

OFFICE OF INSPECTOR GENERAL



Semiannual Report to Congress April 1, 2001 - September 30, 2001

**Federal Election Commission
999 E Street, N.W., Suite 940
Washington, D.C. 20463**

202-694-1015 - Toll-Free: 1-800-424-9530

**e-mail address: oig@fec.gov
website address: <http://www.fec.gov/fecig.htm>**

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Special Message of Condolence

The Federal Election Commission, Office of Inspector General wishes to express deep sorrow and heartfelt condolences to all those who have experienced traumatic injuries, as well as the loss of family, friends and co-workers in the great tragedy that took place in our nation on Tuesday, September 11, 2001 - a day forever etched in our memory.

We would also like to pay tribute to the firefighters, police and rescue workers for their incredible bravery in the effort to save lives, they are the true heroes. Although a disaster of this magnitude leaves us all grieving, this is the foremost opportunity for all American citizens to unite and interact for a common cause. This is one of the greatest challenges we will face, by standing together as a nation, we draw the strength to endure.



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EXECUTIVE SUMMARY

This semiannual report covering the period April 1, 2001 through September 30, 2001, is submitted pursuant to the *Inspector General Act of 1978*, as amended. This Executive Summary provides a brief synopsis of accomplishments and general activities pertaining to the Office of Inspector General (OIG).

The Office of Inspector General released three inspection reports during this reporting period. ***Inspection of the Commission's Web Site Privacy Practices (OIG-01-02 - May, 2001)***, the first to be released, was initiated as a result of a statutory requirement regarding Section 646 of the *Treasury and General Government Appropriations Act of 2001*. The Act requires each Federal Inspector General to submit a report to Congress on their agency's Internet site privacy practices.

The primary objectives of the inspection were to evaluate the Commission's Web site privacy practices to: 1) determine whether the Commission utilizes Internet cookies or Web bugs, and whether applicable Federal guidelines are being followed; and 2) evaluate the Commission's Web site privacy policy in accordance with Federal guidelines. To complete the inspection, various steps were performed including meetings with several

divisions relating to the FEC's Web site privacy practices, and reviewing the accuracy and adequacy of the FEC's Web site privacy statement.

The OIG concluded that the Commission is in compliance with applicable Office of Management and Budget guidelines on Web site privacy. In addition, the OIG found the Commission is adhering to the stated Web site privacy policy. However, our inspection report contained six suggestions for improvement, five have been implemented and one remains outstanding. Significant information regarding this inspection is located on page 15, the section entitled ***Inspection Reports***.

The second report entitled, ***Inspection of the Commission's Compliance with the Federal Managers' Financial Integrity Act (FMFIA) of 1982 (OIG-01-03 - June, 2001)***, was performed to assess the Commission's program for meeting the requirements of the Act. The objectives were to: 1) evaluate the Commission's compliance with the provisions of the *Federal Managers' Integrity Act of 1982*, General Accounting Office (GAO) Standards, Office of Management and Budget (OMB) policies, and Commission directives; 2) determine whether the Commission adequately implemented agency policies and procedures to assess, as well as strengthen the internal control environment; 3) determine whether the Commission's Annual FMFIA report for Fiscal Year 2000 to the President and Congress accurately represented the adequacy of the review process within

the Commission; and 4) follow up on issues addressed during the 1991 review of the Commission's FMFIA program.

The OIG found the Commission's FMFIA review process to be inadequate. Several examples of noncompliance with OMB and Commission policies were identified and conveyed to management. The FMFIA review process lacked documentation, management control plans and the required assurance statements. Page 19 contains more information in reference to this report.

Inspection of the Commission's Westlaw Database Service (OIG-01-05 - July, 2001), the third and final inspection report released during this reporting period, was conducted after the OIG discovered that a separated employee's Westlaw account remained open several months after the employee left the agency. The objectives of the inspection were to: 1) ensure that the Westlaw accounts of separated employees are properly canceled; and 2) review and evaluate the payment process of the Westlaw service.

Overall, the OIG found weaknesses in the management of the Westlaw service. In addition, the OIG discovered a pattern of improper payments occurred over a specified period of time. The OIG concluded the weaknesses were the result of inadequate internal controls of the Westlaw program and the improper payments were inadvertent errors and not the

result of fraud or abuse. Additional information pertaining to this report can be found on page 25.

Follow-up work on the audit entitled **Agency Year 2000 Renovations - OIG-98-08**, was conducted during this reporting period. The original audit, released May 1999, was performed to assess the reported progress of the FEC to convert and implement Y2K repairs on its computer systems. The report included nine audit recommendations to management, three were closed during a previous reporting period, the other six remained open.

The OIG recognized that the outstanding Y2K audit recommendations presented a unique situation, and as such the audit follow-up process was modified. Since the audit recommendations were directed to a specific point in time (January 1, 2000), the OIG has chosen to close the six outstanding recommendations contained in the original audit report. The **Audit Follow-up** section, located on page 13, contains more information on the follow-up work conducted.

During this semiannual period the Office of Inspector General completed a peer review entitled, **Peer Review of the Federal Housing Finance Board (FHFB) (OIG-01-08 - September, 2001)**. The objectives of the peer review were to determine whether the FHFB OIG's internal quality

control system is designed to provide a reasonable assurance that the audits it performs, and the audits conducted by nonfederal auditors of FHFB programs and activities, are carried out in accordance with *Government Auditing Standards*. Detailed information regarding the peer review is discussed on page 34.

