Federal Election Commission (FEC) as of September 30, 2015, and the related statements of net cost, changes in net position, budgetary resources, and custodial activity (the financial statements) for the year then ended. The objective of the audit was to express an opinion on the fair presentation of those financial statements. In connection with the audit, LSC also considered the FEC's internal control over financial reporting and tested the FEC's compliance with certain provisions of applicable laws and regulations that could have a direct and material effect on its financial statements. The financial statements of the FEC as of September 30, 2014, were also audited by LSC whose report dated November 14, 2014, expressed an unmodified opinion on those statements.

In LSC's opinion, the financial statements present fairly, in all material respects, the financial position, net cost, changes in net position, budgetary resources, and custodial activity of the FEC as of, and for the year ending September 30, 2015, in conformity with accounting principles generally accepted in the United States of America.

Report on Internal Control

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

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

- A **deficiency** in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.
- A **significant deficiency** is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.
- A **material weakness** is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

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

Report on Compliance with Laws and Regulations

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

The results of LSC's tests of compliance with laws and regulations described in the audit report disclosed one instance of noncompliance with The Homeland Security Presidential Directive 23, and National Security Presidential Directive 54, *Cyber Security and Monitoring,* establishing the Comprehensive National Cyber Security Initiative, and relating to Initiative No. 1, *Manage the Federal Enterprise Network as a Single Enterprise with a Trusted Internet Connection*. Additional details can be found on page 12 of the audit report.

Audit Follow-up

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

OIG Evaluation of Leon Snead & Company's Audit Performance

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

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

Lynne A. McFarland

Lynne A. McFarland
Inspector General

Attachment

cc: Judy Berning, Acting Chief Financial Officer
Alec Palmer, Staff Director/Chief Information Officer
Daniel Petalas, Acting General Counsel

Independent Auditor’s Report

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

Federal Election Commission

Audit of Financial Statements

As of and for the Years Ended
September 30, 2015 and 2014

Submitted By

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

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LEON SNEAD
& COMPANY, P.C.

Certified Public Accountants
& Management Consultants

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Independent Auditor's Report

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

We have audited the accompanying financial statements of Federal Election Commission (FEC), which comprise the balance sheet as of September 30, 2015 and 2014, and the related statements of net cost, changes in net position, budgetary resources, and custodial activity for the years then ended. The objective of our audit was to express an opinion on the fair presentation of those financial statements. In connection with our audit, we also considered the FEC's internal control over financial reporting, and tested the FEC's compliance with certain provisions of applicable laws, regulations, and certain provisions of contracts.

SUMMARY

As stated in our opinion on the financial statements, we found that the FEC's financial statements as of and for the years ended September 30, 2015 and 2014, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

Our consideration of internal control would not necessarily disclose all deficiencies in internal control over financial reporting that might be material weaknesses under standards issued by the American Institute of Certified Public Accountants. Our testing of internal control identified no material weakness in internal controls over financial reporting. However, we identified a significant deficiency related to the Information Technology (IT) security program established by the FEC that continues to exist.

FEC officials responded to the draft report, and concurred with eight of the eleven recommendations. For the remaining three recommendations, relating to project planning and implementation of recommendations in a contractor's report dealing with an IT security intrusion, we have not reached agreement. In addition, while the FEC concurs with many of the IT findings identified in the audit report, FEC officials do not agree that these issues result in a significant deficiency for financial statement purposes. We disagree with the agency's comments, and have on several occasions provided authoritative guidance to FEC officials that support our professional opinion and illustrates that we have met audit standards in reporting this significant deficiency.

During this fiscal year (FY), the Commission voted to adopt the National Institute of Standards and Technology (NIST), *Risk Management Framework* (RMF), NIST IT security control "best practices," and approved funding to begin to implement this critical internal control process. We believe that the actions the Commission has agreed to take, when fully implemented, will significantly reduce the risks to the agency's information and information systems. In addition, the agency completed corrective actions on several other recommendations from our prior financial statement audit reports.

Our tests of compliance with certain provisions of laws, regulations, and significant provisions of contracts, disclosed one instance of noncompliance that is required to be reported under Government Auditing Standards and the Office of Management and Budget (OMB) audit bulletin. This issue deals with noncompliance with The Homeland Security Presidential Directive 23 and National Security Presidential Directive 54, *Cyber Security and Monitoring*, establishing the Comprehensive National Cybersecurity Initiative, and relating to Initiative No. 1, *Manage the Federal Enterprise Network as a Single Enterprise with a Trusted Internet Connection* (TIC). FEC has taken actions to meet TIC requirements, and we have been advised that the agency should be in full compliance with this security policy in the near future.

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

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of FEC, which comprise the balance sheets as of September 30, 2015 and 2014, and the related statements of net cost, statements of changes in net position, statements of budgetary resources, and custodial activity for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; standards applicable to financial statement audits contained in *Government Auditing Standards (GAS)*, issued by the Comptroller General of the United States; and OMB Bulletin 15-02, *Audit Requirements for Federal Financial Statements* (the OMB audit bulletin). Those standards and the OMB audit bulletin require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's professional judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments in a Federal agency, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing opinions on the effectiveness of the FEC's internal control or its compliance with laws, regulations, and significant provisions of contracts. An audit also includes evaluating the appropriateness of accounting policies used, and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of FEC as of September 30, 2015 and 2014, and the related net cost, changes in net position, budgetary resources, and custodial activity for the years then ended in accordance with accounting principles generally accepted in the United States of America.

OTHER MATTERS

Required Supplementary Information

Accounting principles generally accepted in the United States require that Management's Discussion and Analysis (MDA) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board (FASAB) who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

OTHER AUDITOR REPORTING REQUIREMENTS

Report on Internal Control

In planning and performing our audit of the financial statements of FEC, as of and for the years ended, September 30, 2015 and 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the FEC's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the FEC's internal control. Accordingly, we do not express an opinion on the effectiveness of the FEC's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, material weaknesses or significant deficiencies may exist that were not identified. However, given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be a material weakness. As discussed below, we identified a deficiency in internal control that we consider to be a significant deficiency.

Because of inherent limitations in internal controls, including the possibility of management override of controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Findings and Recommendations

Notable Agency Progress

The Commission voted during July 2015 to adopt NIST's RMF and "best practice" IT security controls, and to provide funding to implement these critical control processes. These actions represent a significant step in eliminating the vulnerabilities identified in our, and the Office of the Inspector General (OIG) audit reports. FEC officials estimated that full implementation would not be completed until approximately one year after a contract is awarded to assist the agency in implementation, or approximately the end of calendar year 2016.

FY 2015 Recommendation Status

As required by GAS, we conducted follow-up testing to determine whether FEC had implemented corrective actions to address the findings and recommendations in the FY 2014 financial statement audit. The following information discusses the findings that still impact the agency's internal control processes.

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

FEC has made progress in addressing problems reported in prior years' audits. Of the 18 prior year's recommendations, seven have been closed, and our audit tests showed that the agency has corrective actions planned or ongoing on the remaining open recommendations. However, we continue to believe that effective project management is required to effectively and timely implement agreed upon corrective actions. Without appropriate project management and a project plan that includes: key tasks, assignments, timeframes, resource information, and other necessary information; the timely and effective implementation of agency IT projects are delayed, or not effectively implemented.

We worked with FEC officials during our FY 2015 audit, and provided to them guidance related to project planning and management requirements that we obtained from other federal agencies. In addition, we were notified that FEC officials added some information to the CAP relating to tasks and completion dates. However, our audit found that the agency has not issued guidance to address the deficiencies we identified in project planning, and the additional information provided in the CAP does not fully address the audit recommendation.

As noted previously, the Commission plans to obtain contractor assistance to implement NIST's best practice IT security program. The adoption of these best practice requirements will be a complex and long term project that crosses all aspects of FEC's IT operations, as well as other related agency operations. It is critical that a comprehensive project management plan be developed and monitored to ensure that this project is completed in a timely and effective manner.

<u>Recommendations:</u>

1. Develop an Office of Chief Information Officer (OCIO) policy that requires all project managers to develop a detailed project plan for all OCIO projects that require multiple resources and/or has a timeframe of completion beyond 60 days.

   <u>Agency's Response</u>
   FEC summarized the actions it has taken to attempt to address this recommendation, and adds "… We also created a draft project plan guide to provide direction in creating project plans for the OCIO. We held monthly meetings to update statuses of the CAP. The OCIO concurs to develop a project plan in areas that affect every division in the Agency. This will require a centralized Project Management Office (PMO) that would report to an Agency senior level leader and coordinate projects of a certain size and dollar value…."

Auditor's Comments

We have worked with FEC officials during the audit to assist in addressing this audit recommendation, and concur that the agency has taken certain actions. However, we are unable to agree that the proposed action to hire a Project Management Official appropriately addresses the audit recommendation. In our prior audits, we reported that inadequate project planning and management were key reasons for the significant delays in implementing agreed upon corrective actions for IT projects. Although the impact a project has on other FEC divisions is a significant element that should be included in an IT project plan, OCIO should have a project plan for all IT projects meeting the specified criteria in our recommendation, whether OCIO specific or involving other agency divisions. The OIG agrees with this conclusion, and has shown *Information Technology Project Planning and Management,* as a management challenge for FY 2015.

