







Federal Election Commission  
**Performance and Accountability Report**  
Fiscal Year 2006



# Table of Contents

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Message From The Chairman .....	vii
How To Use This Report .....	ix
<b>SECTION I Management, Discussion and Analysis .....</b>	<b>1</b>
<b>Section I.A: Mission and Organizational Structure .....</b>	<b>1</b>
Brief History of the Federal Election Commission .....	1
The FEC Today .....	1
How the FEC is Organized .....	2
<b>Section 1.B: FEC Performance Goals, Objectives and Results.....</b>	<b>6</b>
Sources of Funds .....	6
Personnel vs. Non-Personnel Costs.....	7
Core Segment Costs .....	7
Public Disclosure—Keeping the Public Informed.....	7
Outreach – Educating the Public About Campaign Finance.....	9
Compliance With the FECA – Interpreting and Enforcing the Law .....	9
Public Financing – Funding Presidential Elections .....	9
<b>Section 1.C: Analysis of FEC Financial Statements and Stewardship Information.....</b>	<b>10</b>
Balance Sheet .....	10
Statement of Net Cost.....	10
Statement of Changes in Net Position .....	10
Statement of Budgetary Resources.....	10
Statement of Financing .....	10
Statement of Custodial Activity.....	10
<b>Section 1.D: Analysis of FEC’s Systems, Controls, and Legal Compliance.....</b>	<b>11</b>
1.D.i – FEC Managerial Internal Controls Self-Assessment.....	11
1.D.ii – Management's Response to the Inspector General's Management and Performance Challenges .....	11
1.D.iii – FEC Integrated Internal Control Framework Legal Compliance .....	12
<b>Section 1.E: Possible Future Effects of Existing Events and Conditions .....</b>	<b>13</b>
<b>Section 1.F: Other Management Information, Initiatives and Issues .....</b>	<b>14</b>
Overview of Strategic Plan .....	14
<b>Section 1.G: Limitations of the Financial Statements.....</b>	<b>15</b>
<b>SECTION II Performance Report.....</b>	<b>17</b>
Performance Purposes, Objectives, and Results.....	17
Goals and Objectives for FY 2006 .....	17
1. Disclosure .....	17
Results for FY 2006.....	18

(cont.)

2. Compliance .....	21
Results for FY 2006.....	22
3. Public Financing .....	30
Results for FY 2006.....	31
Further FY 2006 Performance Results.....	31
Data Sources and Quality .....	32

**SECTION III Auditor’s Report And Financial Statements.....33**

Message From The Chief Financial Officer .....	33
--	----

Independent Auditor's Report .....	35
------------------------------------	----

Notes To The Financial Statements .....	77
---	----

Note 1 – Summary of Significant Accounting Policies .....	77
---	----

Note 2 – Non-Entity Assets.....	82
---------------------------------	----

Note 3 – Fund Balance with Treasury.....	82
--	----

Note 4 – Accounts Receivable, net .....	83
---	----

Note 5 – General Property and Equipment, Net .....	84
--	----

Note 6 – Liabilities Covered and Not Covered By Budgetary Resources .....	85
---	----

Note 7 – FECA Liability .....	85
-------------------------------	----

Note 8 – Commitments and Contingencies .....	86
--	----

Note 9 – Leases .....	86
-----------------------	----

Note 10 – Statement of Net Cost .....	87
---------------------------------------	----

Note 11 – Statement of Budgetary Resources .....	88
--	----

Note 12 – Custodial Revenues and Accounts Receivable .....	89
--	----

Note 13 – Explanation of the Relationship Between Liabilities Not Covered by Budgetary Resources on the Balance Sheet and the Change in Resources that Fund Expenses Recognized in Prior Periors of Operations .....	89
---	----

<b>Appendix A: Inspector General Statement .....</b>	<b>91</b>
--	-----------

<b>Appendix B: Report on the Status of FMFIA Non-Conformance .....</b>	<b>99</b>
--	-----------

<b>Appendix C: Federal Election Commission  Strategic Plan FY 2004-2009 .....</b>	<b>103</b>
---	------------

<b>Appendix D: Glossary of Terms .....</b>	<b>111</b>
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## Message From The Chairman

November 15, 2006

I am pleased to present the Federal Election Commission's (FEC) Performance and Accountability Report for fiscal year (FY) 2006, as required by the *Accountability of Tax Dollars Act* of 2002. This report highlights how our Core segments of Disclosure, Compliance, and Public Funding accomplish FEC's goals to: 1) disclose campaign finance information efficiently and effectively; 2) enforce the provisions of the Federal Election Campaign Act; and 3) oversee the public funding of Presidential elections.

The financial and performance data presented in this report are reliable, complete and accurate. As more fully discussed in Section III, our employees continually assess the efficiency and effectiveness of our organizational processes and take corrective action when necessary. As demonstrated by Appendix B, the FEC is also executing a corrective action plan to address the identified material weaknesses pointed out by the independent audit of FEC in FY06. The FEC is committed to working both internally and externally with auditors to improve our management and fiscal processes.

In accordance with the requirements of the *Federal Managers' Financial Integrity Act*, I hereby give a statement of assurance that management controls are in place and the Commission's financial systems conform to government standards articulated in OMB Circulars A-123 and A-136. Our compliance with these laws, rules and regulations is discussed more fully in Sections I, II, and III of this Report. The FEC is committed to working with the Inspector General and our auditors, Clifton Gunderson, LLP to address the FY05 Material Weaknesses: 1) Cost Accounting Systems and Processes; 2) Administrative Fines, Civil Penalties, and Miscellaneous Receipts; 3) General Property and Equipment; and 4) Information Technology.

Our corrective action plan is discussed in Appendix B and shows what progress the FEC is making to address those material weaknesses.

The FEC's 2006 Performance and Accountability Report demonstrates how well the FEC performed during the year and shows our commitment to providing the high level of service the electorate expects and deserves from the Commission. I am very pleased to be able to share our progress with all of our stakeholders and look forward to reporting even more success in the years ahead.

Sincerely,

A handwritten signature in blue ink that reads "Michael E. Toner". The signature is fluid and cursive, with the first name being the most prominent.

Michael E. Toner  
Chairman





## How To Use This Report

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This Performance and Accountability Report is submitted pursuant to the *Chief Financial Officers Act*, as amended by the *Reports Consolidation Act* of 2000, and Office of Management and Budget Circular A-136, *Financial Reporting Requirements*. The Commission's audited financial statements also are contained in this report, as required by the *Accountability of Tax Dollars Act* of 2002. It provides the Federal Election Commission's (FEC) financial and performance information for fiscal year (FY) 2006, enabling the President, the Congress, and the American people to assess the Commission's performance in meeting its mission. This report is available on the Commission's website at [www.fec.gov](http://www.fec.gov) (click on "About the FEC" and then "Budget"). The FY 2006 Performance and Accountability Report is organized into three major sections:

**1. Management's Discussion and Analysis** – which provides an overview of the financial and performance information presented in the report. This section, together with the Chairman's Letter, includes the Management Assurances required under the *Federal Managers' Financial Integrity Act* and a statement on Office of Management and Budget Circular A-123 Management's Responsibility for Internal Control and Budget Circular A-136. Management's Discussion and Analysis also describes the FEC organization and addresses issues affecting the Commission's future performance.

**2. Performance Report** – which provides a report on the FEC's accomplishments and results in meeting its goals and objectives, as required by the *Government Performance and Results Act*.

**3. Auditor's Report and Financial Statements** – which provides details on the FEC's finances, including the auditor's report and the Commission's financial statements.

The Commission's Strategic Plan, FY 2004 – 2009, and its annual performance plans, that form the basis for this report, are available on the FEC website at [www.fec.gov](http://www.fec.gov) (click on "About the FEC" and then "Budget"). In addition, the FEC prepares an *Annual Report* that covers the activities of each calendar year. Annual reports for 1996 through 2005 are available on the FEC website at <http://www.fec.gov/pages/anreport.shtml>. The 2006 *Annual Report* will be published in the spring of 2007.



# SECTION I

## Management, Discussion and Analysis

### Section I.A: Mission and Organizational Structure

The Federal Election Commission (FEC) was created to strengthen the integrity of the electoral process by ensuring that the campaign finance process is fully disclosed and that the campaign finance laws are effectively and fairly enforced. In addition to administering and enforcing the limits, prohibitions, and reporting requirements of the *Federal Election Campaign Act (FECA)*, the Commission also administers and oversees the Presidential public funding program, which is funded by the tax checkoff provided on Federal tax returns.

#### Brief History of the Federal Election Commission

Following reports of serious financial abuses in the 1972 Presidential campaign, Congress amended the *FECA* in 1974 to set limits on contributions by individuals, political parties and PACs. It established the FEC as an independent agency to enforce the law, facilitate disclosure and administer the Presidential Public Funding Program. Amendments to the Internal Revenue Code that same year established the matching fund program for Presidential primary campaigns.

Congress amended the *FECA* in 1976 after the Supreme Court case *Buckley v. Valeo*. The Court upheld contribution limits because they served the government's interest in safeguarding the integrity of elections by preventing even the appearance of corruption of public officials. However, the Court overturned expenditure limits, stating: "It is clear that a primary effect of these expenditure limitations

is to restrict the quantity of campaign speech by individuals, groups and candidates. The restrictions... limit political expression at the core of our electoral process and of First Amendment freedoms." The Court also sustained other public funding provisions and upheld disclosure and recordkeeping requirements.

The most recent amendments to the *FECA* were passed in 2002. Among other things, the *Bipartisan Campaign Reform Act of 2002 (BCRA or McCain-Feingold)* banned national parties from raising or spending non-Federal funds (often called "soft money"), restricted so-called issue ads, increased the contribution limits, and indexed certain limits for inflation. *BCRA* was challenged in court within days of its passage into law. The Supreme Court, in *McConnell v. FEC*, upheld most of the challenged provisions of the *BCRA*, including its two principal features: the control of soft money and the regulation of electioneering communications.

#### The FEC Today

The FEC strives to foster voluntary compliance with the rules of the campaign finance process in three Responsibility Segments:

##### Public Disclosure

- Facilitates public disclosure of campaign finance activity and provides information and outreach policy guidance on the law and Commission regulations to the public, press, and the regulated community;

##### Compliance

- Enforces the *FECA* through audits, investigations, and civil litigation;

### Public Financing

- Implements the public funding programs for Presidential campaigns and conventions. This includes certification and audits of participating candidates and committees and enforcement of public funding legislation.

The FEC’s purposes, objectives and accomplishments in each of these areas are summarized later in this section and presented in detail in Section 2.

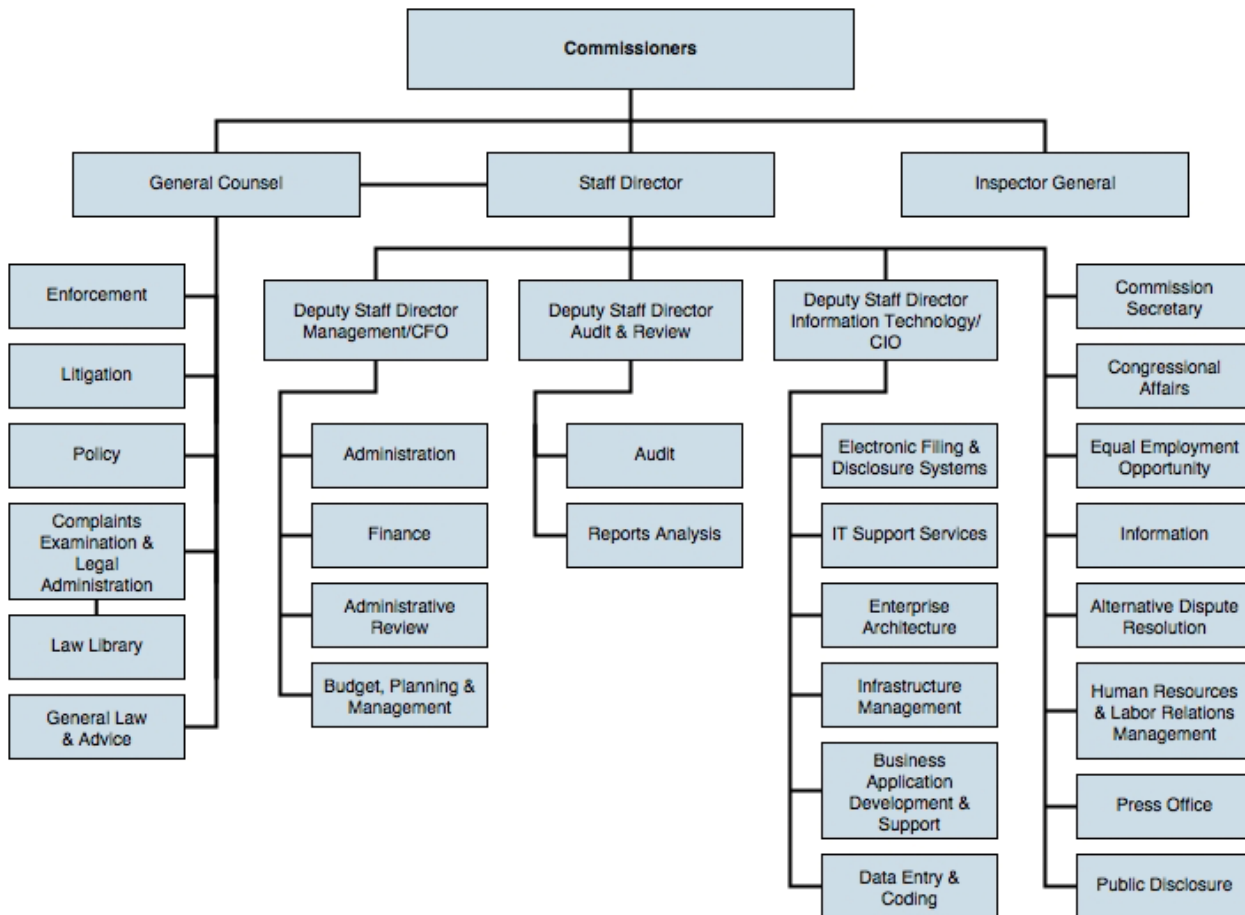
### How the FEC is Organized

The FEC is structured to foster bipartisan decision making. Its work is directed by six Commissioners appointed by the President with the advice and consent of the Senate. The Commissioners serve full time and are responsible for administering and enforcing the *FECA*. They generally meet twice weekly, once in a closed executive session to discuss matters that, by

law, must remain confidential, and once in a meeting open to the public. At these meetings they formulate policy and vote on significant legal and administrative matters. Each member serves a six-year term; two seats are subject to appointment every two years. By law, no more than three Commissioners can be members of the same political party. A majority vote and in some cases at least four votes are required for any official Commission action. Chairmanship of the Commission rotates among the members each year, with no member serving as Chairman more than once during his or her term.

The FEC’s structure is depicted in the organizational chart below:

The Office of the General Counsel and the Office of the Staff Director support the Commissioners in accomplishing the FEC’s mission. FEC also has an independent Office of the Inspector General. These three offices perform the following functions:



**Office of General Counsel**

Lawrence H. Norton

*Telephone:* 1-(202) 694-1650  
 1-(800) 424-9530  
 (press 0, then extension 1650)

*Website:* [www.fec.gov/about/offices.shtml#ogc](http://www.fec.gov/about/offices.shtml#ogc)

The General Counsel position was created by the *FECA* in 1974. The Office of General Counsel (OGC) consists of five organizational units:

**Enforcement Division**

- Investigates alleged violations of the law, negotiates conciliation agreements, and
- Recommends civil penalties for individuals and entities that have violated the *FECA*;

**General Law and Advice Division**

- Responsible for processing all campaign audit and repayment matters;
- Handling debt settlements, administrative terminations, and administrative fines matters;
- Handles all administrative law, disclosure, *Freedom of Information Act*, *Privacy Act*, and employment and labor law matters, and administers FEC's *Ethics in Government Act* program;

**Litigation Division**

- Handles all civil litigation arising out of any legal actions brought by or against the Commission regarding the *FECA* and/or Title 26;
- Serves as the exclusive representative of the Commission before the Federal district and circuit courts, and before the Supreme Court with respect to matters involving public financing of Presidential campaigns and conventions;

**Office of Complaints Examination and Legal Administration**

- Provides strategic planning and central docketing functions;
- Coordinates information technology (IT) and information services; and
- Tracks performance data for the Office of General Counsel (OGC): and

**Policy Division**

- Provides legal advice in response to legislative inquiries, legal reviews for all FEC publications;
- Trains Commission staff concerning changes in the law. Drafts, for Commission consideration, Advisory Opinions and regulations, legal memoranda interpreting the Federal campaign finance law;

Once issued, Political Action Committees, candidates, and contributors can make campaign finance decisions based upon these carefully considered and researched Advisory Opinions.

**Office of the Staff Director**

Patrina Clark: (202) 694-1007

*E-mail:* [director@fec.gov](mailto:director@fec.gov)

*Telephone:* 1-(202) 694-1007  
 1-(800) 424-9530  
 (press 0, then extension 1007)

*Website:* [www.fec.gov/about/offices/osd/osd.shtml](http://www.fec.gov/about/offices/osd/osd.shtml)

The Staff Director position was also created by the *FECA* in 1974. The Staff Director is supported by a Deputy Staff Director for Management/Chief Financial Officer; a Deputy Staff Director for Audit & Review; and a Deputy Staff Director for Information Technology/Chief Information Officer.

The Commission's work is supported by several staff offices including: the Administration Division; Office of Congressional, Legislative and Intergovernmental Affairs; Office of Equal Employment Opportunity and Special Programs; Office of Human Resources and Labor Relations; Office of Budget, Planning and Management; and the Press Office. Program offices under the Office of the Staff Director include:

**Alternative Dispute Resolution Office**

- Provides parties in certain enforcement actions with an alternative method for resolving complaints filed against them or for addressing issues identified in the course of an FEC audit.

The resolution process is designed to promote compliance with *FECA* and Commission regulations and to reduce the cost of processing complaints by encouraging settlements outside the FEC's normal enforcement track.

### **Audit Division**

- Evaluates the matching fund submissions of Presidential primary candidates and determines the amount of contributions that may be matched with Federal funds;
- Audits all public funding recipients as required by law;
- Audits those committees that, according to FEC determinations, do not meet the threshold requirements for substantial compliance with the law.

The division's resources are also used in the Commission's investigations of complaints.

### **Commission Secretary**

- Responsible for all administrative matters relating to Commission meetings, as well as Commission votes taken outside of the meetings, including: preparing meeting agendas; agenda documents; Sunshine Act notices; meeting minutes; and vote certifications.
- Logs, circulates, and tracks numerous materials not related to Commission meetings and records the Commissioners' votes on these matters.

All matters on which a vote is taken are entered into the Secretary's database.

### **Information Division**

- Provides general educational assistance to candidates, committees, and others involved in elections through the Internet, e-mail, letters, telephone conversations, publications, and conferences for both domestic and foreign audiences.
- Engages in proactive outreach and educational efforts, such as seminars and reminder notice mailings before each major filing period.

### **Information Technology Division**

- Provides internal IT support and operates the electronic filing system.
- Operates and maintains the FEC website, www.fec.gov, that now serves as the main source for information and disclosure of Federal election campaign finance data;
- Publishes the *Reports on Financial Activity* series of periodic studies on campaign finance and generates statistics for other publications;

- Maintains the computer programs that sort and organize campaign finance data into indexes;

These indexes permit a detailed analysis of campaign finance activity and provide a tool for monitoring contribution limits. The indexes can be seen and accessed on the website.

### **Office of Administrative Review**

- Established in 2000 after statutory amendments permitted the Commission to impose civil money penalties for violations of certain reporting requirements.
- Evaluates challenges that are made in the Commission's Administrative Fines Program.
- Serves as the Commission's liaison with the U.S. Department of the Treasury on debt collection matters involving unpaid civil money penalties under this program.

### **Public Disclosure Division**

- Processes incoming campaign finance reports from Federal political committees.
- Enters information into the FEC database from all reports filed by political committees and other entities.

These reports are made available to the public both on the FEC website and in the Public Records Office at FEC headquarters, located at 999 E Street, N.W., Washington, DC. The division also faxes and mails copies of reports to requestors.

### **Reports Analysis Division (RAD)**

- Conducts risk assessments for the purpose of referring committees to the Audit Division for compliance audits or to OGC or ADR for civil enforcement purposes.
- Provides committee officials with technical assistance in complying with reporting requirements.
- Conducts detailed examinations of the campaign finance reports filed by political committees.

Due to the limited resources available, the review of reports represents the only full scrutiny of 100 percent of all committee filings. Each committee has an analyst assigned, who assists the committee and seeks to ensure voluntary compliance with the law. The division along with the Office of Administrative Review is responsible for the Commission's Administrative Fine Program.

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## Office of the Inspector General

Lynne McFarland

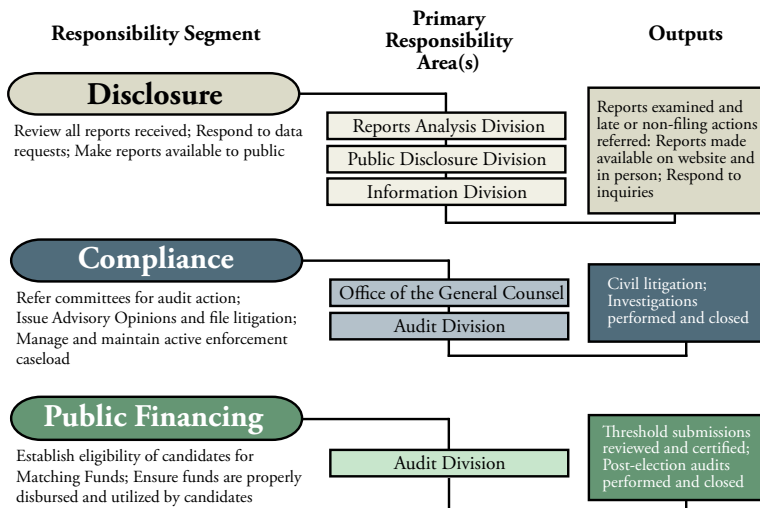
*Website:* [www.fec.gov/fecig/fecig.shtml](http://www.fec.gov/fecig/fecig.shtml)

*E-mail:* [oig@fec.gov](mailto:oig@fec.gov)

*Telephone:* 1-(202) 694-1015  
1-(800) 424-9530

The Office of the Inspector General, established in 1988 under amendments to the Inspector General Act, is independent and reports to both the Commissioners and the Congress. The FEC's Inspector General has two major responsibilities: to conduct internal audits and investigations to detect fraud, waste and abuse within the agency and to improve the economy and effectiveness of agency operations. The Inspector General is required to report its activities to Congress on a semiannual basis. These reports include descriptions of any serious problems or deficiencies in agency operations, as well as corrective steps taken by the agency.