The OIG also initiated a special project pertaining to staff retirement. The purpose of the retirement project is to provide an analysis of the FEC's projected employee retirements. The OIG analysis will include statistics on employee retirements within a time period of five, seven, and ten years. More information relating to this special project is located on page 35.

During a previous reporting period, the Office of Inspector General initiated an audit entitled, ***Procurement Operations (OIG-00-03)***. The primary reason for conducting the audit is to see if the FEC has implemented the key acquisition reforms contained in the *Federal Acquisition Streamlining Act (FASA) of 1994*. The primary objectives of the audit are to: 1) determine whether or not the Commission has an efficient and effective procurement system in place; and 2) determine whether the Commission's procurement process complies with statutory and regulatory requirements.

Specific steps have been taken to complete the audit such as reviewing records and selecting the audit sample, however, due to several time

sensitive projects, minimal progress was made towards completing the audit before the end of this reporting period. Additional information regarding this audit can be found in the ***Audit Reports*** section, located on page 11.

Listed below are highlights of additional activities conducted by the Office of Inspector General during this reporting period. Items are described in greater detail, starting on page 30, the section entitled ***Additional Office of Inspector General Activity***.

- On October 30, 2000, President Clinton signed into law the FY 2001 *Defense Authorization Act* (P.L. 106-398) including Title X, subtitle G, *Government Information Security Reform Act (GISRA also referred to as The Security Act)*. *The Security Act* amends the *Paperwork Reduction Act (PRA) of 1995* by enacting a new subchapter on Information Security, which primarily addresses the program management and evaluation aspects of security. This Act applies to all agencies covered by the PRA.

Since GISRA amends the Paperwork Reduction Act (PRA) and the FEC is exempt from PRA, the OIG worked with its counsel to ascertain whether the FEC has any responsibility under GISRA. The OIG also contacted an OMB representative to determine whether an expectation exists for the FEC to follow GISRA. After

numerous conversations, the OIG was informed by the OMB representative and the IG Counsel that the agency is exempt from GISRA, therefore, the FEC and the FEC OIG are not required to submit reports.

- The Chairman of the House Committee on Government Reform asked the U.S. General Accounting Office (GAO) to study the possible effects of: 1) converting some inspectors general in designated federal entities to appointment by the President; 2) the consolidation of IG offices; and 3) changes to the President's Council on Integrity and Efficiency (PCIE) and the Executive Council on Integrity and Efficiency (ECIE). As part of the study, the views of all federal IG's were requested, the survey covered all of the areas listed above. The IG responded to the survey, along with additional detailed comments. In reference to the response of this survey, see page 32 for more information.
- The Special Assistant to the Inspector General is assigned the responsibility of conducting unannounced cash counts of the FEC's imprest fund. During this time frame two cash counts were performed (OIG-01-06, and OIG-01-07). The purpose of the cash count is to investigate the cash management and internal controls of the agency imprest fund.

The results of our cash counts revealed that all cash was accounted for and disbursements from the imprest fund were reasonable and consistent with FEC imprest fund policy. However, effective October 1, 2001, Federal agencies are no longer required to maintain imprest funds. Refer to page 36, which contains detailed information on the cash counts, as well as the decision to abolish the imprest funds.

THE FEDERAL ELECTION COMMISSION

The Federal Election Commission (FEC) is an independent, regulatory agency responsible for administering and implementing the *Federal Election Campaign Act (FECA)*. The FEC is composed of six Commissioners who are appointed for six year terms by the President of the United States, with the advice and consent of the Senate. The FECA likewise established the positions of Staff Director and General Counsel, who are appointed by the Commissioners.

OFFICE OF INSPECTOR GENERAL

The Federal Election Commission is one of the thirty-three designated agencies required to have an Inspector General under the 1988 amendments to the *Inspector General Act of 1978* (P.L. 100-504).

The responsibilities of the Inspector General as stated in P.L. 100-504 are as follows:

- conduct and supervise audits and investigations relating to the Federal Election Commission's programs and operations;

- provide leadership, coordination, and to recommend policies for activities designed to promote economy, efficiency and effectiveness in the administration of Commission programs and operations. To prevent and detect fraud, waste and abuse in these programs and operations, and;
- keep the Commissioners and Congress fully and currently informed about problems and deficiencies and the need for and progress of corrective actions.

The OIG is under the supervision of the Inspector General who provides overall direction to the staff. The OIG staffing level for FY 2002 is four (4) full time employees. The staff consists of the Inspector General, the Special Assistant to the Inspector General and two Senior Auditors.

AUDIT REPORTS

TITLE: *Procurement Operations*

ASSIGNMENT #: **OIG-00-03**

RELEASE DATE: **In Progress**

PURPOSE: The primary objectives of this audit are to: 1) determine whether or not the FEC has an efficient and effective procurement system in place; and 2) determine whether the FEC's procurement process complies with statutory and regulatory requirements.

The audit is being performed to determine if the Commission has implemented the key acquisition reforms contained in the *Federal Acquisition Streamlining Act (FASA) of 1994*. Other issues relating to the audit include determining if the goods and services are delivered in a timely manner; would it be helpful to provide written guidelines on how to order good and services; and is it necessary for staff to obtain additional training to address the procedures for acquiring goods and services.

Specific steps taken to obtain the audit objectives involved reviewing records, selecting the audit sample, and soliciting feedback from FEC divisions on the positive and negative aspects of the agency's process to purchase goods and services. In addition, the OIG sent an e-mail survey to

Audit Reports (continued)

managers to assess their satisfaction and experience with the commission's procurement process.