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

   a. identification of key tasks and/or steps;
   b. personnel responsible for completing the task and/or step;
   c. the timeframe for beginning and completing the task and/or step;
   d. any associated cost;
   e. resources required; and
   f. maintain documentation, as part of the project plan, to support the accomplishment of key plan tasks, issues that impacted the project, and the completion of the overall project.

Agency's Response
FEC officials advised that "The OCIO does concur to provide a project outline that covers parent tasks, resources assigned costs and start and end dates for the parent tasks. Documentation will be kept on issues that impacted the timely completion of the project. This will be applied to any project having a capital budget impact over 200K."

Auditor's Comments
We do not believe that project planning should only be done for projects that require capital expenditures. We are uncertain how the agency would determine the costs of projects that may not require the purchase of a capital item since the agency does not have a cost accounting system that could provide project costs (or estimated costs). In addition, some projects because of their critical nature and/or complexity would need a project plan, but may not have a capital budget of over $200,000.

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

The FEC has not completed a full assessment and accreditation of its GSS, or updated applicable policy documents as we recommended in prior financial statement audit reports. In our FY 2014, we reported that:

"FEC needs to perform an assessment of its general support system to identify vulnerabilities that could allow further network intrusions and data breaches. In addition, FEC has not followed FEC policy 58-2.4, *Certification and Accreditation Policy*, which establishes controls over the process of obtaining independent assurance that FEC major applications and general support system (GSS) are capable of enforcing the security policies that govern their operations."

Recommendations:

3. Promptly perform, after implementation of NIST best practice IT controls, an assessment and accreditation of the GSS. (*Revised)*

   Agency's Response
   FEC officials advised that "The OCIO concurs with this recommendation. The OIG is aware and has acknowledged OCIO's continuous work in this area. The OCIO is currently in the process of acquiring the service of a contractor to have the NIST Management Framework implemented (including SP 800-53r4) in the Agency… and a project plan will be created by the contractor once the contract is awarded."

   Auditor's Comments
   Since FEC officials have agreed to implement this recommendation, we have no additional comments.

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

   Agency's Response
   FEC officials advised that "The OCIO concurs with this recommendation. All OCIO security policies will be reviewed during the implementation of the NIST Risk Management Framework and modified as needed."

   Auditor's Comments
   Since FEC officials have agreed to implement this recommendation, we have no additional comments.

c. Recertification of Users' Access Authorities

FEC has not yet established a process that will provide supervisors with the necessary information to recertify user access authorities for their staff. We first reported that FEC needed to develop a process to periodically review users' access authorities in 2009. While FEC officials agreed after our first report that such a control process was needed (and required by its own policies), limited progress has been made to implement this control process. This problem continues even though FEC policies contained in IT policy 58-2.2, *Account Management Policy*, and the general support system's (GSS) security plan state that all user account access rights and privileges will be periodically reviewed and validated each six months.

Recommendations:

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

   Agency's Response
   FEC officials advised that "The OCIO concurs with this recommendation. As we have briefed OIG, we are currently evaluating tools that can meet the needs of the Agency. OCIO expects this project to be a multi-year phase approach. The tools we are evaluating are in the range of $200K. Pending approval of the Commission we will acquire and implement the appropriate tools."

   Auditor's Comments
   Since FEC officials have agreed to implement this recommendation and are seeking funding to acquire needed software, we have no additional comments.

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

   Agency's Response
   FEC officials advised that "The OCIO concurs with this recommendation. The OCIO has informed OIG that we are currently evaluating tools in order to implement the recommendations as OCIO has reported in the Corrective Action Plan. Once a tool is acquired, OCIO will provide OIG the necessary project outline for this recommendation. Because of dependencies on other module, the attestation module (user-recertification module) will be the last module to be implemented; therefore 4th quarter of FY 2017 is estimated here."

   Auditor's Comments
   Since FEC officials have agreed to implement this recommendation and are seeking funding to acquire needed software, we have no additional comments.

d. Continuity of Operations Plan (COOP)

We noted that FEC conducted a voluntary COOP testing exercise on September 23-24, 2015, to test the feasibility of using Surface tablets and the telework option as a viable method for the continuation of FEC operations in the event of a disruption to normal business. However, the COOP testing was only voluntary for COOP essential personnel, and all key COOP essential personnel had not been provided a Surface tablet at the time of this testing. Therefore, FEC has not yet fully and effectively tested and exercised the Continuity of Operations Plan (COOP) – a critical element in the development of a comprehensive and effective plan. As discussed in Federal Continuity Directive (FCD)

No. 1,[1] until the COOP plan is tested and exercised, any deficiencies in the plan cannot be determined, and the agency remains at risk of not being able to carry out the mission of the agency in the event of a disruption to normal business operations.

While the FEC currently has a draft Continuity of Operations Plan (COOP) a full test must be completed in order to validate the FEC's plan. We were advised by FEC officials that a full report of the voluntary test results is expected to be available in November 2015.

Recommendation:

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

   Agency's Response
   FEC officials advised that "The OCIO concurs with this recommendation. A test of the updated COOP was performed September 23-24, 2015….A full report of the test results is available and appropriate modifications will be made to the COOP, and if additional testing is required, a project outline will be provided."

   Auditor's Comments
   Since FEC officials have agreed to implement this recommendation and are assessing the test results, we have no additional comments.

e. USGCB Configuration Requirements

We have reported in prior audits that the FEC needed to adopt the United States Government Configuration Baseline (USGCB). As discussed in OMB guidance, the implementation of these standards is critical to strengthening an agency's overall configuration management control process. Our 2015 tests showed that FEC had initiated corrective actions to implement automated logging of changes, implemented a strengthened configuration review board, and began to implement USGCB configuration security settings within FEC. However, management noted that this project has been delayed, and it is now estimated to be completed during 2017, "because it is impossible to implement (these standards) on old hardware." Until these standards are implemented, critical risks remain and could impact the agency's information and information systems.

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

Recommendation:

8. Implement USGCB baseline configuration standards for all workstations and require documentation by the CIO to approve and accept the risk of any deviation from these standards.

   Agency's Response
   FEC officials advised that "The OCIO concurs with this recommendation. For all the new hardware installed thus far we are 100% compliant…Because it is not possible to implement the plan on older hardware, (t)herefore, based on budget availability, the remaining machines will be compliant during FY 2016-2017…."

   Auditor's Comments
   Since FEC officials have agreed to implement this recommendation, we have no additional comments.

f. Vulnerability Scanning and Timely Remediation of Vulnerabilities to Agency's Network

Vulnerability scanning for patch levels; scanning for functions, ports, protocols, and services that should not be accessible to users or devices; and scanning for improperly configured or incorrectly operating information flow control mechanisms is one of the most important control processes in an agency's IT security program. Without an effective scanning process, and timely remediation of identified vulnerabilities, the agency's information and information systems will remain at high risk.

Our FY 2015 audit continued to find problems in this area as follows:

- Controls needed strengthening to ensure that vulnerabilities/weaknesses identified through the vulnerability scanning tests are completed within 60 days of identification, or document an analysis and acceptance of risks for longer term remediation.

- Scanning of FEC's networks and devices were completed on a test basis, but later stopped. We were advised by FEC officials that until a decision was made as to whether to adopt NIST best practices IT security controls, scanning the network and devices served no useful purpose. In addition, the USGCB configuration management project needed to be completed prior to scanning network resources, according to FEC officials. However, the project is now scheduled to be completed during 2017, which further delays this control process for approximately two years.

Recommendation:

9. Immediately implement a comprehensive vulnerability scanning and remediation program. Strengthen controls to ensure that vulnerabilities/weaknesses identified through the vulnerability scanning are completed within 60 days of identification, or document an analysis and acceptance of risks for longer term remediation. (*Revised)*

Agency's Response

FEC officials advised that the OCIO concurs with this recommendation, and has awarded a contract to support agency scanning and remediation efforts.

Auditor's Comments

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

g. Mandiant Report Recommendations Remain Open

In May 2012, the FEC was a victim of a network intrusion by an Advanced Persistent Threat (APT).[2] The agency hired a contractor to analyze this serious intrusion on FEC's IT systems, and to provide recommended solutions to eliminating any threat discovered by the contractor. The contractor completed the analysis, and provided a report to FEC on October 5, 2012. The contractor made a significant number of recommendations, including that FEC should complete the actions by the end of October 2012.

However, our FY 2015 audit tests showed that, while the agency had taken action on several of the recommendations, other recommendations have remained open, almost three years after the report was provided to FEC officials.

Recommendation:

10. Complete the implementation of the contractor's open recommendations contained in the October 2012 Threat Assessment Program report, or provide a formal signed document accepting the risk of the remaining outstanding recommendations that FEC will not implement. Provide sufficient budgetary and personnel resources to this project to ensure that actions are properly accomplished. *(Revised)*

Agency's Response

FEC officials advised that the OCIO disagrees with the recommendation, and stated that the OCIO has implemented all the primary recommendations from the Mandiant report. FEC officials add that "The supplemental recommendations will fall under larger projects OCIO is currently working on and/or plans to implement in FY 2016. For example, as part of the USGCB project admin access from client machines will be removed as OCIO refreshes its client machines; OCIO also made a recommendation to eliminate xmail that would address this finding. The Commission instead decided to implement multi-factor authentication for "webmail" as the Agency moves from Lotus Notes to Office 365 early next year."