Figure 1a – FEC Core Programs/Responsibility Segments

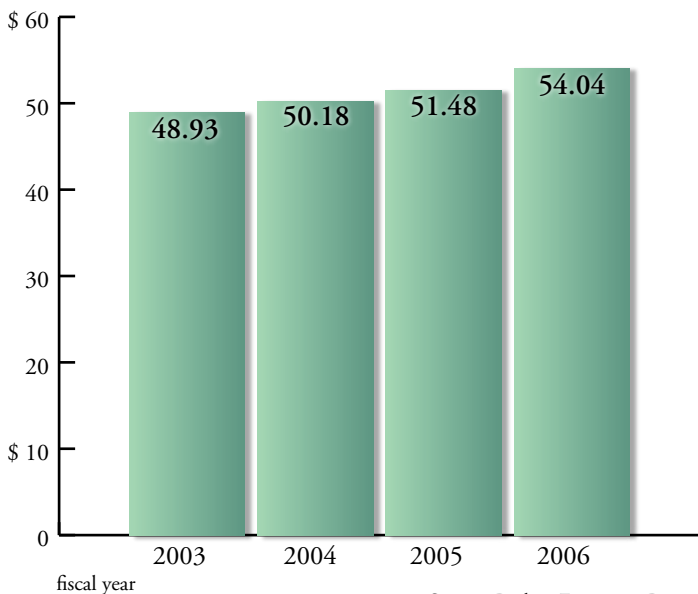


## Section 1.B: FEC Performance Goals, Objectives and Results

To accomplish its mission, the Commission has established three Core Programs/Responsibility Segments as illustrated in Figure 1a:

- **Disclosure**– Promoting public disclosure;
- **Compliance**– Compliance with the *FECA*; and
- **Public Financing**– Administering the public financing of Presidential elections.

Figure 1b – FEC Expenditures  
(in millions)



Source: Budget Execution Report

### Sources of Funds

To fund these three Responsibility Segments, the FEC receives an annual appropriation for Salaries and Expenses. These funds are available until expended. The FEC's appropriated Budget Authority in FY 2006 was \$54.15 million. Figure 1b shows the agency's expenditures from 2002–2006.



### Personnel vs. Non-Personnel Costs

Figure 2 represents the Commission's actual expenditures broken out between personnel and non-personnel costs for FYs 2004, 2005 and 2006. Personnel costs comprised 71.4% of FEC's FY 2006 budget costs; the other 28.6% of budget costs was spent primarily on building rent, capital items and Information Technology software and hardware.

### Core Segment Costs

The Commission fully supports the Federal government-wide mandate for Federal agencies to maximize efficiency and effectiveness to ensure the most responsible expenditure of taxpayer dollars. Toward that end, the FEC devotes considerable focus to emphasizing voluntary compliance, the agency's least resource intense program. The FEC relies heavily on effective outreach and information programs to reduce violations due to lack of understanding of the law. These outreach efforts – including the www.fec.gov website; toll free 800 information line, campaign finance workshops and seminars, and campaign guides and brochures – receive high marks from the election community, the media, and the public.

Figure 3 identifies the resource requirements associated with each of our responsibility segments:

\$21,317,170, or 38% of the FY 2006 budget, was spent on the *FECA* Disclosure Segment; and

\$27,383,031, or 49% of the FY 2006 budget, was spent on the Compliance Segment;

\$7,206,355, or 13% of the FY 2006 budget, was spent on the Public Financing of Presidential Elections Segment. The next sections break down these Core Responsibility Segments into detail and discuss each segment's Performance Measures

### Public Disclosure— Keeping the Public Informed

Disclosing the sources and amounts of funds used to finance Federal elections is one of the most important of the FEC's duties. Through its website, www.fec.gov, the Commission makes the financial reports of all Federal political committees accessible to the general public. This online disclosure provides an added

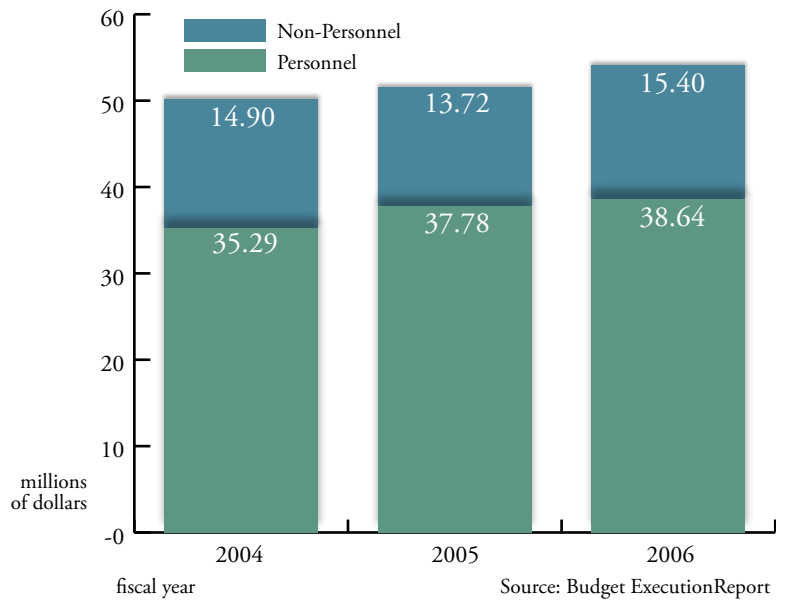
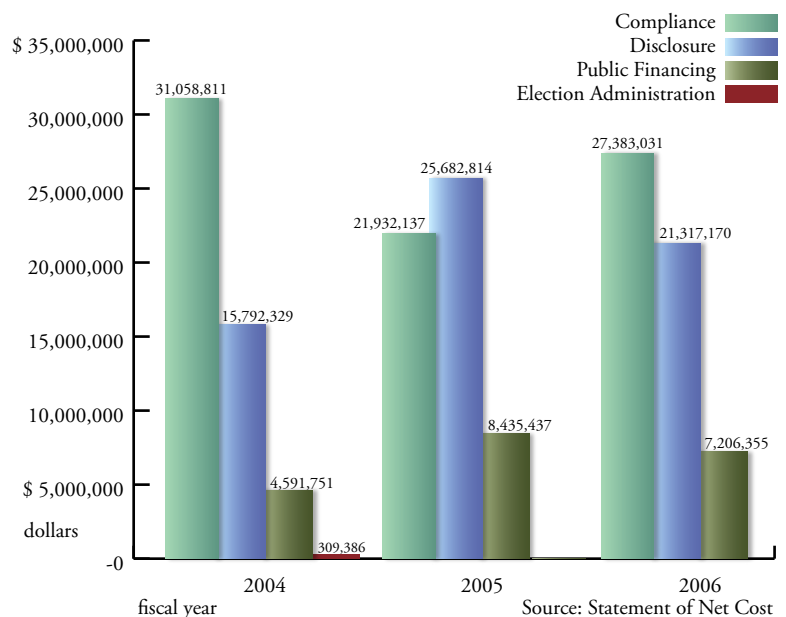


Figure 2 – Cost of FEC Operations, Personnel vs Non-Personnel Costs

Figure 3 – FEC Segment Costs



incentive for the regulated community to comply with the campaign finance law.

The sheer volume of data available to the public is staggering. The Commission defines its work in the context of election cycles, which include the preceding and actual election years. For example, the 2006 election cycle includes calendar years 2005 and 2006. It also spans three Federal fiscal years. Calendar year 2005 begins in FY 2005, but calendar year 2006 ends in FY 2007, which began in October 2006. The timeframes for each election cycle make it difficult to provide meaningful performance data on a fiscal year basis. So in Section 2, the FEC includes data for both the Fiscal Years and the Election Cycles.

In the 2004 election cycle, more than 8,000 political committees filed approximately 95,000 reports containing information concerning nearly 3 million itemized contributions, as well as millions of other itemized disbursements, receipts, and other payments previously not entered into Commission databases. During the 2006 election cycle, that will end in December 2006, the Commission expects that more than 100,000 reports will be filed by political committees.

These reports are filed electronically, except for Senate reports and reports from other committees with less than \$50,000 in annual activity. Paper reports filed by political committees are available on the Commission's website within 48 hours of their receipt, and almost immediately for electronically filed reports. Interested citizens can select a profile of a committee's financial activity for each election cycle. Citizens also can access information on contributions by using a variety of search elements (e.g., donor's name, recipient's name, date, amount, or geographic location). By publicly posting this campaign finance information on its website, thus facilitating its availability, FEC fosters compliance with, and deters violation of, the *FECA*.

In addition to campaign finance reports, the FEC makes available on its website and through the Disclosure Segment items such as:

- Statistical summaries of reported campaign activities;
- A monthly FEC newsletter, the *Record*, offering information on Advisory Opinions, court cases, and enforcement actions;
- Information on all closed enforcement actions

such as cases settled or dismissed;

- Audit reports and Commission meeting agenda items;
- FEC Annual Reports;
- Brochures for use as quick reference on various campaign finance topics;
- Reports on State Campaign Finance Laws;
- Information Division Campaign Guides, with updated Supplements, to be used by various participants in campaign finance on how to comply with the various provisions of the *FECA*;
- The *Presidential Public Funding Program Report*.
- Advisory Opinions drafted by the OGC's Policy Division and approved by the Commission; and
- Other public documents. The FEC also discloses information by issuing press releases covering statistical information and the agency's activities.

The FEC's disclosure program focuses on reviewing and placing information on the website and in the public records division. It supplements the website and public records work with these activities:

- Educational outreach including campaign finance workshops and seminars at its DC Headquarters and in different regions in the United States;
- A toll-free line and automatic fax transmission of FEC publications 24-hours-a-day, 7-days-a-week; and
- On demand downloads from our website.

The FEC has achieved its goal of making reports filed with the FEC available to the public within 48 hours. To accomplish this, the staff is scheduled to be in the office on evenings and weekends when reports are due. This ensures coverage for phones calls from all time zones and mail deliveries. The Public Disclosure office also works closely with the IT Division to ensure all equipment and programs are functioning properly.

During FY 2006, the Reports Analysis Division was able to meet its goals in reviewing all reports and statements received. The reports reviewed statistic is at its highest level ever compared to previous election cycles. This review level was attained due to efforts made to: 1) replace staffing vacancies slots rapidly; 2) improve training capabilities; 3) better coordinate RAD business activities with other FEC divisions and offices; 4) establish more defined roles for each of the division's branches; and 5) continually review processes and procedures used to conduct division activities.

The FEC has also achieved its goal of responding to information requests within 72 hours. The agency maintains a staff of information specialists and press spokespersons sufficient to respond efficiently to the large number of inquiries that often arise during elections and at other times when the public interest focuses on the FEC. The agency further ensures FEC staff members are well trained and informed about recent legal developments and agency actions. The FEC ensures staff can access the resources needed to respond to inquiries. Staff members strive to respond to inquiries during the same day calls are received. Response time may be affected by the nature and complexity of the request, equipment malfunctions, call volume, and staffing issues.

The Office of General Counsel timely responded to all Advisory Opinion (AO) requests made during FY 2006. When the Commission receives a complete request for an AO, it generally has 60 days to respond. In certain situations the time frame is reduced to 20 days. OGC prepares a draft opinion that the Commissioners then discuss and vote on in an open meeting. A draft opinion must receive at least four favorable votes out of six possible votes to be approved.

### **Outreach – Educating the Public About Campaign Finance**

The FEC actively communicates its experience and expertise to interested individuals, political committees, state and local governments, and foreign dignitaries and officials. The Commission conducted educational conferences throughout the United States and offered seminars on campaign finance at its headquarters in Washington, DC.

### **Compliance With the FECA – Interpreting and Enforcing the Law**

The Commission exercises exclusive jurisdiction over the civil enforcement of Federal campaign finance law. The FEC reviews each report filed by Federal candidates and committees to ensure they have complied with the contribution and disclosure requirements.

FEC staff may generate enforcement actions called Matters Under Review (MURs) when it appears that a violation of the law has occurred. Individuals and groups outside the agency may also initiate MURs by filing complaints. Other government agencies may also refer enforcement matters to the FEC. If four of the six Commissioners vote to find reason to believe a violation of the law has occurred, the Office of the General Counsel will investigate the matter or the ADR office will try to negotiate a mutually agreeable resolution. If the investigation reveals a violation of the law, the Commission attempts to resolve the matter by reaching a conciliation agreement with the respondents. The agreement may require the candidate or committee to pay a civil penalty and take other remedial steps. If an agreement cannot be reached, the Commission may file suit against the appropriate persons in a U.S. District Court. As required by law, the Commission keeps enforcement matters strictly confidential until they are concluded. Once the Commission has resolved and closed a MUR, pertinent documents, including those reflecting the Commission's final determination are placed on the public record as well as on the FEC website at [www.fec.gov/em/mur.shtml](http://www.fec.gov/em/mur.shtml).

### **Public Financing – Funding Presidential Elections**

Every Presidential election since 1976 has utilized public funds. Public funds are provided through two programs: (1) grants are given to party conventions and candidates running in the general election; and (2) matching funds are given to candidates running in the party primaries. The FEC administers the public funding program by determining those candidates and committees eligible to receive the funds and in what amounts. The Secretary of the Treasury makes the payments. Committees receiving public funds must keep detailed records of their financial activities. After the elections, the FEC audits each publicly funded committee. If an audit reveals a committee has exceeded the spending limits or used public funds for impermissible purposes, the committee must pay back an appropriate amount to the U.S. Treasury.

## Section 1.C: Analysis of FEC Financial Statements and Stewardship Information

### Balance Sheet

As a small agency, about 97 percent of FEC's assets consist of Fund Balance with Treasury (cash) and Property Plant and Equipment (PP&E). Cash increased by about \$1.5 million, or 18 percent from FY 2005, largely due to obligations incurred late in the fiscal year but not paid. Net PP&E decreased by approximately \$1.3 million, or 13 percent from FY 2005, primarily as a result of depreciation.

### Statement of Net Cost

FEC's total budget in FY 2006 was \$54.1 million. Roughly \$39 million, or 71 percent, of the budget was dedicated to personnel costs. Overall, costs decreased by approximately \$143 thousand largely due to a decrease in payments to GSA for construction.

### Statement of Changes in Net Position

Total Financing Sources under Cumulative Results of Operations decreased by about \$2.5 million, or 4.4 percent, primarily due to a decrease in Appropriations Used, which is largely a function of payments made. FEC paid approximately \$2 million less to GSA in FY 2006 for a construction project that ended in late FY 2005.

### Statement of Budgetary Resources

Total Budgetary Resources increased by approximately \$3 million, or 5.6 percent over FY 2005. This is largely due to an increase in the appropriation of \$2.6 million. Total Status of Budgetary Resources increased by \$3 million. This increase comes from an increase in payroll, and IT spending for improvements.

### Statement of Financing

Total resources used to finance activities increased by \$2.5 million. This increase is primarily due to an increase in obligations incurred for payroll and IT contracts.

### Statement of Custodial Activity

Total custodial revenue increased from the prior year in the area of civil penalties by approximately \$4.0 million. This increase is largely due to the settlement of one case for \$3.8 million, the largest in FEC history. The FEC does not maintain any stewardship assets.

## Section 1.D: Analysis of FEC's Systems, Controls, and Legal Compliance

### 1.D.i – FEC Managerial Internal Controls Self-Assessment

The FEC Manager's self-assessment required by FEC Directive 53 and OMB Circulars A-123, A-127 and A-136 indicate that there are no material weaknesses. Employees in all divisions continue to review specific procedures on an ongoing basis and improve internal controls where possible.

As noted in the Chairman's Letter, assurance is given that management controls are in place and the Commission's Financial Systems conform to government standards articulated in OMB Circulars A-123 and A-136.

This year the independent auditors, Clifton Gunderson (CG), identified two material weaknesses: 1) program cost allocation; and 2) General Property and Equipment. The independent auditors also observed five reportable conditions: 1) Information Technology; 2) Integrated Financial Management System; 3) Administrative Fines, Civil Penalties and Miscellaneous Receipts; 4) Control over Procurement and Disbursement Transactions; and 5) Audit Follow-Up.

### 1.D.ii – Management's Response to the Inspector General's Management and Performance Challenges

#### Human Capital Management

As the Inspector General's report in Appendix A observes, the Commission confronts the same long-standing challenge that faces the rest of the Federal government: developing and implementing a consistent strategic approach to managing and maintaining an appropriately skilled workforce. To address this challenge, the Commission has

undertaken a comprehensive human capital management initiative. This initiative includes effective planning for future needs; changes in recruitment; strategic hiring; training the current workforce; and retaining critical staff. The Commission made strides in succession planning and diversity in the hiring of several mid-career managers to fill critical top-level positions. The FEC installed a new performance appraisal system. The FEC also identified and addressed training gaps and mission-critical leadership positions.

The Commission will soon partner with a Federal Line of Business (LOB) to take advantage of the latter's efficiencies. The agency and the various LOBs will match up their respective needs and attributes to determine what LOB is most appropriate for FEC.

The Commission is committed to enacting the *President's Management Agenda* to make Government more citizen-centered, market-based and results-oriented. The FEC has already met the *President's Management Agenda's* eGov and transparency requirements. The FEC is dedicated to maintaining and strengthening its commitment to a diverse Federal workforce that is skilled, flexible, and focused on results and service. The FEC has demonstrated its improved efficiency by meeting all workload challenges, performing more work while simultaneously reducing FTEs from 391 to 375.

#### Information Technology Security

The Commission agrees with the Inspector General's argument in Appendix A that the benefits of information technology (IT) also bring risks of fraud, inappropriate disclosure of sensitive data, and disruption of critical operations and services. While the FEC is exempt from the *Paperwork Reduction Act* and eGov initiative and other IT regulations, FEC management continues its commitment to the spirit and intent of such legislation.

As the Inspector General points out, computerized systems enable the FEC to carry out its mandate to ensure the campaign process is fully disclosed. To address the ever-present threats of data misuse, destruction, or inappropriate disclosures, as well as to ensure continuity of operations in the event of a disaster, the Commission has taken aggressive actions to secure its IT infrastructure. In FY 2005,

the Commission implemented a mandatory security awareness training program for its employees and contractors. FEC continues to monitor and evaluate its Information System Security Policy. The FEC will continue its vigilance in this area and welcomes further comments from the Inspector General on IT security issues.

### **Financial Reporting**

The FEC shares the IG's goal in Appendix A of producing timely, accurate, and useful financial information that is essential for making day-to-day operating decisions and managing the government's operations more efficiently and effectively. The FEC is also committed to fully complying with all financial management laws and standards.

The FEC made considerable progress in financial reporting in FY 2006. Steps were taken to formalize and streamline its reporting processes. The number of reconciliations was expanded to improve control, timeliness and efficiency. Reportable conditions in the areas of payroll and financial reporting were eliminated. And finally, the FEC has begun the process to replace its accounting system in order to meet the demands of the Federal government's new reporting requirements.

Although significant progress was achieved in this area, the FEC understands the challenges ahead. In FY 2007, FEC plans to work with its internal and external auditors to eliminate material weaknesses and reportable conditions identified in FY 2006 as well as convert to a service provider.

### **1.D.iii – FEC Integrated Internal Control Framework Legal Compliance**

FEC is subject to numerous legislative and regulatory requirements that promote and support effective internal control. The Federal statutes discussed below help FEC to both identify and control internal control weaknesses. These laws also improve both program and financial management.

### **Federal Managers Financial Integrity Act of 1982 (FMFIA)**

This act requires FEC to establish and maintain internal control. FEC's Staff Director must annually evaluate and report on the control and financial systems that protect the integrity of its financial programs. FMFIA requirements offer a framework to conduct and coordinate other reviews, evaluations, and audits.

### **Government Performance and Results Act (GPRA)**

To motivate results-oriented management by FEC, GPRA requires it to create strategic plans, set performance goals and report annually on actual performance compared to goals. GPRA integrates FEC's budget process, operational management, and public accountability. GPRA's PART process assesses FEC's program effectiveness and helps to improve its program performance.

### **Chief Financial Officers Act, as amended (CFO Act)**

This act requires FEC to both establish and assess internal control related to financial reporting by preparing and auditing financial statements by November 15 annually.

### **Inspector General Act of 1978, as amended (IG Act)**

This act requires FEC's programs and operations be independently reviewed by an Inspector General. The FEC Inspector General submits semiannual reports to Congress on any significant abuses or deficiencies identified in its reviews and recommends appropriate action.

### **Federal Financial Management Improvement Act of 1996 (FFMIA)**

This act requires FEC to use a financial management system complying with Federal financial management standards, Federal Accounting Standards Advisory Board (FASAB) standards, and the U.S. Standard General Ledger (USSGL) transaction standards.



### **Federal Information Security Management Act of 2002 (FISMA)**

This act provides FEC with a framework of information security controls proportionate to the agency's needs.

### **Clinger-Cohen Act of 1996**

This act requires FEC to use a disciplined Capital Planning and Investment Control (CPIC) risk assessment process when the agency makes capital investments, especially on Information Technology investments, to make sure the investments achieve a net return on investment.

### **Debt Collection Improvement Act**

The FEC manages its delinquent debt pursuant to the *Debt Collection Improvement Act (DCIA) of 1996*. It refers delinquent debt greater than 90 days old to the Department of the Treasury (Treasury) for cross servicing and offset.

### **Prompt Payment Act**

The Prompt Payment Act 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 2006 was effectively 100%.

### **Improper Payments Information Act of 2002**

In accordance with OMB guidance, the FEC reviewed all of its programs and activities to identify those susceptible to significant erroneous payments. The FEC does not make grants, and its non-personnel expenses are approximately \$15 million. The FEC is confident that improper payments, if any, are immaterial.

## **Section 1.E: Possible Future Effects of Existing Events and Conditions**

There are several existing events and conditions that may affect the FEC in the future. Any amendments to the *FECA* may significantly impact the Commission. Amendments to the *Act* may require changes in internal processes or procedures and require that implementing regulations be adopted.

For example, proposed legislation in the House and Senate, if enacted, will significantly affect the FEC in the future. S. 1053, the *527 Reform Act of 2005*, amends the *FECA* to clarify when organizations described in section 527 of the *Internal Revenue Code of 1986* must register as political committees. The House has a similar piece of legislation pending, H.R. 1316, the *527 Fairness Act of 2005*. During FY06, these same two bills were still pending in Congress. A third bill proposing to reorganize the FEC by replacing the six commissioners with one Chairman was also pending.

Further, the solvency of the Presidential Election Campaign Fund may impose major burdens on the FEC. The agency's early projections concerning primary matching payments for the 2004 election cycle indicated that January 2004 payments to eligible Presidential candidates could be less than 20 percent of the amount certified, even if one major party candidate declined to participate in the matching payment program. However, three major party candidates—Howard Dean, John Kerry and President Bush—chose not to participate in the program, and the only shortfall that occurred in the 2004 cycle took place in February, when candidates received approximately 46 cents per dollar certified. For the 2004 elections, a total of eight candidates were certified for matching funds. With the participation of three additional major party candidates, the program would have experienced severe shortfalls. The Presidential Election Campaign Fund (PECF) is likely to continue to face major deficits in timely payments for the 2008 election. The PECF could be short of the funds necessary to meet the objectives of the public financing program unless legislative action is taken.

The Commission has consistently made legislative recommendations to Congress to address this issue. The FEC is concerned that the possibility of a totally open primary in both major parties in 2008 (with the presumed participation of many candidates in both primaries) will further exacerbate this potential shortfall. At some point, without a legislative remedy, the shortfall may affect payments to general election candidates as well as to primary candidates.