Despite the fact that during a previous reporting period specific steps had been taken to complete the audit, due to the continuance of several time-sensitive projects, minimal progress was made towards completing the audit before the end of this reporting period.

AUDIT FOLLOW-UP

TITLE: *Agency Year 2000 Renovations*

ASSIGNMENT #: **OIG-98-08**

RELEASE DATE: **May, 1999**
(audit report)

WEBSITE ADDRESS: *<http://www.fec.gov/fecig/Y2K.pdf>*

PURPOSE: The purpose of conducting this audit follow-up was to determine whether management had taken corrective action to resolve the outstanding recommendations contained in the report. The original audit was performed to assess the reported progress of the FEC to convert and implement Y2K repairs on its computer systems. The audit was completed and released on May 4, 1999, and included a considerable amount of post-audit work throughout 1999 to monitor the FEC's progress at addressing the year 2000 computer issues. The report included nine recommendations to management. Three of the recommendations were closed during a previous reporting period, the other six recommendations remained outstanding.

The OIG recognized the outstanding Y2K audit recommendations presented a unique situation, and as such, the audit follow-up process was modified. Since the audit recommendations were directed to a specific project

Audit Follow-up (continued)

with a specific point in time (January 1, 2000), the OIG has chosen to close the six outstanding recommendations contained in the original audit report.

INSPECTION REPORTS

TITLE: *Inspection of the Commission's Web Site Privacy Practices*

ASSIGNMENT #: **OIG-01-02**

RELEASE DATE: **May, 2001**

WEBSITE ADDRESS: *<http://www.fec.gov/fecig/internet.pdf>*

PURPOSE: The Office of Inspector General (OIG) conducted this inspection as a result of Federal legislation enacted in December, 2000. The legislation, titled the *Treasury and General Government Appropriations Act of 2001*, Section 646, required each Federal Inspector General to determine whether the agency or any third parties, including other governmental agencies, are obtaining personal information relating to any individual's access of an agency's Internet site. The Act further states that each Federal Inspector General is to submit a report to Congress on agency Internet site policy and privacy practices with respect to the use of Internet cookies or Web bugs, technology used to monitor and/or collect personal information about users who visit a Web site on the Internet.

The primary objectives of the inspection were to evaluate the Commission's Web site privacy practices to: 1) determine whether the Commission utilizes Internet cookies or Web bugs, and whether applicable

Inspection Reports (continued)

Federal guidelines are being followed; and 2) evaluate the Commission's Web site privacy policy in accordance with Federal guidelines. The Federal Election Commission's (FEC) Web site provides the public with access to information on the mission of the Commission, such as the FEC's enforcement of the Federal Election Campaign Act (FECA) and the disclosure of campaign finance information. To instill confidence in the technology and encourage the use of Federal Web sites, appropriate privacy policies and practices must be in place to ensure that users' right to privacy is protected.

Internet cookies and Web bugs are methods used by some Web sites to track and/or record personal information about Web users. There are two forms of Internet cookies: persistent cookies and session cookies. Persistent cookies track information over time, and across different Web sites, and remain stored on a user's computer hard drive until the specified expiration date. Session cookies are used only during a single Web browser session and do not raise privacy concerns, according to the Office of Management and Budget.

Web bugs are similar to Internet cookies, and are capable of monitoring who is viewing a Web page or e-mail message. Web bugs are very small graphic images on a Web page, or in an e-mail message and are

Inspection Reports (continued)

often invisible. Web bugs are used by some Web sites to track Web usage for advertising purposes, and to provide an independent accounting of how many users visited a particular Web site.

The OIG used specialized computer software to determine whether or not the Commission's Web site uses Internet cookies or Web bugs. The OIG tested the entire fec.gov Web site for the use of Internet cookies. Testing of the FEC's other Web servers used for campaign finance disclosure and testing for Web bugs was performed on a limited basis. To further assist with the completion of the inspection, additional steps were performed including conducting meetings with specific FEC staff. The OIG also reviewed the contracts of two contractors who provide Web related services to the Commission in order to determine whether or not the contracts included language to address the non-disclosure of confidential or sensitive information. The OIG found both contracts contained language that address the non-disclosure of sensitive or confidential information.

The results of the inspection revealed no evidence that Internet cookies or Web bugs are used on the FEC Web sites, which is consistent with the FEC's privacy policy. However, a by-product of our testing of the FEC Web site revealed several of the non-FEC Web sites utilized both persistent

Inspection Reports (continued)

and session cookies. The FEC Web site provides links to other non-FEC Web sites containing information that is related to the FEC mission. For example, the FEC Web site provides links to several state government Web sites, and to a software company that provides software necessary to view certain files available on the FEC Web site.

Privacy policies of non-FEC Web sites may differ from the FEC, as we found during our testing. The FEC's practice of linking to other Web sites, some of which utilize cookies, is not a violation of any known Federal policy or regulation and does not violate the FEC's privacy policy. However, it is possible users of the FEC Web site may click with their computer mouse on non-FEC links without realizing the link is associated with another organization that may or may not use persistent cookies or Web bugs.

Our inspection report contained six suggestions for improvement, with which management concurred. Prior to the end of this reporting period, five suggestions had been implemented and one remains outstanding. On May 30, 2001, our report was sent to the Subcommittee on Treasury and General Government and the Subcommittee on Treasury, Postal Service and General Government.