[2] According to NIST SP 800-39, an adversary that possesses sophisticated levels of expertise and significant resources which allow it to create opportunities to achieve its objectives by using multiple attack vectors (e.g., cyber, physical, and deception). These objectives typically include establishing and extending footholds within the information technology infrastructure of the targeted organizations for purposes of obtaining information, undermining or impeding critical aspects of a mission, program, or organization; or positioning itself to carry out these objectives in the future. The advanced persistent threat: (i) pursues its objectives repeatedly over an extended period of time; (ii) adapts to defenders' efforts to resist it; and (iii) is determined to maintain the level of interaction needed to execute its objectives. The contractor also identified two additional systems that were infected, but were not shown as APT type threats.

Auditor’s Comments

Since FEC officials have agreed to implement this recommendation via other planned projects, we will review the agency’s detailed plans for resolving the remaining recommendations during the FY 2016 audit. Thus, we have no additional comments.

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

REPORT ON COMPLIANCE

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

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

Noncompliance with Comprehensive National Cyber Security Initiative (*Repeat Finding)*

We first reported that the FEC was noncompliant with The Homeland Security Presidential Directive 23, and National Security Presidential Directive 54, *Cyber Security and Monitoring*, in our FY 2012 audit report. Trusted Internet Connection (TIC) was introduced in OMB Memorandum M-08-05, *Implementation of Trusted Internet Connections*, dated November 20, 2007. The initiative was described in the memorandum as an effort to develop “a common [network] solution for the federal government” that would reduce the number of external Internet connections for the entire government. The memorandum stated that “each agency will be required to develop a comprehensive POA&M (Plan of Action and Milestones)” to implement TIC, but it neither defined “agency” nor referred to any legal authority supporting the initiative.

FEC’s Office of General Counsel (OGC) analyzed this document and initially determined that the FEC was exempt from implementing TIC. However, at our request, OGC reassessed this determination, and in an August 2012 memorandum to the Staff Director, the OGC stated that

"…we conclude that FEC must comply with all requirements of…TIC." Based upon this OGC opinion, FEC officials agreed in 2012 to implement TIC.

Our 2015 audit tests found that the agency has just contracted with a vendor to implement TIC requirements. FEC officials advised that TIC would be fully implemented in the near future.

Recommendation:

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

    Agency's Response
    FEC officials advised that "The OCIO concurs with this recommendation…The contracting officer awarded a contract for the TIC service at the end of September. We are currently in the planning phase with the winning vendor. The estimated completion date is the second quarter of FY 2016…."

    Auditor's Comments
    Since FEC officials have agreed to implement this recommendation, we have no additional comments.

Restricted Use Relating to Reports on Internal Control and Compliance

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

AGENCY'S RESPONSE

The FEC's November 9, 2015 response to the audit report, which has been summarized in the body of this report, is included in its entirety as Attachment 2. The FEC's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Leon Snead+Company, PC

Rockville, Maryland
November 16, 2015

Status of Prior Year Recommendations

Rec. No.	Recommendation	Recommendation Status
1.	Formally adopt as a model for FEC, the NIST IT security controls established in FIPS 199, FIPS 200, SP 800-53, and other applicable guidance that provides best practice IT security control requirements.	Closed
2.	Revise FEC policies and procedures to require a documented, fact-based, risk assessment prior to declining adoption of any government-wide IT security best practice, or IT security requirement. Require the Chief Information Officer (CIO) to approve, and accept the risk of any deviation from government-wide IT security best practices that are applicable to the FEC business operations. Retain documentation of these decisions.	Closed
3.	Complete the implementation of the open contractor's recommendations contained in the October 2012 Threat Assessment Program report. Provide sufficient budgetary and personnel resources to this project to ensure that actions are properly accomplished.	Open
4.	Revise all pertinent FEC policies and procedures to ensure that they address proper prevention and detection controls, and provide a current and authoritative control structure for addressing Advance Persistent Threat (APT), and other types of intrusions.	Closed
5.	Complete the project relating to review of user access authorities, and ensure necessary budgetary and personnel resources are provided to complete this project.	Open
6.	Reissue FEC Policy 58-2.2 to require annual recertification of users' access authorities by supervisory personnel who would have knowledge of the users' requirements for accessing FEC information and information systems. Ensure that the policy contains sufficient operational details to enable an effective review and update process.	Open
7.	Revise FEC policies and operating procedures to require the minimum best practices controls contained in the United States Government Configuration Baseline (USGCB).	Closed
8.	Implement USGCB baseline configuration standards for all workstations and require documentation by the CIO to approve and accept the risk of any deviation.	Open
9.	Undertake a comprehensive review of user accounts that have been granted non-expiring passwords. Require detailed information from account owners on the need for non-expiring accounts, including the development of other alternatives, before reauthorizing the accounts' access. Develop FEC policies and operating procedures to implement this recommendation.	Closed
10.	Whenever possible, require accounts with non-expiring passwords to be changed at least annually. Establish substantially more robust password requirements for accounts granted non-expiring passwords. Develop FEC policies and operating procedures to implement this recommendation.	Closed
11.	Immediately terminate those accounts with non-expiring passwords that have not accessed their accounts within the last 12 months. Develop FEC policies and operating procedures to implement this recommendation to include a data retention policy for historical data.	Closed

12.	Strengthen controls to ensure that vulnerabilities/weaknesses identified through the vulnerability scanning tests are completed within 60 days of identification, or document an analysis and acceptance of risks for longer term remediation.	Open
13.	Perform within this fiscal year a new assessment and accreditation of the GSS using NIST SP 800-53 as the review criteria.	Open
14.	Strengthen FEC Policy 58-2.4 so that it provides additional guidance on what decision points determine when a new assessment and accreditation is required; and the specific documentation requirements that need to be maintained in order for the agency to track changes so it can make informed decisions on when major changes drive the need for a new assessment and/or updated accreditation.	Open
15.	Ensure that sufficient resources are assigned to the task of testing the COOP, a critical IT control process, in order to reduce risk to the FEC, and complete all required tests in a timely manner. Ensure that appropriate documentation is retained as required by FCD No. 1 to support that FEC has met all applicable federal requirements.	Open
16.	Develop a detailed Plan of Action and Milestone (POA&M) to ensure that required COOP testing and exercises are completed as soon as possible.	Open
17.	Issue a FEC policy that requires project managers to prepare project plans that address FEC Directive 50 requirements for projects that are implemented to address audit recommendations. Require that the project plan includes information, such as: identification of key tasks and/or steps; personnel responsible for completing the task and/or step; the timeframe for beginning and completing the task and/or step; resources required; and that documentation be maintained, as part of the project plan, to support the accomplishment of key plan tasks, issues that impacted the project, and the completion of the overall project.	Open
18.	Develop a time-phased corrective action plan to address the prompt implementation of Homeland Security Presidential Directive 23, and National Security Presidential Directive 54, Cyber Security and Monitoring.	Open

Agency Response to Report[3]

While the FEC concurs with many of the IT findings identified in the audit report, we do not agree that these issues result in a significant deficiency for financial statement purposes. All IT findings are solely related to the FEC's general support system (GSS) rather than the financial system of record, which is outsourced. The likelihood of a material misstatement occurring due to the weakness in the FEC GSS environment is extremely low. The current levels of IT controls do not impact the fair presentation of the Agency's financial statements such that it would rise to the level of a significant deficiency in the scope of the financial statement audit.

In FY 2015, the Agency has taken steps to adopt the National Institute of Standards and Technology (NIST), *Risk Management Framework* (RMF), NIST IT security control "best practices," and approved funding to begin to implement this critical internal control process. In addition, the Agency completed corrective actions on several other recommendations from our prior financial statement audit reports. Furthermore, the Agency has taken actions to meet TIC requirements, and should be in full compliance with this security policy in the near future.

1. Develop an Office of Chief Information Officer (OCIO) policy that requires all project managers to develop a detailed project plan for all OCIO projects that require multiple resources and/or has a timeframe of completion beyond 60 days.

   <u>Agency's Response</u>

   In the FY 2014 financial statement audit report, the auditors recommended that FEC issue a policy that requires project managers to prepare project plans that addresses Directive 50 requirements. These additional items consisted of identifying information such as: identification of key tasks and/or steps; personnel responsible for completing the task and/or step; the time frame for beginning and completing the task and/or step; resources required; and that documentation be maintained, as part of the project plan, to support the accomplishment of key plan tasks, issues that impacted the project, and the completion of the overall project.

   Directive 50 requires that for all audit follow up, management officials are responsible for receiving and analyzing audit reports, providing timely responses, and taking corrective action for all audit follow-up. It further outlines the need to develop a written corrective action plan (CAP) to present to the Commission after receiving the audit report, conduct regular meetings with the Inspector General to follow-up on outstanding findings, respond in a timely manner to all audit reports, and produce semi-annual reports that are submitted to Agency head.

   In FY 2015, the OCIO continued its efforts to enhance the CAP to adhere to Directive 50 and the auditor's recommendation. We focused on creating project

[3] The acting Chief Financial Officer provided the agency response via email, and the response is attached in its entirety.

plans for some CAP items. We enhanced the CAP to include updates, key tasks, accomplishments, key personnel and timelines. Additionally, we created a separate document to serve as project plan for specific CAP items. We also created a draft project plan guide to provide direction in creating project plans for the OCIO. We held monthly meetings to update statuses of the CAP.