## Section 1.F: Other Management Information, Initiatives and Issues

### Overview of Strategic Plan

The FEC's Strategic Plan for FY 2004 – 2009 (see Appendix C), was developed in accordance with the *Government Performance and Results Act*. This plan provides the framework for how the FEC will use its resources to implement and enforce the campaign finance laws during the 2004 (FYs 2003-2005), 2006 (FYs 2005-2007), and 2008 (FYs 2007-2009) election cycles. The Strategic Plan emphasizes doing more with 15 less FTEs than the 391 FTEs the agency was originally authorized to hire. New improved technology and more careful management enable the FEC to execute its Strategic Plan.

The Commission defines its work within the context of election cycles. An election cycle consists of the preceding and actual election years, i.e., calendar years 2003 and 2004 constitute the 2004 election cycle. An election cycle, therefore, spans three fiscal years (i.e., the 2004 cycle begins in FY 2003 and ends in FY 2005). The 2004 Presidential election took place in FY 2005. The beginning of the new fiscal year (October 1) coincides with the peak pre-election period when the FEC experiences its heaviest workloads for many programs.

The flow of work for programs such as audits and enforcement actions can be spread over several years. Action on the referrals for audits and compliance actions from the 2004 election sometimes is not finalized up to two years after the election. As a result, work undertaken or completed in any fiscal year includes work that began in previous election cycles. The Strategic Plan for FY 2004-2009 outlines performance goals and workloads by election cycle, while the annual performance plan (now the performance budget) relates the specific activities of FY 2006 to work from several election cycles. The performance budget relates the performance goals for FY 2006 to the levels of funding. Goals created for the major program areas of: 1) public disclosure; 2) compliance; and 3) public financing; establish targets for the speed/timeliness for these three types of actions and the volume of transactions to be processed.



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## **Section 1.G: Limitations of the Financial Statements**

The principal financial statements were prepared to report the financial position and results of operations of the Federal Election Commission, pursuant to the requirements of 31 U.S.C. 3515 (b). While the statements were prepared from the books and records of the Federal Election Commission in accordance with U.S. generally accepted accounting principles (GAAP) for Federal entities and the formats prescribed by the Office of Management and Budget, the statements exist in addition to the financial reports used to monitor and control budgetary resources prepared from the same books and records. The statements should be read by realizing they are for a component of the U.S. Government, a sovereign entity.



# SECTION II

## Performance Report

### Performance Purposes, Objectives, and Results

This section of the report serves as the Commission's Annual Performance Report as specified in Office of Management and Budget Circular A-11, Part 6, *Preparation and Submission of Strategic Plans, Annual Performance Plans, and Annual Program Performance Reports*, as amended. It fulfills FEC's requirements under the Government Performance and Results Act.

### Goals and Objectives for FY 2006

To achieve its mission, the FEC has identified three core segment areas - disclosure, compliance and public financing. FEC's goals, objectives, performance measures, and desired outcomes described in this report are tied to these three core FEC segments. The FEC provides the electorate with the capability to make educated, informed decisions in the political process based, in part, on where candidates for Federal office derive their financial support. While it is difficult to measure how the FEC ensures public faith in the political and campaign finance systems, the FEC gauges its effectiveness through a series of indicators designed to measure performance in areas that promote confidence in the campaign finance process. By fully disclosing campaign finances, FEC aims to foster voluntary compliance by those involved in campaign finance. The agency also aims to reassure the electorate that those who disregard the laws regarding campaign financing and/or its requirements for public disclosure will suffer real and even-handed consequences for noncompliance. The Commission presides over the Presidential Election Campaign Fund and provides important outreach by sharing its Best Practices with those interested in learning them.

The FEC's activities focus on three targeted segments:

#### Segment 1: Disclosure

Fully disclose the sources of Federal campaign funding to the public.

#### Segment 2: Compliance

Foster voluntary compliance with the disclosure and limitations provisions of the *FECA* and enforce the *Act* in a timely, consistent, and comprehensive manner.

#### Segment 3: Public Funding of Presidential Elections

To effectively administer the public financing system.

### 1. Disclosure

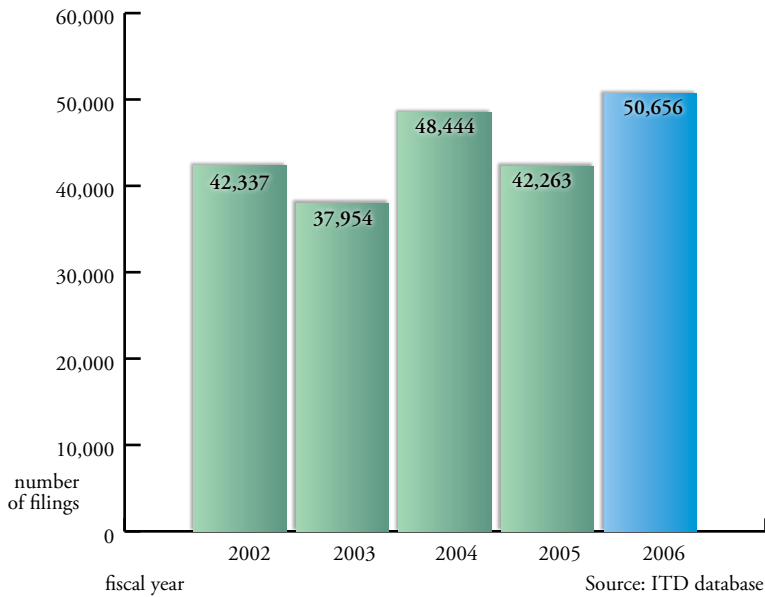
#### Purpose

Enable the public to make informed choices in the electoral process by fully disclosing the sources of Federal campaign funding.

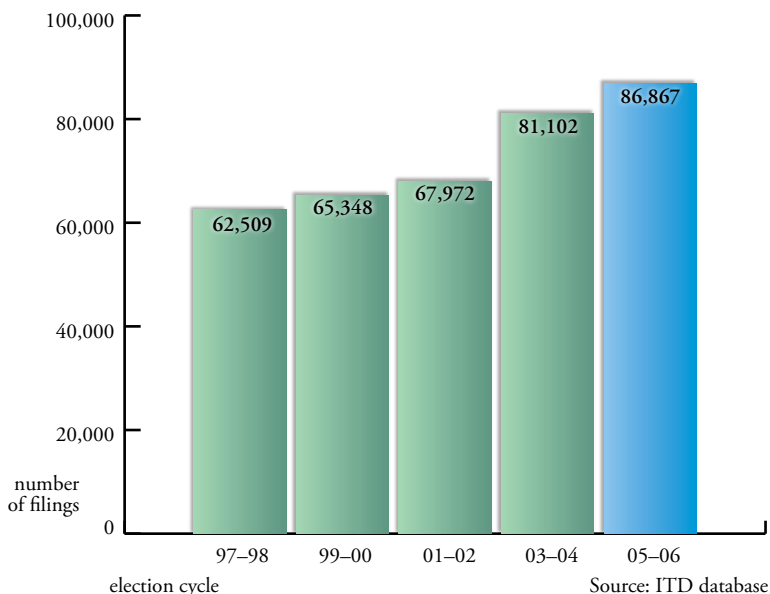
#### Objective

To ensure full, accurate, and timely disclosure of campaign finance activity in Federal elections by publicizing campaign finance reports required to be filed for public view under the *FECA*, and to provide information and policy guidance on the *FECA* to the public, press, and those persons and entities required to comply with the *FECA*.

**Figure 4a – Total Reports and Statements Filed by Fiscal Year**



**Figure 4b – Total Reports and Statements Filed by Election Cycle**



**Outcome**

To enable citizens to make educated, informed decisions in the political process based, in part, on where candidates for Federal office derive their financial support.

**Performance Measures**

- Make reports and statements filed with the FEC available to the public within 48 hours.
- Monitor public use by measuring website traffic.
- Review all reports and statements received.
- Respond to data requests from press, public, and committees within 72 hours.

**Results for FY 2006**

As mentioned in Section 1.B, the FEC Responsibility Segment for Disclosure spent \$21,317,170 in Fiscal Year 2006. So, what did the public get for its money?

When a committee files its FEC report on paper, the Commission’s Public Records Office ensures that a copy is available for public inspection within 48 hours at FEC’s headquarters, located at 999 E Street, N.W., Washington, DC. Simultaneously, the FEC’s staff enters the information disclosed in the report into the FEC computer database. Disclosure reports filed electronically are made available to the public within 24 hours, if not almost immediately. The amount of information disclosed has grown dramatically over the years.

Figure 4a illustrates how many campaign finance reports are filed with the FEC per Fiscal Year. Figure 4b illustrates election cycle filings by committee through September 30 of the election year. Note the number of campaign finance reports and statements that must be filed even in off/odd numbered years. Also note how the reports increase in Presidential election cycles.

On the FEC website, the public can access all reports filed with the agency regardless of whether they were filed electronically or on paper. Scanned copies of paper reports can be searched and viewed through the FECs digital imaging system on-line. The imaging

system permits a user to view a committee’s report on a high resolution computer screen (or a paper copy), just as the document appeared in its original form. Campaign finance data can also be searched in a host of different ways: one can search the database by individual contributor, committee, candidate, occupation, date, dollar amount, or other search criteria.

The *2002 President’s Management Agenda* urges Federal agencies to enact its E-government strategy to:

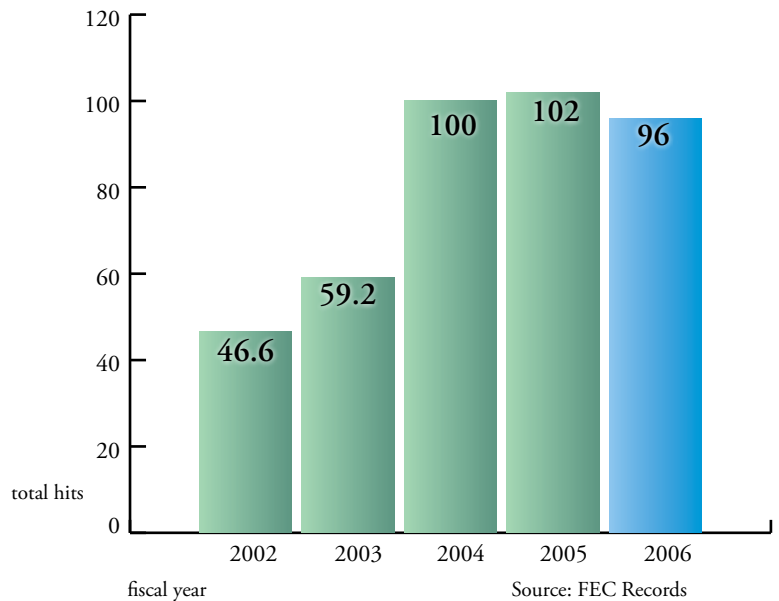
- “Provide high quality customer service regardless of whether the citizen contacts the agency by phone, in person, or on the Web”;
- “Provide citizens with readier access to government services”; and
- “Make government more transparent and accountable.”

While other Federal agencies still struggle to only partially enact this eGov strategy, the FEC has voluntarily executed eGov goals of quality customer service, ready access, transparency and accountability since its website [www.fec.gov](http://www.fec.gov) reached its current level of functionality on October 1, 2004. Website workers are allowed and encouraged to use their own initiatives to continuously improve the website’s functionalities. User input is used to constantly improve the website making it more user friendly and citizen-centered. The FEC has made all Federal election records available to anyone with internet access.

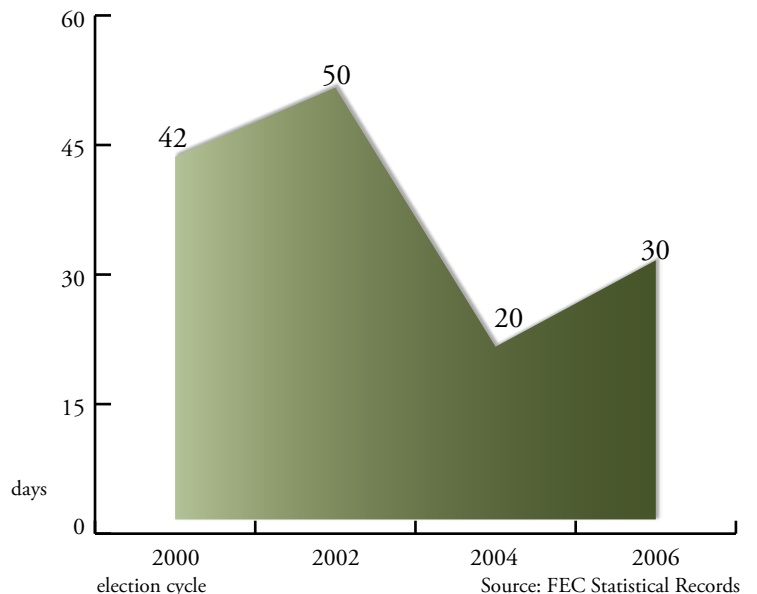
Figure 5 illustrates how website activity has increased over the last few fiscal years. The FEC’s website continues to be the main source for Federal campaign finance information. In FY 2006, the website recorded more than 96 million “hits” from the public, more than double the “hits” in FY 2002.

Figure 6 illustrates how Disclosure’s efficient processing of campaign finance reports continues to improve since Fiscal Year 2000 despite the steadily increasing number of reports shown in Figures 4a and 4b. It now takes Disclosure only thirty days to process 95% of campaign finance reports. By comparison, it took Disclosure fifty days to do this in Fiscal Year 2002.

**Figure 5 – Total Website Hits by Fiscal Year (in millions)**



**Figure 6 – Days Needed to Complete Processing for 95% of Reports)**



**Figure 7 – Median Days Required to Process Reports**

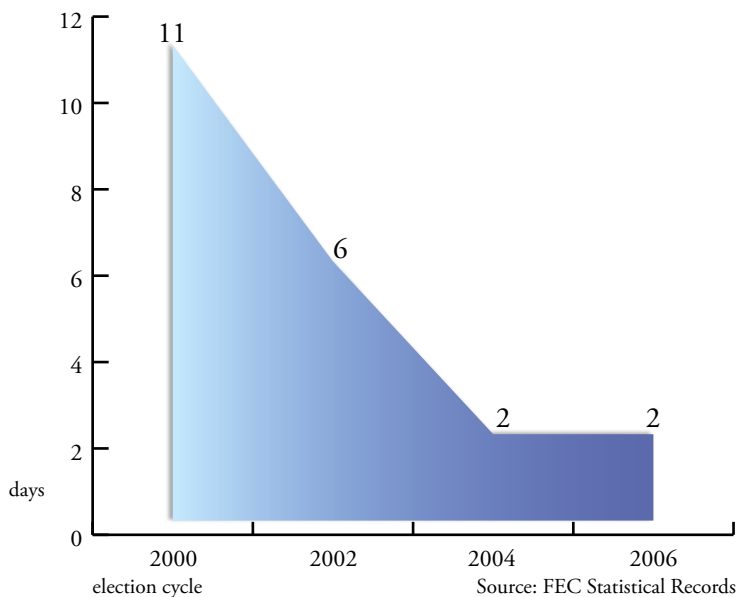
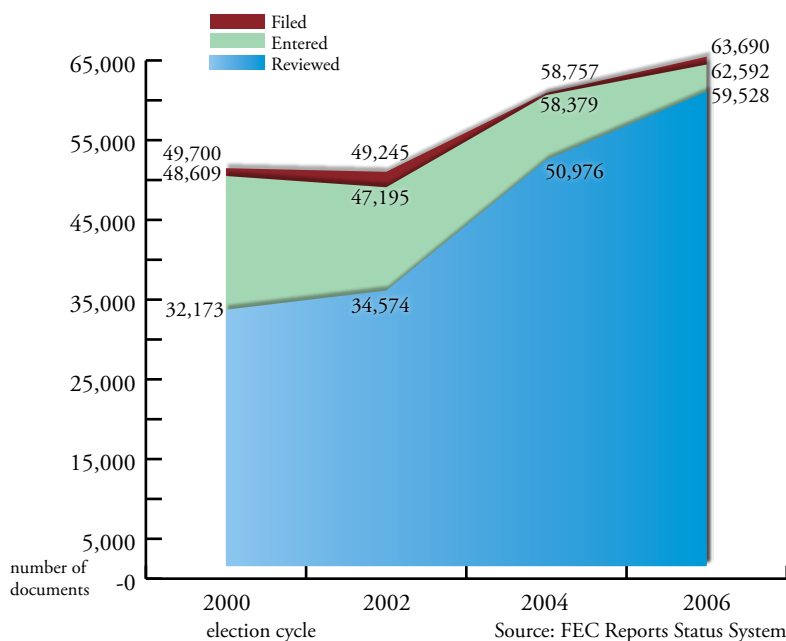


Figure 7 illustrates how the median days Disclosure needs to process a campaign finance report were drastically reduced from eleven days in Fiscal Year 2000 to only two days during Fiscal Years 2004 – 2006. Although the Commission seeks to improve its operation every year, it recognizes the 2 day median is an optimum performance level.

Figure 8 illustrates how Disclosure processed over 98% of campaign finance reports during the 2006 election cycle. This extremely high processing rate was achieved despite the constantly rising increases in both campaign reports and campaign dollars disbursed. Disclosure has constantly improved its performance despite the increasing workload.

The Disclosure Responsibility Segment's Reports Analysis Division (RAD) reviews all reports to track compliance with the law and to ensure that the public record provides a full and accurate portrayal of campaign finance activity. As the Figure illustrates, the division has consistently improved its timeliness of review. For the 2006 election cycle, the division has shown its best performance by reviewing 83% of the reports filed. The division also collaborated with other divisions to provide greater accessibility and more efficient service to the public and the regulated community.

**Figure 8 – Document Volumes and Process Efficiency (through 9/30 of election year)**



RAD is ably supported by the Public Disclosure Division comprised of Public Records, Coding and Entry, and Processing. Public Records organizes and archives the campaign finance reports. The reports are imaged by the processing section and are then forwarded on to the coding and entry section to be entered into the computer system. As the Figures in this section demonstrate, these operations have successfully met the demands of an ever increasing workload.

The other Disclosure Segment Divisions, Information and the Press Office, also play key roles.

The Information Division answers inquiries about the FEC and Federal campaign finance issues from both within and outside the agency. The Press Office Division publicizes the FEC's most significant accomplishments and activities to the public as

well as responding to questions from the press. The above four divisions make up the FEC's Disclosure Responsibility Segment.

Figure 9 illustrates the steep increase of total dollars disbursed in Presidential election campaign cycles. FEC Disclosure must track and account for these expenditures that have tripled over the last five Presidential election cycles.

Figure 10 illustrates the steep increase of total dollars disbursed in Congressional election campaign cycles. FEC Disclosure also must track and account for these non-Presidential campaign expenditures that have more than tripled over the last two decades.

## 2. Compliance

### Purpose

The purpose of the FEC's Compliance program is to promote voluntary compliance with the limits, prohibitions, and reporting requirements of the *FECA* and enforce the *FECA* in a timely, consistent, and comprehensive manner.

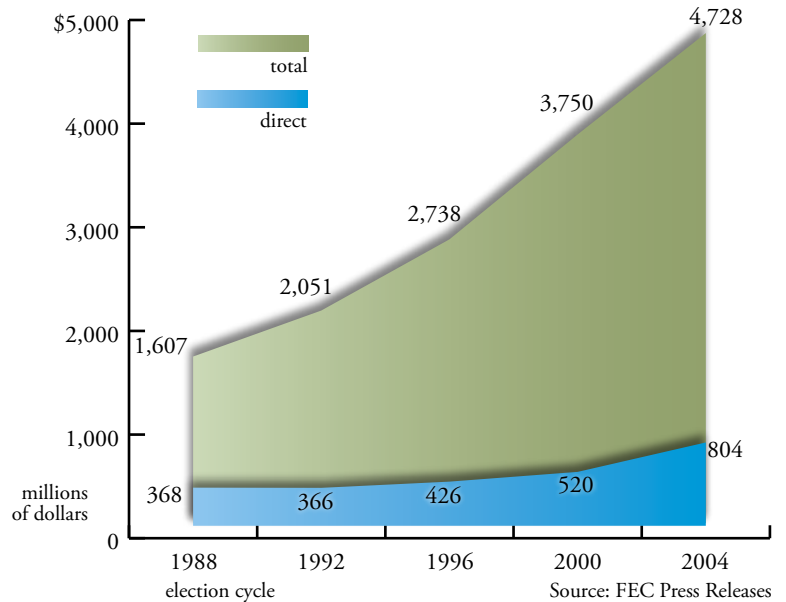
### Objective

Demonstrate to the public and the election community that the *FECA* is enforced fairly and timely, thus resulting in; (1) a high level of voluntary compliance with the *FECA*; and (2) the most efficient use of FEC enforcement resources by focusing on the most salient and significant *FECA* compliance concerns.

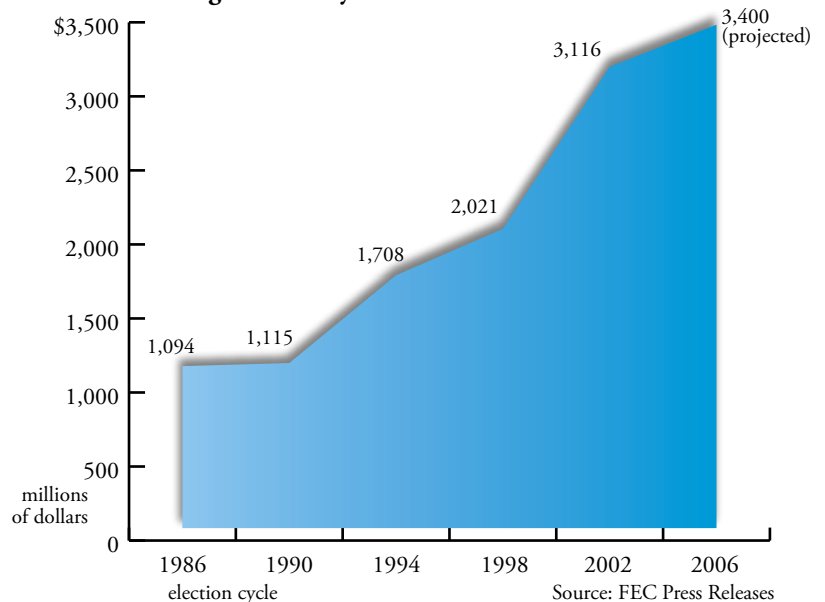
### Outcome

- That the public has confidence that the *FECA* is fairly and swiftly enforced;
- That the election community has a high level of confidence that the *FECA* is fairly enforced, resulting in a high level of voluntary compliance with the *FECA*;
- That the election community believes that there are real, timely consequences for violations of the disclosure and limitation provisions of the *FECA*;
- That FEC's enforcement resources are focused on the most salient and significant compliance concerns under the *FECA*.

**Figure 9 – Disbursements in Federal Elections, Presidential Cycles—Total and Direct**



**Figure 10 – Disbursements in Federal Elections, Congressional Cycles**



### Performance Measures

- Committees found to have questionable activity are referred for audit or enforcement action.
- Meet deadlines for issuance and filing litigation pleadings.
- Maintain an average active enforcement caseload in excess of 50% of total caseload.
- Close more than 50% of enforcement cases with substantive Commission action.