Inspection Reports (continued)

TITLE: *Inspection of the Commission's Compliance with the Federal Managers' Financial Integrity Act (FMFIA) of 1982*

ASSIGNMENT #: **OIG-01-03**

RELEASE DATE: **June, 2001**

WEBSITE ADDRESS: *<http://www.fec.gov/fecig/fmfia.pdf>*

PURPOSE: The purpose of conducting the inspection was to primarily assess the Commission's program for meeting the requirements of the *Federal Managers' Financial Integrity Act of 1982*. The Act requires Federal managers to establish a continuous process for evaluating, improving, and reporting on the internal controls and accounting systems for which they are responsible.

The primary objectives of the inspection were to: 1) evaluate the Commission's compliance with the provisions of the *FMFIA Act of 1982*, GAO Standards, OMB policies, and Commission directives; 2) determine whether the Commission adequately implemented agency policies and procedures to assess, as well as strengthen the internal control environment; 3) determine whether the Commission's Annual FMFIA report of Fiscal Year 2000 to the President and Congress accurately represented the adequacy of the review process within the Commission; and 4) follow-up on issues addressed during

Inspection Reports (continued)

the 1991 audit of the Commission's FMFIA program.

The FMFIA was enacted in response to continuing disclosures of waste, loss, unauthorized use, and misappropriation of funds or assets associated with weak internal controls and accounting systems. It establishes requirements with regard to management accountability and controls. This law encompasses program, operational, and administrative areas as well as accounting and financial management. The Act further states that agency heads must submit an annual statement of assurance to the President and Congress on the adequacy of internal controls and actions taken to correct identified weaknesses. Each annual statement prepared must also include a report on whether the agency's accounting system conforms to the principles, standards, and other related FMFIA requirements.

The OMB issued implementing guidance Circular A-123 Revised, *Management Accountability Control*, dated June 21, 1995. The Circular provides detailed guidance to Federal managers on improving the accountability and effectiveness of Federal programs and operations by establishing, assessing, correcting, and reporting on management controls. The A-123 Circular defines management controls as the organization's policies and procedures used to ensure that: 1) programs achieve their

Inspection Reports (continued)

intended results; 2) resources are used consistent with agency mission; 3) laws and regulations are followed; 4) programs and resources are protected from waste, fraud, and mismanagement; and 5) reliable and timely information is used for decision making.

At the Commission, the FMFIA program requirements were implemented through Commission Directive 53 Revised, *Implementation of A-123: Internal Control Review*, dated September 17, 1993 and Commission Directive 57, *Implementation of A-127: Financial Management System Section of Federal Managers' Financial Integrity Act (FMFIA)*, dated September 17, 1993. The Commission's FMFIA assessment program relies upon the results of the informal vulnerability assessments conducted by the program/office heads of their respective program functions.

Commission Directive 57 states that the FEC shall develop and maintain effective systems of financial management to assure management control over Commission program operations and administrative functions. This directive established the following OMB required actions into Commission policy: 1) establish financial management system and issue operating policies; 2) inventory and evaluate agency systems; and 3) develop an agency financial management system plan. The annual statement to the

Inspection Reports (continued)

President must include an assurance that the Agency's financial management systems complies with government wide standards and requirements as set forth in A-127.

To accomplish the inspection objectives, the applicable laws, implementing guidance, Commission Directives, as well as the prior audit report entitled *Audit of the Federal Election Commission's Federal Managers' Financial Integrity Act Program (OIG-91-02)* were reviewed. The OIG also reviewed results of financial system evaluations performed by the Accounting manager, current (FY 2000) and prior years (FY 1995, 1998 & 1999) assurance statements and the available documentation. Our inspection also included discussions with the FMFIA program manager and other Commission managers with FMFIA assessment responsibilities. Due to the limited scope of this inspection, actual testing of internal controls techniques were not considered. Therefore, we did not address the adequacy of internal control measures with FEC components on an individual basis. Rather, we addressed the FEC's program for evaluating and reporting on internal controls.

The OIG found the Commission's FMFIA review process to be inadequate. Several examples of noncompliance with OMB and Commission policies were identified and conveyed to management. The FMFIA review

Inspection Reports (continued)

process lacked documentation, management control plans, and the required assurance statements. We also found that managers had not received the required training nor was a monitoring system in place to track the progression of the annual assessment process. A five year Financial Management System plan, as required by OMB, was not prepared. Furthermore, we discovered that management failed to fully implement an agreed upon recommendation made during the 1991 review of the Commission's FMFIA program. Due to the insufficient review process, the OIG could not attest to the accuracy of the Commission's FY 2000 FMFIA report to the President and Congress.

Although the inspection report did not include any formal recommendations to management, the report did include suggestions to: 1) fully implement established program procedures; 2) rewrite position descriptions to include the required internal control element; and 3) develop a five year Financial Management System Plan as required by OMB. Management agreed to implement established FMFIA review procedures and to revise the inaccurate position descriptions. Nonetheless, they believed that it would be redundant to produce a five year financial plan because the information is contained in the Commission's IT Strategic Plan. However, the Commission's IT Strategic Plan does not incorporate the strategies and

Inspection Reports (continued)

tactical initiatives required by OMB. Management stated that this issue will be reviewed further to determine applicability to the FEC.

