# Federal Election Commission

## Agency Financial Report

## Fiscal Year 2016

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Fiscal Year 2016

Federal Election Commission
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# Message from the Chairman

FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20463

OFFICE OF THE CHAIRMAN

November 15, 2016

I am pleased to present the Federal Election Commission's (FEC) Agency Financial Report (AFR) for Fiscal Year (FY) 2016. The AFR reflects the agency's program performance and financial activities over the past year and demonstrates our continued commitment to administering the *Federal Election Campaign Act of 1971*, as amended (the *Act*).

The FEC protects the integrity of the Federal campaign finance process by providing the public with accurate and accessible information about how candidates raise and spend funds to support their campaigns, enforcing the campaign finance laws, and encouraging voluntary compliance through timely advice and educational outreach. By furnishing the public with timely and transparent campaign finance data and fairly and effectively enforcing the law, the Commission safeguards against corruption or its appearance and provides the citizenry with crucial information by which to evaluate candidates for Federal office.

The Commission took a number of steps during FY 2016 to make campaign finance disclosure information more readily available. During FY 2016, the FEC received 76,539 documents filed disclosing more than 83.4 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 fully implemented a data capture process to convert paper-filed reports into structured, machine-readable data. During FY 2016, the Commission also continued efforts on an extensive redesign of the FEC website in order to improve the delivery of campaign finance data and information. 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.

With respect to the agency's FY 2016 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 2016 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 2016 in order to fulfill the mission of the agency in the most efficient manner possible.

On behalf of the Commission,

Matthew Petersen, Chairman

## How to Use This Report

This Agency Financial Report presents financial information, as well as relevant performance information, on the Federal Election Commission's operations. The report was prepared pursuant to the Accountability of Tax Dollars Act of 2002 and Office of Management and Budget (OMB) Circular A-136, revised, Financial Reporting Requirements, and covers activities from October 1, 2015 through September 30, 2016.

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 2016 Agency Financial Report is organized into three primary sections:

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

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

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

# SECTION I – Management's Discussion and Analysis

## Section I.A: Mission and Organizational Structure

The Federal Election Commission is an independent regulatory agency responsible for administering, enforcing, defending and interpreting the Federal Election Campaign Act of 1971, as amended (FECA or the Act).[1] Congress created the FEC to administer, enforce and formulate policy with respect to the FECA. The Act reflects 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 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 (AFR) and an Annual Performance Report (APR) pursuant to the *Government Performance and Results Act of 1993*, as amended. The FEC will include its FY 2016 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 2017.

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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).

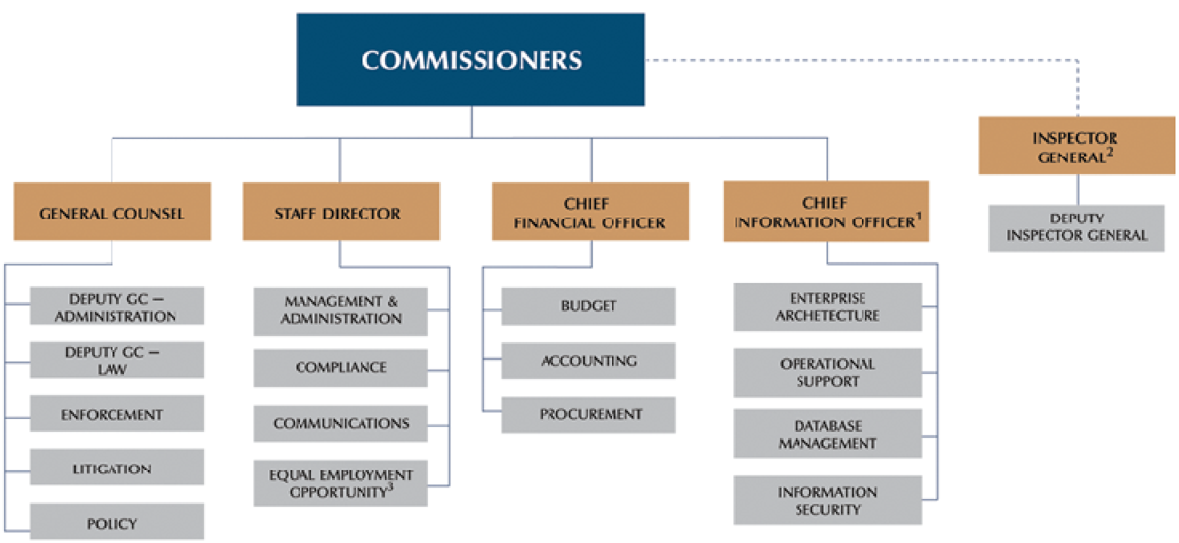
## Mission Statement

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 Act and meet regularly to formulate policy and to vote on significant legal and administrative matters. The Act requires the affirmative vote of four members of the Commission to approve official actions, thus requiring bipartisan decision-making. The FEC has its headquarters in Washington, D.C. and does not have any regional offices.

**Figure 1: FEC Organizational Chart**




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

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

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

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

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

The Office of the Staff Director consists of four offices: 1) Management and Administration; 2) Compliance; 3) Communications; and 4) Equal Employment Opportunity. The Office of Management and Administration is responsible for the FEC's strategic planning and performance and works with the Commission to ensure the agency's mission is met efficiently. In addition, this office houses the Commission Secretary, the Office of Human Resources (OHR) and the Administrative Services Division (ASD). The primary responsibilities of the Office of Compliance are review of campaign finance reports, 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 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 agency's ethics program. The Policy Division drafts for Commission consideration advisory opinions and regulations interpreting the Federal campaign finance law and provides legal advice to the FEC's compliance programs. The Enforcement Division recommends to the Commission appropriate action to take with respect to administrative complaints and apparent violations of the Act. Where authorized, the Enforcement Division investigates alleged violations and negotiates conciliation agreements, which may include civil penalties and other remedies. If an enforcement matter is not resolved during the administrative process, the Commission may authorize suit in district court, at which point the matter is transferred to the Litigation Division. The Litigation Division represents the Commission before the Federal district courts and courts of appeals in all civil litigation involving campaign finance statutes. This Division assists the Department of Justice's Office of the Solicitor General when the Commission's FECA cases are before the Supreme Court.

- **Office of the Chief Information Officer (OCIO)**

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

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

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

**Sources of Funds**

The FEC usually receives a single, one-year appropriation for Salaries and Operating Expenses each year. However, because the FEC's lease expires September 30, 2017, the Agency received $5 million in two-year lease expiration funds in FY 2016. These funds are in addition to the $71.1 million in one-year funds for Salaries and Operating Expenses, which brings the total FY 2016 appropriation to $76.1 million.

The FEC also has the authority to collect fees from attendees of agency-sponsored educational conferences. The Commission may use those fees to defray the costs of conducting those conferences. In an effort to keep the fees as low as possible, the agency has not fully exercised that authority. Rather, the Commission sets its registration fees at a level that covers only the costs incurred by the agency's conference-management contractor, including meeting room rental and conference meals and compensation. All other conference-related expenses, such as materials and staff travel, are paid using appropriated funds. Registration fees for FY 2016 were $123,255.

Figure 2 shows the Agency's appropriations and obligations from FY 2012 to FY 2016.

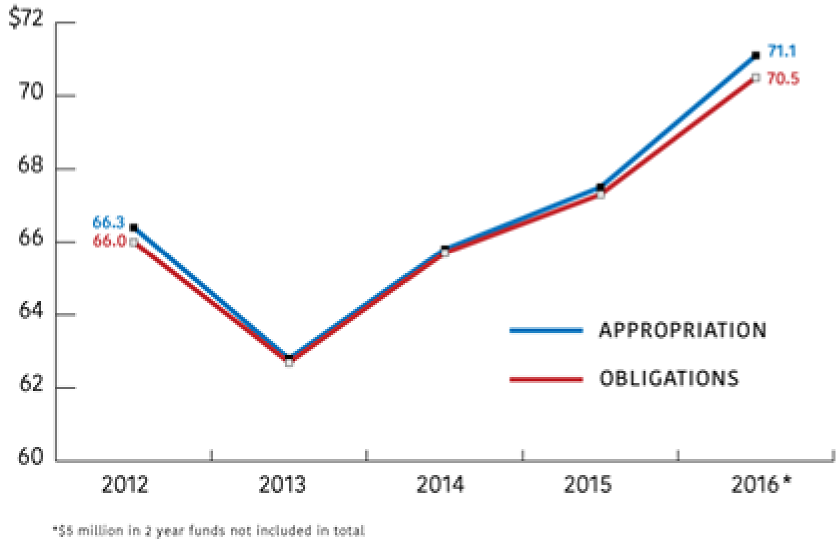



**Figure 2: Summary of Funding (in millions of dollars)**

## Personnel vs. Non-Personnel Costs

Figure 3 represents the Commission's FY 2016 obligations by personnel and non-personnel costs. Personnel costs, which are primarily composed of salaries and employee benefits, accounted for 66 percent of the FEC's costs. The remaining 34 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.

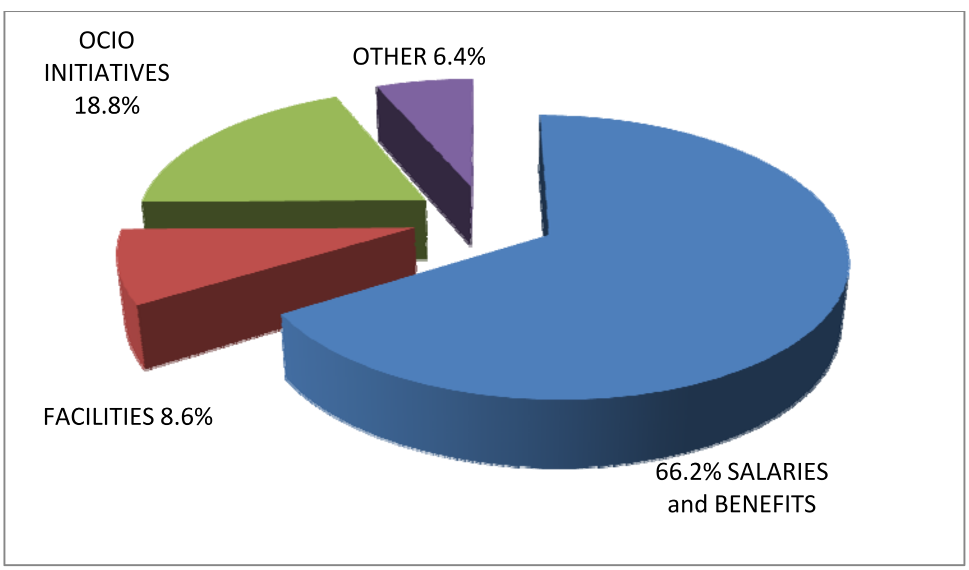



**Figure 3: Fiscal Year 2016 by Major Category**

## 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 2016 APR. This report will be part of the FEC's FY 2018 Congressional Budget Justification, which will be available at http://www.fec.gov/pages/budget/budget.shtml in 2017.