### Audits

Conduct 40-45 audits “for cause” for the 2004 election cycle, pursuant to 2 U.S.C. §438(b), in those cases where committees have failed to meet the threshold requirements for substantial compliance with the *FECA* and have failed voluntarily to correct errors or omissions on their reports.

Maintain a “stand alone” Title 2 Audit “For Cause” Program. This initiative improves auditing capabilities and facilitates continuity of audit operations even during Presidential election cycles.

### Enforcement

- Continue progress in shortening case processing times.

- Close between 75 and 100 cases, with at least 60% closed through substantive Commission action.
- Defend *BCRA* against constitutional challenges.

Initiate civil actions in Federal court to enforce the *FECA/BCRA* in accordance with 2 U.S.C. 437g(a)(6) and defend against all actions in Federal court challenging the Commission’s determinations under the Administrative Fine Program pursuant to 2 U.S.C.437g(a)(4)(C)(iii) and all actions challenging the disposition of enforcement matters.

Maintain and revise, as necessary, the Enforcement Priority System (EPS), a system that is used to prioritize the enforcement docket and assist in determining whether matters are appropriate for ADR.

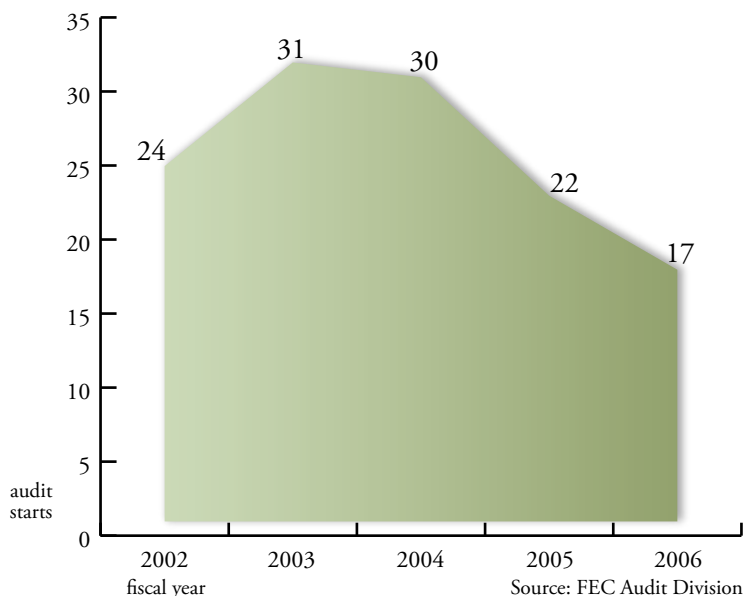
### Results for FY 2006

The FEC exercises its enforcement authority by investigating potential violations, making appropriate findings, attempting conciliation, and when conciliation is unsuccessful, filing suit in Federal district court. The FEC coordinates its enforcement activities with the Department of Justice, U.S. Attorney’s Offices, and state and local agencies. In the last several years, the FEC has dealt with certain kinds of enforcement matters through its Administrative Fines and Alternative Dispute Resolution programs. The FEC maximizes the effectiveness of the compliance and enforcement programs through technology and management initiatives to more strategically focus available resources. As the Figures in this section demonstrate, the Commission has improved its performance in timeliness and quantity,

As already mentioned in Section 1.B, Compliance spent \$27,383,031 in Fiscal Year 2006. What did the Compliance Responsibility Segment do for the public?

Compliance goals focus primarily on the number of actions accomplished. Enforcement cases are generated through complaints filed by the public, referrals from other Federal and state agencies, and the FEC’s own monitoring procedures. The Reports Analysis Division reviews each committee report filed to ensure the accuracy of the information on the public record and to monitor the committee’s compliance with the law. If the information disclosed

Figure 11 – All Audits Started





in a report appears to be incomplete or inaccurate, the reviewing analyst sends the committee a “request for additional information.” The committee may avoid a potential enforcement action and/or audit by responding promptly to such a request. Most responses take the form of an amended report. Although the Commission does not have authority to conduct random audits of committees, it can audit a committee “for cause” when the committee’s reports indicate probable violations of the law.

Figure 11 illustrates the total number of audits, non-Presidential and Presidential, started by the Compliance Responsibility Segment's Audit Division during Fiscal Years 2002–2006. The number of audits declined since Fiscal Year 2004 because the Presidential audits have become much more complex while the Audit staff lost 5.5 FTEs.

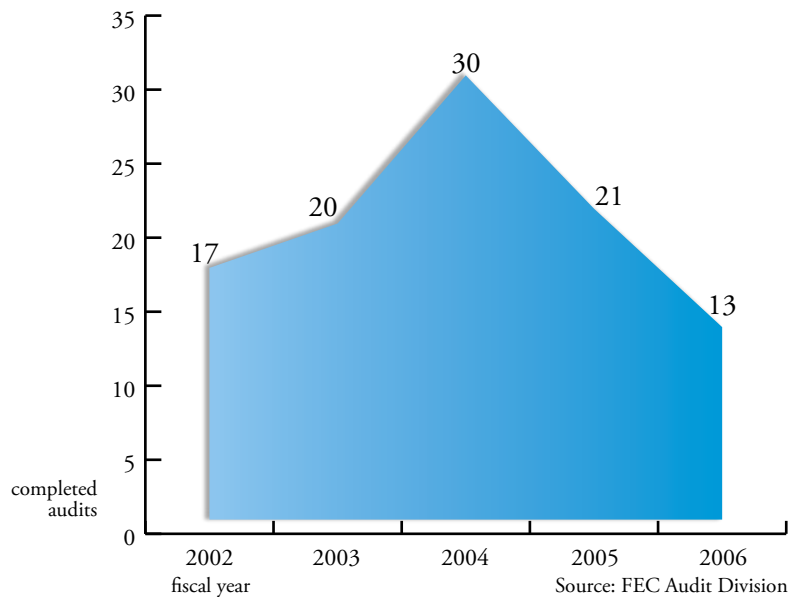
In FY 2005, the Audit Division completed a major effort to increase the number of non-Presidential committees audited in each election cycle. Figure 12 illustrates the number of non-Presidential committees the Audit division completed between FY2002 and FY2006. This graphic, combined with Figure 13, which illustrates Presidential committee audits, show how Presidential committees demand more time and resources because of their complexity.

Whether initiated by outside complaint or internal referral, the most complex and legally significant enforcement matters are handled by the Enforcement Division in the Office of General Counsel (OGC), which:

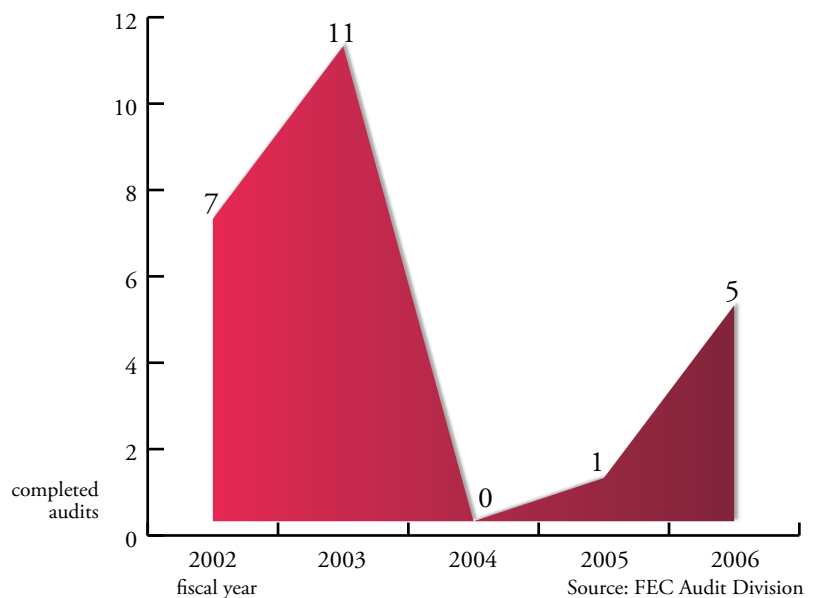
- Recommends to the Commission whether to find “reason to believe” the *FECA* has been violated, a finding that formally initiates an investigation;
- Investigates potential violations of the *FECA* by requesting, subpoenaing, and reviewing documents and interviewing and deposing witnesses; and
- Conducts settlement negotiations on behalf of the Commission, culminating in “conciliation agreements” with respondents on the assessment of fines.

Based on the results of its investigations, the Office of General Counsel recommends to the Commission whether to find “probable cause to believe” the *FECA* has been violated. The agency must attempt to resolve enforcement matters through conciliation. If conciliation fails, however, the FEC may sue a respondent in Federal district court.

**Figure 12 – Number of Non-Presidential Audits Completed**



**Figure 13 – Number of Presidential Audits Completed**



In addition, two programs under the Office of the Staff Director (Office of Administrative Review (OAR) and Alternative Dispute Resolution) allow the Office of General Counsel to focus its enforcement resources on more substantive cases and improve the timeliness of cases closed. (A substantive finding is a finding based on the merits of the matter and includes findings of “no reason-to-believe” the *FECA* was violated. The Commission can also dispose of a case through dismissal.)

Figures 14 through 25 are derived from the Commission's Enforcement Profile.

### Administrative Fine Program (OAR)

In response to a legislative mandate, an Administrative Fine Program was implemented in July 2000. This program, administered by the Reports Analysis Division and the Office of Administrative Review (OAR), has served to reduce resource requirements associated with addressing failures to timely filing disclosure reports. The program facilitates more expeditious resolution of these relatively straightforward violations and allows the agency to devote more resources to addressing more complex

cases. Since the Program's inception, the FEC has closed over 1,300 cases and assessed more than \$3 million in fines through FY 2006.

### Alternative Dispute Resolution Program (ADR)

The Alternative Dispute Resolution (ADR) Program was implemented in FY 2001 to facilitate settlements outside of the traditional enforcement or litigation processes. The program's primary objective is to enhance the agency's overall effectiveness through more expeditious resolution of enforcement matters with fewer resources required to process complaints and internal referrals. Since inception, the FEC has formally closed 259 cases, with substantive action taken in 73 percent of those cases.

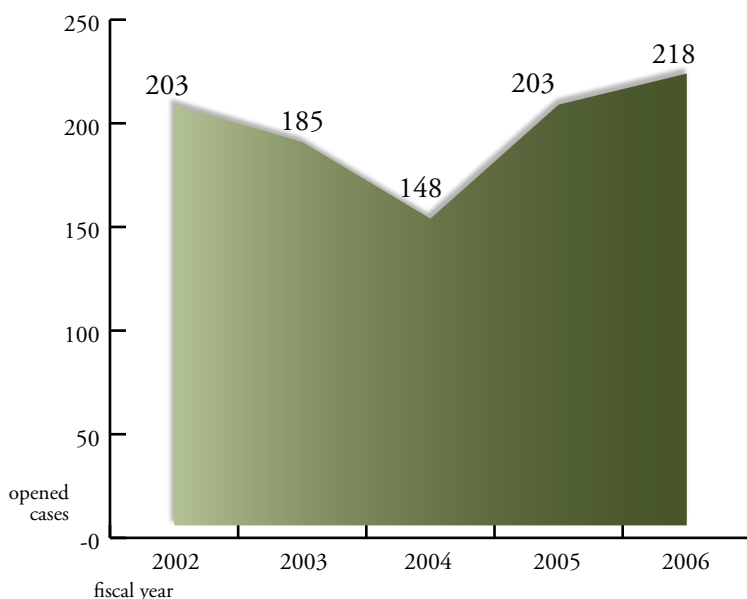
### Enforcement Program

All other enforcement matters are handled pursuant to the procedures set forth in 437g of the *FECA*. Enforcement matters, referred to as Matters Under Review (“MUR”), are initiated through sworn complaints filed by individuals and entities; referrals from other agencies, both Federal and state; self-reports from individuals and entities seeking to cooperate with the Commission; and internal referrals from other offices within the agency. The majority of cases (65% since 1995) are the result of complaints filed by individuals outside of the agency.

Over the past five years, the General Counsel has initiated a number of management and organizational changes to increase the quality and efficiency of the Commission's enforcement work, and has implemented policy initiatives to facilitate the processing of MURs. The result is a fairer and more expeditious process, with meaningful penalties and other remedies proportionate to the violation. Among other reforms, the Commission has published a policy statement on the liability of committee treasurers, eased respondents' access to deposition transcripts, and revised its standard confidentiality admonition to clarify that witnesses may, if they wish, provide factual information to respondents and their counsel.

In terms of efficiency, cases closed on average 36% faster in FY 2006 compared to FY 2003, and the Commission is on pace to resolve by year's end all but a small number of complaints that allege violations pertaining to the 2004 elections that were received

Figure 14 – Number of Cases Opened for Enforcement Action



either before or within a few months after the election. Importantly, the General Counsel has eliminated the practice of dismissing “stale” cases, that is, cases that remained on the docket for lengthy periods without action. From FY 1995 to 2000, the FEC dismissed 21% of its cases as “stale.” FY 2006 was the third year in a row in which the FEC did not dismiss a single case as stale.

During the past five fiscal years, the General Counsel has steered resources to the most significant violations, leading to a steep increase in civil penalties for serious violators. From FY 1995 to FY 2000, OGC negotiated conciliation agreements with respondents providing for civil penalties totaling \$6.82 million. From FY 2001 to FY 2006, to date, OGC negotiated conciliation agreements providing for civil penalties totaling more than \$13.92 million. In FY 2006 alone, OGC obtained civil penalties amounting to more than \$5.5 million; an increase of over \$2 million in civil penalties in comparison to the prior highest fiscal year’s results. This marks the fifth consecutive year with more than \$1 million in civil penalties. The high civil penalties in FY 2006 include the \$3.8 million civil penalty negotiated in one matter, which is not only more than four times greater than any civil penalty obtained in Commission history, it alone is more than the aggregate amount obtained in any previous year.

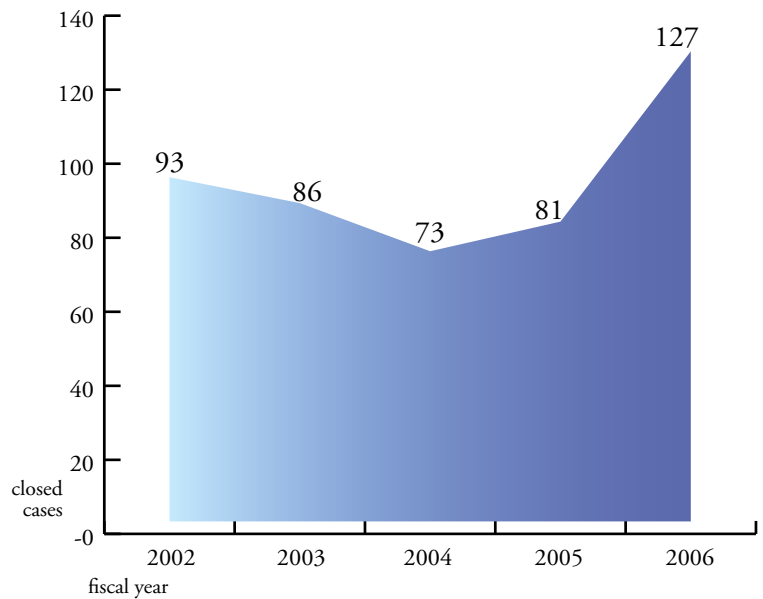
Figure 14 shows how cases opened for enforcement action substantially increased from FY04 to FY06.

Figure 15 shows how cases closed declined and then rose higher in FY06. The efforts by the Office of General Counsel, Administrative Fine Program, and Alternative Dispute Resolution led to increased fines and penalties being levied against committees because the Compliance Responsibility Segment more efficiently deployed its resources.

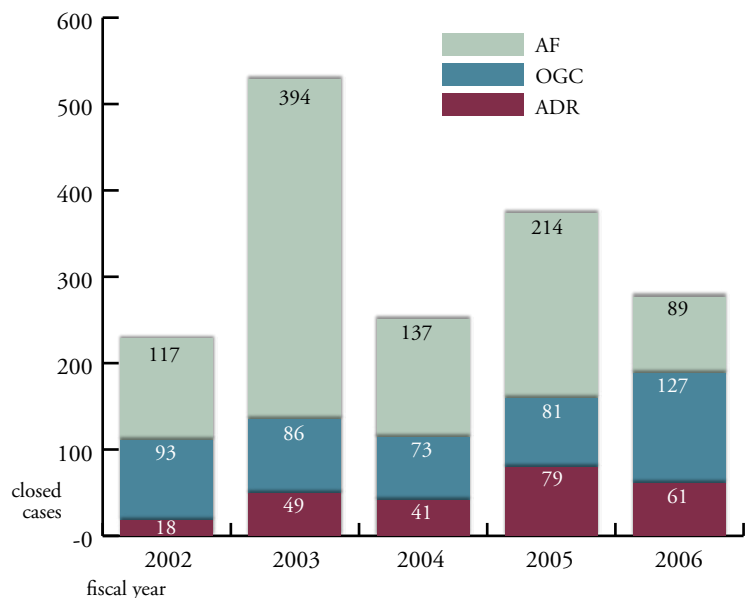
Figure 16 illustrates how the Alternative Dispute Resolution Division and the Office of Administrative Review Division (Administrative Fines) both close cases themselves and enable OGC to devote its energies to closing increased numbers of the most substantive Compliance cases. OGC increased its case closings from 93 in Fiscal Year 2002 to 127 in Fiscal Year 2006, a 37% increase.

Administrative Fine cases for late and non-filers take less time to complete, especially when measured from the date a “reason to believe” determination is made to the final resolution date. The difficulties associated with the

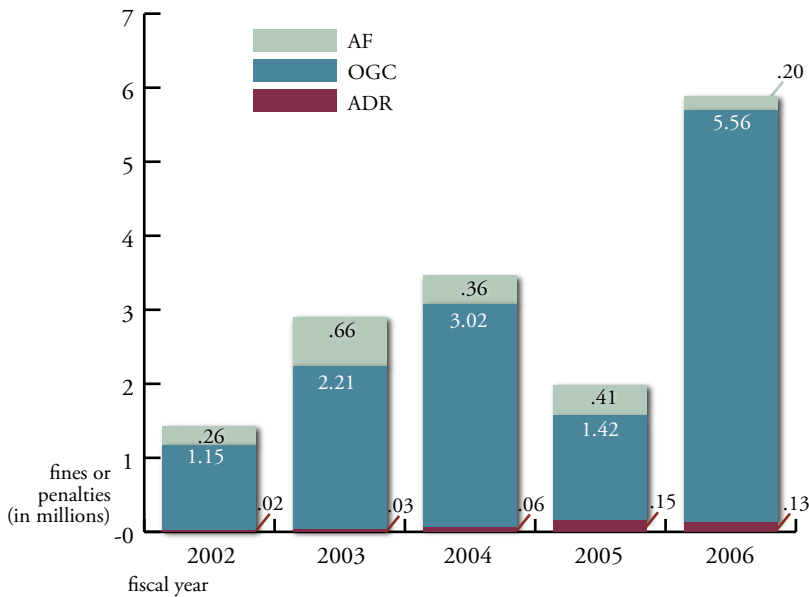
**Figure 15 – Number of Cases Closed – OGC**



**Figure 16 – Number of Cases Closed – AF, OGC and ADR**



**Figure 17 – Amounts of Fines or Penalties – AF, OGC and ADR**



mail processing and delivery post-9/11 had a somewhat adverse impact on processing these cases. There is evidence, however, that the program is improving filing timeliness and compliance, and that the cases are most likely to derive from non-electronically filed reports (also from smaller committees in terms of dollar activity). Alternative Dispute Resolution cases have shown improvement in timeliness for those cases not dismissed and generally take less time to complete than traditional enforcement cases. Figure 16 indicates the deterrent effect AF and ADR exerted on political committees to comply since 2002.

Figure 17 illustrates how the combination of ADR, OAR and OGC quintupled the collected compliance fines from \$1.15 million in 2002 to \$5.56 million in Fiscal Year 2006.

**Figure 18 – FEC Average Number of Days for Cases Dismissed or Closed with Substantive Action**

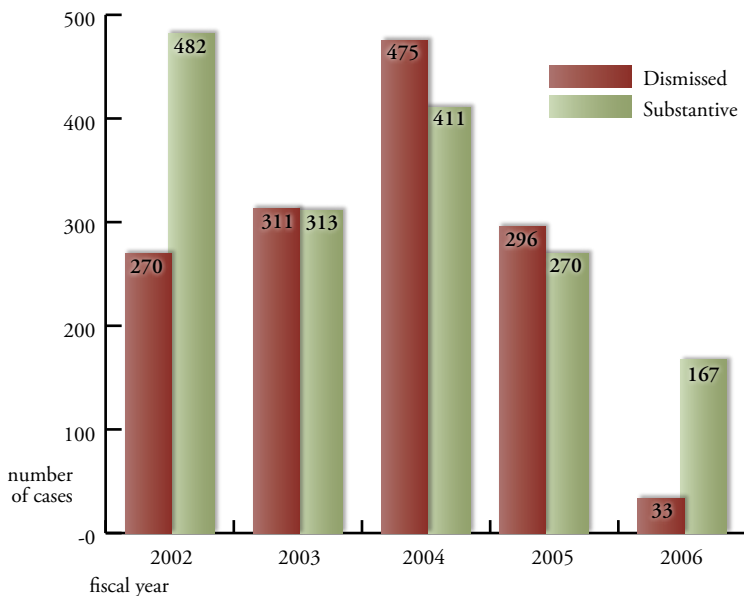


Figure 18 illustrates how OGC keeps steadily lowering the number of days necessary to either dismiss cases or to close cases with substantive action. This productivity derives from better management of OGC personnel, improved IT, and the successful use of AF and ADR. Figure 19 shows how these improvements now allow OGC to close 74% of cases with substantive action.

Figure 19 demonstrates, the percentage of “substantive” closings over the past 11 years. This has climbed to 74%, with only 26% of the matters being dismissed. In the mid-1990s, it was not unusual for the Commission to dismiss over half of its Enforcement caseload with no action. A significant portion of those cases were dismissed as “stale” (e.g., cases that went unassigned for one year or 18 months). However, due to numerous developments in the Enforcement program, dismissals now represent only a small percentage of the overall case closings, and “stale” closings are all but eliminated.