The OCIO concurs to develop a project plan in areas that affect every division in the Agency. This will require a centralized Project Management Office (PMO) that would report to an Agency senior level leader and coordinate projects of a certain size and dollar value. Because Project Management Book of Knowledge (PMBOK) is a massive bureaucratic framework that may not fit in this small Agency, this change will require the Commission to support staffing a PMO and whether new project methodologies are feasible, such as implemented by the Digital Services Innovation Team at GSA.

2. Develop a OCIO policy that details the necessary information required for the development of a project plan such as:
    a. identification of key tasks and/or steps;
    b. personnel responsible for completing the task and/or step;
    c. the timeframe for beginning and completing the task and/or step;
    d. any associated cost;
    e. resources required; and
    f. maintain documentation, as part of the project plan, to support the accomplishment of key plan tasks, issues that impacted the project, and the completion of the overall project.

<u>Agency's Response</u>

The OCIO does concur to provide a project outline that covers parent tasks, resources assigned costs and start and end dates for the parent tasks. Documentation will be kept on issues that impacted the timely completion of the project. This will be applied to any project having a capital budget impact over 200K.

3. Promptly perform, after implementation of NIST best practice IT controls, an assessment and accreditation of the GSS. (*Revised)*

<u>Agency's Response</u>

The OCIO concurs with this recommendation. The OIG is aware and has acknowledged OCIO's continuous work in this area. The OCIO is currently in the process of acquiring the service of a contractor to have the NIST Management Framework implemented (including SP 800-53r4) in the Agency. The OCIO already provided OIG with a copy of the SOW for their review. As previously stated above, a project plan will be created by the contractor once the contract is awarded.

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

   Agency's Response

   The OCIO concurs with this recommendation. All OCIO security policies will be reviewed during the implementation of the NIST Risk Management Framework and modified as needed.

   The OIG is aware and has acknowledged OCIO's continuous work in this area. The OCIO is currently in the process of acquiring the service of a contractor to have the NIST Management Framework implemented (including SP 800-53r4) in the Agency. The OCIO already provided OIG with a copy of the SOW for their review. As previously stated above, a project plan will be created by the contractor once the contract is awarded.

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

   Agency's Response

   The OCIO concurs with this recommendation. As we have briefed OIG, we are currently evaluating tools that can meet the needs of the Agency. OCIO expects this project to be a multi-year phase approach. The tools we are evaluating are in the range of $200K. Pending approval of the Commission we will acquire and implement the appropriate tools.

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

   Agency's Response

   The OCIO concurs with this recommendation. The OCIO has informed OIG that we are currently evaluating tools in order to implement the recommendations as OCIO has reported in the Corrective Action Plan. Once a tool is acquired, OCIO will provide OIG the necessary project outline for this recommendation. Because of dependencies on other module, the attestation module (user-recertification module) will be the last module to be implemented; therefore 4th quarter of FY 2017 is estimated here.

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

   Agency's Response

   The OCIO concurs with this recommendation. A test of the updated COOP was performed September 23-24, 2015. The test simulated a local unavailability of the primary work site, with all designated COOP personnel working from their alternate work site. A full report of the test results is available and appropriate modifications will be made to the COOP, and if additional testing is required, a project outline will be provided.

8. Implement USGCB baseline configuration standards for all workstations and require documentation by the CIO to approve and accept the risk of any deviation from these standards.

   Agency's Response

   The OCIO concurs with this recommendation. For all the new hardware installed thus far we are 100% compliant. Currently, we have 90 compliant machines. Because it is not possible to implement the plan on older hardware, the OCIO implementation plan is linked to the desktop hardware refresh cycle. Therefore, based on budget availability, the remaining machines will be compliant during FY 2016-2017 during new hardware implementation.

   The OCIO has provided OIG with the project plan of what we have accomplished thus far as an example, of which the IG's office has accepted.

9. Immediately implement a comprehensive vulnerability scanning and remediation program. Strengthen controls to ensure that vulnerabilities/weaknesses identified through the vulnerability scanning are completed within 60 days of identification, or document an analysis and acceptance of risks for longer term remediation. (*Revised)*

   Agency's Response

   The OCIO concurs with this recommendation. The procurement officer awarded a contract to support the scanning and remediation efforts. This effort will help with documentation and acceptance of risks for longer term remediation. OIG is aware of the SOW for this service. It is important to note that when the scanning tool was configured we ran our first set of scans in April of this year.

10. Complete the implementation of the contractor's open recommendations contained in the October 2012 Threat Assessment Program report, or provide a

formal signed document accepting the risk of the remaining outstanding recommendations that FEC will not implement. Provide sufficient budgetary and personnel resources to this project to ensure that actions are properly accomplished. *(Revised)*

<u>Agency's Response</u>

The OCIO disagrees with the recommendation for this activity. The OCIO has implemented all the primary recommendations from the Mandiant report. The supplemental recommendations will fall under larger projects OCIO is currently working on and/or plans to implement in FY 2016. For example, as part of the USGCB project admin access from client machines will be removed as OCIO refreshes its client machines; OCIO also made a recommendation to eliminate xmail that would address this finding. The Commission instead decided to implement multi-factor authentication for "webmail" as the Agency moves from Lotus Notes to Office 365 early next year.

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

<u>Agency's Response</u>

The OCIO concurs with this recommendation. The OCIO personnel reviewed the MTIPs vendors' proposals on the 17th through the 21st of September. The contracting officer awarded a contract for the TIC service at the end of September. We are currently in the planning phase with the winning vendor. The estimated completion date is the second quarter of FY 2016. A project schedule will be available to the IG in the next 3 weeks.

The FEC concurs with many of the IT findings identified in the audit report. However, none of the findings were related to financial reporting. Therefore, we do not agree that these issues result in a significant deficiency for financial statement purposes. The levels of IT controls do not impact the fair presentation of the Agency's financial statements for it to be considered a significant deficiency in the scope of the financial statement audit.

End of Independent Auditor’s Report

Financial Statements

BALANCE SHEET
As of September 30, 2015 and 2014 (in dollars)

Assets (Note 2)	**2015**	**2014**
Intragovernmental:		
Fund balance with Treasury (Note 3)	$ 12,900,515.87	$ 12,126,546.56
Accounts receivable, net (Note 4)	3,020.38	-
Total Intragovernmental	12,903,536.25	12,126,546.56
Accounts receivable, net (Note 4)	152,502.74	151,984.94
General property and equipment, net (Note 5)	4,000,422.68	3,903,270.68
Total Assets	**$ 17,056,461.67**	**$ 16,181,802.18**
Liabilities (Note 6)		
Intragovernmental:		
Accounts payable	$ 131,193.00	$ 154,253.21
Employer contributions and payroll taxes payable	281,298.85	229,281.24
Deferred rent	174,119.60	261,179.40
Custodial liability (Note 11)	152,502.74	151,984.94
Other	3,500.00	3,500.00
Total intragovernmental	742,614.19	800,198.79
Accounts payable	1,611,211.26	1,765,917.13
Accrued payroll and benefits	1,132,598.04	951,213.61
Unfunded leave	2,438,290.68	2,545,279.29
Total Liabilities	**5,924,714.17**	**6,062,608.82**
Commitments and contingencies (Note 7)		
Net Position		
Unexpended appropriations	9,743,735.10	9,022,381.37
Cumulative results of operations	1,388,012.40	1,096,811.99
Total Net Position	**11,131,747.50**	**10,119,193.36**
Total Liabilities and Net Position	**$ 17,056,461.67**	**$ 16,181,802.18**

The accompanying notes are an integral part of these statements.

STATEMENT OF NET COST

For The Years Ended September 30, 2015 and 2014 (in dollars)

Program Costs:		**2015**		**2014**
Administering and Enforcing the *FECA*				
Gross costs	$	68,218,355.00	$	65,819,345.25
Less: Earned revenues		(4,646.30)		(29,363.77)
Net program costs		68,213,708.70		65,789,981.48
Net Cost of Operations (Note 9)	**$**	**68,213,708.70**	**$**	**65,789,981.48**

The accompanying notes are an integral part of these statements.

STATEMENT OF CHANGES IN NET POSITION
For The Years Ended September 30, 2015 and 2014 (in dollars)

	2015	2014
Cumulative Results of Operations		
Beginning balance	$ 1,096,811.99	$ 675,854.33
Budgetary Financing Sources		
Appropriations used	66,034,470.94	63,452,546.28
Other Financing Resources (non-exchange)		
Imputed financing	2,470,438.17	2,758,392.86
Total financing sources	68,504,909.11	66,210,939.14
Net cost of operations	(68,213,708.70)	(65,789,981.48)
Net change	291,200.41	420,957.66
Cumulative Results of Operations	**$ 1,388,012.40**	**$ 1,096,811.99**
Unexpended Appropriations		
Beginning balance	$ 9,022,381.37	$ 7,503,431.00
Budgetary Financing Sources		
Appropriations received	67,500,000.00	65,791,000.00
Other adjustments	(744,175.33)	(819,503.35)
Appropriations used	(66,034,470.94)	(63,452,546.28)
Total Budgetary Financing Sources	721,353.73	1,518,950.37
Total Unexpended Appropriations	**9,743,735.10**	**9,022,381.37**
Net Position	**$ 11,131,747.50**	**$ 10,119,193.36**

The accompanying notes are an integral part of these statements.