### Strategic Goal

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

### Strategic Objectives

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

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

The FEC 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 Commission is 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 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 a wide audience, including individual citizens seeking information about the candidates, journalists and researchers who specialize in campaign finance issues and 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 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.

One of the FEC's new disclosure offerings is a redesigned Campaign Finance Data site where users can easily search and view transaction-level campaign finance data dating back to the 1970s and download customized search results. The FEC additionally provides campaign finance data though an application programming interface (API) to allow direct access to campaign finance information. The Commission continues to provide detailed and comprehensive campaign finance data through the Candidate and Committee Viewer and the Data Catalog. During Presidential election years, users can access through the Presidential Map the amount of funds raised on a state-by-state basis, contributions, cash-on-hand and the distribution of contributions by amount with a simple click at www.fec.gov. Users can also access lists of contributors by name, city and amounts of contributions within the first three digits of any zip code. Contribution and disbursement data are updated within one day of the FEC's receipt of electronically filed disclosure reports. The Candidate and Committee

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

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. 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 2011 Actual** | **FY 2012 Actual** | **FY 2013 Actual** | **FY 2014 Actual** | **FY 2015 Actual** | **FY 2016 Target** | **FY 2016 Actual** | **FY 2017 Target** | **FY 2018 Target** |
| N/A | N/A | N/A | 75% | 86% | 75% | 81% | 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 campaign finance law and give the public the context necessary to interpret the campaign finance data filers disclose. The FEC maintains a toll-free line and public email accounts to respond to inquiries regarding campaign finance data disclosed to the public and questions about how to comply with campaign finance law and its reporting requirements. The FEC 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 general public. The Commission's website is one of the most important sources of instantly accessible information about the Act, Commission regulations and Commission proceedings. In addition to viewing campaign finance data, anyone with Internet access can use the website to track Commission rulemakings, search advisory opinions, audits and closed enforcement matters, view campaign finance data and find reporting dates. The Commission places a high emphasis on providing educational materials about campaign finance law and its requirements. Toward this end, the FEC has moved its focus away from the printing and manual distribution of its educational materials and instead looked for ways to leverage available technologies to create and disseminate dynamic and up-to-date educational materials through the website. While the Commission continues to make available printed copies of its educational brochures and publications, transitioning to primarily web-based media has allowed the agency to reduce significantly its printing and mailing costs and use of resources while at the same time encouraging new and expanded ways of communicating with the public via the website.

As part of this broad effort to improve its Internet communications and better serve the educational needs of the public, the Commission maintains 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 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.

***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 2011 Actual** | **FY 2012 Actual** | **FY 2013 Actual** | **FY 2014 Actual** | **FY 2015 Actual** | **FY 2016 Target** | **FY 2016 Actual** | **FY 2017 Target** | **FY 2018 Target** |
| N/A | N/A | N/A | Develop methods for surveying user satisfaction with webinars, publications and E-Learning presentations. | 4.34 | 4.0 or higher on a 5.0 scale | 4.53 | 4.0 or higher on a 5.0 scale | 4.0 or higher on a 5.0 scale |

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

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

The FEC has exclusive jurisdiction over civil enforcement of Federal campaign finance law. 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 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 Act. 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.sdrdc.com/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 Act in those cases where political committees have failed to meet the threshold requirements for demonstrating substantial compliance with the Act, and conducts mandatory audits under the public funding statutes. Subject to limited redactions, threshold requirements approved by the Commission and used by RAD and the Audit Division are public.

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

| Key Indicator: Of the enforcement matters resolved during the fiscal year, the percentage that was resolved within 15 months of the date of receipt. | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| FY 2011 Actual | FY 2012 Actual | FY 2013 Actual | FY 2014 Actual | FY 2015 Actual | FY 2016 Target | FY 2016 Actual | FY 2017 Target | FY 2018 Target |
| 89% | 70% | 72% | 28% | 49% | 75% | 38% | 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 (AOs). 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 2011 Actual | FY 2012 Actual | FY 2013 Actual | FY 2014 Actual | FY 2015 Actual | FY 2016 Target | FY 2016 Actual | FY 2017 Target | FY 2018 Target |
| N/A | N/A | N/A | 100%[3] | 100%[4] | 100% | 100%[5] | 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

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.

5 The Commission obtained extensions to consider five advisory opinion requests in FY 2016.

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 2011 Actual** | **FY 2012 Actual** | **FY 2013 Actual** | **FY 2014 Actual** | **FY 2015 Actual** | **FY 2016 Target** | **FY 2016 Actual** | **FY 2017 Target** | **FY 2018 Target** |
| N/A | N/A | N/A | 73% | 80% | 65% | 76% | 65% | 65% |

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

The FEC's FY 2016 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 2016:

| Net Financial Condition | FY 2016 | FY 2015 | Increase (Decrease) | % Change |
|---|---|---|---|---|
| Assets | $23,755,737 | $17,056,462 | $ 6,699,276 | 39% |
| Liabilities | $ 7,104,541 | $ 5,924,714 | $ 1,179,826 | 20% |
| Net Position | $16,651,197 | $11,131,748 | $ 5,519,449 | 50% |
| Net Cost | $70,529,282 | $68,213,709 | $ 2,315,573 | 3% |
| Budgetary Resources | $77,650,460 | $71,084,848 | $ 6,565,612 | 9% |
| Custodial Revenue | $ 879,853 | $ 778,019 | $ 101,835 | 13% |

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 $4.7 million, or 37 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 decreased by approximately $50 thousand from FY 2015.

Property and equipment consists of software, general-purpose equipment used by the agency and software development. In FY 2016, the FEC continued a series of upgrades to existing systems to support regulated reporting requirements. Net property and equipment increased by $2 million from FY 2015 to $6 million. Total liabilities increased by approximately 20 percent, coinciding with the 37 percent increase in FBWT.

### 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 2015, as there was a three percent change from FY 2015 to FY 2016.

### 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 50 percent, or approximately $5.5 million.

### Statement of Budgetary Resources

The Statement of Budgetary Resources provides information on the source and status of budgetary resources made available to the FEC during the reporting period. It presents the relationship between budget authority and budget outlays, as well as the reconciliation of obligations to total outlays. Total Budgetary Resources and Status of Budgetary Resources increased by approximately $6.6 million, or nine percent, from FY 2015. This included a seven 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 2016, the total custodial revenue and collections increased by approximately $102 thousand, or 13 percent, from FY 2015.

The chart below displays the assessment history for the past 20 years[6].

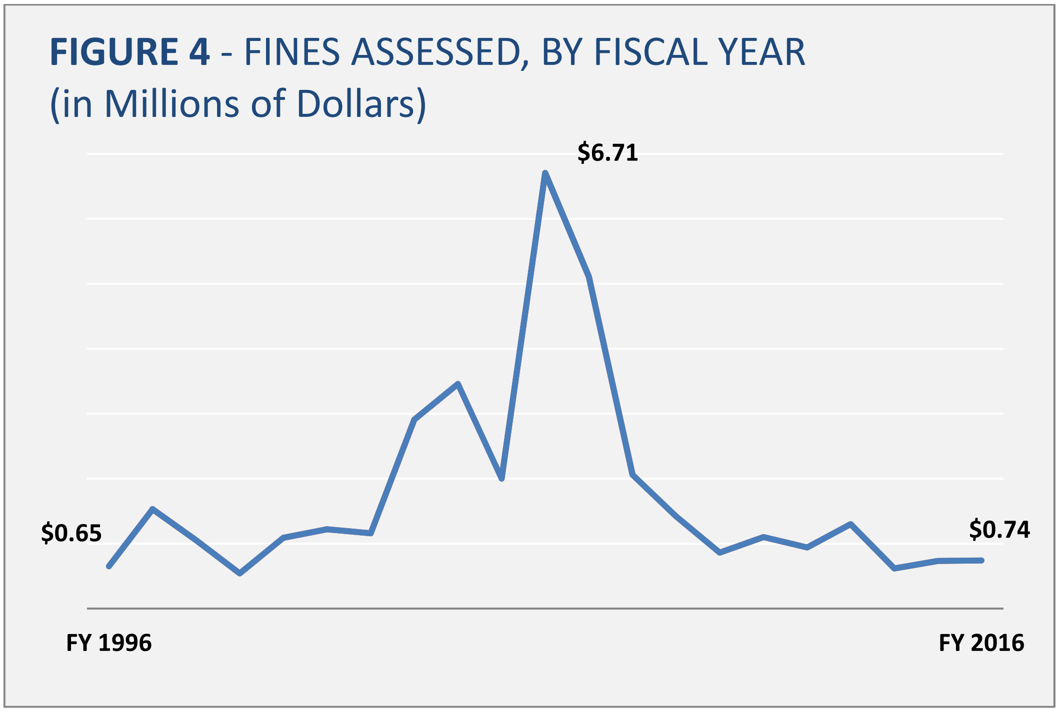


**Figure 4: Fines Assessed, by Fiscal Year (in millions of dollars)**

6 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 2016 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 2016 was nearly 100 percent, with less than .02 percent of all invoices paid after the date required by the *PPA.*

**Improper Payments**

The Improper Payments Information Act of 2002 (IPIA), the Improper Payments Elimination and Recovery Act of 2010 (IPERA), Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA) and OMB guidance require agencies to identify those programs that are susceptible to significant erroneous payments, and determine an annual estimated amount of erroneous payments made in their operations. The FEC reviewed all of its programs and activities to identify those susceptible to significant erroneous payments. Approximately 66 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 2016 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

**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 2016 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.

Matthew S. Petersen
Ch
air

## I.D.iii – Response to the Inspector General's Statement on the Federal Election Commission's Management and Performance Challenge[7]

**November 30, 2016**

The Federal Election Commission's ("FEC") Inspector General ("IG") reports as a "noteworthy accomplishments for the agency" that the Human Capital Management is no longer a major management challenge. Management is pleased to note that the IG reports that "the agency has stabilized the leadership structure in the Office of Human Resources (OHR) by hiring a full-time Director who has been successful in increasing the staffing in the OHR to address the need for improved customer service."