**Figure 19 – FEC Cases Dismissed or Closed with Substantive Action, Fiscal Years 1995 – 2006**

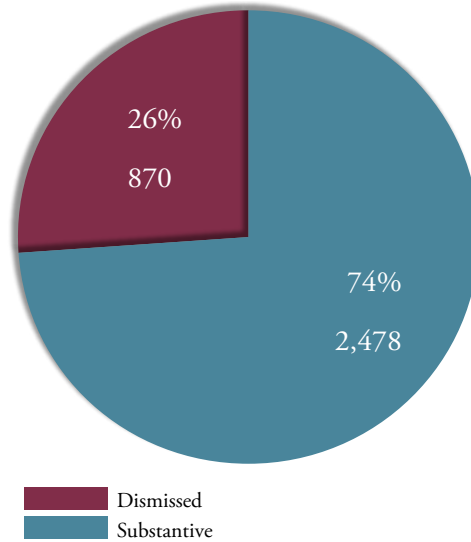
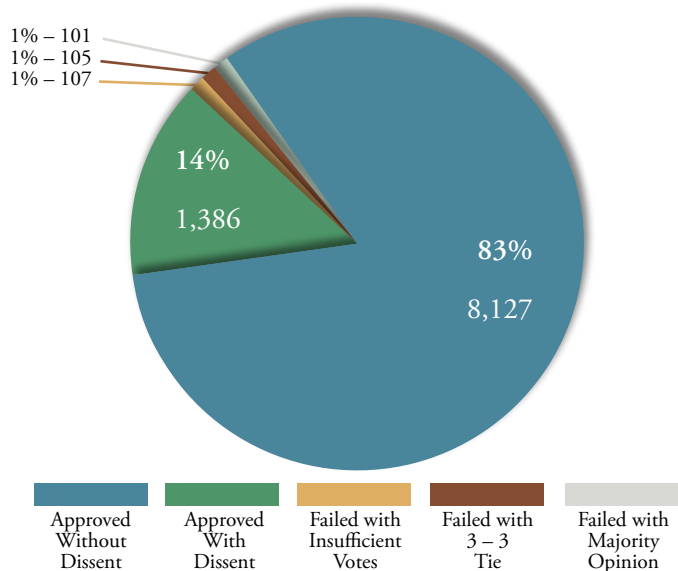
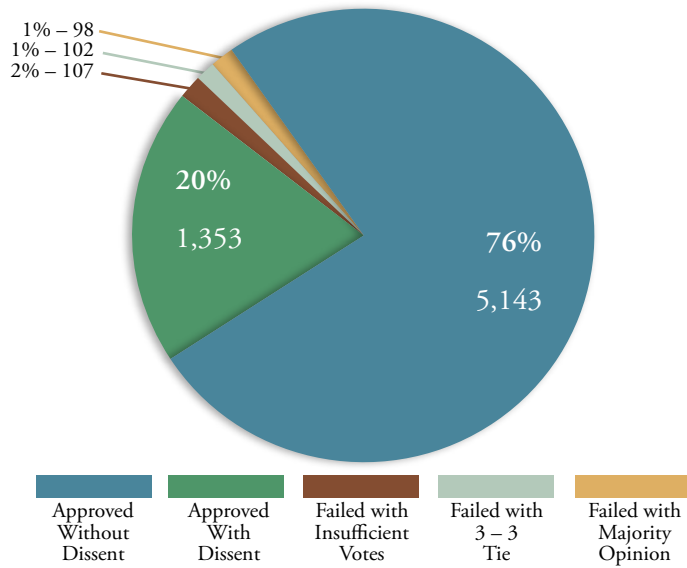


Figure 20 illustrates how the FEC Commissioners unanimously approved action on 83% of all enforcement cases brought before it during FY1995-FY2006.

**Figure 20 – FEC Enforcement Vote Report**

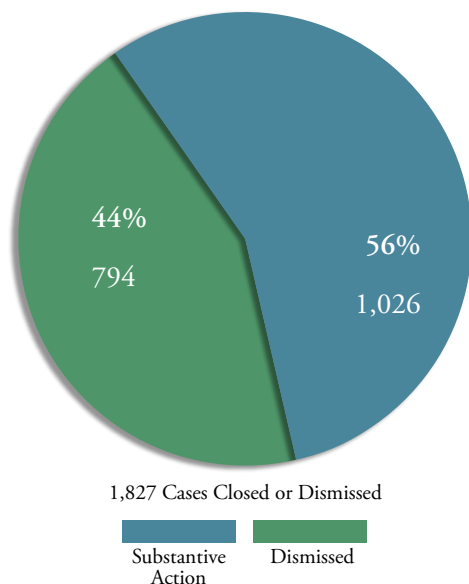


**Figure 21 – OGC Enforcement Vote Report**



Much of the criticism leveled at the Commission is focused on the Commission’s inability to reach consensus on Enforcement matters. However, as Figure 21 illustrates, the Commission unanimously approved over 76% of all Enforcement matters, and approved a total of 96% of all matters with a majority vote of the Commission. Only 1% of all of the matters voted on between 1995 and 2006 resulted in “deadlocks,” or 3-to-3 splits.

**Figure 22 – OGC Cases Dismissed or Closed with Substantive Action, Fiscal Years 1995 – 2006**



Similar to Figure 19, Figure 22 illustrates the positive trend in substantive closings for OGC. Ten years ago, it was not unusual for OGC to dismiss over half of its caseload. Most of these dismissals were for “stale” closures where the Commission failed to activate a matter within one year or 18 months. Due to the implementation of several Enforcement initiatives, dismissals now represent only a small percentage of all closings, and “stale” closures are all but eliminated.

Figure 23 shows how average number of days OGC spends on dismissed cases are declining while average number of days on substantive action cases increased during FY 2002-FY 2006.

**Figure 23 – OGC Average Number of Days for Cases Dismissed or Closed with Substantive Action**

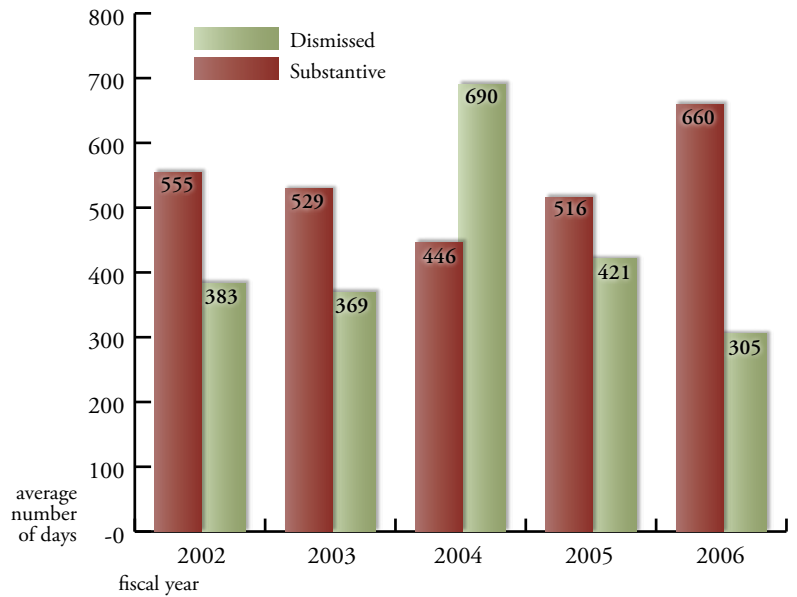
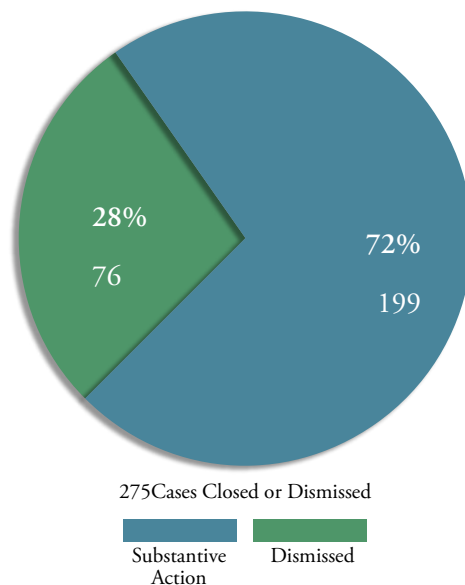


Figure 24 shows how the ADR method helps OGC deal with more substantive cases by closing or dismissing 275 cases during FY 2001-FY 2006.

**Figure 24 – ADR Cases Dismissed or Closed with Substantive Action, Fiscal Years 2001 – 2006**



**Figure 25 – ADR Average Number of Days for Cases Dismissed or Closed with Substantive Action**

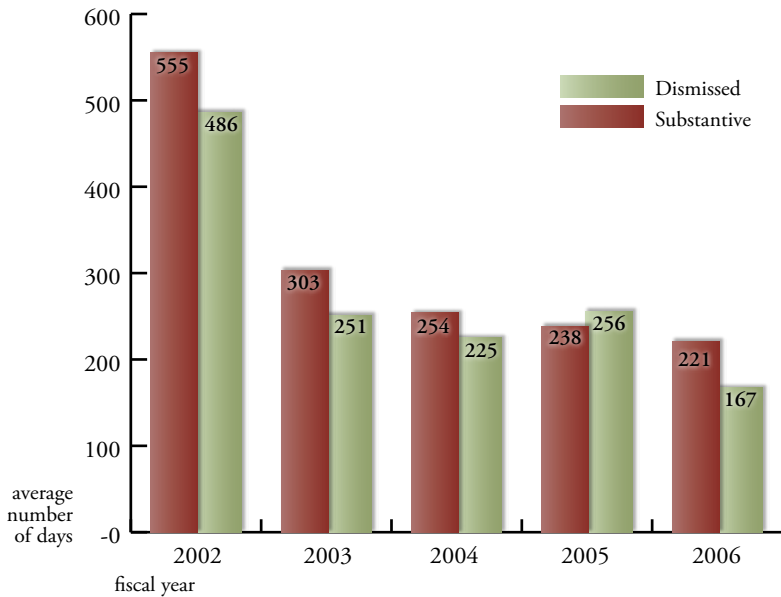


Figure 25 illustrates how the Compliance ADR office has steadily reduced the work days necessary to either close substantive cases or dismiss less serious cases over the last five fiscal years. ADR’s work frees OGC to spend more time on substantive enforcement cases.

### 3. Public Financing

#### Purpose

Limit the influence of personal wealth and special interest groups on the outcome of Presidential elections by offering public funding of campaigns.

#### Objective

Implement the Presidential election public funding provisions of the campaign finance law and successfully administer the public funding provisions for qualified candidates in Presidential elections.

Each primary candidate requesting public funding must prepare candidate letter of agreements and certifications and present a threshold submission verifying the receipt of contributions greater than \$5,000 in each of twenty states to qualify for public funding. The Audit Division and OGC review the letter for completeness immediately upon its receipt;

any discrepancies are discussed with the committee. The committee then makes the requested changes and/or additions. The threshold submissions are reviewed by temporary staff hired for that purpose. Then the submission is reviewed by the Deputy Assistant Staff Director and undergoes a referencing process by a member of the Audit staff. The review of threshold submissions is completed within 15 business days of receipt. To date, all threshold submissions were completed within the 15-day time frame except in cases where the 20-state threshold has not been met and additional time is given to the committee to correct the problem, which may include submitting additional contributors.

To ensure all public funds disbursed in Federal elections are properly certified and accounted, funds for nominating conventions and general election candidates are disbursed only after the proper documentation is received and reviewed. In both cases, a letter similar to the primary candidate letter of agreements and certifications is presented by the committees and is reviewed in the same manner as the primary letter. Primary candidates make monthly submission requests that are reviewed by temporary staff in the same manner as the threshold submission. Submission review must be completed by the end of the month in order to certify payments to the Department of the Treasury for payment on the first business day of the following month. All submission reviews were completed on a timely basis.

One factor that affects the primary payments is a shortfall in the Fund that results in candidates receiving only a portion of the funds to which they are entitled. Although the full amount is certified to the Department of the Treasury, a pro rata payment is made when the balance in the Fund is not sufficient to make the full payment. The agency’s goal is to release all audit reports to the public by December 31 of the year after the election. In some cases, the report is made public by placement on an open session agenda prior to December 31; however, the Commission’s discussion of the report may delay final approval until after December 31.

#### Outcome

The playing field for Presidential elections is leveled by reducing the influence of personal wealth and special interest groups on the outcome by offering public funding of campaigns.



**Performance Measures**

- Establishing the eligibility of candidates for matching funds in a timely manner.
- Ensuring that all Federal funds disbursed in Presidential elections are properly certified to eligible candidates and accounted for.

**Results for FY 2006**

As mentioned in Section 1.B, the FEC Responsibility Segment for Presidential Election Campaign Funds spent \$7,206,355 in Fiscal Year 2006. What did the public get for its money?

Based on statutory criteria, the Commission determines which candidates and committees are eligible for public funds, and in what amounts. The U.S. Treasury then makes the necessary payments. Figure 26 shows the dollar amounts of matching payouts from the Presidential Election Campaign Fund during Fiscal Years 1992–2004. Later, the Commission audits all of the committees that received public funds to ensure that they used the funds properly. Based on the Commission’s findings, committees may be required to make repayments to the U.S. Treasury. (For information about the public financing process, visit the FEC website [www.fec.gov](http://www.fec.gov).)

**Further FY 2006 Performance Results**

IT developments and enhancements assist the FEC in meeting its objectives and goals. The two major on-going initiatives are the IT Enhancements and the Electronic Filing projects. Some of the major accomplishments in FY06 were:

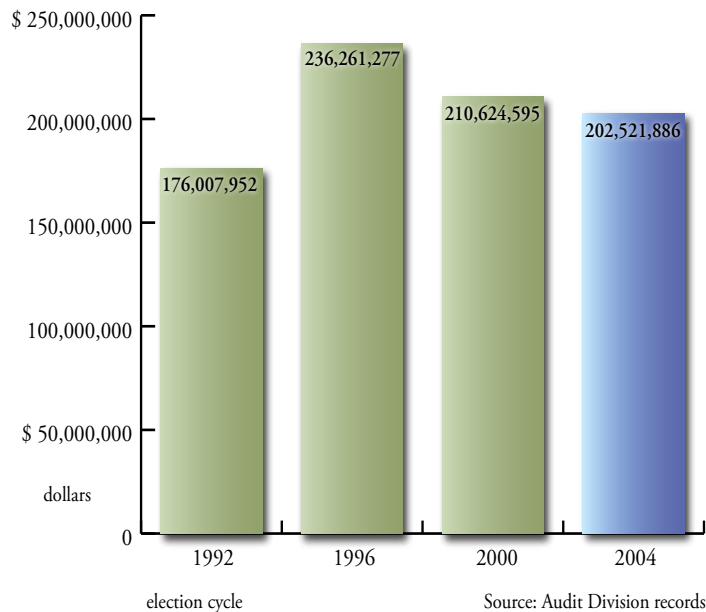
- Implementation of a new data base and reporting tools that allowed the Commissioners to evaluate 1 million records of media market advertising results.
- Enhancement of the Filenet Image and Content Management System hosting 13 million images of electronically filed campaign finance forms. These can be searched by the general public through a web interface that is replicated daily.
- Implementation of new legislative directives to protect private information and agency sensitive data.
- Implementation of Podcasting. This allows the public access to downloadable audio from open sessions.

- Implementation of a one-year Flexi-Place pilot program for bargaining unit employees in certain organization components of the organization.
- Conversion of the paper Explanation and Justification for all FEC regulations and Court Case Abstracts into hypertext files available on the web by the Information Division.

During FY 2006, the Commission continued to provide point of entry for the filing of House disclosure documents; scan all documents and transmit images to the House Office in usable format for that office; work with the Senate Office in making Senate documents available for disclosure; and enhance and upgrade the FEC imaging system and all web-based disclosure applications. The FEC also continued its multi-year enhancement and upgrade of IT systems for all Commission Offices and Divisions; migration to client/server environment; implementation of document management system; and maintenance of its new finance and accounting system. The Commission started a data mining program to take advantage of the enhanced disclosure system and to enhance the automated review process in RAD.

The Commission has begun Disaster COOP planning for its Information Technology operations and will do a comprehensive Risk Analysis when funds are available.

**Figure 26 – Matching Fund Payouts**



## Data Sources and Quality

The FEC has a planning and budgeting system based on a detailed Management Information System (MIS), and is driven by program-based workloads and activity data, outputs, and productivity measures. The FEC has incorporated the A-123 and A-127 processes, under the *Federal Managers' Financial Integrity Act*, to ongoing program management activities, and relates the annual A-123 reports to the FEC budget requests. The evaluation of program resources—mainly staff resources—and the resulting program outputs and productivity measures are used in the internal planning and budget formulation processes. Commission management plans and budget requests are workload-driven and related to resource levels and expected program activity levels. As a personnel-intensive agency, approximately 70 percent of the Commission's resources are staff costs, and the remaining 30 percent represents mainly rent and other direct support for that staff. Several tracking systems monitor the status of reports processing (filing, filming, data coding and entry, and reports review), enforcement and litigation activities, Advisory Opinions and regulatory rule making, and audit progress. The Enforcement Priority System continually adjusts active enforcement case loads to match available resources.

A major, multiyear effort to institute a case management system for OGC to track enforcement cases resulted in the system becoming fully operational in FY 2003. This system monitors case status and tracks staff time by case for all OGC programs, not just enforcement. The implementation of the case management system provides a significant tool for the FEC to monitor resource usage and case progress.

## SECTION III

# Auditor's Report And Financial Statements

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## Message From The Chief Financial Officer

November 15, 2006

I am pleased to present the Federal Election Commission's (FEC's) financial statements for fiscal year (FY) 2006. Our stakeholders can review these financial statements and can see our financial position. This section contains the independent auditor's report, management's response to the auditor's report, principal financial statements and notes and the Inspector General's Management and Performance Challenges. The response to the Inspector General's Challenges is in Section I.D.

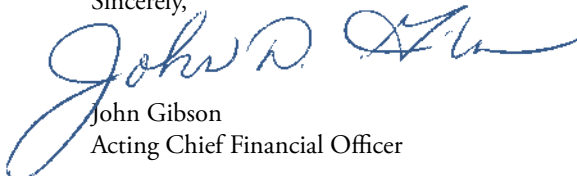
The financial statements have been prepared from the books and records of the FEC in accordance with U. S. generally accepted accounting principles (GAAP) for the Federal Government and Office of Management and Budget Circular A-136, Financial Reporting. The FEC continues to strive for excellence in the financial management. Every dollar is important and the way the FEC manages those dollars makes a difference in how successfully the FEC accomplishes its mission. The qualified opinion on our FY 2006 Statement of Net Cost is derived from the cost allocation system. The remainder of the financial statements are prepared accurately and stated fairly. The auditor opined, however, that the FEC has two material weaknesses (Program Cost Allocation and General Property and Equipment).

During the past year, the FEC made significant progress on many fronts. The FEC eliminated two material weaknesses from last year, 1) Information technology; and 2) Administrative Fines, Civil Penalties and Miscellaneous Receipts. The FEC also eliminated reportable conditions in the area of Financial Reporting and Payroll. The FEC had hoped to correct the cost allocation issue, but unfortunately we were not informed until late that there were issues with our newly implemented system. The FEC also updated its policy and procedure manual for the accounting department.

Looking ahead, the FEC will be taking actions that will provide both short- and long-term benefits. The FEC will continue to strengthen its fiscal management and accountability by enhancing internal controls, complying with financial management laws and regulations, and taking timely corrective actions on the auditor's recommendations concerning material weaknesses and reportable conditions. Specifically, the FEC will work towards eliminating the material weaknesses in property and program cost allocation. The FEC is currently working on its needs requirements to secure one of the government's Line of Businesses for our accounting system in order to enhance our operations.

I am fully committed to the continuing improvement of the Commission's financial management. The goal for the future is to develop a corrective action plan that will eliminate all of the items noted from this year's audit. Given the challenge that I faced with this year, I believe that the efforts to overcome them were great and that I am positive that the future will be better. I want to personally thank those who helped me in putting this report together especially, Brian Duffy, Sam Pierce, Chris Gray and Gena Braveboy.

Sincerely,



John Gibson  
Acting Chief Financial Officer



# Independent Auditor's Report



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 2006 Financial Statements

DATE: November 15, 2006

This letter transmits the final audit report of the Federal Election Commission's (FEC) fiscal year (FY) 2006 financial statements. In accordance with the Accountability of Tax Dollars Act of 2002, the FEC prepared financial statements in accordance with Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements*, revised, and subjected them to audit.

The Chief Financial Officers Act of 1990 (Public Law 101-576, commonly referred to as the "CFO Act"), as amended, requires the FEC Office of Inspector General (OIG), or an independent external auditor as determined by the Inspector General, to audit the agency financial statements. Under a contract monitored by the OIG, Clifton Gunderson LLP (CG-LLP), an independent certified public accounting firm, performed the audit of the FEC's FY 2006 financial statements.

The FEC's continued commitment to sound financial management resulted in improvement in several areas. Specifically, improvements in information technology resulted in the removal of the area as a material weakness; this area is a reportable condition. Further, financial reporting and payroll have been removed from the list of reportable conditions in FY 2006. In addition, the FEC implemented a new cost allocation process in fiscal year 2006. The Inspector General believes the new system will yield further improvements in internal controls and reporting of FEC program costs in fiscal year 2007 and beyond.

Audit Process

CG-LLP conducted the audit 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 OMB Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*, as amended. The results of the financial statement audit are detailed in three reports: opinion on the financial statements; report on internal control; and report on compliance with laws and regulations.

Opinion on the Financial Statements

The audit included an examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements. The audit also included assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall principal statements' presentation.

CG-LLP audited the balance sheets of the Federal Election Commission as of September 30, 2006 (FY 2006) and 2005 (FY 2005), and the related statements of net cost, changes in net position, budgetary resources, financing, and custodial activity for the years then ended.

In FY 2006 and 2005, CG-LLP was not able to obtain sufficient competent audit evidence to support the allocation of program costs reported on the statements of net cost. As a result, CG-LLP was not able to apply auditing procedures necessary to conduct the audit in accordance with the standards and the OMB guidance mentioned above. Therefore, CG-LLP issued a qualified opinion on the statements of net cost.

Except for the effects of such adjustments, if any, to the FY 2006 and FY 2005 statements of net cost referred to in the preceding paragraph, as might have been necessary had CG-LLP been able to obtain sufficient competent audit evidence and perform adequate audit procedures on the allocation of the program costs, the CG-LLP opined the financial statements present fairly, in all material respects, the financial position of the FEC as of September 30, 2006 and 2005, and its net cost, changes in net position, budgetary resources, reconciliation of net cost to budgetary obligations, financing and custodial activity for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Internal Control

CG-LLP's planning and performance of the audit included consideration of the FEC's internal control over financial reporting. The CG-LLP auditors obtained an understanding of the FEC's internal control; determined whether internal controls had been placed in operation; assessed control risk; and performed tests of controls in order to determine auditing procedures for the purpose of expressing an opinion on the financial statements. The auditors limited their internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 06-03 and consequently CG-LLP did not provide an opinion on internal control.

Internal control as it relates to the financial statements, is a process, affected by agency's management and other personnel, designed to provide reasonable assurance of the following: (1) transactions are properly recorded, processed, and summarized to permit preparation of the financial statements and assets are safeguarded against loss from unauthorized acquisition, use or disposition; (2) transactions are executed in accordance with laws governing the use of budget authority and other laws and regulations that could have a direct and material effect on the financial statements and other laws and regulations identified by OMB; and (3) transactions and other data that support reported performance measures are properly recorded, processed, and summarized to permit the preparation of performance information in accordance with criteria stated by management.

In performing the testing of internal control necessary to achieve the objectives in OMB Bulletin No. 06-03, the auditors identified matters relating to significant deficiencies in the design or operation of FEC's internal control. The testing of internal control identified both reportable conditions and material weaknesses. The American Institute of Certified Public Accountants (AICPA) categorizes reportable conditions as matters coming to the auditor's attention relating to significant deficiencies in the design or operation of the internal control that, in the auditor's judgment, could adversely affect the agency's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

CG-LLP identified material weaknesses in the areas of:

- Program Cost Allocation
- **General Property and Equipment (Property)**

CG-LLP identified reportable conditions, not considered to be material weaknesses, which include the following:

- Information Technology (IT)
- Integrated Financial Management System
- **Administrative Fines, Civil Penalties and Miscellaneous Receipts**
- Controls Over Procurement and Disbursement Transactions
- Audit Follow-up

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, CG-LLP performed tests of compliance with certain provisions of laws and regulations, non-compliance with which could have a direct and material effect on the determination of financial statement amounts, and certain laws and regulations specified in OMB Bulletin No. 06-03, such as the Anti-Deficiency Act and the Prompt Payment Act.