STATEMENT OF BUDGETARY RESOURCES

For The Years Ended September 30, 2015 and 2014 (in dollars)

	2015	2014
Budgetary Resources (Note 10)		
Unobligated balance brought forward, October 1	$ 3,711,398.49	$ 3,833,814.77
Recoveries of prior year unpaid obligations	594,417.33	644,004.95
Other changes in unobligated balance	(744,175.33)	(819,503.35)
Unobligated balance from prior year budget authority, net	3,561,640.49	3,658,316.37
Appropriations	67,500,000.00	65,791,000.00
Spending authority from offsetting collections	23,208.00	43,065.45
Total Budgetary Resources	**$ 71,084,848.49**	**$ 69,492,381.82**
Status of Budgetary Resources		
Obligations incurred	$ 67,405,381.33	$ 65,780,983.33
Apportioned	269,661.55	109,801.40
Unapportioned	3,409,805.61	3,601,597.09
Total unobligated balance, end of year	3,679,467.16	3,711,398.49
Total Budgetary Resources	**$ 71,084,848.49**	**$ 69,492,381.82**
Change in Obligated Balance		
Unpaid obligations, brought forward, October 1	$ 8,415,148.07	$ 6,528,773.62
Obligations incurred	67,405,381.33	65,780,983.33
Outlays (gross)	(65,983,481.28)	(63,250,603.93)
Recoveries of prior year unpaid obligations	(594,417.33)	(644,004.95)
Unpaid obligations, end of year	9,242,630.79	8,415,148.07
Change in uncollected payments, Federal sources	(21,582.08)	-
Uncollected payments, Federal sources, end of year	(21,582.08)	-
Obligated balance, start of year	8,415,148.07	6,528,773.62
Obligated balance, end of year	$ 9,221,048.71	$ 8,415,148.07
Budget Authority and Outlays, Net		
Budget authority, gross	$ 67,523,208.00	$ 65,834,065.45
Actual offsetting collections	(1,625.92)	(43,065.45)
Change in uncollected payments, Federal sources	(21,582.08)	-
Budget authority, net	67,500,000.00	65,791,000.00
Outlays, gross	65,983,481.28	63,250,603.93
Actual offsetting collections	(1,625.92)	(43,065.45)
Outlays, net	**$ 65,981,855.36**	**$ 63,207,538.48**

The accompanying notes are an integral part of these statements.

STATEMENT OF CUSTODIAL ACTIVITY
For The Years Ended September 30, 2015 and 2014 (in dollars)

	2015	2014
Revenue Activity		
Sources of cash collections		
Civil penalties	$ 476,211.53	$ 363,769.30
Administrative fines	204,302.23	94,170.67
Miscellaneous receipts	96,986.95	631.82
Total Cash Collections	777,500.71	458,571.79
Accrual adjustments	517.80	91,014.97
Total Custodial Revenue (Note 11)	**$ 778,018.51**	**$ 549,586.76**
Disposition of Collections		
Transferred to Treasury	$ 777,500.71	$ 458,571.79
Amount yet to be transferred	517.80	91,014.97
Total Disposition of Collections	**$ 778,018.51**	**$ 549,586.76**
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, 2015, the FEC recognized approximately $2,470,000 as an imputed cost and related financing source, for the difference between the estimated service cost and the contributions made by the FEC and its employees. This represents a 10 percent decrease when compared to the $2,758,000 of imputed cost and related financing source recognized in Fiscal Year 2014.

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 percent 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 percent 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 2015, the FERS-RAE employee contribution rate was 3.1 percent.

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 2015, the FERS-FRAE employee contribution rate was 4.4 percent.

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 13.2 percent of basic pay for FY 2015. For both FERS-RAE and FERS-FRAE covered employees, the FEC made contributions of 11.1 percent of basic pay for FY 2015.

Employees participating in FERS are covered under the *Federal Insurance Contribution Act (FICA)*, for which the FEC contributed 6.2 percent to the Social Security Administration in FY 2015. Effective in FY 2012 FERS and CSRS – Offset employees were granted a 2 percent 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 percent to Social Security through December 31, 2012. Effective January 1, 2013 the employee contribution rate is 6.2 percent.

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 percent of base pay to their account and matches contributions up to an additional 4 percent. For employees belonging to CSRS, there is no governmental matching contribution.

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

Commitments and Contingencies

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

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

Revenues and Other Financing Sources

Annual Appropriation

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

Imputed Financing Sources

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

Statement of Net Cost

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

Net Position

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

Statement of Custodial Activity

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

Use of Estimates

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

Note 2 – Non-Entity Assets

Non–entity assets, which primarily represent amounts due to the FEC for fines and penalties on those that violated the requirements of the *Federal Election Campaign Act*, consisted of the following as of September 30, 2015 and September 30, 2014:

	2015	**2014**
With the Public		
Accounts Receivable - Custodial	152,502.74	151,984.94
Total non-entity assets	152,502.74	151,984.94
Total entity assets	16,903,958.93	16,029,817.24
Total Assets	$17,056,461.67	$16,181,802.18

Note 3 – Fund Balance with Treasury

Fund Balance with Treasury consisted of the following as of September 30, 2015 and September 30, 2014:

	2015	2014
Fund Balances		
Appropriated Funds	$12,900,515.87	$12,126,546.56
Total	$12,900,515.87	$12,126,546.56

	2015	2014
Status of Fund Balance with Treasury		
Unobligated Balance		
Available	$ 269,661.55	$ 109,801.40
Unavailable	3,409,805.61	3,601,597.09
Obligated Balance not yet Disbursed	9,221,048.71	8,415,148.07
Total	$12,900,515.87	$12,126,546.56

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, 2015 and September 30, 2014:

	2015		
	Gross Accounts Receivable	**Allowance**	**Net Accounts Receivable**
Intragovernmental			
Intragovernmental	$ 3,020.38	$ -	$ 3,020.38
Total Intragovernmental	$ 3,020.38	$ -	$ 3,020.38
With the Public			
Fines and Penalties	293,766.75	141,264.01	152,502.74
Total Non-Entity	293,766.75	141,264.01	152,502.74
Total	$ 296,787.13	$ 141,264.01	$ 155,523.12

	2014		
	Gross Accounts Receivable	**Allowance**	**Net Accounts Receivable**
Intragovernmental			
Intragovernmental	$ -	$ -	$ -
Total Intragovernmental	$ -	$ -	$ -
With the Public			
Fines and Penalties	311,801.35	159,816.41	151,984.94
Total Non-Entity	311,801.35	159,816.41	151,984.94
Total	$ 311,801.35	$ 159,816.41	$ 151,984.94

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

Note 5 – General Property and Equipment, Net

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

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

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

The office building in which the FEC operates is leased through the General Services Administration 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, 2015 and September, 2014, respectively:

Asset Class	Service Life (years)	Acquisition Value	Accumulated Depreciation/ Amortization	Net Book Value
		2015		
Software	3	$ 9,806,591.06	$ 7,217,898.60	$ 2,588,692.46
Computers and peripherals	3	$ 2,762,918.95	$ 2,582,852.18	$ 180,066.77
Furniture	5	$ 852,753.70	$ 852,753.70	$ -
Software-in-Development	n/a	$ 1,231,663.45	-	$ 1,231,663.45
Total		$14,653,927.16	$10,653,504.48	$ 4,000,422.68

Asset Class	Service Life (years)	Acquisition Value	Accumulated Depreciation/ Amortization	Net Book Value
		2014		
Software	3	$ 6,396,224.94	$ 6,240,682.83	$ 155,542.11
Computers and peripherals	3	$ 2,762,918.95	$ 2,416,791.94	$ 346,127.01
Furniture	5	$ 852,753.70	$ 852,753.70	$ -
Software-in-Development	n/a	$ 3,401,601.56	$ -	$ 3,401,601.56
Total		$13,413,499.15	$ 9,510,228.47	$ 3,903,270.68

Note 6 – Liabilities Not Covered by Budgetary Resources

Liabilities Not Covered by Budgetary Resources consisted of the following as of September 30, 2015 and September 30, 2014:

Liabilities Not Covered by Budgetary Resources	**2015**	**2014**
Intragovernmental		
Custodial Fines and Civil Penalties	$ 152,502.74	$ 151,984.94
Deferred Rent	174,119.60	261,179.40
Total Intragovernmental	326,622.34	413,164.34
Unfunded Annual Leave	2,438,290.68	2,545,279.29
Total Liabilities Not Covered by Budgetary	2,764,913.02	2,958,443.63
Total Liabilities Covered by Budgetary Resources	3,159,801.15	3,104,165.19
Total Liabilities	$ 5,924,714.17	$ 6,062,608.82

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

Note 7 – Commitments and Contingencies

As of September 30, 2015, the FEC had a lawsuit requesting attorneys' fees and was unable to reasonably estimate the amount of the loss due to the lawsuit.