In its Statement on the FEC's Management and Performance Challenges ("Statement"), the Office of the Inspector General ("OIG") identified three management and performance challenges for inclusion in the FEC's Agency Financial Report for Fiscal Year 2016. Management's response to each identified challenge appears below.

### I. Low Employee Morale

The OIG engaged a consultant to report on the root causes of low employee morale at the FEC, and the consultant released its report on July 25, 2016. Management notes that neither the consultant nor the OIG sought a response to the consultant's report from Management. In the three months since receiving the report, Management has begun the work necessary to find collaborative solutions to improve morale at the FEC and to identify concrete steps we can take to better the work environment. In light of the actions specifically described below, Management strenuously disagrees with the Statement's characterization of communication from Management on this topic as "near silence" and its claim that Management has "yet to discuss a potential action plan or even a basic framework with the agency."

The Staff Director communicated Management's intention to find collaborative solutions to improve morale at the FEC and to identify concrete steps that can be taken to better the work environment at the FEC to every FEC employee (which includes all OIG employees) by email. Moreover, action has begun on these efforts. Specifically, as a first step, Management has prioritized the establishment of a new communication portal to improve communication at the FEC, which was identified as one of the five major root causes of low morale. To best design that portal, the Information Division conducted an on-line survey of FEC employees to learn how they currently receive information and the types of information that are most valued by employees. The results of that survey became available in early November and are currently under review. Additionally, Office of Staff Director Management has begun a conversation with senior leaders and direct reports to the Staff Director about efforts to build

[7] Management consists of the agency's senior managers, including the Staff Director, General Counsel and Chief Financial Officer. The Commissioners, who often hold diverse views, are aware of these findings and are monitoring management's responses and working to ameliorate the concerns identified in this section.

trust. Management and staff from several Offices and Divisions, including some of the largest organizational components, have also met to discuss the morale report. Management has also taken steps to consider morale issues in the Labor Management Forum with representatives of the National Treasury Employee Union. Management notes that it shares Chairman Petersen's view reflected in recent public statements that employee morale is essential to fulfilling our mission responsibilities to the greatest extent of our ability. Management looks forward to continued support from the Commissioners as we work to find steps that can be taken to better the work environment. Management would welcome the constructive collaboration of the OIG in addressing the employee morale issues identified in the consultant's report.

## II. Governance Framework

Management agrees with the Statement that key leadership vacancies need to be filled. Unfortunately, the agency continues to experience a challenge in permanently filling these positions. Management remains committed to assisting the Commission in recruiting, screening and selecting applicants for these positions. During the past year, two key, longstanding leadership vacancies were permanently filled when the positions of Associate General Counsel for Policy and Associate General Counsel for Litigation were filled on a permanent basis. As the Statement notes elsewhere, another key position, the Director of Human Resources, has been successfully filled recently as well. While the hiring process is underway for other positions, it is important to note that nearly all of the vacant positions are filled on an acting basis by qualified, capable, and hardworking individuals. In fact, both recently hired Associate General Counsels were serving in those position on an acting basis previously.

The Statement discusses one vacancy in particular, the Chief Information Security Officer. Rather than publicly discuss the status of a hiring process in which many applicants are participating, Management will note its agreement with the Statement that filling this position as expeditiously as prudently possible is important, and Management appreciates the Statement's observation that Management is making progress on filling this position. Once the hiring process is successfully concluded, Management will announce that this position has been filled.

The Statement also notes that one person is filling two major senior leadership positions, Staff Director and Chief Information Officer. Confronted with a vacancy in the Staff Director position, which had been held by several individuals over a relatively short period of time, and facing similar challenges to filling this position on a permanent basis, the Commission sought and received the approval of the U.S. Government Accountability Office an arrangement it desired of having the Chief Information Officer also serve as Staff Director. This arrangement has achieved stability in the highest ranking staff position at the agency since 2011, and stability in this most senior staff position had previously eluded the agency. Stability in the Staff Director position has been particularly valuable given the changes experienced in other senior management positions. As noted in the Management Response to the Fiscal Year 2015 in response to similar challenges, the Statement once again does not identify any specific projects or activities that have been negatively affected by one individual serving as Staff Director and Chief Information Officer.

## III. Information Technology Project Planning and Management

Management's response to the Statements concerns in this regard are discussed in connection with the Independent Auditor's Report Finding and Recommendations on "Planning and Oversight of IT Projects," and are not repeated here.

## 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 14, 2016

I am pleased to present the Commission's financial statements for Fiscal Year (FY) 2016. 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 eighth consecutive year with no material weaknesses identified. This is the fifth consecutive year with no significant deficiencies reported for the Office of the Chief Financial Officer (OCFO). I appreciate and applaud the good work of OCFO staff who strived diligently throughout the fiscal year to achieve these results, maintaining a commitment to excellence.

The agency continues to improve its information technology (IT) security controls. Although the auditors identified IT security controls as a significant deficiency for FY 2016, 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 2016 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 last fiscal year and implemented a trusted internet connection during the last calendar year.

During FY 2016, 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 agency holds 40 years' worth of campaign finance data collected via an array of media, including letters, paper forms and electronically filed documents. We are working to make this data and our legal and compliance information more accessible to the public by developing application programming interfaces (API) and designing more user-friendly ways for the public to access complex information from the FEC website. Our campaign finance API, for example, has received 7.8 million user hits since it was released in July 2015. We are also completing work to move our campaign finance 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.

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

Sincerely,

Gilbert Ford
Acting Chief Financial Officer

## OIG Transmittal Letter

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

**MEMORANDUM**

TO: The Commission

FROM: Inspector General

SUBJECT: Audit of the Federal Election Commission's Fiscal Year 2016 Financial Statements

DATE: November 15, 2016

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, 2016. 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. 15-02, *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, 2016, 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, 2015, were also audited by LSC whose report dated November 16, 2015, 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, 2016, 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. 15-02, *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 no instance of noncompliance with laws and regulations that are required to be reported under U.S. generally accepted government auditing standards or OMB guidance.

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 at (202) 694-1015.

Lynne A. McFarland
Inspector General

Attachment

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

## 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, 2016 and 2015

Submitted By

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

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& COMPANY, P.C.

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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, 2016 and 2015, 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, 2016 and 2015, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

Our consideration of internal control would not necessarily disclose all deficiencies in internal control over financial reporting that might be material weaknesses under standards issued by the American Institute of Certified Public Accountants. Our testing of internal control identified no material weakness in internal controls over financial reporting. We continue to report a significant deficiency related to FEC's Information Technology (IT) security program. However, FEC has made improvements to the program, and has corrective actions underway to address open audit recommendations.

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

FEC officials provided their response to the draft report and noted concurrence with all 14 report recommendations. FEC's detailed responses can be found in Attachment 2 of this report.

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, 2016 and 2015, 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 on Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of FEC as of September 30, 2016 and 2015, 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, 2016 and 2015, 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

### 1. FEC's IT Security Program

The FEC continues to make progress in addressing the vulnerabilities facing their IT security program. We reported in our FY 2015 audit report, the Commission voted during July 2015 to adopt the National Institute of Standards and Technology's (NIST) Risk Management Framework (RMF) (best practices) IT security controls, and to provide funding to implement these critical control processes. As we stated in our prior audit report, these actions represent a significant step in eliminating the vulnerabilities identified in our, and the Office of the Inspector General (OIG) audit reports issued since 2009. FEC has contracted with a firm to assist the agency in implementing this project, as well as taking other actions during FY 2016. FEC's current estimate for fully implementing NIST best practices is the end of FY 2017.

As required by GAS, we conducted follow-up testing to determine whether FEC had implemented corrective actions to address the recommendations in prior financial statement audit reports. We found that FEC has made progress in addressing problems reported in prior years' audits. Of the 11 open recommendations from FY 2015, one recommendation has been closed this FY, and FEC has corrective actions planned or ongoing for the remaining open recommendations. The following information discusses the open audit recommendations.

#### a. Planning, and Oversight of IT Projects

During our FY 2016 audit, we followed up to determine the actions taken by FEC officials to address the need for improved project planning and management. We reviewed the FY 2016 Financial Statement Audit Corrective Action Plan (CAP) for this recommendation, and found that the plan showed the estimated completion date as "to be determined (TBD)".

We discussed this matter with the Office of the Chief Information Officer (OCIO) officials who provided us with a draft project planning policy document. From our review of this document, it appears that the policy has the potential to address the audit recommendation. However, in order to verify the sufficiency of the policy, the document must be finalized and project plans must be developed.

**Recommendations:**

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. If OCIO determines a particular project meeting these stated requirements would not require a project plan, OCIO officials should document this decision and reasoning as part of their project planning documentation. *(Revised)*

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:** OCIO concurs that project planning is an important element in successful technological implementations. Project planning has evolved significantly over the past 5 years and as a result OCIO will support the new Agile development methodology that is consistent with GSA's new technology engagement model as dictated by the President's technology innovation agenda. The FEC is proactively leveraging the DHS Federal Network Resilience teams to augment the resources required to improve the IT Security Program management. Several of the recommendations require dedicated resources to consistently managing operations on an ongoing basis.

   **Auditor's Comments:** While the OCIO concurred with recommendations 1 and 2, no information was provided on how the agency planned to implement the recommendations. As a result the recommendations remain open.