Inspection Reports (continued)

TITLE: *Inspection of the Commission's Westlaw Database Service*

ASSIGNMENT #: **OIG-01-05**

RELEASE DATE: **July, 2001**

WEBSITE ADDRESS: *<http://www.fec.gov/fecig/westlaw.pdf>*

PURPOSE: The Office of Inspector General (OIG) initiated this inspection after discovering a separated employee's Westlaw account remained open several months after the employee left the agency. The two primary objectives for conducting the inspection were to: 1) ensure that the Westlaw accounts of separated employees are properly canceled; and 2) review and evaluate the payment process of the Westlaw service.

Westlaw provides FEC staff with on-line access to legal and business databases, and information like Federal court decisions, Congressional information and Federal statutes. The FEC contracts with West Group, a division of the Thomson Corporation, to receive the Westlaw research service. Management approves access for Commission staff whose jobs would benefit from the Westlaw database service, such as attorneys in the Office of General Council (OGC). As long as a user has access to the Internet, regardless of location, the Westlaw service, including premium services, are accessible with a valid user account.

Inspection Reports (continued)

The Office of General Counsel's Library Office is primarily responsible for administration of the FEC's Westlaw program. Management of the Westlaw program includes the following responsibilities: 1) negotiation of the annual contract fees with the West Group vendor; 2) training of Commission staff on the use of the Westlaw service, or coordination of training provided by West Group; 3) notifications to add or remove employee Westlaw user accounts; and 4) review and approve receiving reports to ensure proper billing and payment for services rendered.

During the course of the inspection, the OIG held several meetings with internal and external individuals, including West Group vendor employees, the FEC Accounting Officer, the FEC Administrative Officer, and the FEC Library Director. The inspection included reviewing documents such as Westlaw invoices, purchase and receiving orders, active Westlaw user list and Westlaw database usage reports, FEC employee clearance forms of separated staff, FEC current employee list and separation dates of prior staff, and the U.S. Department of Treasury Financial Manual. The aforementioned documents were reviewed to identify whether an appropriate process is in place to ensure Westlaw user accounts are canceled upon an employee's separation from the FEC. Current Westlaw user accounts found assigned to separated staff were further reviewed to determine whether the

Inspection Reports (continued)

accounts were accessed after the employees left the FEC, and whether the access resulted in authorized charges billed to the FEC.

As a result of the inspection, the OIG found weaknesses in the oversight of the Westlaw service. Although a pattern of improper payments occurred over a four year period, all duplicate payments were subsequently recovered from the vendor. In addition, the OIG found inadequate management of user accounts. Over forty-two percent of all current accounts were assigned to separated FEC staff. This weakness created an unnecessary financial exposure to the FEC due to the potential for separated staff to access premium databases billed to the FEC.

Our inspection further revealed that user accounts of former employees were accessed after the employees' separation from the FEC. The OIG could not determine whether the separated employees were the individuals who actually accessed the accounts. However, it is possible current employees who inherited the personal computers of the separated employees, may have been able to use the separated employees' accounts. Nevertheless, all access occurred in the "fixed rate" databases, therefore no additional expenses were found as a result of the unauthorized access.

Inspection Reports (continued)

Furthermore, the OIG concluded the weaknesses were the result of inadequate internal control of the Westlaw program. The OIG also concluded the four improper duplicate payments were the result of ineffective internal controls since a system was not in place to track ongoing, open purchase orders. The payments were inadvertent errors, and not the result of fraud or abuse.

Management took appropriate steps to cancel all user accounts of separated employees and agreed to cancel user accounts of separating employees in the future. To ensure the prompt cancellation of accounts, as an additional measure, quarterly reports will be provided to the General Counsel detailing Westlaw user account cancellations of departing employees.

INVESTIGATIONS

In the previous semiannual report, the OIG noted the assistance provided to the U.S. Postal Inspection Service, concerning an FEC employee. Since the last reporting period, the employee pled guilty and has resigned his position with the FEC. The OIG considers this matter closed.

ADDITIONAL OFFICE OF INSPECTOR GENERAL ACTIVITY

All legislation, as compiled by the Commission's Congressional Affairs Office, was reviewed by the Inspector General, as required by the *Inspector General Act of 1978*, as amended. The Inspector General reviews and comments, when appropriate, on all legislation provided by the PCIE Legislative Committee. In addition, the Inspector General routinely reads all Commission agenda items and attends Finance Committee meetings.

- On October 30, 2000, President Clinton signed into law the FY 2001 *Defense Authorization Act* (P.L. 106-398) including Title X, subtitle G, *Government Information Security Reform Act* (*GISRA* also referred to as *The Security Act*). *The Security Act* amends the *Paperwork Reduction Act (PRA)* of 1995 by enacting a new subchapter on Information Security, which primarily addresses the program management and evaluation aspects of security. This Act applies to all agencies covered by the PRA.

The Act became effective on November 29, 2000, and sunsets in two years. It seeks to ensure proper management and security for the information resources. The Act requires: 1) annual agency program reviews; 2) annual Inspector General (IG) evaluations; 3) agency reporting to OMB the results of IG

evaluations; and 4) an annual OMB report to Congress summarizing the material received from agencies. As part of the budget process, agencies were required to submit this information beginning in 2001. The role of the agency Inspector General essentially codifies the existing requirements of *OMB Circular A-130, Appendix III, "Security of Federal Automated Information Resources."* The Act also requires agencies to incorporate security into the life cycle of agency information systems.