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

Note 8 – Leases

The FEC did not have any capital leases as of September 30, 2015 and September 30, 2014. The FEC has a commitment under an operating lease for its office space. Future payments due under the lease through September 30, 2017 are as follows:

Future Operating Lease Payments
2015

Fiscal Year	Lease Payment
2016	6,058,864.32
2017	6,130,121.81
Total	**$ 12,188,986.13**

Note 9 – Statement of Net Cost

The FEC's costs are consolidated into one program, "Administering and Enforcing the *FECA*," and consisted of the following as of September 30, 2015 and September 30, 2014, respectively:

	2015	2014
Intragovernmental:		
Intragovernmental gross costs	$ 18,895,980.23	$ 18,700,489.97
Less: Intragovernmental earned revenue	(4,646.30)	(29,363.77)
Intragovernmental net costs	18,891,333.93	18,671,126.20
Public:		
Gross costs with the public	49,322,374.77	47,118,855.28
Net costs with the public	49,322,374.77	47,118,855.28
Net cost of operations	$ 68,213,708.70	$ 65,789,981.48

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

Note 10 – Statement of Budgetary Resources

The Statement of Budgetary Resources (SBR) compares budgetary resources with the status of those resources. For the year ended September 30, 2015, budgetary resources were $71,084,848.49 and net outlays were $65,981,855.36. For the year ended September 30, 2014, budgetary resources were $69,492,381.82 and net outlays were $63,207,538.48.

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, 2015 and September 30, 2014, direct obligations incurred amounted to $67,400,735.03 and $65,751,619.56, respectively. For the years ended September 30, 2015 and September 30, 2014, reimbursable obligations incurred amounted to $4,646.30 and $29,363.77, 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 2015 actual budgetary execution information is scheduled for publication in February 2016, which will be available through OMB's website at http://www.whitehouse.gov/omb. Accordingly, information required for such disclosure is not available at the time of publication of these financial statements.

Balances reported in the FY 2014 SBR and the related President's Budget reflected the following:

FY 2014	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Statement of Budgetary Resources	$69,492,381.82	$65,780,983.33	-	$63,207,538.48
Budget of the U.S. Government	$66,000,000.00	$66,000,000.00	-	$63,000,000.00
Difference	$ 3,492,381.82	$ (219,016.67)	$ -	$ 207,538.48

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

Note 11 – Custodial Revenues and Liability

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

Custodial Revenue	**2015**	**2014**
Fines, Penalties, and Other Miscellaneous Revenue	$ 778,018.51	$ 549,586.76
Custodial Liability		
Receivable for Fines and Penalties	$ 293,766.75	$ 311,801.35
Less: Allowance for Doubtful Accounts	(141,264.01)	(159,816.41)
Total Custodial Liability	$ 152,502.74	$ 151,984.94

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 decrease of approximately $13,000 for FY 2015 and a net increase of approximately $80,000 for FY 2014, respectively. The accrual adjustment for administrative fines is composed of a net increase of approximately $14,000 in FY 2015 and a net increase of approximately $11,000 in FY 2014, respectively.

Note 12 – Undelivered Orders at the End of the Period

Undelivered orders as of September 30, 2015 and September 30, 2014 totaled $6,082.829.64 and $5,310,982.88, respectively.

Note 13 – Reconciliation of Net Cost of Operations to Budget

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

	2015	2014
Resources used to finance activities		
Budgetary resources obligated		
Obligations incurred	$ 67,405,381.33	$ 65,780,983.33
Less: Recoveries and offsetting collections	(617,625.33)	(687,070.40)
Net obligations	66,787,756.00	65,093,912.93
Other resources		
Imputed financing from costs absorbed by others	2,470,438.17	2,758,392.86
Total resources used to finance activities	69,258,194.17	67,852,305.79
Resources used to finance items not part of the net cost of operations		
Change in budgetary resources obligated for goods, services, and benefits ordered but not yet provided	753,285.06	1,641,366.65
Resources that fund expenses recognized in prior periods	87,059.80	87,059.80
Resources that finance the acquisition of assets that do not affect net cost of operations	1,240,428.01	1,177,316.37
Total resources used to finance items not part of the net cost of operations	2,080,772.87	2,905,742.82
Total resources used to finance the net cost of operations	67,177,421.30	64,946,562.97
Components of the net cost of operations that will not require or generate resources in the current period		
Components requiring or generating resources in future periods		
Increase in annual leave liability	(106,988.61)	(36,913.64)
Other	-	(452.47)
Total	(106,988.61)	(37,366.11)
Components not requiring or generating resources		
Depreciation and amortization	1,143,276.01	880,784.62
Total	1,143,276.01	880,784.62
Total components of the net cost of operations that will not require or generate resources in the current period	1,036,287.40	843,418.51
Net cost of operations	$ 68,213,708.70	$ 65,789,981.48

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: Inspector General

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

DATE: October 16, 2015

Each year, the Inspector General (IG) is required to provide a summary and assessment of the most serious management and performance challenges facing the Federal Election Commission (FEC). The requirement is contained in the *Reports Consolidation Act of 2000* (Public Law 106-531), an amendment to the *Chief Financial Officers (CFO) Act of 1990*. The attached document responds to the requirement and provides the annual statement on Commission challenges to be included in the *Federal Election Commission Financial Audit Report (FAR) Fiscal Year (FY) 2015.*

The Office of Inspector General (OIG) has identified three management and performance challenges for inclusion in the FEC's FY 2015 FAR:

Information Technology Project Planning and Management
Governance Framework
Human Capital Management / Human Resources Operations

This year's management challenges statement contains a significant difference from those previous. For the past 11 years, the OIG has identified information technology (IT) security as a challenge. Due to the agency's legal exemption from the Federal Information Systems Management Act, agency management had not formally adopted or implemented the applicable National Institute of Standards and Technology (NIST) IT security standards for the federal government. However, during the agency's FY 2014 financial statement audit, management agreed with the OIG's recommendation to formally adopt NIST as its risk management framework. In addition, management has recently taken the following steps to comply with the NIST standards:

- performed a system inventory gap analysis;
- performed a cost feasibility study to implement NIST; and
- developed a statement of work to procure contractor assistance to implement the NIST IT security.

Due to these management actions and a recent commitment to establish more robust IT security standards, the OIG has removed Information Technology Security as a management challenge. The OIG will continue to monitor and assess management's progress in implementing NIST IT security standards to ensure adequate implementation.

However, the FEC's Office of Chief Information Officer (OCIO) (formerly Information Technology Division, or ITD) continues to struggle with implementing IT projects efficiently and effectively, and in a timely manner due to a lack of adequate planning and management oversight. Currently the FEC's Chief Information Officer (CIO) is also the agency's full-time Staff Director, who has oversight of the FEC (except the Office of General Counsel, Office of Chief Financial Officer, and Office of Inspector General). In a Government Accountability Office (GAO) report,[1] GAO states:

> "*We stressed that asking the CIO to shoulder a heavy load of responsibilities would make it extremely difficult, if not impossible for that individual to devote full attention to IRM [Information Risk Management] issues.*"

The OIG believes the FEC's current leadership structure in having one person as both the full-time CIO and full-time Staff Director hinders the effectiveness and efficiency of agency business and the improvement of FEC programs. For several years, the OIG has reported on IT projects that have yet to be completed or properly implemented. Some of these projects include developing a Continuity of Operations Plan (COOP) and verification of user access authorities, both of which date back to FY 2004 as findings in the agency's annual financial statement audit. In the FY 2014 audit report, the OIG recommended requiring OCIO project managers to prepare project plans to ensure adequate planning and completion of IT projects. The OIG is aware of seven on-going projects[2] that currently do not have proper planning documents to manage the project.

In light of the reported agency IT system hacks in 2013 and more recent data breaches encountered by other government entities (Office of Personnel Management, State Department), it is imperative that the FEC has efficient and effective project planning and management processes to complete IT projects, such as the recent implementation of NIST standards, and other critical IT projects that ensure the security of FEC data. Therefore, the OIG has elevated IT project planning and management as a management challenge for FY 2015.

The IG's annual assessment of management and performance challenges is based on information derived from a combination of several sources, including OIG audit and inspection work, Commission reports, government-wide risks factors, and a general

[1] GAO-11-634

[2] Number of IT projects is limited to the specific IT projects related to the annual financial statement audit and does not include other IT projects not reviewed in the audit.

knowledge of the Commission's programs and activities. The management and performance challenges are detailed in the attached report. The *Reports Consolidation Act of 2000* permits agency comment on the IG's statements. Agency comments, if applicable, are due November 16, 2015.

Lynne A. McFarland
Inspector General

Attachment

cc: Alec Palmer, Staff Director and Chief Information Officer
Judy Berning, Acting Chief Financial Officer
Daniel Petalas, Acting General Counsel
Edward Holder, Acting Deputy Staff Director for Management and Administration
Derrick Allen, Director, Office of Human Resources

FEDERAL ELECTION COMMISSION (FEC)
MANAGEMENT AND PERFORMANCE CHALLENGES
FY 2015

I. Information Technology Project Planning and Management

Management Challenge:
Management consistently lacks the proper planning documentation and oversight of IT projects that are critical to the fulfillment of the agency's mission and are required to ensure the security and reliability of agency data.
Applicable Government Requirements/Best Practices Not In Place:

• Project Management Body of Knowledge Guidelines;
• OMB Memorandums:
  ▪ M-10-25 *Reforming the Federal Government's Efforts to Manage Information Technology Projects;*[3]
  ▪ M-12-27 *Information Technology Baseline Management Policy*.