**b. Assessments and System Authorizations**

After completion of the NIST RMF project, FEC needs to ensure its general support system, and other major systems security controls are evaluated to determine the extent to which the controls were implemented correctly; operating as intended; and producing the desired outcome with respect to meeting security requirements detailed in each systems security plan.

As we noted in prior audit reports, FEC has not followed FEC policy 58-2.4, *Certification and Accreditation Policy*, which establishes controls over the process of obtaining assurance that FEC's major applications and general support system are capable of enforcing the security policies that govern their operations.

FEC governance adopted NIST best practices, and obtained a contractor to assist the agency in developing and implementing a risk-based IT security program. The FEC currently estimates the project will be fully implemented in late FY 2017. OCIO officials advised us that after this project is fully implemented, the agency will authorize its updated systems. Assessments would be accomplished, as discussed in OMB policies, as part of an established continuous monitoring program.

**Recommendations:**

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

   **Agency's Response:** OCIO concurs with the recommendation and is currently implementing this recommendation and is on schedule for July 2017 and within the approved budget.

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. (*Revised)*

   **Agency's Response:** OCIO concurs with the recommendation and as the agency implements the NIST Risk Management Framework (RMF), this policy will be reviewed and updated based on the results of the RMF and will include language of when systems need to be reviewed and assessed based on changes and other determining factors.

   **Auditor's Comments:** Since OCIO concurred with recommendations 3 and 4, we have no additional comments.

### c. Recertification of Users' Access Authorities

FEC has not established a process that will provide supervisors with the necessary information to recertify user access authorities periodically. 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.

Per the FEC's CAP, it is currently estimated that this project, in conjunction with the NIST implementation project, would be implemented in late FY 2017.

**Recommendations:**

5. Implement procedures and processes to complete periodic reviews of user access authorities after the NIST best practices implementation project is completed. *(Revised)*

   **Agency's Response:** OCIO concurs with the recommendation and will implement capabilities to allow for a review of user access authorities. FEC is participating in the DHS CDM program that will give us access to the tools and sensors, which would allow the agency to implement the recommendation made by the OIG. Phase 2 of the CDM project, will provide the agency with this capability that was awarded in July 2016. The implementation schedule is dictated by DHS as they work with the implementers to roll out the service to agencies in FY17. At the completion of the NIST contract the FEC will be implementing best practices that will improve IT policies and procedures. As part of the improvement, the review of user access authorities will be automated through the user of the DHS CDM tools following the new FEC IT policies and procedures. Subject to workload, staff and additional funding for equipment and licensing not provided by DHS CDM may extend the time required for implementation of the recommendation to several months after the completion the DHS tool deployment.

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

   **Agency's Response:** OCIO concurs with the recommendation. All OCIO policies and procedures will be reviewed in the coming year as we implement NIST best practices for Information and Information Systems. FEC Policy 58-2.2 will be reviewed and updated as part of the NIST best practice implementation. The NIST project is on schedule for completion by July 2017 and within approved budget.

**Auditor's Comments:** Since OCIO concurred with recommendations 5 and 6, we have no additional comments.

**d. Continuity of Operations Plan (COOP)**

During our follow-up testing to determine whether the FEC had implemented recommendations dealing with testing a fully developed COOP plan, we noted that limited progress has been made on this issue. The CAP shows that the targeted implementation date for this recommendation is the second quarter FY 2017. The CAP notes that completion of the COOP is tied into the implementation of the NIST best practices project, which was recently awarded. The CAP further notes that "A contingency plan for all major and general support systems will be created. In addition, the COOP plan will be reviewed, updated and tested by the contractor."

FEC conducted a voluntary test of the COOP during September 23-24, 2015. The test simulated a local unavailability of the primary work site, with some designated COOP personnel working from their alternate work site. We reviewed the test plan, and related report for the September test. The following table shows what parts of the September test meets the federal testing requirements discussed below.

| Federal Continuity Directive No. 1, Appendix K | Auditor's Comments |
|---|---|
| Annual testing of alert, notification, and activation procedures for continuity personnel and quarterly testing of such procedures for continuity personnel at agency headquarters. | This requirement was partially met. |
| Annual testing of plans for recovering vital records (both classified and unclassified), critical information systems, services, and data. | This requirement was not met. |
| Annual testing of primary and backup infrastructure systems and services (e.g., power, water, fuel) at alternate facilities. | This requirement was not met. |
| Annual testing and exercising of required physical security capabilities at alternate facilities. | This requirement was not met. |
| Testing and validating equipment to ensure the internal and external interoperability and viability of communications systems, through monthly testing of the continuity communications capabilities outlined in Annex H (e.g., secure and non-secure voice and data communications). | This requirement was partially met. |
| An annual opportunity for continuity personnel to demonstrate their familiarity with continuity plans and procedures and to demonstrate the agency's capability to continue its essential functions. | This requirement was partially met. |
| An opportunity to demonstrate that backup data and records required supporting essential functions at alternate facilities or locations are sufficient, complete, and current. | This requirement was not met. |

**Recommendation:**

7. Ensure that sufficient resources are assigned to the task of periodically testing newly created system contingency plans. *(Revised)*

**Agency's Response:** OCIO concurs and the FEC is currently implementing NIST best practices, which include Business Continuity and Disaster Recovery Plan for each General Support Systems (GSS) and Major Applications (MA). Each system will be tested as part of the NIST guidelines. Going forward, FEC OCIO will improve its documentation of the COOP testing and test results. Through the utilization of two service providers who process and maintain FEC financial activity, the Commission has an effective COOP process for financial management and financial statement preparation and reporting. Both service providers' COOP plans are evaluated annually as part of their respective systems audits. In 2016, the service providers' COOP plans were reviewed and the auditors determined both providers have documented a comprehensive plan and set of procedures to ensure continuity of operations for information systems that support their respective operations should an unexpected interruption occur. The FEC considers the service providers COOP plans and the annual assessment of their plans as important internal controls over FEC financial reporting.

**Auditor's Comments:** Since OCIO concurred with the recommendation, we have no additional comments.

**e. USGCB and Other Configuration Management 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 tests showed that FEC has made progress in implementing USGCB requirements, and in other configuration management controls, such as implementing automated logging of changes, and implementing a strengthened configuration review board. FEC estimates USGCB configuration security settings and other configuration management controls will be fully implemented by the end of FY 2017.

**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:** OCIO concurs and all agency systems will be in compliance with USGCB standards by February 2017.

**Auditor's Comments:** Since OCIO concurred with the recommendation, we have no additional comments.

**f. Remediation of Vulnerabilities**

FEC has made improvements in its scanning program, including remediation of older vulnerabilities identified by these scans. FEC has also contracted with a vendor to develop a patching plan, and is working to fully implement a patch management program that meets IT security best practices.

However, our testing of a sample of 18 critical and high vulnerabilities identified in a FEC January 2016 scanning report showed that many of these vulnerabilities had not yet been corrected, as of July 2016. OCIO officials advised us that they are working to resolve these vulnerabilities, and many would be addressed in the near future when "a new configuration is rolled out to the users". OCIO officials agreed, however, that more needs to be done before there is a mature process for remediation of scanning vulnerabilities.

**Recommendation:**

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

   **Agency's Response:** OCIO concurs and recently implemented a FEC vulnerability management system identifies vulnerabilities across all FEC systems and provides a mechanism to document remediation and acceptance of risk. As part of the Patch Management contract, the contractor is developing a patching process aligned with NIST that will leverage the FEC vulnerability management system for identification and documentation of vulnerabilities. The patch management process is on track to be finalized September 2017. The final process may require additional patch management solutions to improve overall effectiveness and efficiency of patch management to all FEC IT assets.

   **Auditor's Comments:** Since OCIO concurred with the 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).[1] 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. The contractor completed the analysis, and provided a report to FEC on October 5, 2012, and made recommendations to address the problems identified.

[1]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.

We followed-up, during our FY 2016 financial statement audit, on the seven recommendations that we considered open in the Mandiant report. We obtained information from OCIO officials on the status of FEC's corrective actions on each of the seven recommendations. From our review, we determined that FEC had taken actions to address three of the seven, and had ongoing corrective actions for the remaining four. Three of the four recommendations were related to projects that were estimated to be completed prior to the end of FY 2016. One recommendation related to a contract with DHS to provide assistance concerning the implementation of a continuous diagnostics and monitoring program that will not be implemented until FY 2017.

**Recommendations:**

10. Complete the implementation of the contractor's open recommendations contained in the October 2012 Threat Assessment Program report:

    a. Secure local administrator passwords by making them unique on every system or disabling the local administrator account from accessing systems over the network.

       **Agency's Response:** OCIO concurs with Recommendation 10a and administrators now have Privilege (PR) accounts, which are unique to each administrator.

    b. Implement application "white listing" on domain controllers and other critical servers.

       **Agency's Response:** OCIO concurs with Recommendation 10b and the agency is a member of the DHS CDM program. DHS made an award in July 2016 for security tools and sensors. Application White Listing is one of the capabilities the agency will be able to implement in 2017 with DHS support.

    c. Implement two-factor authentication for the VPN and for webmail.

       **Agency's Response:** OCIO concurs with Recommendation 10c and the FEC currently has two-factor authentication for VPN. Webmail dual factor will be implemented in April 2017.

    d. Remove "local administrator" level privileges from end-users.

       **Agency's Response:** OCIO concurs with Recommendation 10d and by April 2017, all local administrator privileges will be removed from user machines.

       **Auditor's Comments:** Since OCIO concurred with recommendations 10a-10d, we have no additional comments.

## 2. Security Awareness Training for Contractors

Security awareness training is a key aspect of the government's and FEC's IT security program, and is required by FEC's standards, OMB regulations, and NIST best practices. As part of our IT control testing for the FY 2016 financial statement audit, we attempted to validate that FEC's contractors who had access to the agency's network, had received security awareness training as required. OCIO personnel provided us several incomplete listings of contractors currently working for FEC and having network access, as well as printouts that listed what contractors had received security awareness training. From our review of these documents, we found that a large number of contractor personnel had not received security awareness training. After receiving additional information on several occasions from OCFO officials, we determined that all but four contractors had documentation showing security awareness training had been taken. In addition, we could find no processes or controls that would remove network access for personnel or contractors that did not complete security awareness training. We determined that FEC needs to strengthen its controls and processes in this area so that documentation of on-board contractors is accurate and readily available for physical security purposes, and contractors who access FEC's network receive required security awareness training, or network access be disabled until the training is obtained.