Since GISRA amends the Paperwork Reduction Act (PRA) and the FEC is expressly exempt from PRA, the OIG worked with its counsel to ascertain whether the FEC has any responsibility under GISRA. The OIG also contacted an OMB representative to determine whether an expectation exists for the FEC to follow *GISRA*. After numerous conversations, the OIG was informed by the OMB representative and OIG Counsel that the agency is exempt from *GISRA*, therefore, the FEC and the FEC OIG are not required to submit reports.

Although the FEC is not required to follow *GISRA*, the OIG plans to incorporate information technology audits and

inspections into our audit plans to continue our oversight of the agency's information technology.

- The Chairman of the House Committee on Government Reform asked the U.S. General Accounting Office (GAO) to provide assistance in the oversight work of the Committee. According to the Chairman of the Committee on Government Reform, several bills were introduced in the last Congress that would amend the *Inspector General Act of 1978*. Although the Chairman felt each bill had merit, it was apparent that none of them fully addressed the issues of concern as it relates to the Committee.

The IGs, established over 20 years ago through the *IG Act*, as amended, provide a valuable service to the federal government through audits and investigations. The Committee was interested in exploring improvements to the IG offices that address overall IG effectiveness and enhancements to their independence. Concerns about IG effectiveness, including independence, quality of work, and the use of government resources, have been raised in the past with no clear resolution. In order to address these concerns, the Chairman of the House Committee on Government Reform asked the U.S. General Accounting Office (GAO) to study the advantages and

disadvantages of: 1) converting some inspectors general in designated federal entities to appointment by the President; 2) the consolidation of IG offices; and 3) changes to the President's Council on Integrity and Efficiency (PCIE) and the Executive Council on Integrity and Efficiency (ECIE). As part of the study, the views of all federal IGs were requested.

The survey covered all of the areas listed above. One of the issues raised involved the FEC OIG being consolidated with the IG office at the General Services Administration. The IG responded to the survey and her concerns at being consolidated were strongly expressed. Consolidating the DFE IGs could seriously impair the oversight of agencies and may result in less coverage should they be merged into the larger operations of existing presidentially-appointed IGs. Presidentialy-appointed IGs also have resource limitations, which can make it difficult to meet all of their mandates, let alone be able to devote resources or personal attention to new areas outside of mainstream operations. Thus, the perceived benefits from consolidation may well result in the unintended consequences of requiring more training, longer audit and investigations cycles, and less IG oversight of DFE programs and operations.

- During the time frame of this reporting period, a peer review was conducted. The Office of Inspector General completed the review entitled ***Peer Review of the Federal Housing Finance Board (FHFB) (OIG-01-08)***. The objective of the peer review program is to foster quality audits by OIG's through an independent assessment of the effectiveness of the internal quality control system in providing reasonable assurance that applicable audit standards and requirements are being followed.

The General Accounting Office's *Government Auditing Standards*, "Yellow Book," requires an external quality review, called a peer review, to be conducted every three years on organizations that conduct government audits. A peer review, by definition, is a review of an audit organization by an organization not affiliated with the audit organization being reviewed. Prior to the start of this peer review, a Memorandum of Understanding (MOU) was developed to assure that there is a mutual understanding between the two OIGs regarding the fundamental aspects of the review.

While performing the peer review, various documents like FHFB's previous peer review report conducted by the Federal Maritime Commission, the *Guide for Conducting External*

Quality Control Reviews of the Audit Operations of Offices of the Inspector General, and the listing of completed audits issued by the FHFB OIG during the period of the scope, were reviewed in order to determine whether the OIG's audits comply with *Government Auditing Standards*. Interviews were also conducted with the audit manager to inquire about general office procedures, including training and supervision.

- The OIG also initiated a special project pertaining to staff retirement. The purpose of the retirement project is to provide an analysis of the FEC's projected employee retirements. The OIG analysis will include statistics on employee retirements within a time period of five, seven, and ten years. According to remarks at a Senate hearing on May 18, 2000, approximately thirty-two percent of the entire Federal workforce will be eligible for regular retirement by the year 2004, and another twenty-one percent will be eligible for early retirement.

To assist with the special project, the OIG has conducted a meeting with the Director of Personnel, requested retirement reports from both the Data Systems Division Director and the Personnel office. In addition, the OIG has read reference material, and reviewed the work completed to date. We

anticipate the completion of this project during the next reporting period.

- The Special Assistant to the Inspector General has the responsibility of conducting unannounced cash counts of the FEC's imprest fund. The purpose of the cash count is to: 1) verify all imprest funds are properly accounted for; 2) the amount of the fund is not in excess of the cash requirements; and 3) disbursements from the fund are reasonable in amount and purpose.

Two cash counts were performed (OIG-01-06, and OIG 01-07) during this reporting period. The results of the cash counts revealed that all cash was accounted for and disbursements from the fund were reasonable and consistent with FEC imprest fund policy.

The Financial Management Service (FMS) issued a directive announcing the elimination of the imprest fund. *Treasury Financial Manual (TFM), Part 4, Section 3000, Imprest Fund Policy Directive*, requires all Federal agencies to eliminate imprest funds by October 1, 2001. In accordance with the Treasury Policy Directive, the FEC Accounting Officer notified

the OIG that a deposit of \$2,500, the total amount maintained in the imprest fund, was made to a specified financial institute, consequently terminating the use of the FEC imprest fund.