Critical Agency Impacts:[4]
A. FEC is not in full compliance with the following: ▪ Federal Continuity Directive 1, *Federal Executive Branch National Continuity Program;* ▪ OMB Memorandum M-08-22 *Guidance on the Federal Desktop Core Configuration.* **B. Project funding wasted or exceeding original planned budget**[5] ▪ User Access Review Project; ▪ COOP Project. **C. Continuous delays**: ▪ COOP project outstanding since FY 2004; ▪ User Access Authorities project outstanding since FY 2004; ▪ Assessment and Accreditation project[6] outstanding since FY 2008. **D. Weak Internal Controls:** ▪ Inability to certify that mission essential functions of the agency have the ability to operate in the event of a local disaster; ▪ Unable to verify if unauthorized disclosure of Personally Identifiable Information or confidential information has occurred.

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[3] Updated by M-10-31, *Immediate Review of Information Technology Projects.*
[4] This section only includes information from those IT projects audited or reviewed by the OIG and that have been determined by the OIG to be most critical to the agency.
[5] **User Access Review Project**: The OCIO purchased applications software in 2009 and 2011 to implement this project, but both projects were terminated as management determined they did not meet the FEC's business need., The FEC will soon be starting this project for yet a third time, with a scheduled completion date of April 2017, and purchasing new software tools. **COOP Project:** From FY 2008 to 2010, the FEC spent $277,506 on contractors to develop plans for each division that were never updated and are now obsolete.
[6] Periodic evaluations of the agency's systems to ensure the security of the information systems, in addition to documenting management's approval that the systems are operable for a specific period of time based on the results of the evaluation.

II. Governance Framework

Management Challenge:
FEC lacks adequate structure and continued stability in key senior leadership positions that are accountable for the mission and objectives of the agency.
Applicable Government Requirements/Best Practices Not In Place:
• 52 U.S.C. section 30106(f);[7] • Clinger-Cohen Act of 1996.[8]
Critical Agency Impacts:
A. Agency vacancies – The FEC has several senior leader positions that have been vacant for a year or more.[9] ▪ General Counsel - position vacant since July 2013;[10] ▪ Chief Financial Officer - position vacant since October 2012;[11] ▪ Deputy Staff Director for Management and Administration - position vacant since August 2014;[12] ▪ Failure to fill senior leader positions creates resource gaps. Critical management positions filled with acting FTEs due to vacant senior leader positions, including: ➢ Director of Accounting; ➢ Deputy Chief Information Officer of Operations. **B. Dual office holding –** The CIO also serves as the Staff Director. ▪ Failure to establish singular oversight of the OCIO significantly contributes to the following issues: ➢ Delays in IT project implementation due to lack of adequate oversight; ➢ Failure to timely implement recommendations to improve FEC business processes and programs from OIG audits/inspection in accordance with OMB Circular A-50 and Commission Directive 50; ➢ Failure to timely implement recommendations from external contractors procured by ITD to improve FEC business processes.[13]

[7] Statutory requirement mandating a General Counsel at the FEC.
[8] As the FEC is exempt from the act, the government-wide standard should be used as best practice as the FEC's CIO is responsible for all IT functions as identified in the act.
[9] There are several vacant senior and management positions not included on this list that are filled by staff in an acting capacity.
[10] The FEC recently assigned the Associate General Counsel for Enforcement as Acting General Counsel in August 2015.
[11] The FEC assigned the Director of Accounting as Acting CFO in October 2012.
[12] The FEC assigned the Deputy CIO of Operations as Acting Deputy Staff Director in August 2014.
[13] Mandiant's October 2012 Threat Assessment Report ($54,000); Solution Technology Systems Inc. Comprehensive review of FEC's PII ($340,433.28) in FY 2008; IonIdea's COOP development contract ($277,506) in FY 2008.

III. Human Capital Management / Human Resources Operations

Management Challenge:
The Office of Human Resources (OHR) lacks leadership stability and adequate resources to achieve its mission critical program goals and objectives.
Applicable Government Requirements/Best Practices Not In Place:
• Office of Personnel Management (OPM) Guidance, including Human Capital Assessment and Accountability Framework; • 5 CFR 410, 5 CFR 412, and 5 CFR 430;[14] • OPM's 2014 Report on FEC's HR Management Evaluation Recommendations.
Critical Agency Impacts:
A. Consistent turnover in the Director of OHR Position – The FEC has had four different OHR Directors since FY 2010. The current Director of OHR was hired in September 2015 and the previous Director was only in the position for approximately one year. ▪ Lack of stability and continuity in leadership roles leads to resource gaps, lack of direction, and low moral which has a direct impact on productivity and efficiency; ▪ Marginal progress in implementing standard operating procedures to improve customer service levels; ▪ Critical personnel policies and procedures have not been updated, created, and/or approved; ▪ Lack of accountability to comply with OMB Circular A-50 and Commission Directive 50 to timely implement recommendations to improve FEC business processes and programs from OIG audits and inspections, as well as external audits. ➢ OPM 2014 Report of FEC's HR Management Evaluation Recommendations have not been implemented (e.g. Training and Development Plans, Leadership Succession Plan). **B. Lack of resources to improve customer service levels–** Lack of resources impact OHR's ability to implement effective internal control improvements. ▪ Three vacant positions – one position has been vacant for over three years, and one position has been vacant for over one year; ▪ The Remedy System implemented to automate and improve the tracking and timely response to employee inquiries is not conducive to the needs of the human resources operations.

[14] As an excepted service agency, the FEC is exempt from certain parts of Title 5. However, government-wide standards should be used as best practices even if the agency is exempt from those sections.

Response to the OIG's Statement on the Federal Election Commission's Management and Performance Challenges – Nov. 10, 2015

I. Information Technology Project Planning and Management

Management Challenge:
Management consistently lacks the proper planning documentation and oversight of IT projects that are critical to the fulfillment of the Agency's mission and are required to ensure the security and reliability of Agency data.

Applicable Government Requirements/Best Practices Not in Place:

- Project Management Body of Knowledge Guidelines:
- OMB Memorandums:
  - M-10-25 Reforming the Federal Government's Efforts to Manage Information Technology Projects;
  - M-12-27 Information Technology Baseline Management Policy.

Management Response:

In FY 2014 financial statement audit, the auditors recommended that FEC issue a policy that requires project managers to prepare project plans that addresses Directive 50 requirements. These additional items consisted of identifying information such as: identification of key tasks and/or steps; personnel responsible for completing the task and/or step; the time frame for beginning and completing the task and/or step; resources required; and that documentation be maintained, as part of the project plan, to support the accomplishment of key plan tasks, issues that impacted the project, and the completion of the overall project.

Directive 50 requires that for all audit follow up, management officials are responsible for receiving and analyzing audit reports, providing timely responses, and taking corrective action for all audit follow-up. It further outlines the need to develop a written corrective action plan (CAP) to present to the Commission after receiving the audit report, conduct regular meetings with the Inspector General to follow-up on outstanding findings, respond in a timely manner to all audit reports, and produce semi-annual reports that are submitted to Agency head.

In FY 2015, the OCIO continued its efforts to enhance the CAP to adhere to Directive 50 and the auditor's recommendation. We focused on creating project plans for some CAP items. We enhanced the CAP to include updates, key tasks, accomplishments, key personnel and timelines. Additionally, we created a separate document to serve as project plan for specific CAP items. We also created a draft project plan guide to provide direction in creating project plans for the OCIO. We held monthly meetings to update statuses of the CAP.

OCIO concurs to develop project planning in areas that affect every division in the Agency. This will require a centralized Project Management Office (PMO) that would report to an Agency senior level leader and coordinate projects of a certain size and dollar value. Because Project Management Book of Knowledge is a massive bureaucratic framework that may not fit in this small Agency, this change will require the Commission to support staffing a PMO and whether new project methodologies are feasible, such as implemented by the Digital Services Innovation Team at GSA.

Critical Agency Impacts:

A. FEC is not in full compliance with the following:

- Federal Continuity Directive 1, Federal Executive Branch National Continuity Program;
- OMB Memorandum M-08-22 Guidance on the Federal Desktop Core Configuration.

Management Response:

- For all the new hardware installed, we are 100% compliant. Currently, we have 90 compliant machines. Because it is not possible to implement the plan on older hardware, the OCIO implementation plan is linked to the desktop hardware refresh cycle. Therefore, based on budget availability the remaining machines will be compliant during FY 2016-2017 during new hardware implementation.

  OCIO has provided OIG with the project plan of what we have accomplished thus far as an example, of which the IG's office has accepted.

B. Project funding wasted or exceeding original planned budget:

- User Access Review Project;
- COOP Project.

Management Response:

- Because much of the technology we currently have in place can no longer supports the strategic vision of the Agency regarding its IT security program, FEC is evaluating tools that can meet the strategic need of the Agency. OCIO expects this project to be a multi-year and multi-phase approach. The tools we are evaluating are in the range of $200K for an Agency our size. Pending approval of the Commission, we will acquire and implement the appropriate tools that will meet the FEC's need for the next several years. OIG is aware of the changes in IT security that necessitate this new evaluation.