FEC's, Security Training Minimum Standards, provide that "Within one month of arrival, all authorized users of FEC information and information systems should receive instruction on IT Security Basics…All authorized users of FEC information and information systems should receive annual training to reinforce Rules of Behavior and Acceptable Use, receive updates on current threats and vulnerabilities, and changes in Federal legal and regulatory requirements…".

**<u>Recommendations:</u>**

11. Work with the necessary divisions/offices to establish a process that ensures the agency is able to identify all on board contractors to address this security risk to the agency.

    **<u>Agency's Response:</u>** OCIO concurs with Recommendation 11. The OCFO is working to inform the Contracting Officers Representatives (CORs) of their duties and responsibilities regarding contractor tracking in FY 17. This is in conjunction with the Office of Human Resources working with the CORs to establish on line Fingerprinting scheduling beginning in FY 17. The two measures taken together represent a process to assist the agency to identify all on board contractors and address the security risk to the agency.

12. Establish controls and process similar to those used for FEC personnel to track contractor security awareness training.

    **<u>Agency's Response:</u>** OCIO concurs with Recommendation 12 and now has in place the same system for contractors that we have for FEC personnel.

13. Disable network access to contractors and personnel that do not complete security awareness training within a reasonable period after the required completion date.

**Agency's Response:** OCIO concurs with Recommendation 13 and now has in place the same system for contractors that we have for FEC personnel.

14. Require those contractors who have not received security awareness training during FY 2016 to take required courses within the next 30 days.

    **Agency's Response:** OCIO concurs with Recommendation 14.

    **Auditor's Comments:** Since OCIO concurred with recommendations 11-14, 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 no instance of noncompliance that is required to be reported according to *Government Auditing Standards* and the OMB audit bulletin guidelines. No other matters came to our attention that caused us to believe that FEC failed to comply with applicable laws, regulations, or significant provisions of laws, regulations, and contracts that have a material effect on the financial statements insofar as they relate to accounting matters. Our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the FEC's noncompliance with applicable laws, regulations, or significant provisions of laws, regulations, and contracts insofar as they relate to accounting matters.

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

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

**AGENCY'S RESPONSE**

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

*Leon Snead & Company, P.C.*
Rockville, MD 20850
November 15, 2016

## Status of Prior Year Recommendations

| Recommendation | Recommendation Status |
|---|---|
| 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 |
| Complete the project relating to review of user access authorities, and ensure necessary budgetary and personnel resources are provided to complete this project. | Open |
| 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 |
| Implement USGCB baseline configuration standards for all workstations and require documentation by the CIO to approve and accept the risk of any deviation. | Open |
| 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 |
| Perform within this fiscal year a new assessment and accreditation of the GSS using NIST SP 800-53 as the review criteria. | Open |
| 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 |
| 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 |
| 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 |
| 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 |
| 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. | Closed |

## Agency Response to Draft Report

**FEDERAL ELECTION COMMISSION**

Washington, DC 20463

The FEC concurs with the IT findings and recommendations identified in the audit report, and notes that the auditors recognized the progress made to remediate these conditions. We noted that 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 FEC continues to on the path remediate all findings. The OIG incorporated our detailed responses to each of the findings and recommendations into the body of the audit report. Our responses provide an overview of how we plan to remediate each of the findings.

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. If OCIO determines a particular project meeting these stated requirements would not require a project plan, OCIO officials should document this decision and reasoning as part of their project planning documentation. (Revised)

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.

**Attachment 2**

**Agency Response to Draft Report**

**Agency Response:**

OCIO concurs that project planning is an important element in successful technological implementations. Project planning has evolved significantly over the past 5 years and as a result OCIO will support the new Agile development methodology that is consistent with GSA's new technology engagement model as dictated by the President's technology innovation agenda. The FEC is proactively leveraging the DHS Federal Network Resilience teams to augment the resources required to improve the IT Security Program management. Several of the recommendations require dedicated resources to consistently managing operations on an ongoing basis.

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

   **Agency Response:** OCIO concurs with the recommendation and is currently implementing this recommendation and is on schedule for July 2017 and within the approved budget.

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. (*Revised)*

   **Agency Response:** OCIO concurs with the recommendation and as the agency implements the NIST Risk Management Framework (RMF), this policy will be reviewed and updated based on the results of the RMF and will include language of when systems need to be reviewed and assessed based on changes and other determining factors.

5. Implement procedures and processes to complete periodic reviews of user access authorities after the NIST best practices implementation project is completed. (Revised)

   **Agency Response:** OCIO concurs with the recommendation and will implement capabilities to allow for a review of user access authorities. FEC is participating in the DHS CDM program that will give us access to the tools and sensors, which would allow the agency to implement the recommendation made by the OIG. Phase 2 of the CDM project, will provide the agency with this capability that was awarded in July 2016. The implementation schedule is dictated by DHS as they work with the implementers to roll out the service to agencies in FY17. At the completion of the NIST contract the FEC will be implementing best practices that will improve IT policies and procedures. As part of the improvement, the review of user access authorities will be automated through the user of the DHS CDM tools following the new FEC IT policies and procedures. Subject to workload, staff and additional funding for equipment and licensing not provided by DHS CDM may extend the time required for implementation of the recommendation to several months after the completion the DHS tool deployment.

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

   **Agency Response:** OCIO concurs with the recommendation. All OCIO policies and procedures will be reviewed in the coming year as we implement NIST best practices for Information and Information Systems. FEC Policy 58-2.2 will be reviewed and updated as part of the NIST best practice implementation. The NIST project is on schedule for completion by July 2017 and within approved budget. *Also see answer in #5*

7. Ensure that sufficient resources are assigned to the task of periodically testing newly created system contingency plans. (Revised)

**Agency Response:** OCIO concurs and the FEC is currently implementing NIST best practices, which include Business Continuity and Disaster Recovery Plan for each General Support Systems (GSS) and Major Applications (MA). Each system will be tested as part of the NIST guidelines. Going forward, FEC OCIO will improve its documentation of the COOP testing and test results. As we embrace cloud.gov in 2017 we will greatly enhance COOP capabilities while reducing Operational and Maintenance expenses while improving these continuity capabilities.

Through the utilization of two service providers who process and maintain FEC financial activity, the Commission has an effective COOP process for financial management and financial statement preparation and reporting. Both service providers' COOP plans are evaluated annually as part of their respective systems

**Agency Response to Draft Report**

audits. In 2016, the service providers' COOP plans were reviewed and the auditors determined both providers have documented a comprehensive plan and set of procedures to ensure continuity of operations for information systems that support their respective operations should an unexpected interruption occur. The FEC considers the service providers COOP plans and the annual assessment of their plans as important internal controls over FEC financial reporting.

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 Response:** OCIO concurs and all agency systems will be in compliance with USGCB standards by February 2017.

9. 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.

**Agency's Response** OCIO concurs and recently implemented a FEC vulnerability management system identifies vulnerabilities across all FEC systems and provides a mechanism to document remediation and acceptance of risk. As part of the Patch Management contract, the contractor is developing a patching process aligned with NIST that will leverage the FEC vulnerability management system for identification and documentation of vulnerabilities. The patch management process is on track to be finalized September 2017. The final process may require additional patch management solutions to improve overall effectiveness and efficiency of patch management to all FEC IT assets.

10. Complete the implementation of the contractor's open recommendations contained in the October 2012 Threat Assessment Program report:

    a. Secure local administrator passwords by making them unique on every system or disabling the local administrator account from accessing systems over the network.

    **Agency Response:** OCIO concurs with Recommendation 10a and administrators now have Privilege (PR) accounts, which are unique to each administrator.

    b. Implement application "white listing" on domain controllers and other critical servers.

**Agency Response to Draft Report**

**Agency Response:** OCIO concurs with Recommendation 10b and the agency is a member of the DHS CDM program. DHS made an award in July 2016 for security tools and sensors. Application White Listing is one of the capabilities the agency will be able to implement in 2017 with DHS support.

c. Implement two-factor authentication for the VPN and for webmail.

**Agency Response:** OCIO concurs with Recommendation 10c and the FEC currently has two-factor authentication for VPN. Webmail dual factor will be implemented in April 2017.

d. Remove "local administrator" level privileges from end-users.

**Agency Response:** OCIO concurs with Recommendation 10d and by April 2017, all local administrator privileges will be removed from user machines.

11. Work with the necessary divisions/offices to establish a process that ensures the agency is able to identify all on board contractors to address this security risk to the agency.

    **Agency Response:** OCIO concurs with Recommendation 11. The OCFO is working to inform the Contracting Officers Representatives (CORs) of their duties and responsibilities regarding contractor tracking in FY 17. This is in conjunction with the Office of Human Resources working with the CORs to establish on line Fingerprinting scheduling beginning in FY 17. The two measures taken together represent a process to assist the agency to identify all on board contractors and address the security risk to the agency.

12. Establish controls and process similar to those used for FEC personnel to track contractor security awareness training.

    **Agency Response:** OCIO concurs with Recommendation 12 and now has in place the same system for contractors that we have for FEC personnel.

13. Disable network access to contractors and personnel that do not complete security awareness training within a reasonable period after the required completion date.

    **Agency Response:** OCIO concurs with Recommendation 13 and now has in place the same system for contractors that we have for FEC personnel.

**Attachment 2**

**Agency Response to Draft Report**

14. Require those contractors who have not received security awareness training during FY 2016 to take required courses within the next 30 days.

    **Agency Response:** OCIO concurs with Recommendation 14.

Thank you for the opportunity to be able once again to work with the financial statement audit team, and with the OIG during the audit process. We look forward to working with everyone again for the Fiscal Year 2017 financial statement audit.