The results of CG-LLP's tests of compliance with laws and regulations described in the audit report disclosed no instances of noncompliance with the laws and regulations that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 06-03.

Audit Follow-up

The report on internal control contains numerous recommendations to address weaknesses found by the auditors. Management was provided a draft copy of the audit report for comment and CG-LLP reviewed management's comments. Although CG-LLP stands by the report and the weaknesses detailed, the OIG and CG-LLP intend to work with management through the follow-up and audit process to ensure the weaknesses are addressed satisfactorily. In accordance with OMB Circular No. A-50, *Audit Followup*, revised, the FEC's corrective action plan is to set forth the specific action planned to implement the recommendations and the schedule for implementation. The Commission has designated the Chief Financial Officer to be the audit follow-up official for the annual financial statement audit.

OIG Evaluation of Clifton Gunderson LLP's Audit Performance

In connection with the OIG's contract with CG-LLP, the OIG reviewed CG-LLP's reports and related documentation and inquired of its representatives. Specifically, we performed the following: (1) reviewed CG-LLP's approach and planning of the audit; (2) evaluated the qualifications and independence of the auditors; (3) monitored the work of the auditors throughout the audit; (4) examined audit documents and audit reports to ensure compliance with *Government Auditing Standards* and OMB Bulletin No. 06-03; and (5) performed other procedures we deemed necessary.

The OIG's review of CG-LLP's work, as differentiated from an audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States, was not intended to enable the OIG to express an opinion on the FEC's financial statements; provide conclusions about the effectiveness of internal control; or reach conclusions on whether FEC's management substantially complied with laws and regulations related to the audit. CG-LLP is responsible for the opinion and conclusions reached in the attached reports dated November 15, 2006. The OIG review disclosed no instances where CG-LLP did not comply, in all material respects, with *Government Auditing Standards*.



If you should have any questions, please contact my office on (202) 694-1015. We appreciate the courtesies and cooperation extended to Clifton Gunderson LLP and the OIG staff during the conduct of the audit.



Lynne A. McFarland  
Inspector General

Attachments

Cc: Staff Director  
General Counsel  
Acting Chief Financial Officer and Deputy Staff Director for Management  
Information Technology Director  
Accounting Officer



### Independent Auditor's Report

To the Inspector General of the  
Federal Election Commission

We have audited the balance sheets of the Federal Election Commission (the FEC) as of September 30, 2006 (FY 2006) and 2005 (FY 2005), and the related statements of net cost, changes in net position, budgetary resources, financing, and custodial activity for the years then ended (hereinafter collectively referred to as the "financial statements"). These financial statements are the responsibility of the FEC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as explained in the following paragraph, we conducted our audit 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 Office of Management and Budget (OMB) Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements' presentation. We believe our audits provide a reasonable basis for our opinion.

In FY 2006 and 2005, we were not able to obtain sufficient competent audit evidence to support the allocation of program costs reported on the statements of net cost. As a result, we were not able to apply auditing procedures necessary to conduct the audit in accordance with the standards and the OMB guidance mentioned above.

In our opinion, except for the effects of such adjustments, if any, to the FY 2006 and FY 2005 statements of net cost referred to in the preceding paragraph, as might have been necessary had we been able to obtain sufficient competent audit evidence and perform adequate audit procedures on the allocation of the program costs, the financial statements present fairly, in all material respects, the financial position of the FEC as of September 30, 2006 and 2005, and its net cost, changes in net position, budgetary resources, reconciliation of net cost to budgetary

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1 of 30

Offices in 15 states and Washington, DC



obligations, financing and custodial activity for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 7, 2006 on our consideration of the FEC's internal control over financial reporting, and on our tests of the FEC's compliance with certain provisions of laws and regulations and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of our audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management Discussion and Analysis, required supplementary stewardship information, supplementary information, and other accompanying information containing a wide range of data, some of which is not directly related to the financial statements. We do not express an opinion on this information. However, we compared this information for consistency with the financial statements and discussed the methods of measurement and presentation with the FEC officials. Based on this limited work, we found no material inconsistencies with the financial statements or nonconformance with OMB guidance.

*Clifton Gunderson LLP*

Calverton, Maryland  
November 7, 2006



**Independent Auditor's Report on Compliance and Other Matters**

To the Inspector General of the  
Federal Election Commission

We have audited the financial statements of the Federal Election Commission (FEC) as of and for the year ended September 30, 2006, and have issued our report thereon dated November 7, 2006. In our report, our opinion was qualified for the effects of adjustments, if any, as might have been necessary had we been able to obtain sufficient competent audit evidence and perform adequate audit procedures on the allocation of the program costs in the statement of net cost. Except as described above, we conducted our audit 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 Office of Management and Budget (OMB) Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*.

The management of FEC is responsible for complying with laws and regulations applicable to FEC. As part of obtaining reasonable assurance about whether FEC's financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with 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. 06-03. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to FEC.

The results of our tests of compliance disclosed no instances of noncompliance with the laws and regulations discussed in the preceding paragraph or other matters that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 06-03.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit, and accordingly, we do not express such an opinion.

We noted certain immaterial instances of noncompliance that we have reported to management of FEC in a separate letter dated November 7, 2006.

This report is intended solely for the information and use of the management of FEC, FEC Office of Inspector General, Government Accountability Office, OMB and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

*Clifton Gunderson LLP*

Calverton, Maryland  
November 7, 2006

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### Independent Auditor's Report on Internal Control

To the Inspector General of the  
Federal Election Commission

We have audited the financial statements of the Federal Election Commission (the FEC) as of and for the year ended September 30, 2006, and have issued our report dated November 7, 2006. In our report, our opinion was qualified for the effects of adjustments, if any, as might have been necessary had we been able to obtain sufficient competent audit evidence and perform adequate audit procedures on the allocation of the program costs in the statement of net cost. Except as described above, we conducted our audit 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 Office of Management and Budget (OMB) Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*.

In planning and performing our audit, we considered the FEC's internal control over financial reporting by obtaining an understanding of the FEC's internal control; determining whether internal controls had been placed in operation; assessing control risk; and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 06-03. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act (FMFIA) (31 U.S.C. 3512), such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the agency's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be

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Page 4 of 30

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material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected. However, we noted certain matters discussed in the following paragraphs involving the internal control and its operation that we consider to be material weaknesses and reportable conditions.

Finally, with respect to internal control related to performance measures reported in the FEC's Performance and Accountability Report as of September 30, 2006, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin No. 06-03. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

\*\*\*\*\*

## **MATERIAL WEAKNESSES**

### **I. Program Cost Allocation (Modified Repeat Finding)**

The FEC has made significant progress in the area of cost accounting. In the last half of FY 2006, the FEC implemented a new cost accounting system called the Time Reporting System (TRS). The TRS automates and standardizes the cost accumulation and the allocation of program costs. Training on the new cost system was conducted, and a memorandum from the Chief Financial Officer was issued to ensure that employees understand and know the importance of and how to use the new system. Also, towards the end of the fiscal year, the FEC has identified its responsibility segments and the need for re-alignment of its organizational structure for performance costing, has identified the outputs of its responsibility segments and is in the process of revising its cost accounting policies and procedures.

The FEC program costs are driven by hours charged by each employee to activity codes that roll up to the specific FEC programs. The results of our tests disclosed that completeness, timeliness and discrepancies between the source data and the system data are the key deficiencies identified in the new cost system. As a result, we were not able to obtain reasonable assurance on the costs reported for each program on the statement of net cost. We understand that the FEC is still in the process of fine tuning its processes and controls to ensure that data input into the system are complete, timely, and are supported by an audit trail that agrees with the source data coming from the employees.

Other system deficiencies and exceptions noted, which may or may not have been corrected during the audit process are as follows:

- The new cost system password settings do not follow the FEC's password standards. The account lockout threshold is set at seven invalid attempts instead of five invalid attempts.

- The FEC does not have a formal process for ensuring that hours are entered in the system timely and correctly, that is, to the correct activity codes that will correspond to the correct program codes. Further, a review process is not implemented Commission-wide.
- The cost allocation percentages used in preparing the initial statement of net costs were incorrect because the FEC did not follow the reallocation process outlined in the system conceptual design document. Specifically, hours which should have been reallocated to the division only were reallocated Commission-wide.
- The system default allocation for the Information Division improperly allocated hours to the Compliance program when the hours should have been allocated to the Public Financing program.

***Recommendations:***

1. Revise the account lockout threshold in TRS to five invalid attempts.
2. Establish written policies and procedures to ensure that employees enter their time in the cost system timely and properly and the results are supported by source data which is reviewed and approved by management.
3. Ensure correct and consistent application of the cost allocation process in accordance with the cost system user manual and conceptual design document.
4. Ensure errors in TRS causing the system to allocate hours for the Information Division to the wrong program are resolved.

***Management Response***

*Overall, the FEC agrees with this finding. Management will change the lockout threshold in TRS to five invalid attempts (#1 above). The FEC will also strengthen written policies and procedures, including management approval to ensure data is entered correctly in TRS (#2). Guidance will also be issued to ensure operators understand the sequence of steps necessary to perform the allocations correctly (#3). Further, the FEC will consider building controls into the software to prevent errors in performing the steps. If cost effective, the FEC will implement the changes in FY 2007. The errors in TRS related to the allocation of errors for the Information Division were corrected prior to the conclusion of the audit (#4).*

*The audit finding acknowledges considerable progress in the area of cost accounting in FY 2006. However, the FEC is disappointed that CG did not raise issues with the source data until late in the audit. If the issues had been raised earlier, steps would have been taken to correct the data.*

### **Auditor's Response**

The FEC delayed full implementation of the new cost allocation process until the fourth quarter of 2006. As a result, the auditors and management came to an understanding that the substantive testing would be performed at year end, when the program costs are reported on the statement of net cost using the new cost system, rather than testing at interim (ending June 2006). The auditors believe concerns regarding the cost allocation process were promptly communicated to management once weaknesses were discovered.

## **II. General Property and Equipment (Property) (Modified Repeat Finding)**

As noted in the prior year, the FEC's accounting for property involves a time-consuming effort that increases the risk of errors due to the FEC's process of expensing its property at the time of acquisition and preparing a journal voucher to reclassify the expense to an asset account for reporting purposes.

Our audit disclosed deficiencies, errors or omissions that question the effectiveness of the FEC's internal control on property. The weaknesses identified below collectively resulted in a material weakness in the FEC's general property and equipment.

- Management's periodic property reconciliation process and review of related subsidiary schedules and journal vouchers did not uncover errors during the year. These errors were uncovered during the audit process. Specifically, the errors included duplicate entries to record first quarter additions to leasehold improvements and adjustments needed to accrue costs.
- Additionally, journal entries to transfer property amounts from the expense to asset accounts were posted to the wrong United States Standard General Ledger (USSGL) account. The posting errors were detected during the interim testing phase of the audit process. The posting errors continued into the fourth quarter of the fiscal year (FY) and were again detected as part of the audit process. Journal entries to correct the aforementioned errors were posted to the general ledger more than once or were done incorrectly.
- Although the number of the FEC's capitalized assets reported in the financial statements is not many, most of these assets are bulk purchases comprised of many individual items which are individually entered into the property system for accountability purposes. The information contained in the property system is not always complete. We found that some items in the property system did not have the bar code identification, serial number and location of the asset.
- Although we were informed a physical inventory of capitalized assets had been performed, the FEC did not provide: the instructions used to complete the annual inventory of assets; complete results; and reconciliation of the physical inventory to the property system and the general ledger balance.
- The FEC has not established a standard process, mechanism or policy to ensure that program offices notify the Finance Office of the acquisition or disposition of property assets to ensure that the accounting impact of the transaction is recorded timely and properly.



- Management's monthly analysis of financial activities did not show an analysis of property.

***Recommendations:***

5. Improve analytical and quality control review of subsidiary schedules, journal vouchers and property reconciliation to ensure material errors and differences are identified and resolved timely.
6. Use correct USSGL accounts.
7. Develop a mechanism for reconciling individual property items in the property system to the bulk purchases recorded in the general ledger to ensure completeness of the property system records. Also, ensure that the property management system has complete information, such as bar code identification, serial number and location of the asset.
8. Clearly document physical inventory procedures, results of the physical inventory, and the reconciliation performed. Maintain the documentation for audit trail and management review purposes.
9. Establish a standard process, mechanism or policy to ensure program offices notify the Finance Office of the acquisition and disposition of property assets.
10. Perform a monthly analysis of property as part of the monthly analysis of financial activities.

***Management Response***

*The FEC agrees with findings and recommendations but not its classification as a Material Weakness. In FY 2007, the FEC will make an effort to review spreadsheets (#1 above) and journals (#2) more thoroughly to catch errors. The FEC will update its internal directive on property for the custodians to prescribe forms to assist with the reconciling of detailed records to the property system (#3), taking of physical inventory (#4) and the acquisition and disposal of assets (#5). Also, management will consider adding property reports to the monthly analysis prepared by the Accounting Officer (#6).*

***Auditor's Response***

We have carefully reviewed the FEC management response, however we have not changed our conclusion that the general property and equipment weaknesses evaluated collectively is a material weakness.

## REPORTABLE CONDITIONS

### III. Information Technology (IT)

#### A. Entity-Wide Security Program

The Government Accountability Office (GAO) reported in July 2005 that the underlying cause for information security weaknesses is that agencies have not yet fully implemented entity-wide information security programs. An entity-wide security program provides a framework and continuing cycle of activity for managing risk, developing security policies, assigning responsibilities, and monitoring the adequacy of the entity's computer-related controls. Without a well-designed program, security controls may be inadequate; responsibilities may be unclear, misunderstood, and improperly implemented; and controls may be inconsistently applied. Such conditions may lead to insufficient protection of sensitive or critical resources and disproportionately high expenditures for controls over low-risk resources. (U.S. Government Accountability Office, *Weaknesses Persist at Federal Agencies Despite Progress Made in Implementing Related Statutory Requirements*, GAO-05-552 [Washington, D.C. July 2005]).

Improvement is needed in the FEC's enterprise-wide security management program as indicated in the prior year audit. During our FY 2006 review of the FEC's existing security program, we noted that the FEC made the following progress:

- The FEC's management solicited bids for risk assessments. The risk assessment and business impact analysis are key components in the development of security plans and disaster recovery plans. In FY 2006, the FEC's management determined that it did not have the funds available to conduct risk assessments or a business impact analysis. The FEC's management is currently allocating funds in its FY 2007 budget to complete these tasks.
- The FEC's management revised its Security Review Policy. The revised policy calls on management to perform annual external penetration tests, disaster recovery tests, incidence response tests, network vulnerability studies and a review of access control procedures. Additionally, the FEC performed a review of its firewall rule-set to identify and modify/delete obsolete rules.

Our review of the FEC's existing security program revealed continuing weaknesses in controls that expose the FEC's significant financial management systems and data to unauthorized access and/or modification. Weaknesses included the following:

- The FEC has not completed the documentation, approval and implementation of its entity-wide security program plan. **(Repeat Finding)**
- The FEC has not fully implemented its framework of policies and standards to mitigate risks associated with the management of its information resources. Although the FEC has implemented the majority of its information security policies, it has not fully implemented all of the related policies and standards.

The FEC has not finalized and implemented an information classification policy or its certification and accreditation policy. Management is currently not ready to implement these policies and is in the process of reviewing and revising them.

**(Repeat Finding)**

- Risk assessments, as part of the FEC's overall strategy to mitigate risks associated with its information technology environment, have not been conducted for more than three years. Therefore, resource classifications in the FEC's completed security plans are not based on risk assessments. The FEC informed us that it is currently waiting for the availability of funds to complete a risk assessment. **(Repeat Finding)**
- The FEC has created security plans for all of its major applications and mission critical general support systems. However, the security plans are not viable because they are not based on an assessment of the risks to the FEC's systems. Accordingly, these major applications and mission critical general support systems have not been certified and accredited to ensure that they are operating according to the FEC's security requirements. **(Modified Repeat Finding)**
- There are weaknesses in the FEC's program for the continuous monitoring and evaluation of the computer security policy and control effectiveness. The FEC has implemented its security review policy and performed all of the review steps outlined in the policy. However, a key part of a continuous monitoring program is a process for documenting and monitoring the status of corrective actions. Although the FEC has a corrective action plan for the CFO audit, the corrective action plan is not being applied to all reviews of security controls. **(Modified Repeat Finding)**
- The FEC needs to strengthen its process of documenting corrective actions. A corrective action plan should identify the task to be completed in addition to identifying the resources required to accomplish the elements of the plan, any milestones in meeting the tasks, and scheduled completion dates for the milestones. The FEC's corrective action plans identify the issue that needs to be addressed, but does not always include the persons assigned to the task, estimated completion dates, and steps or milestones necessary to complete the task. **(Modified Repeat Finding)**

***Recommendations:***

11. Complete the documentation, approval and implementation of an entity-wide security program plan.

***Management Response***

*In November 1997, the FEC established Directive 58, outlining the Commission policy on the control of commission software, and the use of agency computers. This directive formed the basis of the agency's computer security program. This directive has been enhanced and expanded incorporating the latest guidance and best practices provided by NIST in detail, and issued in policy 58A. The updating of Directive 58 was initiated in December 2001 with the establishment of an agency*

*Information Systems Security Officer. This was followed with the establishment of an interim Information System Security Program Policy 58A dated April 2004. This interim policy became final in September 2004 as approved by the agency's Chief Information Officer (CIO). The implementation of the FEC entity wide security program plan occurred on October 2004, when the FEC issued a memo informing all employees/contractors that "Information System Security Program Policy" Policy Number: 58A was approved and should be adhered to by all employees/contractors.*

12. Finalize and implement the FEC's information classification policy and certification and accreditation policy along with any accompanying standards.

**Management Response**

*The FEC reserves the right to review, rescind, and modify any existing and/or proposed policy within its IT security program policy. The Information Classification and Certification and Accreditation policies were rescinded from the implementation process to study their suitability and feasibility within the FEC information technology environment. In addition, both policies are heavily dependent upon the completion of a third party risk assessment prior to implementation. In absence of these assessments a management decision was made to rescind these policies until such time as to their successful implementation can be reasonably assured.*

13. Perform risk assessments, as part of the FEC's overall strategy to mitigate risks associated with its information technology environment.

**Management Response**

*As a vital component of the Information Systems Security Program Policy (ISSPP) 58A, the FEC has developed and approved sub-policy 58-2.1: Risk Management policy. This policy establishes a framework of procedures and standards to mitigate risks associated with the management of information resources. 58-2.1 Risk Management Policy states that external risk assessments should be performed within the recommended 3 year period; however, current budgetary restraints have prevented this.*

*The FEC management has completed the Statement of Work (SOW) and the FEC management has received proposals from three vendors and is currently reviewing the proposals. In addition, the FEC has allocated funds in fiscal 2007 (pending no further budgetary constraints) to partially accomplish this goal. Until greater resources are allocated toward this project, the FEC shall continue to conduct its own internal reviews such as those specified in its Security Review Policy.*

14. Incorporate the results of the risk assessments into the FEC's security plans.
15. Classify information resources in accordance with the risk assessments.

***Management Response***

*The FEC has created security plans, which document the security safeguards for its major applications and general support system. As stated in previous responses the FEC was unable to conduct third-party risk assessments due to budgetary restraints, however in the absence of such assessments the Commission has leveraged the considerable knowledge, skills, and experience of the Information Technology Division senior management to create security plans based upon appropriate levels of risk*

16. Utilize corrective action plans for all reviews of security controls whether performed internally or by a third-party.
17. Ensure that corrective action plans identify the task to be completed in addition to identifying the resources required to accomplish the elements of the plan, any milestones in meeting the tasks, and scheduled completion dates for the milestones.

***Management Response***

*The FEC has instituted a comprehensive process for the continuous monitoring and evaluation of the computer security policy and control effectiveness that it believes is sufficient for an effective review and appraisal of its policy and procedures. However, in an effort to enhance the financial auditors understanding of the FEC Information Technology Division's internal work processes, the FEC will review and consider a revised format.*

18. Certify and accredit all major applications and mission critical general support systems.

***Management Response***

*Same response as in recommendations 14 and 15.*

**B. Contingency Plan**

Losing the capability to process and protect information maintained on the FEC's computer systems can significantly impact the FEC's ability to accomplish its mission to serve the public. The purpose of service continuity controls is to ensure that, when unexpected events occur, critical operations continue without interruption or critical operations are promptly resumed.

To achieve this objective, the FEC should have procedures in place to protect information resources and minimize the risk of unplanned interruptions and a plan to recover critical operations should interruptions occur. These plans should consider activities performed at the FEC's general support facilities (e.g. the FEC's local area

network, wide area network, and telecommunications facilities), as well as the activities performed by users of specific applications. To determine whether the disaster recovery plans will work as intended, the FEC should establish and periodically test the capability to perform its functions in disaster simulation exercises.

Our review of the service continuity controls identified deficiencies that could affect the FEC's ability to respond to a disruption in business operations as a result of a disaster or other long-term emergency. The deficiencies were as follows:

- The FEC has not performed a Business Impact Analysis (BIA) to formally identify and prioritize all critical data and operations on its networks and the resources needed to recover them if there is a major interruption or disaster. In addition, we could not determine whether the FEC had established emergency processing priorities that will help manage disaster situations more effectively for the network. The FEC also has not included business owners in the discussion to determine how much backup data is needed on-hand to minimize the impact of a disaster. The FEC is currently waiting for the budgetary funds to complete a BIA. **(Repeat Finding)**
- The FEC has not established an alternate processing site for its operations in the event of a disaster, including its general ledger system. Additionally, the FEC's disclosure database is replicated at an off-site location as a web-enabled read-only database the public can access. In the event that data cannot be updated at the FEC and then replicated to the off-site location, there is no operational mechanism to update the disclosure database at the off-site location. The FEC has developed a cost analysis of establishing an alternate site and is currently pursuing interagency agreements to address this issue. **(Repeat Finding)**
- The FEC has not developed and documented a comprehensive contingency plan of its data centers, networks and telecommunication facilities. The plan does not include steps for recovering all of the FEC's major applications and mission critical general support systems. Additionally, the comprehensive contingency plan does not prioritize resources or set a timeframe for recovery. However, the FEC has updated the disaster recovery plan to include both a power failure scenario and a data center air-condition failure scenario. **(Repeat Finding)**
- The FEC has not developed a Continuity of Operations Plan (COOP) to support the continuation of its core mission in the event of a disaster that renders the FEC's facilities unusable. **(Repeat Finding)**

***Recommendations:***

19. Perform a BIA to formally identify and prioritize all critical data and operations on the FEC's networks and the resources needed to recover them if there is a major interruption or disaster.