- During July and August, OCIO updated the COOP plan to ensure the document reflects the current operational details FEC would need to operate in the event of a local disaster. A copy of the plan was provided to the IG office in August FY15 for their information.

We disagree with the assessment that the Agency wasted funds on the COOP project. The framework for the COOP plan provided by the Contractor in FY 2010 is the foundation for the current plan that was updated in August. In FY 2015, we replaced the original equipment, which had become obsolete, with new Surface tablets that are compatible with new security technology and infrastructure.

In September 2015, we tested the updated COOP. This test was a simulation of a local unavailability of the primary work site, with all designated COOP personnel working from their alternative work site. A full report of the test results will be available in November 2015. In addition, depending on the results of the test, appropriate modifications will be made to the COOP and if additional testing is required, a project outline will be provided.

C. Continuous delays:

- COOP project outstanding since FY 2004;
- User Access Authorities project outstanding since FY 2004;
- Assessment and Accreditation project outstanding since FY 2008.

Management Response:

- During July and August, OCIO updated the COOP plan to ensure the document reflects the current operational details FEC would need to operate in the event of a local disaster. A copy of the plan was provided to the IG office in August FY15 for their information.

- The access re-certification projects were terminated because they no longer support the current operating environment of the FEC, and they no longer meet the strategic need of the FEC. OCIO will continue to end projects that no longer make sense for the FEC and start new projects that help the FEC continue advancement in the 21st century.

- OIG is aware and has acknowledged OCIO's continuous work in this area. OCIO is currently in the process of acquiring the service of a contractor to have the NIST Management Framework implemented (including SP 800-53r4) in the Agency. OCIO already provided OIG with a copy of the SOW for their review. As previously stated above, a project plan will be created by the contractor once the contract is awarded.

D. Weak Internal Controls:

- Inability to certify that mission essential functions of the Agency have the ability to operate in the event of a local disaster;
- Unable to verify if unauthorized disclosure of Personally Identifiable information or confidential information has occurred.

Management Response:

- During July and August, OCIO updated the COOP plan to ensure the document reflect the current operational details FEC would need to operate in the event of a local disaster. A copy of the plan was provided to the IG office in August FY15 for their information.

  In September 2015, we tested the updated COOP. This test was a simulation of a local unavailability of the primary work site, with all designated COOP personnel working from the alternate work site. A full report of the test results will be available in November 2015. In addition, depending on the results of the test appropriate modifications will be made to the COOP and if additional testing is required a project outline will be provided.

- The FEC is continually taking steps to improve its security posture by increasing its security capabilities. FEC is currently a member of agencies participating in the DHS Continuous Diagnostic and Mitigation (CDM) program. This program allows small, medium, and large agencies the ability to fill-in gaps in agency capabilities. The FEC is in Group 2F, which has an estimated date of award the 2nd quarter of FY16. Once the award is made the GSA/DHS, FEC may be able to leverage this program to get the necessary tools to verify if unauthorized disclosure of Personally Identifiable information or confidential information has occurred.

II. <u>Governance Framework</u>

Management Challenge:

FEC lacks adequate structure and continued stability in key senior leadership positions that are accountable for the mission and objectives of the Agency.

Applicable Government Requirements/Best Practices Not In Place:

- 52 U.S.C. section 30106(f);
- Clinger-Cohen Act of 1996.

Critical Agency Impacts:

A. Agency vacancies – The FEC has several senior leader positions that have been vacant for a year or more.

- <u>General Counsel</u> - position vacant since July 2013;
- <u>Chief Financial Officer</u> - position vacant since October 2012;
- <u>Deputy Staff Director for Management and Administration</u> - position vacant since August 2014;
- Failure to fill senior leader positions creates resource gaps. Critical management positions filled with acting FTEs due to vacant senior leader positions, including:
  - Director of Accounting;
  - Deputy Chief Information Officer of Operations

Management Response:

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

B. Dual office holding – The CIO also serves as the Staff Director.

- Failure to establish singular oversight of the OCIO significantly contributes to the following issues:
  - Delays in IT project implementation due to lack of adequate oversight;
  - Failure to timely implement recommendations to improve FEC business processes and programs from OIG audits/inspection in accordance with OMB Circular A-50 and Commission Directive 50;
  - Failure to timely implement recommendations from external contractors procured by ITD to improve FEC business processes.

Management Response:

- Although management is appreciative of OIG's recommendations, management is committed to prudent management, the strategic distribution of resources, and minimal acceptance of risk.

- The proper emphasis and attention has been afforded to all areas of management. Accountability is essential to ensuring progress in completing OIG's recommendations where management and OIG agree, and will continue to take action to ensure such progress. Management has appropriately responded to the applicable recommendations across functional areas within the Agency and will continue to do so.

- In 2011, the Commission approved, that the Staff Director and Chief Information Officer (CIO) positions would be filled by one FEC employee. IT is a critical part of the Agency's mission in disclosing campaign, finance information to the public and an area of concern regarding IT security and the current employee who fulfills both the Staff Director and CIO positions is fulfilling his obligations as directed by the Commission. Significantly, the auditors' assessment does not identify any specific delays in IT project completion related to the CIO also serving as the Staff Director. Generally speaking, any perceived delays in IT project implementation can be related to delays in funding, staffing, inadequate cross functional support and antiquated IT contracting rules (which are currently under review by the Administration). The auditors do not identify, and management is not aware of, any case where the fact that the CIO also serves as the Staff Director has led to project delays. Indeed, this year, under the leadership of the current CIO, OCIO has accomplished more in both the strategic and tactical arenas than any other year, especially in the area of security.

- OCIO has implemented all the primary recommendations from the Mandiant report. The supplemental recommendations will fall under larger projects OCIO is currently working on and/or plan to implement in FY16. For example, as part of the USGCB project, admin access from client machines will be removed as OCIO refreshes its client machines. OCIO also made a recommendation to eliminate xmail that would address this finding. The Commission instead decided to implement multi-factor authentication for "webmail" as the Agency moves from Lotus Notes to Office365 early next year.

  Additionally, in order to improve the business process, an external contractor provided a PII inventory to FEC and actions were taken based on this inventory, as appropriate.

- As OIG acknowledged, management agreed with the recommendation to formally adopt NIST as its risk management framework and OCIO has taken steps to comply with the appropriate NIST standards for this Agency. These improvements and the OIG's recommendation to implement a Trusted Internet Connection (TIC) have been made under the current OCIO leadership.

- FEC followed the framework for the COOP plan provided by the Contractor in FY 2010. Since then, the equipment has become obsolete. In FY 2015, we replaced the original equipment, which had become obsolete, with new Surface tablets that are compatible with new security technology and infrastructure.

III. Human Capital Management / Human Resources Operations

Management Challenge:
The Office of Human Resources (OHR) lacks leadership stability and adequate resources to achieve its mission critical program goals and objectives.

Applicable Government Requirements/Best Practices Not In Place:
- Office of Personnel Management (OPM) Guidance, including Human Capital Assessment and Accountability Framework;
- 5 CFR 410, 5 CFR 412, and 5 CFR 430;
- OPM's 2014 Report on FEC's HR Management Evaluation Recommendations

Critical Agency Impacts:

A. **Consistent turnover in the Director of OHR Position –** The FEC has had four different OHR Directors since FY 2010. The current Director of OHR was hired in September 2015 and the previous Director was only in the position for approximately one year.
   - Lack of stability and continuity in leadership roles leads to resource gaps, lack of direction, and low moral which has a direct impact on productivity and efficiency;
   - Marginal progress in implementing standard operating procedures to improve customer service levels;
   - Critical personnel policies and procedures have not been updated, created, and/or approved;

- Lack of accountability to comply with OMB Circular A-50 and Commission Directive 50 to timely implement recommendations to improve FEC business processes and programs from OIG audits and inspections, as well as external audits.
    - OPM 2014 Report of FEC's HR Management Evaluation Recommendations have not been implemented (e.g. Training and Development Plans, Leadership Succession Plan).

B. Lack of resources to improve customer service levels– Lack of resources impact OHR's ability to implement effective internal control improvements.

- Three vacant positions – one position has been vacant for over three years, and one position has been vacant for over one year;
- The Remedy System implemented to automate and improve the tracking and timely response to employee inquiries is not conducive to the needs of the human resources operations.

Management Response:

- The FEC hired a new Director of Human Resources in the final month of the fiscal year. As he assesses the office's current policies and practices, his top priorities are improved Customer Service, Human Capital Management, and updating Policies and Procedures. He is working to hire additional resources to address these priorities and improve overall HR performance.

Improper Payments Information Act Reporting Details

The *Improper Payments Information Act of 2002*, as amended by the *Improper Payments Elimination and Recovery Act of 2010*, and *Improper Payments Elimination and Recovery Improvement Act of 2012* requires agencies to review all programs and activities they administer and identify those which may be susceptible to significant erroneous payments. In FY 2015, 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 2015, the FEC considered risk factors as outlined in OMB Memorandum M-15-02, *Appendix C to Circular No. A-123, Requirements for Effective Estimation and Remediation of Improper Payments* which may significantly increase the risk of improper payments and determined that none are applicable to FEC's operations. Based on the systematic review performed, the FEC concluded that none of its program activities are susceptible to significant improper payments at or above the threshold levels set by OMB.

Recapture of Improper Payments Reporting

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

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

APPENDIX – List of Acronyms

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

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