Gilbert Ford Digitally signed by Gilbert Ford DN: cn=Gilbert Ford, o=OCFO, ou=Budget Division, email=gford@fec.gov, c=US Date: 2016.11.10 17:11:29 -05'00'

Gilbert Ford,
Acting Chief Financial Officer

# Financial Statements

## BALANCE SHEET
## As of September 30, 2016 and 2015

| **Assets (Note 2)** | **2016** | **2015** |
|---|---|---|
| Intragovernmental: | | |
| Fund balance with Treasury (Note 3) | $ 17,614,242.04 | $ 12,900,515.87 |
| Accounts receivable, net (Note 4) | - | 3,020.38 |
| Total Intragovernmental | 17,614,242.04 | 12,903,536.25 |
| Accounts receivable, net (Note 4) | 102,004.72 | 152,502.74 |
| General property and equipment, net (Note 5) | 6,039,490.47 | 4,000,422.68 |
| **Total Assets** | **$ 23,755,737.23** | **$ 17,056,461.67** |
| **Liabilities (Note 6)** | | |
| Intragovernmental: | | |
| Accounts payable | $ 342,353.19 | $ 131,193.00 |
| Employer contributions and payroll taxes payable | 370,421.33 | 281,298.85 |
| Deferred rent | 87,059.80 | 174,119.60 |
| Custodial liability (Note 11) | 102,004.72 | 152,502.74 |
| Other | 3,500.00 | 3,500.00 |
| Total intragovernmental | 905,339.04 | 742,614.19 |
| Accounts payable | 2,270,822.73 | 1,611,211.26 |
| Accrued payroll and benefits | 1,428,371.78 | 1,132,598.04 |
| Unfunded leave | 2,500,007.05 | 2,438,290.68 |
| **Total Liabilities** | **7,104,540.60** | **5,924,714.17** |
| Commitments and contingencies (Note 7) | | |
| **Net Position** | | |
| Unexpended appropriations | 13,198,773.01 | 9,743,735.10 |
| Cumulative results of operations | 3,452,423.62 | 1,388,012.40 |
| **Total Net Position** | **16,651,196.63** | **11,131,747.50** |
| **Total Liabilities and Net Position** | **$ 23,755,737.23** | **$ 17,056,461.67** |

The accompanying notes are an integral part of these statements.

**STATEMENT OF NET COST**
**For The Years Ended September 30, 2016 and 2015**

| **Program Costs:** | **2016** | **2015** |
|---|---|---|
| Administering and Enforcing the *FECA* | | |
| Gross costs | $ 70,529,281.64 | $ 68,218,355.00 |
| Less: Earned revenues | - | (4,646.30) |
| Net program costs | 70,529,281.64 | 68,213,708.70 |
| **Net Cost of Operations (Note 9)** | **$ 70,529,281.64** | **$ 68,213,708.70** |

The accompanying notes are an integral part of these statements.

**STATEMENT OF CHANGES IN NET POSITION**
**For The Years Ended September 30, 2016 and 2015**

| | 2016 | 2015 |
|---|---|---|
| **Cumulative Results of Operations** | | |
| Beginning balance | $ 1,388,012.40 | $ 1,096,811.99 |
| **Budgetary Financing Sources** | | |
| Appropriations used | 70,426,937.21 | 66,034,470.94 |
| **Other Financing Resources (non-exchange)** | | |
| Imputed financing | 2,166,755.65 | 2,470,438.17 |
| Total financing sources | 72,593,692.86 | 68,504,909.11 |
| Net cost of operations | (70,529,281.64) | (68,213,708.70) |
| Net change | 2,064,411.22 | 291,200.41 |
| **Cumulative Results of Operations** | **$ 3,452,423.62** | **$ 1,388,012.40** |
| **Unexpended Appropriations** | | |
| Beginning balance | $ 9,743,735.10 | $ 9,022,381.37 |
| **Budgetary Financing Sources** | | |
| Appropriations received | 76,119,000.00 | 67,500,000.00 |
| Other adjustments | (2,237,024.88) | (744,175.33) |
| Appropriations used | (70,426,937.21) | (66,034,470.00) |
| **Total Budgetary Financing Sources** | 3,455,037.91 | 721,354.67 |
| **Total Unexpended Appropriations** | **13,198,773.01** | **9,743,736.04** |
| **Net Position** | **$ 16,651,196.63** | **$ 11,131,748.44** |

The accompanying notes are an integral part of these statements.

**STATEMENT OF BUDGETARY RESOURCES**

**For The Years Ended September 30, 2016 and 2015**

| | 2016 | 2015 |
|---|---|---|
| **Budgetary Resources (Note 10)** | | |
| Unobligated balance brought forward, October 1 | $ 3,679,467.16 | $ 3,711,398.49 |
| Recoveries of prior year unpaid obligations | 107,329.63 | 594,417.33 |
| Other changes in unobligated balance | (2,237,024.88) | (744,175.33) |
| Unobligated balance from prior year budget authority, net | 1,549,771.91 | 3,561,640.49 |
| Appropriations | 76,119,000.00 | 67,500,000.00 |
| Spending authority from offsetting collections | (18,311.70) | 23,208.00 |
| **Total Budgetary Resources** | **$ 77,650,460.21** | **$ 71,084,848.49** |
| **Status of Budgetary Resources** | | |
| Obligations incurred | $ 71,812,449.18 | $ 67,405,381.33 |
| Apportioned | 4,503,396.29 | 269,661.55 |
| Unapportioned | 1,334,614.74 | 3,409,805.61 |
| Total unobligated balance, end of year | 5,838,011.03 | 3,679,467.16 |
| **Total Budgetary Resources** | **$ 77,650,460.21** | **$ 71,084,848.49** |
| **Change in Obligated Balance** | | |
| Unpaid obligations, brought forward, October 1 | $ 9,242,630.79 | $ 8,415,148.07 |
| Obligations incurred | 71,812,449.18 | 67,405,381.33 |
| Outlays (gross) | (69,171,519.33) | (65,983,481.28) |
| Recoveries of prior year unpaid obligations | (107,329.63) | (594,417.33) |
| Unpaid obligations, end of year | 11,776,231.01 | 9,242,630.79 |
| Uncollected payments, Federal sources, brought forward Oct 1 | (21,582.08) | - |
| Change in uncollected payments, Federal sources | 21,582.08 | (21,582.08) |
| Uncollected payments, Federal sources, end of year | - | (21,582.08) |
| **Obligated balance, start of year** | 9,264,212.87 | 8,393,565.99 |
| **Obligated balance, end of year** | $ 11,776,231.01 | $ 9,221,048.71 |
| **Budget Authority and Outlays, Net** | | |
| Budget authority, gross | $ 76,100,688.30 | $ 67,523,208.00 |
| Actual offsetting collections | (3,270.38) | (1,625.92) |
| Change in uncollected payments, Federal sources | 21,582.08 | (21,582.08) |
| Budget authority, net | 76,119,000.00 | 67,500,000.00 |
| Outlays, gross | 69,171,519.33 | 65,983,481.28 |
| Actual offsetting collections | (3,270.38) | (1,625.92) |
| **Outlays, net** | **$ 69,168,248.95** | **$ 65,981,855.36** |

The accompanying notes are an integral part of these statements.

**STATEMENT OF CUSTODIAL ACTIVITY**
**For The Years Ended September 30, 2016 and 2015**

| | 2016 | 2015 |
|---|---|---|
| **Revenue Activity** | | |
| Sources of cash collections | | |
| Civil penalties | $ 600,798.55 | $ 476,211.53 |
| Administrative fines | 131,361.74 | 204,302.23 |
| Miscellaneous receipts | 198,190.85 | 96,986.95 |
| Total Cash Collections | 930,351.14 | 777,500.71 |
| Accrual adjustments | (50,498.02) | 517.80 |
| **Total Custodial Revenue (Note 11)** | **$ 879,853.12** | **$ 778,018.51** |
| | | |
| **Disposition of Collections** | | |
| Transferred to Treasury | $ 930,351.14 | $ 777,500.71 |
| Amount yet to be transferred | (50,498.02) | 517.80 |
| **Total Disposition of Collections** | **$ 879,853.12** | **$ 778,018.51** |
| **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, 2016, the FEC recognized approximately $ 2,166,756 as an imputed cost and related financing source, for the difference between the estimated service cost and the contributions made by the FEC and its employees. This represents a 12% decrease when compared to the $2,470,438 of imputed cost and related financing source recognized in Fiscal Year 2015.

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

Effective January 1, 2013, the Middle Class Tax Relief and Job Creation Act of 2012 created a new FERS retirement category, Revised Annuity Employees (RAE) for new federal employees hired in calendar year (CY) 2013 or thereafter. In FY 2016, the FERS-RAE employee contribution rate was 3.1%.

Effective January 1, 2014, the Bipartisan Budget Act of 2013 introduced a new FERS retirement category, Further Revised Annuity Employees (FRAE) for new federal employees hired in CY 2014 and thereafter. In FY 2016, the FERS-FRAE employee contribution rate was 4.4%.

FERS contributions made by employer agencies and covered employees are comparable to the Federal Government's estimated service costs. For FERS covered employees, the FEC made contributions of 13.7% of basic pay for FY 2016. For both FERS-RAE and FERS-FRAE covered employees, the FEC made contributions of 11.9% of basic pay for FY 2016.

Employees participating in FERS are covered under the Federal Insurance Contribution Act (FICA), for which the FEC contributed 6.2% to the Social Security Administration in FY 2016. Effective in FY 2012 FERS and CSRS – Offset employees were granted a 2% decrease in Social Security for tax year (CY) 2012 under the Temporary Payroll Tax Cut Continuation Act of 2011; and H.R. 3630, the Middle Class Tax Relief and Job Creation Act of 2012. During FY 2013, employees contributed 4.2% to Social Security through December 31, 2012. Effective January 1, 2013 the employee contribution rate is 6.2%.