**Management Response**

*The FEC agrees that a formal business impact analysis would be useful and it is currently awaiting funds to complete the project. In lieu of a formal BIA the FEC has leveraged its own internal expertise to identify and prioritize its critical data and operations on the FEC's networks and the resources needed to recover them if there is a major interruption or disaster.*

20. Ensure that emergency processing priorities are established to assist in managing disaster situations more effectively for the network and include business owners in the discussion to determine how much backup data is needed on-hand to minimize the impact of a disaster.

**Management Response**

*The FEC has developed emergency processing priorities. These emergency process priorities have been outlined in the FEC's Disaster Recovery Plan.*

21. Establish an alternative processing site for the FEC's operations in the event of a disaster and ensure that an operational mechanism exists to update the disclosure database in the event that the FEC's database is unavailable to replicate the disclosure database resident at the off-site location.

**Management Response**

*The FEC believes that the cost to establish an alternative processing site would be cost prohibitive and would not be cost effective. Therefore, an alternative processing site is not part of the FEC budget request.*

22. Develop and document a comprehensive COOP of the FEC's data centers, networks, and telecommunication facilities.
23. Develop a COOP to support the continuation of the FEC's core mission in the event of a disaster that renders the FEC's facilities unusable.

**Management Response**

*The FEC agrees that a Continuity of Operations Plan would be useful and it is currently awaiting funds to complete the project.*

**C. Controls to Protect Information**

For a computerized organization like the FEC, achieving an adequate level of information protection is highly dependent upon maintaining consistently effective access controls and system software controls. Access controls limit and monitor access to computer resources (i.e., data files, application programs, and computer-related facilities and equipment) to the extent necessary to provide reasonable

assurance that these resources are protected against waste, loss, unauthorized modification, disclosure, or misappropriation. Access controls include logical controls, such as security software programs designed to prevent or detect unauthorized access to sensitive files. Similarly, system software controls limit and monitor access to powerful programs and sensitive files that control computer processing and secure the application and data supported by the system.

Our limited testing of internal controls identified weaknesses related to the information protection in the FEC's information systems environment. Impacted areas included the local area and wide area networks as well as its midrange computer systems (e.g. servers). These vulnerabilities expose the FEC and its computer systems to risks of external and internal intrusion, and subject sensitive information related to its major applications to potential unauthorized access, modification, and/or disclosure.

Current weaknesses in access controls include the following:

- The FEC is not actively monitoring the use of budgetary overrides in the general ledger (GL) application. The FEC is currently finalizing a process where the chief financial officer will review the use of overrides on a monthly basis and initial the override log to show that overrides have been reviewed. **(Repeat Finding)**
- The PeopleSoft application does not have the built in functionality to enforce the FEC's password policy. Additionally, the mitigating controls implemented by the FEC do not address the following weaknesses: **(Modified Repeat Finding)**
  - PeopleSoft does not have an account lockout policy.
  - PeopleSoft does not prevent users from using previous passwords.
  - PeopleSoft does not have the ability to enforce strong password requirements.
- Oracle audit trails were not maintained on the FEC's servers. The FEC maintains audit trails at the application level, but not the database level because of the potential impact to production. However, we have not been provided any documentation to show that the FEC has conducted a test to determine what the impact on processing would be.
- The FEC's procedure for granting access to its networks, systems, and physical facility through access authorization e-mails needs improvement. Additionally, the FEC's procedure for reviewing and recertifying user access rights needs improvement. We noted the following weaknesses in the access reauthorization process, in addition to weaknesses in the access authorization e-mails used to document and grant access rights and privileges: **(Modified Repeat Finding)**
  - Seven out of 30 individuals reviewed did not have e-mails to document their network access.
  - Seven out of 30 individuals have network access rights that did not match their access requests.



- Thirteen of 30 individuals' network access e-mails did not identify the network groupings that the user should have access to.
- Four dial-in users did not have access documentation on file and were not on the list of users with laptops.
- Two VPN users were not on the list of users with laptops. Additionally, these two users are employees of the FEC that should have the FEC's laptops.
- All 17 of the dial-in users did not have their access periodically recertified.
- One separated employee still had a dial-in account.
- Data center access documentation was not available for 19 users. Additionally, there was no evidence that data center access was periodically recertified.
- Access documentation was not maintained for system administrators and database administrators. The FEC's current policy is to grant employees access based on their positions. According to the FEC, only employees hired to perform administrative functions are granted administrative access. However, "best practices" state that access forms should be maintained.
- There were 21 individuals with access to the data center that did not have a justifiable need (based on job functionality) to have data center access.

**Recommendations:**

24. Finalize and implement the FEC's process to manually review logs of users using budgetary overrides where the reviewer is an individual who does not have access to utilize the overrides.

**Management Response**

*Budget overrides are rarely used by the FEC. They are only used when transactions cannot be processed any other way. In most cases budget errors result in funds being moved from another object class. This eliminates the error rather than overrides the control. Effective with the August reports, the CFO began signing off on a control report that lists all budget overrides used. The Accounting Officer and Budget Officer run reports independently for the CFO to approve. The FEC agrees this is an important safeguard. No budgets have been exceeded without management approval.*

25. Develop mitigating controls to ensure that PeopleSoft passwords are in agreement with the FEC's policy or ensure that when PeopleSoft processing is outsourced, the third-party maintains password controls that comply with the FEC's password policies.

**Management Response**

*The current version of PeopleSoft does not contain any mechanisms for the automated enforcement of passwords. The FEC is aware of this vulnerability and the risk associated with this version of PeopleSoft's lack of automated authentication enforcement. The FEC has implemented a series of compensating controls consisting*

*of additional user awareness training, policy issuance, and manual enforcement to mitigate associated risk. The FEC understands and accepts the residual risk until an automated solution can be found. In addition, the FEC plans to ensure that automated password enforcement is either native or a third-party maintains password controls that comply with the FEC's password policy when PeopleSoft Processing is outsourced.*

26. Use access request forms that identify the user's access level to document user access rights to all the FEC's systems. Additionally, the FEC should periodically review the appropriateness of access granted and recertify user access rights.

***Management Response***

*The FEC utilizes either an email from management or the new hire report from Human Resources as user access request forms. In addition, the FEC periodically revalidates all network access for appropriateness as dictated by 58-2.11 Security Review Policy*

27. Investigate to determine a baseline level of auditing that can be performed without causing a detrimental impact to the performance of the Oracle databases and the applications that they support.

***Management Response***

*In the normal course of business, performance indicators are monitored to ensure application stability. This constant monitoring provided the FEC with the information needed to determine that the enabling of Oracle audit trails would prove an unnecessary hindrance to system performance. The FEC recognizes the risk associated with not enabling Oracle audit trails and has initiated audit trails at the application level and limited database access to a select number of persons as two compensating controls. The FEC understands and accepts any residual risk left from this process.*

28. Periodically review data center access and remove unnecessary access rights.

***Management Response***

*Although the FEC maintains an accurate list of those persons requiring access to its Datacenter the requirement for maintaining supporting documentation is a recent one. The FEC is currently evaluating the necessity of adding the Datacenter access list to its 58-2.11 Security Review Policy to ensure that periodic recertification will occur.*

**D. Software Development and Change Controls**

Establishing controls over the modification of application software programs helps to ensure that only authorized programs and authorized modifications are implemented.

This is accomplished by instituting policies, procedures, and techniques that help make sure all programs and program modifications are properly authorized, tested, and approved, and that access to and distribution of programs is carefully controlled. Without proper controls, there is a risk that security features could be inadvertently or deliberately omitted or "turned off" or that processing irregularities or malicious code could be introduced.

Our review of the software development and change controls identified deficiencies that could affect the FEC's ability to ensure that only authorized programs and authorized modifications are implemented. The deficiencies were as follows:

- The FEC has not implemented a formal process for identifying, documenting, testing and installing security patches and updates to its Oracle, UNIX and Windows environments.
- The FEC does not maintain documentation evidencing that Oracle and Solaris patches are tested and approved before being installed into production.
- The PeopleSoft application is currently supported by an Oracle 8 database that is no longer supported by the vendor.

**Recommendations:**

29. Implement formal policies and procedures for managing system software changes.
30. Maintain documentation to support the testing and approval of system software changes.

**Management Response**

*The FEC has developed and implemented a comprehensive set of policies and procedures for managing system changes. These include 58-2.3 Change Management Policy and the FEC Change Management Standard. In addition, based upon early feedback from the financial auditors the FEC instituted the FEC Patch Management Standard on 10/04/06.*

31. Complete the migration of financial processing to a third-party service provider and verify that the service provider is utilizing vendor supported system software versions.

**Management Response**

*Due to legacy issues associated with some of the FEC applications the current version of Oracle 8 is required. Although the vendor no longer provides patches for this version of Oracle it does provide limited support, which includes assisting customers with work-arounds to issues that may arise. In addition, the FEC has built a considerable amount of experience and internal expertise over the years that this product has been in its inventory.*

*The FEC recognizes the risk associated with maintaining a product with limited support. Accordingly, the FEC is relying upon its considerable internal expertise, restricted access to only a few persons and Oracle's limited support as compensating factors until the migration of financial processing to a third-party service provider is implemented. The FEC understands and accepts any residual risk left from this situation. Additionally, the FEC plans to verify that any third party service provider has adequate support during the migration of its financial processing.*

**IV. Integrated Financial Management System (Repeat Finding)**

The FEC does not have an integrated financial management system. Significant financial management systems, such as the cost system, accounts receivable system and the property and equipment system do not interface with the general ledger system.

A single, integrated financial management system is a unified set of financial systems linked together electronically in an efficient and effective manner to provide agency-wide financial system support. Integration means that the user is able to have one view into systems such that, at whatever level the individual is using the system, he or she can obtain necessary information efficiently and effectively through electronic means. It does not necessarily mean having only one software application covering all financial management system needs within an agency. Interfaces are acceptable as long as the supporting details are maintained and accessible to managers. Interface linkages must be electronic unless the number of transactions is so small that it is not cost beneficial to automate the interface. Easy reconciliation between systems, where interface linkage is appropriate, must be maintained to ensure data accuracy.

***Recommendation:***

32. Evaluate the extent of systems integration needed for existing systems when considering the outsourcing of the FEC's accounting services to a shared service provider.

***Management Response***

*The FEC agrees with this finding and recommendation. The FEC is actively pursuing securing the services of a financial line of business provider in FY 2007 or early FY 2008.*

**V. Administrative Fines, Civil Penalties and Miscellaneous Receipts (Modified Repeat Finding)**

The program offices serve as the primary source of information related to accounts receivable transactions which should be recorded in the general ledger by the Finance Office. Accounting events requiring recordation in the general ledger include assessment of administrative fines and civil penalties, determination of an uncollectible debt and payment by a respondent. On a monthly basis, civil penalty and administrative fine

activities are initially reported to the Finance Office by the program offices in a memo. These memos are used by the Finance Office to update the accounts receivable subsidiary schedule that serves as the basis for accounts receivable transactions recorded in the general ledger. The information submitted by the program offices is augmented by more detailed information obtained from the FEC website and collection reports prepared by the Finance Office. The schedules are reconciled to the program offices' records and submitted to management for review and approval.

Our audit found the aforementioned reconciliation and management review were ineffective in detecting: mathematical or classification errors; and accounts receivable balances recorded for the wrong amount.

Further, the methodology used to determine allowance for doubtful accounts is not formally documented or fully disclosed in the financial statements.

***Recommendations:***

33. Implement policies and procedures for reviewing the accounts receivable schedules for reasonableness and accuracy prior to recording related account transactions in the general ledger.
34. Formalize policies and procedures for performing accounts receivable reconciliations. While developing these procedures, the FEC should consider establishing a timeline for when the reconciliations should be finalized by the program offices and forwarded to the Finance Office.
35. Document all the methodologies applied in calculating allowance for uncollectible accounts. Periodically review the methodologies against actual procedures performed and revise them as necessary.

***Management Response***

*The FEC agrees with these findings and recommendations 33, 34, and 35. Significant progress was made in the receivables area in FY 2006. The findings in this area were mainly the result of errors in cells of the new spreadsheets and have been corrected. In FY 2007, we intend to improve further by: a) issuing a directive for receivables management; b) review the spreadsheets more thoroughly; c) working with Treasury to ensure better reports and; d) improve documentation of the allowance for uncollectible accounts.*

**VI. Controls Over Procurement and Disbursement Transactions**

The weaknesses identified below collectively resulted in a reportable condition in the FEC's procurement processes.

- Several procurement documents meeting the criteria for approval by the Commissioners were not submitted to the Commission for approval or the

Commissioners' approval was not clearly documented or provided to us for review. Other procurement transactions were not approved by all the individuals in the approval chain or were signed by the same individual for more than one position in the approval chain.

- For one of 45 sample items the total obligations and disbursements exceeded the contract amount. Although the disbursements were determined to be legitimate, the contract was not modified for the increase in obligation.
- There were several incidents where documents intended to support approval of procurement and disbursement actions were not properly submitted for approval, supported or maintained by the agency.
- Accounts payable reconciliations were not always timely prepared by the FEC's personnel and approved by management.

GAO *Standards for Internal Control in the Federal Government* states that transactions and other significant events should be authorized and executed by persons acting within the scope of their authority. This is a principal means of assuring that only valid transactions to exchange, transfer, use or commit resources and other events are initiated or entered into. Evidence of approval should be clearly documented and readily available for examination. Further, key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud.

***Recommendations:***

36. Issue formal guidance for performing corrective action when negative obligation balances occur. Procedures should describe the conditions when corrective action is needed, corrective actions to perform and the individuals responsible for resolving the error. The timely response and clear communication on corrective action should also be included in the procedures.
37. Ensure documentation related to procurement and disbursement actions are properly approved and supported. Procurement policies and procedures should be enhanced to document, completely and clearly, operating procedures for the procurement cycle and should include procedures for documenting justification when exceptions are made to established procedures.
38. Ensure reconciliations are consistently performed, reviewed and approved in a timely manner.

***Management Response***

*The FEC agrees with these findings and recommendations 36, 37, and 38. The FEC will issue additional internal guidance on how to handle negative obligations (#36). The Administrative Officer issued updated guidance to clarify signatures needed on procurement documents in early FY 2007. The FEC Procurement Directive will be updated in FY 2007 to reflect this change (#37). The FEC will address the timeliness of reconciliations with appropriate staff members (#38).*

## VII. Audit Follow-up

Establishing a comprehensive system for audit follow-up helps to ensure prompt and proper implementation of corrective action on identified internal control deficiencies. Accordingly, OMB Circular A-50, *Audit Follow-up*, requires an agency to establish an audit follow-up system which includes, among other provisions: 1) resolution and corrective action on audit recommendations within six months following final report issuance; 2) specific and written plans for corrective action with specified action dates; 3) a complete and accurate record of the status of audit reports or recommendations through the entire process of resolution and corrective action and 4) semi-annual report to the agency head on the status of audit report recommendations.

The FEC was not able to provide the May 2006 report detailing the status of audit recommendation submitted to the Commissioners as required by the FEC Directive 50 *Audit Follow-up, revised April 2006*. During the audit period, we recognized that the Audit Follow-up Official for the financial audit was in the process of establishing a follow-up system. However, we identified deficiencies in the follow-up system that could affect the FEC's ability to ensure prompt and proper resolution of audit findings and recommendations. The deficiencies were as follows:

- Sections of the audit follow-up matrix for the financial statement audit are maintained in various locations within the agency. A separate matrix for Information Technology and non-Information Technology related recommendations are maintained by the Chief Information Officer and Accounting Officer, respectively. The financial audit Audit Follow-up Official does not maintain a consolidated matrix nor does he have ready access to the matrix for Information Technology related audit findings. During the FY 2006 financial statement audit, significant effort on the part of the FEC personnel and multiple requests from the auditors was needed to determine the status of FY 2005 financial statement audit recommendations. The FEC's procedures for the corrective action matrix compromises the financial statement Audit Follow-up Official's ability to monitor the remediation process for audit findings and implement additional corrective action, where necessary.
- The matrix for the FY 2005 financial statement audit findings was not complete. It did not include the corrective action plan, or targeted and actual completion dates and/or responsible party for several recommendations.
- The FEC has not formalized a methodology or timetable for updating the matrix with the current status of corrective action plans and/or revised targeted and/or completion dates. During the FY 2006 audit, we noted the current status of the corrective action plan or target date of completion was not always updated in the matrices provided to the auditors. As such, management's assertion regarding the status of audit recommendations was not always correct.

### ***Recommendation:***

39. Formalize the remediation process related to audit findings and recommendations that is consistent with OMB Circular A-50 guidelines.

***Management Response***

*The FEC agrees with the finding and the recommendation. In FY 2006, the FEC developed a detailed matrix for ITD and accounting findings which will be monitored closely by the CFO. The first follow-up report is expected to be sent to the Commission through the Staff Director in November 2006.*

**OTHER MATTER**

OMB Bulletin No. 06-03 requires that the auditor's report on internal control "identify those material weaknesses disclosed by the audit that were not reported in the reporting entity's Federal Managers' Financial Integrity Act (FMFIA) report." The FEC's schedule of material weaknesses and non-conformances included in the PAR did not identify the material weaknesses noted in the FY 2006 Independent Auditor's Report on Internal Control. We do not believe, however, that failure to report these material weaknesses in FMFIA constitutes a separate reportable condition or a material weakness because different criteria are used by management and the auditors in determining material weaknesses.

**STATUS OF PRIOR YEAR CONDITIONS**

As required by *Government Auditing Standards* and OMB Bulletin No. 06-03, we have reviewed the status of the FEC's corrective actions with respect to the findings and recommendations from the previous year's report on internal controls. We have attached Appendix A to our report that presents the status of prior year findings and recommendations.

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In addition to the material weaknesses and reportable conditions described above, we noted certain matters involving internal control and its operation that we reported to the management of the FEC in a separate letter dated November 7, 2006.

This report is intended solely for the information and use of the management of the FEC, the FEC Office of Inspector General, GAO, OMB, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

*Clifton Gunderson LLP*

Calverton, Maryland  
November 7, 2006



**APPENDIX A  
FEDERAL ELECTION COMMISSION  
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS  
September 30, 2006**

<b>Recommendation No.</b>	<b>Condition/Audit Area</b>	<b>Recommendation</b>	<b>Current Status</b>
<b>Material Weaknesses</b>			
<b>I. Cost Accounting System and Processes</b>			
1	Cost Allocation Methodology	Establish formal and comprehensive cost allocation methodology and related policy and procedures.	Open
2	Cost Allocation Methodology	Cross-train employees to minimize the risks of major interruptions in normal business operations.	Closed
3	Cost Allocation Methodology	Establish a review process wherein a person, other than the preparer, reviews the work performed to ensure accuracy and propriety.	Open
4	Cost Allocation Methodology	Maintain audit trials to support the allocation methodology and amounts.	Open.
5	Managerial Cost Accounting	Evaluate the functional requirements for the new cost accounting system to ensure that the minimum level of cost accounting required in SFFAS No. 4 is attained.	Closed
<b>II. Administrative Fines, Civil Penalties and Miscellaneous Receipts</b>			
6	Administrative Fines, Civil Penalties and Misc. Receipts	Establish and implement policy and procedures ensuring communication and coordination between program offices and Finance Office on activities with financial impact. The policy should also clearly establish the FEC's revenue recognition policy. The Finance Office should design a standard report outlining all the necessary information to record the financial activities. The report should be prepared and submitted timely at least monthly by the program offices to the Finance Office.	Open. Now a reportable condition.

**APPENDIX A  
FEDERAL ELECTION COMMISSION  
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS  
September 30, 2006**

Recommendation No.	Condition/Audit Area	Recommendation	Current Status
<b>II. Administrative Fines, Civil Penalties and Miscellaneous Receipts</b>			
7	Administrative Fines, Civil Penalties and Misc. Receipts	Document the policy and basis for the allowance for uncollectible accounts.	Partially closed. Although the FEC had documented the policy, the documentation for the basis for the allowance for uncollectible accounts was not complete. The FEC uses other methodologies that were not documented.
<b>III. General Property and Equipment</b>			
8	Property, Plant and Equipment	Reconcile the total of the individual property items in the property system to the bulk purchase total recorded in the books to ensure completeness of the property system records.	Open
9	Property, Plant and Equipment	Document physical inventory procedures, results, and reconciliation and maintain the documentation for audit trail purposes.	Open
10	Property, Plant and Equipment	Revise the software capitalization policy to comply with SFFAS No. 10.	Closed
11	Property, Plant and Equipment	Enforce compliance and consistent implementation of policies and procedures related to completing receiving reports and the review and approval of obligating memos or documents.	Open – Now a reportable condition reported under Controls Over Procurement and Disbursement Transactions.
12	Property, Plant and Equipment	Establish a standard process and policy where program offices are required to notify the Finance Office of any property acquisition or disposition with accounting impact to ensure proper and timely recording of the transaction.	Open

**APPENDIX A  
FEDERAL ELECTION COMMISSION  
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS  
September 30, 2006**

<b>Recommendation No.</b>	<b>Condition/Audit Area</b>	<b>Recommendation</b>	<b>Current Status</b>
<b>IV. Information Technology</b>			
13	Entity-Wide Security Program	Implement a framework of policies and standards to mitigate risks associated with the information resources management.	Open. Now a reportable condition.
14	Entity-Wide Security Program	Complete the documentation, approval, and implementation of an entity-wide security program plan.	Open. Now a reportable condition.
15	Entity-Wide Security Program	Develop and implement security plans for all major applications and MCGSS as part of a risk mitigation strategy.	Open. Now a reportable condition.
16	Entity-Wide Security Program	Ensure that Resource Classifications in the FEC's security plans accurately reflect the risk and vulnerability of the FEC systems.	Open. Now a reportable condition.
17	Entity-Wide Security Program	Complete the implementation of the program for the continuous monitoring and evaluation of the computer security policy and control effectiveness.	Open. Now a reportable condition.
18	Entity-Wide Security Program	Conduct risk assessments at least every three years as part of an overall strategy to mitigate risks associated with its information technology environment.	Open. Now a reportable condition.
19	Entity-Wide Security Program	Certify that the major applications and MCGSS are operating according to the FEC's security requirements.	Open. Now a reportable condition.

**APPENDIX A  
FEDERAL ELECTION COMMISSION  
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS  
September 30, 2006**

<b>Recommendation No.</b>	<b>Condition/Audit Area</b>	<b>Recommendation</b>	<b>Current Status</b>
20	Entity-Wide Security Program	Strengthen the FEC's program to document corrective actions and verify that weaknesses identified have been addressed. Ensure and document that recommendations from the most recent network security review have been implemented.	Open. Now a reportable condition.
21	Controls to Protect Information	Create a new GL system application role to give employees with necessary and appropriate access rights to fulfill their job responsibility.	Closed
22	Controls to Protect Information	Monitor and record visitor access to the data center.	Closed
23	Controls to Protect Information	Use access request forms to document user access rights and periodically review the access for appropriateness.	Open. Now a reportable condition.
24	Controls to Protect Information	Develop mitigating controls to ensure that GL system passwords are in agreement with the FEC policy.	Open. Now a reportable condition.
25	Controls to Protect Information	Automatically log network activity as required by the <i>Audit Events Standards</i> .	Closed
26	Controls to Protect Information	Institute a process to manually review logs of users using budgetary overrides where the reviewer is an individual who does not have access to utilize the overrides.	Open. Now a reportable condition.
27	Controls to Protect Information	Periodically review the firewall rule set for appropriateness.	Closed
28	Controls to Protect Information	Periodically review LAN user accounts and disable unnecessary user accounts.	Open. Now a reportable condition.