- During the course of this reporting period, the OIG initiated a new procedure to monitor the status of outstanding recommendations contained in audit reports released by the OIG. The *Outstanding Audit Recommendation Follow-Up Log* was created to remind management, mid-way through the six month reporting process, that there are outstanding audit recommendations which have not been implemented and will be reported in the next semiannual report if they are not closed prior to the end of the reporting period. Included in the log are the title, number, and release date of the report; a summary of the recommendations; whether or not management agreed with the recommendations; whether or not the recommendations have been closed; and the division responsible for action. The OIG believes this new procedure will be useful in helping both management and the OIG staff monitor outstanding recommendations.

ECIE AND PCIE ACTIVITY

The Executive Council on Integrity and Efficiency was established by Executive Order on May 11, 1992. It consists of Designated Federal Entity Inspectors General and representatives of the Office of Government Ethics, the Office of Special Counsel, the Federal Bureau of Investigation and the Office of Management and Budget.

The Inspector General (or staff) attended the following training, programs and/or conferences during this reporting period:

- ECIE - *Monthly Meetings*
- PCIE/ECIE - *Joint Quarterly Meeting*
- PCIE/ECIE - *Joint Retreat*
- ECIE - *OIG Community Discussion*
- U.S. Department of Agriculture - *Certified Internal Audit Examination Review*
- Academy of Personnel Law & Administration - *Basic non-criminal Investigation Conference*
- High Tech Crime Investigations Association - *Computer Crime Training Symposium*
- Association of Government Accountants - *Professional Development Conference, Managing in the 21st Century*
- Inspector General Auditor Training Institute - *Writing Successful Audit Reports*

- Management Concepts - *Plain Language, Writing for Success*
- Council of Counsels (CCIG) - *Conference, Legal Issues Associated with Information Technology*
- Federal Election Commission - *Computer Information Security Training*
- Federal Election Commission - *Administrative Liaison Meeting*

IG ACT	REPORTING REQUIREMENTS	PAGE
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Reporting requirements required by the *Inspector General Act of 1978*, as amended by the *Inspector General Act Amendments of 1988* are listed below:

Section 4(a)(2)	Review of Legislation-----	30
Section 5(a)(1)	Significant Problems, Abuses, and Deficiencies-----	None
Section 5(a)(2)	Recommendations with Respect to Significant Problems, Abuses, and Deficiencies-----	None
Section 5(a)(3)	Recommendations Included in Previous Reports on Which Corrective Action Has Not Been Completed-----	43
Section 5(a)(4)	Matters Referred to Prosecutive Authorities-----	None
Section 5(a)(5)	Summary of Instances Where Information was Refused-----	None
Section 5(a)(6)	List of Audit Reports-----	11
Section 5(a)(7)	Summary of Significant Reports-----	11
Section 5(a)(8)	Questioned and Unsupported Costs-----	41
Section 5(a)(9)	Recommendations that Funds be put to Better Use-----	42
Section 5(a)(10)	Summary of Audit Reports issued before the start of the Reporting Period for which no Management Decision has been made-----	N/A
Section 5(a)(11)	Significant revised Management Decisions-----	N/A
Section 5(a)(12)	Management Decisions with which the Inspector General is in Disagreement-----	None

TABLE I
INSPECTOR GENERAL ISSUED REPORTS
WITH QUESTIONED COSTS

	DOLLAR VALUE (in thousands)		
NUMBER	QUESTIONED COSTS	UNSUPPORTED COSTS	

A. For which no management decision has been made by commencement of the reporting period	0	0	[0]
B. Which were issued during the reporting period	0	0	[0]
Sub-Totals (A&B)	0	0	[0]
C. For which a management decision was made during the reporting period	0	0	[0]
(i) Dollar value of disallowed costs	0	0	[0]
(ii) Dollar value of costs not disallowed	0	0	[0]
D. For which no management decision has been made by the end of the reporting period	0	0	[0]
E. Reports for which no management decision was made within six months of issuance	0	0	[0]

TABLE II**INSPECTOR GENERAL ISSUED REPORTS WITH
RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE**

	NUMBER	DOLLAR VALUE (in thousands)
A. For which no management decision has been made by the commencement of the reporting period	0	0
B. Which were issued during the reporting period	0	0
C. For which a management decision was made during the reporting period	0	0
(i) dollar value of recommendations were agreed to by management	0	0
based on proposed management action	0	0
based on proposed legislative action	0	0
(ii) dollar value of recommendations that were not agreed to by management	0	0
D. For which no management decision has been made by the end of the reporting period	0	0
E. Reports for which no management decision was made within six months of issuance	0	0

TABLE III

**SUMMARY OF AUDIT REPORTS WITH CORRECTIVE ACTIONS
OUTSTANDING FOR MORE THAN SIX MONTHS**

<u>Report Title</u>	<u>Report Number</u>	<u>Issue Date</u>	Recommendations		
			<u>Number</u>	<u>Closed</u>	<u>Open</u>
Agency Year 2000 Renovations	98-08	05/99	9	9	0
Agency Controls Governing the Process for Procurement of Vendor Training Services	00-01	09/00	7	3	4

FEC / OIG Strategic Plan

OIG Products: *To provide products and services that promote positive change in FEC policies, programs, and operations.*

Objective A: Deliver timely, high-quality products and services that promote positive change.

Strategy:

- establish common OIG standards for communicating results;
- conduct quality assurance programs;
- solicit appropriate internal and external review and comment;
- comply with applicable statutory guidelines and standards;
- set realistic and appropriate milestones.