**Thrift Savings Plan**

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

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

**Commitments and Contingencies**

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

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

**Revenues and Other Financing Sources**

**Annual Appropriation**

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

**Imputed Financing Sources**

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

**Statement of Net Cost**

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

**Net Position**

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

**Statement of Custodial Activity**

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

**Use of Estimates**

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

## Note 2 Non-Entity Assets

Non–entity assets, which primarily represent amounts due to the FEC for fines and penalties on those that violated the requirements of the *Federal Election Campaign Act*, consisted of the following as of September 30, 2016 and September 30, 2015:

| | 2016 | 2015 |
|---|---|---|
| **With the Public** | | |
| Accounts Receivable - Custodial | 102,004.72 | 152,502.74 |
| **Total non-entity assets** | 102,004.72 | 152,502.74 |
| **Total entity assets** | 23,653,732.51 | 16,903,958.93 |
| **Total Assets** | $ 23,755,737.23 | $ 17,056,461.67 |

## Note 3 Fund Balance with Treasury

Fund Balance with Treasury consisted of the following as of September 30, 2016 and September 30, 2015:

| | 2016 | 2015 |
|---|---|---|
| **Fund Balances** | | |
| Appropriated Funds | $17,614,242.04 | $ 12,900,515.87 |
| **Total** | $ 17,614,242.04 | $ 12,900,515.87 |

| | 2016 | 2015 |
|---|---|---|
| **Status of Fund Balance with Treasury** | | |
| Unobligated Balance | | |
| Available | $ 4,503,396.29 | $ 269,661.55 |
| Unavailable | 1,334,614.74 | 3,409,805.61 |
| Obligated Balance not yet Disbursed | 11,776,231.01 | 9,221,048.71 |
| **Total** | $ 17,614,242.04 | $ 12,900,515.87 |

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, 2016 and September 30, 2015:

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

| | 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 |

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

**Note 5 General Property and Equipment, Net**

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

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

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

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

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

The general components of capitalized property and equipment, net of accumulated depreciation or amortization, consisted of the following as of September 30, 2016 and September 30, 2015, respectively:

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

| | 2015 | | | |
|---|---|---|---|---|
| **Asset Class** | **Service Life (years)** | **Acquisition Value** | **Accumulated Depreciation/Amortization** | **Net Book Value** |
| 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 |

**Note 6 - Liabilities Not Covered by Budgetary Resources**

Liabilities Not Covered by Budgetary Resources consisted of the following as of September 30, 2016 and September 30, 2015:

| Liabilities Not Covered by Budgetary Resources | 2016 | 2015 |
|---|---|---|
| **Intragovernmental** | | |
| Custodial Fines and Civil Penalties | $ 102,004.72 | $ 152,502.74 |
| Deferred Rent | 87,059.80 | 174,119.60 |
| Unfunded FECA Liability | | |
| **Total Intragovernmental** | 189,064.52 | 326,622.34 |
| Unfunded Annual Leave | 2,500,007.05 | 2,438,290.68 |
| Contingent Liability | - | - |
| Actuarial FECA Liability | - | - |
| **Total Liabilities Not Covered by Budgetary Resources** | 2,689,071.57 | 2,764,913.02 |
| **Total Liabilities Covered by Budgetary Resources** | 4,415,469.03 | 3,159,801.15 |
| **Total Liabilities** | $ 7,104,540.60 | $ 5,924,714.17 |

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, 2016, 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.

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.

**Note 8 - Leases**

The FEC did not have any capital leases as of September 30, 2016 and September 30, 2015. 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**

**2016**

| Fiscal Year | Lease Payment |
|---|---|
| 2017 | 6,130,121.81 |
| **Total** | **$ 6,130,121.81** |

Beginning in Fiscal Year 2018, the FEC will have a new commitment under a new operating lease for its office space. A schedule of estimated payments is provided below, including credits which are expected to be applied to FY 2018:

**Estimated Future Operating Lease**

**2018**

| Fiscal Year | Lease Payment |
|---|---|
| 2018 | 954,661.55 |
| 2019 | 5,169,156.18 |
| 2020 | 5,220,393.90 |
| 2021 | 5,273,168.76 |
| 2022 | 5,327,526.86 |
| 2023 | 5,383,515.70 |
| 2024 | 5,441,184.21 |
| 2025 | 5,500,582.77 |
| 2026 | 5,561,763.29 |
| 2027 | 5,624,779.23 |
| 2028 | 5,849,667.23 |
| 2029 | 5,916,520.84 |
| 2030 | 5,985,380.05 |
| 2031 | 6,056,305.04 |
| 2032 | 6,129,357.78 |
| **Total** | **$ 79,393,963.39** |

## 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, 2016 and September 30, 2015, respectively:

| | 2016 | 2015 |
|---|---|---|
| **Intragovernmental:** | | |
| Intragovernmental gross costs | $ 19,408,099.76 | $ 18,895,980.23 |
| Less: Intragovernmental earned revenue | - | (4,646.30) |
| **Intragovernmental net costs** | 19,408,099.76 | 18,891,333.93 |
| **Public:** | | |
| Gross costs with the public | 51,121,181.88 | 49,322,374.77 |
| **Net costs with the public** | 51,121,181.88 | 49,322,374.77 |
| **Net cost of operations** | $ 70,529,281.64 | $ 68,213,708.70 |

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, 2016, budgetary resources were $77,650,460.21 and net outlays were $69,168,248.95. For the year ended September 30, 2015, budgetary resources were $71,084,848.49 and net outlays were $65,981,855.36.

### 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, 2016 and September 30, 2015, direct obligations incurred amounted to $71,812,449.18 and $67,400,735.03, respectively. For the years ended September 30, 2016 and September 30, 2015, reimbursable obligations incurred amounted to $0 and $4,646.30, 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 2016 actual budgetary execution information is scheduled for publication in February 2017, 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 2015 SBR and the related President's Budget reflected the following:

| FY 2015 | Budgetary Resources | Obligations Incurred | Distributed Offsetting Receipts | Net Outlays |
|---|---|---|---|---|
| Statement of Budgetary Resources | $ 71,084,848.49 | $ 67,405,381.33 | - | $ 65,981,855.36 |
| *Budget of the U.S. Government* | 68,000,000 | 67,000,000 | - | 66,000,000 |
| **Difference** | $ 3,084,848.49 | $ 405,381.33 | $ - | $ (18,144.64) |

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** | **2016** | **2015** |
|---|---|---|
| Fines, Penalties, and Other Miscellaneous Revenue | $ 879,853.12 | $ 778,018.51 |
| **Custodial Liability** | | |
| Receivable for Fines and Penalties | $ 247,553.75 | $ 293,766.75 |
| Less: Allowance for Doubtful Accounts | (145,549.03) | (141,264.01) |
| **Total Custodial Liability** | $ 102,004.72 | $ 152,502.74 |

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 $34,000 for FY 2016 and a net decrease of approximately $13,000 for FY 2015, respectively. The accrual adjustment for administrative fines is composed of a net decrease of approximately $17,000 in FY 2016 and a net increase of approximately $14,000 in FY 2015, respectively.

**Note 12 Undelivered Orders at the End of the Period**

Undelivered orders as of September 30, 2016 and September 30, 2015 totaled $7,360,762 and $6,082.830, 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.

| | 2016 | 2015 |
|---|---|---|
| **Resources used to finance activities** | | |
| Budgetary resources obligated | | |
| Obligations incurred | $ 71,812,449.18 | $ 67,405,381.33 |
| Less: Recoveries and offsetting collections | (89,017.93) | (617,625.33) |
| Net obligations | 71,723,431.25 | 66,787,756.00 |
| Other resources | | |
| Imputed financing from costs absorbed by others | 2,166,755.65 | 2,470,438.17 |
| **Total resources used to finance activities** | 73,890,186.90 | 69,258,194.17 |
| | | |
| **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 | 1,296,494.04 | 753,285.06 |
| 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 | 3,389,589.32 | 1,240,428.01 |
| **Total resources used to finance items not part of the net cost of operations** | 4,773,143.16 | 2,080,772.87 |
| **Total resources used to finance the net cost of operations** | 69,117,043.74 | 67,177,421.30 |
| | | |
| **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 | 61,716.37 | (106,988.61) |
| Other | - | - |
| Total | 61,716.37 | (106,988.61) |
| | | |
| Components not requiring or generating resources | | |
| Depreciation and amortization | 1,350,521.53 | 1,143,276.01 |
| Total | 1,350,521.53 | 1,143,276.01 |
| | | |
| **Total components of the net cost of operations that will not require or generate resources in the current period** | 1,412,237.90 | 1,036,287.40 |
| **Net cost of operations** | $ 70,529,281.64 | $ 68,213,708.70 |

## 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 19, 2016

Each year, the Inspector General (IG) is required to provide a summary and assessment of the most serious management and performance challenges facing the Federal Election Commission (FEC). The requirement is contained in the *Reports Consolidation Act of 2000* (Public Law 106-531), an amendment to the *Chief Financial Officers Act of 1990*. The attached document responds to the requirement and provides the annual statement on Commission challenges to be included in the *Federal Election Commission Financial Audit Report (FAR) Fiscal Year (FY) 2016.*

As a noteworthy accomplishment for the agency, the IG was able to remove Human Capital Management as a major management challenge for FY 2016. The IG has reported this area as a challenge for the agency since 2004. However, since the IG's FY 2015 management challenges report was released, the agency has stabilized the leadership structure in the Office of Human Resources (OHR) by hiring a full-time Director who has been successful in increasing the staffing in the OHR to address the need for improved customer service. Although the IG believes that the OHR still has room for improvement in providing customer service to staff and in addressing reported weaknesses within their daily operations, the noted accomplishments are key factors in addressing the consistent operational challenges reported from past years.

For FY 2016, the Office of Inspector General (OIG) has identified one new, and two continued management and performance challenges for inclusion in the FEC's FAR:

Low Employee Morale
Governance Framework
Information Technology Project Planning and Management

**Low Employee Morale**

For the past five years, the FEC has consistently ranked low on the annual list of *The Best Places to Work in the Federal Government* based on the responses provided from FEC staff to the Federal Employee Viewpoint Survey, administrated by the Office of Personnel Management. As employee satisfaction has a direct impact on the agency's ability to effectively achieve its mission, the OIG contracted with a consulting company to conduct a study to determine the root causes of the low employee morale at the FEC. The consultants released their report in July 2016, and consistent with many staff complaints via OIG hotline submissions, annual risk assessments, and general discussions with FEC staff, the study identified the following five major root causes:

- Commissioners
  - Tone and attitude perceived as poor
  - Many positions filled by acting managers

- Management
  - Lack of trust
  - Top leaders seen as ineffective

- Communication
  - Little information provided
  - Employees do not believe management

- Accountability
  - Poor managers not accountable
  - Poor performing employees not accountable

- Other
  - Perceived lack of diversity in management
  - Little career development

Since the release of the report, Governance has yet to discuss a potential action plan or even a basic framework with the agency to address the root causes of low employee morale. The near silence of Governance and the Senior Leadership in this critical area further reinforces the perceptions and beliefs of the FEC staff causing low employee morale. The OIG believes that the ability to achieve the mission of the agency will be heavily impacted if Governance does not make sincere and concrete attempts to begin addressing the employee morale issues.

**Governance Framework**

Consistent with one of the root causes of low employee morale, the FEC continues to experience inefficiencies in the management structure with prolonged vacancies in key senior leadership positions, causing ineffective management, and operating with one person fulfilling two major senior leader positions (Chief Information Officer and Staff Director). The FEC's Chief Financial Officer; General Counsel; Deputy Staff Director for Management and Administration, and Deputy Chief Information Officer for Operations are all acting positions, and the Director of Accounting position is vacant. The previous acting Chief Financial Officer recently retired and the acting General Counsel resigned. Both of these positions have again been filled by staff in an acting capacity. The constant fluctuation or absence of leadership promotes poor stability and inconsistency in the leadership structure.

Additionally, in September 2016, the FEC incurred a vacancy in the Chief Information Security Officer (CISO) position. Although this position has been vacant for only a short period of time, it is essential to note that the CISO position is a very critical position not only within the FEC, but also government-wide. On an agency level, the FEC is currently going through a significant transformation within its business structure in implementing the National Institute of Standards and Technology's Information Technology (IT) security standards to establish an adequate risk-based information security program for the agency, which is the responsibility of a CSIO. The former CISO was heavily involved in the progress, oversight, and communication channels for implementing these standards. Management is making progress on filling this position as it has been advertised, interviews have been held and a selection is anticipated in the near future.

The Government Accountability Office (GAO) released a report[1] in September 2016 identifying the need for agencies to have a sufficient cybersecurity workforce with the right skills and training. The report also noted that IT security is consistently an expanding government-wide high-risk area. During an OIG senior leader exit conference with the former CISO prior to his separation from the agency, the CISO noted that the agency's IT security staff requires more resources than the current two established FTEs to sufficiently carryout all the inherent roles and responsibilities of a security office, which causes many delays with outstanding IT security projects. With the CISO being a high-priority position within the federal government, along with the other vacant senior leadership positions, the OIG encourages Governance to take the necessary steps to stabilize their leadership structure in promptly filling all open senior leadership positions.

**Information Technology Project Planning and Management**

IT Project Planning and Management was first reported as a management challenge in FY 2015. The FEC's Office of Chief Information Officer (OCIO) continues to struggle with implementing IT projects efficiently, effectively, and in a timely manner due to a lack of adequate planning and management oversight. Since the FEC's FY 2014 financial statement audit report, the OIG has recommended that OCIO management require a *project plan for all OCIO projects that require multiple resources and/or have a timeframe of completion beyond 60 days*. Management has not agreed to implement the recommendation, and continues to experience major delays in fully implementing projects such as a vulnerability remediation program, the agency's Continuity of Operations Plan, and verification of user access authorities, all of which have been repeat findings in the agency's annual financial statement audit report for several years. It is imperative

[1] GAP-16-885T

that the FEC has efficient and effective project planning and management processes to ensure the security and integrity of FEC data.

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 knowledge of the Commission's programs and activities. The management and performance challenges are detailed in the attached report. The *Reports Consolidation Act of 2000* permits agency comment on the IG's statements. Agency comments, if any, are due November 15, 2016.

Lynne A. McFarland

Lynne A. McFarland
Inspector General

Attachment

cc: Alec Palmer, Staff Director and Chief Information Officer
Gilbert Ford, Acting Chief Financial Officer
Lisa Stevenson, Acting General Counsel
Edward Holder, Acting Deputy Staff Director for Management and Administration
Derrick Allen, Director of Human Resources

**FEDERAL ELECTION COMMISSION (FEC)**
**MANAGEMENT AND PERFORMANCE CHALLENGES**
**FY 2016**

## I. Low Employee Morale

| **Management Challenge:** |
|---|
| The established tone and culture from Governance and the Senior Leaders as a whole has a negative impact on employee morale and ultimately the success of the agency in effectively accomplishing its mission. |
| **Applicable Government Requirements/Best Practices[2] Not In Place:** |
| • GAO Standards For Internal Control in the Federal Government<br>• OMB A-123<br>  ➢ Control Environment<br>    o *Management and employees should establish and maintain an environment throughout the organization that sets a positive and supportive attitude toward internal controls and conscientious management.*<br>    o *The organizational culture is also crucial within the standard. The culture should be defined by management's leadership in setting values of integrity and ethical behavior…Management's philosophy and operational style will set the tone within the organization.* |
| **Critical Agency Impacts:** |
| • Negative tone and attitude by Commissioners negatively impacts the employees perception of their job<br>• Employees do not feel valued, which impacts their work product and dedication to the job<br>• Lack of trust in management and leadership direction<br>• Ineffective leadership<br>  ➢ No established accountability for managers from Governance<br>  ➢ One person serving as both Staff Director and CIO<br>  ➢ Many vacant senior leadership positions<br>• Breakdowns in communication between senior leaders and employees |

[2] In instances where the FEC may be exempt from a government requirement or standard, the reference should be used as best practice to ensure adequate government business operations – applicable to all sections in this report.

## 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:** |
| • Statutory Requirement for General Counsel - 52 U.S.C. section 30106(f)<br>• Clinger-Cohen Act of 1996<br>• Privacy Act of 1974 |
| **Critical Agency Impacts:** |
| **A. Agency vacancies –** The FEC has several senior leader positions that have been vacant for a year or more<br>▪ General Counsel - position vacant since July 2013[3]<br>▪ Chief Financial Officer - position vacant since October 2012[4]<br>▪ Deputy Staff Director for Management and Administration - position vacant since August 2014[5]<br>▪ Chief Information Security Officer[6]<br>▪ Failure to fill senior leader positions creates resource gaps. Critical management positions are vacant or filled with acting FTEs due to incumbents serving in vacant senior leader positions, including:<br>➢ Director of Accounting<br>➢ Budget Director<br>➢ Deputy Chief Information Officer of Operations.<br>**B. Dual office holding –** The CIO also serves as the permanent Staff Director.<br>▪ Contributes to low employee morale[7]<br>▪ Conflict of interest in agency reporting structure for staff<br>▪ Poor IT project planning and management<br>▪ Lack of management accountability<br>➢ No significant progress in complying with the IT portions of the agency's Privacy Program to comply with the Privacy Act<br>➢ Major delays in IT project implementation<br>▪ Failure to timely implement OIG recommendations in accordance with *OMB Circular A-50* and *Commission Directive 50*<br>➢ Outstanding OIG recommendations from the *2010 Follow-up Audit of Privacy and Data Protection* released in March 2011<br>➢ Outstanding OIG recommendations from the *Inspection of the FEC's Disaster Recovery Plan and Continuity of Operations Plans* released in January 2013 |

[3] The Associate General Counsel for Enforcement was assigned as Acting General Counsel in August 2015 – September 2016 followed by the Deputy General Counsel for Law from September 2016 to present.
[4] The FEC assigned the Director of Accounting as Acting CFO in October 2012- September 2016 and then the Budget Director in September 2016 to present.
[5] The FEC assigned the Deputy CIO of Operations as Acting Deputy Staff Director in August 2014.
[6] Noted as a recent vacancy but a critical position that needs to be filled based on agency IT weaknesses and the high risk area government-wide.
[7] See OIG report: Root Causes of Low Employee Morale Study

## III. Information Technology Project Planning and Management

**Management Challenge:**

Management lacks the proper planning 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*[8]
  - M-12-27 *Information Technology Baseline Management Policy.*

**Critical Agency Impacts:**[9]

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*
   - Privacy Act 1974

B. **Project funding wasted or exceeding original planned budget**[10]
   - 2008 Agency-wide Personally Identifiable Information (PII) Review Assessment
   - Agency-wide COOP Project
   - User Access Review Authorities

C. **Continuous delays**:
   - Adequate testing of agency COOP
   - Periodic user access authorities review
   - Assessment and Accreditation project[11]

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
     - unauthorized disclosure of PII or confidential information has not occurred
     - proper access authorities are provided to each employee

[8] Updated by M-10-31, *Immediate Review of Information Technology Projects.*

[9] 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.

[10] **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.

[11] 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.

## 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 2016, 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 2016, 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 |
| FAR | Financial Audit Report |
| FASAB | Federal Accounting Standards Advisory Board |
| FBWT | Fund Balance With Treasury |
| FEC | Federal Election Commission |
| FECA | Federal Election Campaign Act |
| FERS | Federal Employees' Retirement System |
| FMFIA | Federal Managers' Financial Integrity Act |
| FRAE | Further Revised Annuity Employees |
| FY | Fiscal Year |
| GAAP | Generally Accepted Accounting Principles |
| GSA | General Services Administration |
| IG | Inspector General |
| IPERA | Improper Payments Elimination and Recovery Act |
| IPERIA | Improper Payments Elimination and Recovery Improvement Act |
| IPIA | Improper Payments Information Act |
| MD&A | Management's Discussion and Analysis |
| NPRM | Notices of Proposed Rulemaking |
| NTEU | National Treasury Employee Union |
| OAR | Office of Administrative Review |
| OCFO | Office of the Chief Financial Officer |
| OCIO | Office of the Chief Information Officer |
| OGC | Office of General Counsel |
| OHR | Office of Human Resources |
| OMB | Office of Management and Budget |
| OPM | Office of Personnel Management |
| OSD | Office of the Staff Director |
| P&E | Property and Equipment |

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