Objective B: Address priority issues and concerns of the Commission, Congress, and Management.

- Strategy:** Perform work that supports;
- Federal Election Commission and Congressional priorities;
 - National Performance Review objectives;
 - Strategic Management Initiative efforts;

- Focus OIG attention in the following areas of emphasis:
- managing change;
 - resource allocation in relation to policy objectives;
 - delivery of client service;
 - causes of fraud and inefficiency; and,
 - automation and communication.

Objective C: Follow-up and evaluate results of OIG products and services to assess their effectiveness in promoting positive change.

Strategy:

- Identify, as appropriate, lessons learned to improve timeliness and quality; and,
- conduct follow-up reviews to determine if intended results have been achieved.

Objective D: Satisfy customers, consistent with the independent nature of the OIG.

Strategy:

- establish professional communication and interaction with customers to promote the open exchange of ideas;
- incorporate customer feedback, as appropriate; and,
- be open to customer-generated solutions and options.

Performance Measures: Determine the timeliness and quality of products and services; their effectiveness in promoting positive change; and, reach agreement with management on at least 90% of recommendations within six months of the report issue date.

OIG Process: *To develop and implement processes, policies, and procedures to ensure the most effective and appropriate use of OIG resources in support of our people and products.*

Objective A: Maintain a dynamic strategic planning process.

Strategy:

- periodically review and update the strategic plan to address changing OIG and FEC priorities; and,
- identify factors that influence organizational change and develop short and long term plans to address them.

Objective B: Plan and conduct cost-effective work that address critical issues and results in positive change.

Strategy:

- solicit FEC and Congressional input in planning OIG activities;
- develop internal planning mechanisms to support FEC goals and priorities;
- ensure that priorities of IG are effectively communicated; and,
- identify specific targets for OIG review that are the most cost-effective

Objective C: Identify customer needs and provide products and services to meet them.

Strategy:

- establish new customer feed back mechanisms;
- consider and evaluate customers feedback when planning and developing products and services;
- respond to Congressional inquiries and request for briefing and testimony;
- promote open exchange of ideas and information through outreach and through use of e-mail; and,
- receive, evaluate, and respond, as appropriate, to information received through the OIG hotline and other sources.

Objective D: Implement efficient, effective, and consistent resolution and follow-up procedures.

Strategy:

- ensure that IG follow-up procedures are followed and that management is aware of their role in the process; and,
- establish common OIG standards for terminology, date maintenance and communications.

Objective E: Establish a positive and productive working environment.

Strategy:

- reengineer or streamline OIG procedures to achieve the most effective use of resources; and,
- ensure that necessary technologies, evolving and otherwise, are made available to staff as needed.

Performance Measures: An annual audit plan is issued; strategic plan is periodically reviewed; and, necessary technology is provided to staff to enable them to most efficiently perform their duties.

OIG Staff: *To maintain a skilled and motivated work force in an environment that fosters accountability, communications, teamwork, and personal and professional growth.*

Objective A: Attract and retain well-qualified, diverse and motivated employees.

Strategy:

- develop and implement a comprehensive recruiting program that attracts a broad population with the knowledge, skills, abilities, and expertise necessary to make meaningful contributions to the OIG;
- assess employee satisfaction and develop strategies to address employee concerns;
- identify reasons for staff departures and develop plans to foster greater staff retention; and,
- adhere to EEO principles and strive to maintain a diverse work force.

Objective B: Provide training and developmental opportunities to employees.

Strategy:

- assess training needs in relation not only to employee but also office needs as well;
- ensure that Government Auditing Standards in relation to training are adhered to; and,
- maintain a reporting system to ensure that educational requirements are met.

Objective C: Assess, recognize, and reward, when possible, performance that contributes to achieving the OIG mission.

Strategy:

- develop and articulate expectations for each employee's performance, including contributions in meeting the mission & goals of the OIG; and,
- ensure that rewards, when possible, are given in recognition of exceptional employee performance.

Objective D: Create and maintain a working environment that promotes teamwork and effective communication.

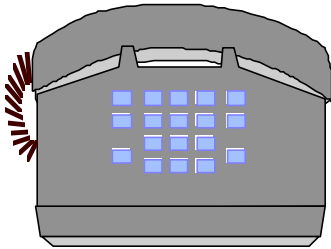
Strategy:

- ensure that communications between employees is open; and,
- provide employees with the tools and incentives they need to adequately perform their duties.

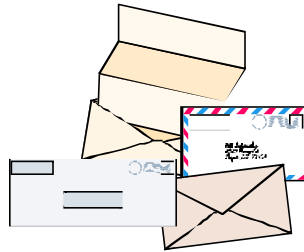
Performance Measures: All employees meet the training requirements; all employees have performance standards; and, all employees meet the basic requirements for the position in which they were hired to perform.

CONTACTING THE OFFICE OF INSPECTOR GENERAL

The success of the OIG mission to prevent fraud, waste, and abuse depends on the cooperation of FEC employees (and the public). There are several ways to report questionable activity.



Call us at **202-694-1015** or toll-free **1-800-424-9530**. A confidential or anonymous message can be left 24 hours a day / 7 days a week.



Write or visit us - we are located at: Federal Election Commission
Office of Inspector General
999 E Street, N.W., Suite 940
Washington, DC 20463

Mail is opened by OIG staff members only.



You can also contact us by e-mail at: oig@fec.gov.

Individuals may be subject to disciplinary or criminal action for knowingly making a false complaint or providing false information.