**APPENDIX A  
FEDERAL ELECTION COMMISSION  
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS  
September 30, 2006**

<b>Recommendation No.</b>	<b>Condition/Audit Area</b>	<b>Recommendation</b>	<b>Current Status</b>
29	Contingency Plan	Perform a Business Impact Analysis to formally identify and prioritize all critical data and operations on the FEC's networks and the resources needed to recover them if there is a major interruption or disaster. Ensure that emergency processing priorities are established to assist in managing disaster situations more effectively for the network and include business owners in the discussion to determine how much backup data is needed on-hand to minimize the impact of a disaster.	Open. Now a reportable condition.
30	Contingency Plan	Establish alternative processing site for the FEC's operations in the event of a disaster and ensure that an operational mechanism exists to update the disclosure database in the event that the FEC database is unavailable to replicate the disclosure database resident at the off-site location.	Open. Now a reportable condition.
31	Contingency Plan	Develop a Continuity of Operations Plan (COOP) to support the continuation of the FEC's core mission in the event of a disaster that renders the FEC's facilities unusable.	Open. Now a reportable condition.
32	Contingency Plan	Develop and document a comprehensive contingency of operations plan of the FEC's data centers, networks, and telecommunication facilities.	Open. Now a reportable condition.

**APPENDIX A  
FEDERAL ELECTION COMMISSION  
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS  
September 30, 2006**

<b>Recommendation No.</b>	<b>Condition/Audit Area</b>	<b>Recommendation</b>	<b>Current Status</b>
33	Software Development and Change Control	Fully implement the System Development Life Cycle Methodology.	Closed
<b>Reportable Conditions</b>			
<b>V. Financial Reporting</b>			
34	General Ledger System Setup and Posting Model Definition	Ensure that corrections made to the posting logic comply with the USSGL and that the USSGL accounts and posting logic are updated as changes to USSGL are issued.	Closed
35	Continuing Resolution Accounting	Comply with the continuing resolution accounting scenario prescribed by the US Treasury in accordance with memorandum issued by OMB.	Closed
36	Integrated Financial Management	Continue to assess the degree of integration necessary to have a single, unified financial system by evaluating the functional requirements and the costs and benefits of integrating the financial reporting, property and equipment, receivable and the cost systems with the GL system.	Open
<b>VI. Payroll</b>			
37	Payroll	Implement procedures to ensure that leave adjustments are completely processed and transmitted to the service provider.	Closed
38	Payroll	Maintain in the personnel files all payroll deduction authorization forms initiated through the FEC, i.e. not done directly by the employee with the service provider.	Closed

**APPENDIX A  
FEDERAL ELECTION COMMISSION  
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS  
September 30, 2006**

<b>Recommendation No.</b>	<b>Condition/Audit Area</b>	<b>Recommendation</b>	<b>Current Status</b>
39	Payroll	Ensure that timekeepers: perform the bi-weekly reconciliation between leave balances reported in its records and the service provider's records; and submit the bi-weekly leave balance certification to the Finance Office timely.	Closed
40	Payroll	Implement procedures for ensuring all payroll and personnel documents are properly completed and authorized before payroll data is transmitted to the payroll service provider for processing.	Closed
41	Payroll	Consider automating payroll processing to decrease the risk of error.	Closed. Now in Management Letter.

Financial Statements

**BALANCE SHEET**

As of September 30, 2006 and 2005

<b>Assets</b>	<u>2006</u>	<u>2005</u>
Intragovernmental:		
Fund Balance with Treasury (Notes 2 & 3)	\$ 10,068,481	\$ 8,567,325
Total Intragovernmental Assets	10,068,481	8,567,325
Accounts Receivable, net (Note 4)	520,471	427,150
General Property and equipment, net (Note 5)	8,757,157	10,064,293
Advances to others	—	11,614
<b>Total Assets</b>	<b><u>\$ 19,346,109</u></b>	<b><u>\$ 19,070,382</u></b>
<b>Liabilities</b>		
Intragovernmental:		
Accounts Payable (Note 6)	\$ 50,000	\$ 137,000
Custodial Liability	976,525	677,317
Total Intragovernmental	1,026,525	814,317
With the Public:		
Accounts Payable	864,387	884,084
Accrued payroll and benefits	1,395,736	1,484,178
Unfunded leave	1,931,980	1,963,941
Actuarial Federal Employees Compensation Act (FECA) liability (Note 7)	17,631	36,076
Other	12,681	1,954
<b>Total Liabilities</b>	<b><u>5,248,940</u></b>	<b><u>5,184,550</u></b>
Commitments and Contingencies (Note 8)	—	—
<b>Net Position</b>		
Unexpended appropriations - Other Funds	7,289,060	5,821,557
Cumulative results of operations - Other Funds	6,808,109	8,064,275
<b>Total Net Position</b>	<b><u>14,097,169</u></b>	<b><u>13,885,832</u></b>
<b>Total Liabilities and Net Position</b>	<b><u>\$ 19,346,109</u></b>	<b><u>\$ 19,070,382</u></b>

The accompanying notes are an integral part of these statements.



**STATEMENT OF NET COST**  
**For the Years Ended September 30, 2006 and 2005**

<b>Program Costs:</b>	<u><b>2006</b></u>	<u><b>2005</b></u>
<b>Program: Compliance</b>		
Gross costs (Note 10)	\$ 27,383,031	\$ 21,932,137
Less: Earned revenue	<u>          —</u>	<u>          —</u>
<b>Net program costs</b>	<b>27,383,031</b>	<b>21,932,137</b>
 <b>Program: Disclosure</b>		
Gross costs	21,317,170	25,868,674
Less: Earned revenue	<u>          —</u>	<u>     (185,860)</u>
<b>Net program costs</b>	<b>21,317,170</b>	<b>25,682,814</b>
 <b>Program: Public Funding</b>		
Gross costs	7,206,355	8,435,437
Less: Earned revenue	<u>          —</u>	<u>          —</u>
<b>Net program costs</b>	<b>7,206,355</b>	<b>8,435,437</b>
 <b>Net Cost of Operations</b>	 <u><u><b>\$ 55,906,556</b></u></u>	 <u><u><b>\$ 56,050,388</b></u></u>

The accompanying notes are an integral part of these statements.

## STATEMENT OF CHANGES IN NET POSITION

As of September 30, 2006 and 2005

	2006		2005	
	Other Funds	Eliminations	Consolidated Total	Consolidated Total
<b>CUMULATIVE RESULTS OF OPERATIONS:</b>				
<b>Beginning Balances</b>	\$ 8,064,275	\$ —	\$ 8,064,275	\$ 6,925,230
Prior period adjustments (+/-)	—	—	—	—
<b>Beginning Balances, as adjusted</b>	<b>8,064,275</b>	<b>—</b>	<b>8,064,275</b>	<b>6,925,230</b>
<b>Budgetary Financing Sources</b>				
Appropriations used	52,297,572	—	52,297,572	54,870,931
<b>Total Budgetary Financing Sources</b>	<b>52,297,572</b>	<b>—</b>	<b>52,297,572</b>	<b>54,870,931</b>
<b>Other Financing Sources:</b>				
Imputed financing from costs absorbed by others	2,352,818	—	2,352,818	2,318,502
<b>Total Other Financing Sources</b>	<b>2,352,818</b>	<b>—</b>	<b>2,352,818</b>	<b>2,318,502</b>
<b>Total Financing Sources</b>	<b>54,650,390</b>	<b>—</b>	<b>54,650,390</b>	<b>57,189,433</b>
<b>Net Cost of Operations (+/-)</b>	<b>(55,906,556)</b>	<b>—</b>	<b>(55,906,556)</b>	<b>(56,050,388)</b>
<b>Net Change</b>	<b>(1,256,166)</b>	<b>—</b>	<b>(1,256,166)</b>	<b>1,139,045</b>
<b>Cumulative Results of Operations</b>	<b>\$ 6,808,109</b>	<b>\$ —</b>	<b>\$ 6,808,109</b>	<b>\$ 8,064,275</b>
<b>UNEXPENDED APPROPRIATIONS:</b>				
Beginning Balances	\$ 5,821,556	\$ —	\$ 5,821,556	\$ 9,280,593
Prior period adjustments (+/-)	—	—	—	—
<b>Beginning Balances, as adjusted</b>	<b>5,821,556</b>	<b>—</b>	<b>5,821,556</b>	<b>9,280,593</b>
<b>Budgetary Financing Sources:</b>				
Appropriations Received	54,700,000	—	54,700,000	52,159,000
Other adjustments (recissions, etc) (+/-)	(934,925)	—	(934,925)	(747,105)
Appropriations used	(52,297,571)	—	(52,297,571)	(54,870,931)
<b>Total Budgetary Financing Sources</b>	<b>1,467,504</b>	<b>—</b>	<b>1,467,504</b>	<b>(3,459,036)</b>
<b>Total Unexpended Appropriations</b>	<b>7,289,060</b>	<b>—</b>	<b>7,289,060</b>	<b>5,821,557</b>
<b>Net Position</b>	<b>\$ 14,097,169</b>	<b>\$ —</b>	<b>\$ 14,097,169</b>	<b>\$ 13,885,832</b>

The accompanying notes are an integral part of these statements.

**STATEMENT OF BUDGETARY RESOURCES**

For the Years Ended September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<b>Budgetary Resources</b>		
<b>Unobligated balance, brought forward, October 1</b>		
Beginning of Period	\$ 1,794,495	\$ 1,401,279
Total Unobligated Balance	<u>1,794,495</u>	<u>1,401,279</u>
<b>Recoveries of prior year obligations</b>	<u>967,661</u>	<u>693,562</u>
<b>Budget authority:</b>		
Appropriations received	<u>54,700,000</u>	<u>52,159,000</u>
Total Budget Authority	<u>54,700,000</u>	<u>52,159,000</u>
<b>Permanently not available:</b>	<u>(934,925)</u>	<u>(747,105)</u>
<b>Total Budgetary Resources</b>	<u><u>\$ 56,527,231</u></u>	<u><u>\$ 53,506,736</u></u>
<b>Status of Budgetary Resources</b>		
<b>Obligations Incurred</b>		
Direct		
Apportioned- Category A	\$ 54,448,901	\$ 43,207,209
Exempt- Category B	-	8,505,031
<b>Total Obligations Incurred</b>	<u><u>54,448,901</u></u>	<u><u>51,712,240</u></u>
<b>Unobligated balance</b>		
Balance currently available:		
Apportioned- Category A	108,327	32,731
Exempt- Category B	-	1,398
Total Unobligated Balance available	<u>108,327</u>	<u>34,129</u>
<b>Unobligated balance not available</b>	<u>1,970,003</u>	<u>1,760,367</u>
<b>Total Status of Budgetary Resources</b>	<u><u>\$ 56,527,231</u></u>	<u><u>\$ 53,506,736</u></u>
<b>Change in Obligated Balance:</b>		
<b>Obligated balance, net</b>		
Unpaid Obligations, brought forward, October 1	\$ 6,520,709	\$ 10,045,151
Total unpaid obligated balance, net	<u>6,520,709</u>	<u>10,045,151</u>
Obligations incurred net +/-	54,448,901	51,712,241
Less: Gross Outlays	(52,480,533)	(54,543,120)
Less: recoveries of prior year unpaid obligations, actual	(967,661)	(693,562)
<b>Obligated balance, net, end of period</b>	<u>7,521,417</u>	<u>6,520,710</u>
Unpaid obligations	<u>7,521,417</u>	<u>6,520,710</u>
<b>Total, unpaid obligated balance, net, end of period</b>	<u><u>7,521,417</u></u>	<u><u>6,520,710</u></u>
<b>Net Outlays</b>		
Disbursements	<u>52,480,533</u>	<u>54,543,120</u>
<b>Net Outlays</b>	<u><u>\$ 52,480,533</u></u>	<u><u>\$ 54,543,120</u></u>

The accompanying notes are an integral part of these statements.

## STATEMENT OF FINANCING

For the Years Ended September 30, 2006 and 2005

	2006	2005
<i>Resources Used to Finance Activities</i>		
<b>Budgetary Resources Obligated</b>		
Obligations Incurred	\$ 54,448,901	\$ 51,712,240
Less: Recoveries of prior year obligations	(967,661)	(693,562)
Obligations net of recoveries of prior year obligations	<u>53,481,240</u>	<u>51,018,678</u>
<b>Net obligations</b>	<u>53,481,240</u>	<u>51,018,678</u>
<b>Other Resources</b>		
Imputed financing from costs absorbed by others	2,352,818	2,318,502
<b>Net other resources used to finance activities</b>	<u>2,352,818</u>	<u>2,318,502</u>
<b>Total resources used to finance activities</b>	<u>55,834,058</u>	<u>53,337,180</u>
<i>Resources Used to Finance Items not Part of the Net cost of Operations</i>		
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided	1,184,233	(3,852,253)
Resources that fund expenses recognized in prior periods cost of operations	50,406	7,349
Resources that finance the acquisition of assets	2,160,662	4,443,890
<b>Total resources used to finance items not part of the net cost of operations</b>	<u>3,395,301</u>	<u>598,986</u>
<b>Total resources used to finance the net cost of operations</b>	<u>52,438,758</u>	<u>52,738,194</u>
<i>Components of the Net Cost of Operations that will not require or Generate Resources in the Current Period</i>		
<b>Components Requiring or Generating Resources in Future Periods:</b>		
Increase in annual leave liability	-	178,635
<b>Total components of Net Cost of Operations that will require or generate resources in future periods</b>	<u>-</u>	<u>178,635</u>
<b>Components not Requiring or Generating Resources:</b>		
Depreciation and amortization	3,990,233	3,133,559
Revaluation of assets or liabilities	(522,435)	0
<b>Total components of Net Cost of Operations that will not require or generate resources</b>	<u>3,467,798</u>	<u>3,133,559</u>
<b>Total components of net cost of operations that will not require or generate resources in the current periods</b>	<u>3,467,798</u>	<u>3,312,194</u>
<b>Net Cost of Operations</b>	<u>\$ 55,906,556</u>	<u>\$ 56,050,388</u>

The accompanying notes are an integral part of these statements.

**STATEMENT OF CUSTODIAL ACTIVITY****For the Years Ended September 30, 2006 and 2005**

	<b>2006</b>	<b>2005</b>
<b>Revenue Activity</b>		
Sources of Cash Collections (Note 12)		
Miscellaneous Receipts	\$ 373,669	\$ 184,936
Civil Penalties	5,960,484	1,724,915
Administrative Fees	174,924	350,800
<b>Total Cash Collections</b>	<b>6,509,077</b>	<b>2,260,651</b>
Accrual Adjustments	93,321	331,793
<b>Total Custodial Revenue</b>	<b>\$ 6,602,398</b>	<b>\$ 2,592,444</b>
<b>Disposition of Collections</b>		
Transferred to Treasury	\$ 6,303,190	\$ 2,260,652
Amount Yet to be Transferred	299,208	331,792
<b>Total Disposition of Collections</b>	<b>\$ 6,602,398</b>	<b>\$ 2,592,444</b>
<b>Retained by FEC</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Net Custodial Activity</b>	<b>\$ (0)</b>	<b>\$ (0)</b>

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 accompanying financial statements present the financial position, net cost of operations, changes in net position, custodial activity, budgetary resources, and financing of the Federal Election Commission (FEC). Created in 1975 by an act of Congress, the FEC is an independent agency charged with administering and enforcing the *Federal Election Campaign Act (FECA)*. The financial activity presented relates primarily to the execution of the FEC congressionally approved budget.

The Presidential Election Campaign Fund (“the fund”) is not a reporting entity of the FEC. Federal Accounting Standards Advisory Boards’ (FASAB) *Statement of Federal Financial Accounting Concept No. 2*, “Entity and Display,” states that two criteria determine whether a program qualifies as an agency’s reporting entity: conclusive criteria and indicative criteria. Conclusive criteria include which agency budgets the funds. Indicative criteria include which agency exercises “continuing administrative control including the ability to select or remove the governing authority and the authority to review and/or modify budget requests.” Since the funds are budgeted, apportioned, recorded, reported and paid by Treasury, the accounts of the Presidential Election Campaign Fund are not included in the FEC’s financial statements.

The FEC maintains eligibility requirements for the fund. Under the Internal Revenue Code, qualified Presidential candidates receive money from this fund. The FEC helps Treasury determine which candidates are eligible to receive the funds and the amount of funds to be received. The Secretary of the Treasury makes the payments to eligible candidates and major party and qualified minor party nominees as well as National Party Conventions also receive money from this fund. The Fund is financed exclusively by a voluntary tax check off. Individual taxpayers may direct \$3 of their tax to the Fund (up to \$6 for joint filers) by checking a box on their tax return.

#### Basis of Accounting and Presentation

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.

These financial statements have been prepared from the books and reports of FEC in accordance with U.S. generally accepted accounting principles (GAAP) for the Federal government and the Office of Management and Budget (OMB) Circular A-136, *Form and Content of Agency Financial Statements*.

#### Assets

Intra-governmental assets are those assets that arise from transactions with other Federal entities. Entity assets are available for use by the entity in its operations while nonentity assets are assets held by the entity but not available for use by the entity in its operations.

### **Fund Balance with Treasury**

FEC does not maintain cash in commercial bank accounts. The U.S. Treasury processes cash receipts and disbursements. Funds with the U.S. Treasury consist of appropriated and deposited funds that are available to pay current liabilities and finance authorized purchase commitments as well as custodial collections which are not available to finance FEC activities. Custodial collections are classified as non-entity assets.

### **Accounts Receivable**

FEC's accounts receivable represent amounts due from the public or U.S. Treasury for fines and penalties assessed by FEC and referred to Treasury for collection. An allowance for uncollectible accounts has been established and included in Accounts Receivable, net on the balance sheet. The allowance is a percentage of the overall receivable balance and the collection rate of past balances.

### **General Property and Equipment**

General P&E is reported at acquisition cost. The capitalization threshold is established at \$25,000 and a useful life of 2 or more years. General P&E consists of items that are used by FEC to support its mission. Depreciation on these assets is calculated using the straight-line method with no salvage value. Depreciation begins the month after 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.

Internal use software development and acquisition costs of \$25,000 are capitalized as software development in progress until the development stage is completed and the software successfully tested. At acceptance, software development-in-progress costs are reclassified as internal use software costs and amortized using the straight-line method over an estimated useful life of 5 to 10 years. Purchased commercial software that does not meet the capitalization criteria is expensed. Enhancements which do not add significant new capability or functionality are expensed. Construction costs of \$25,000 or more are accumulated as Construction in Progress until occupancy and then are capitalized as a Leasehold Improvement over 7 years or the remainder of the lease whichever is less.

The land and building in which the FEC operates is leased from a commercial entity. The General Services Administration (GSA) provides the facility occupied by the FEC. GSA charges the FEC a Standard Level Users Charge that approximates the commercial rental rates for similar properties.

### **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 and liabilities resulting from the agency's custodial activities. FEC also has an intragovernmental liability to the U.S. Treasury for funds collected from the public but not yet transferred. These funds may not be used to fund FEC operations.



## **Accounts Payable**

Accounts payable consist of amounts owed for goods, services, and other expenses received but not yet paid.

## **Accrued Payroll and Benefits**

Accrued Payroll and Benefits represents salaries, wages and benefits earned by employees, but not disbursed as of September 30, 2006. Accrued payroll and benefits are payable to employees and are therefore not classified as intragovernmental.

## **Annual, Sick and Other Leave**

Annual leave is recorded as a liability when it is earned; the liability is reduced as leave is taken. Each quarter, the balance in the accrued, restored, and compensatory leave account is adjusted to reflect current leave balances and pay rates. Accrued annual leave is paid from future funding sources and accordingly is reflected as a liability not covered by budgetary resources. Sick leave and other types of non-vested leave are expensed as taken.

## **Employee Retirement Plans**

### **Civil Service Retirement System (CSRS) and Federal Employees Retirement System (FERS)**

FEC employees participate in one of two retirement programs, either the CSRS or the FERS, which became effective on January 1, 1987. Most FEC employees hired after December 31, 1983, are automatically covered by FERS and Social Security.

For CSRS covered employees, the FEC withheld 7.0% of gross earnings. The FEC matches the withholding, and the sum of the withholding and the matching funds is transferred to the Civil Service Retirement System.

For each fiscal year the Office of Personnel Management (OPM) calculates the U.S. Government service cost for covered employees, which is an estimate of the amount of funds that, if accumulated annually and invested over an employee's career, would be enough to pay that employee's future benefits. Since the U.S. Government's estimated service cost exceeds contributions made by employer agencies and covered employees this plan is not fully funded by the FEC and its employees. For 2006 and 2005, FEC recognized \$2.352M and \$2.318M, respectively, as of September 30, as an imputed cost and as an imputed financing source for the difference between the estimated service cost and the contributions made by FEC and its employees.

FERS contributions made by employer agencies and covered employees exceed the U.S. Government's estimated service costs. For FERS covered employees the FEC made contributions of 10.7% of basic pay. Employees contributed .80% of gross earnings. Employees participating in FERS are covered under the *Federal Insurance Contribution Act (FICA)* for which the FEC contributes a matching amount to the Social Security Administration.

## Notes on the Financial Statements

### **Thrift Savings Plan (TSP)**

Employees covered by CSRS and FERS are eligible to contribute to the U.S. Government's Thrift Savings Plan (TSP), the government's 401-k plan administered by the Federal Retirement Thrift Investment Board. The FEC makes a contribution of 1% of basic pay for FERS-covered employees once they complete a required waiting period anywhere from 6 months to one year for new hires. FERS employees are eligible to contribute up to \$15,000 of basic pay to their TSP account for 2006 for regular contributions and an additional \$5,000 in catch-up contributions for employees who are 50 or older and who turned 50 in 2006. In addition, FEC makes matching contributions, of up to 5% of basic pay, for FERS employees who contribute to the Thrift Saving Plan once they complete a required waiting period anywhere from 6 months to one year for new hires. Contributions are matched dollar for dollar for the first 3 percent of pay contributed each pay period and 50 cents on the dollar for the next 2 percent of pay. CSRS participants may contribute up to \$15,000 in regular contributions and an additional \$5,000 in catch-up contributions for employees who are 50 or older and who turned 50 in 2006, but there is no governmental matching contribution. The maximum amounts that either FERS or CSRS employees may contribute to the plan in calendar year 2006 is \$15,000 for those under age 50 and \$20,000 for those fifty and older. Employees are no longer limited to a defined percentage of salary when contributing to TSP. The only ceiling is the 401-k elective deferral limit authorized by the Internal Revenue Service for plans such as TSP.

The FEC financial statements do not report CSRS or FERS assets, accumulated plan benefits, or unfunded liabilities, if any, which may be applicable to FEC employees and funded by FEC. Such reporting is the responsibility of OPM.

### **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. A contingency liability is recognized when a past event or exchange transaction has occurred, and future outflow or other sacrifice of resources is measurable and probable. A contingency is not disclosed when any of the conditions for liability recognition are met but the chance of the future event or events' occurring is remote. A contingency is disclosed when any of the conditions for liability recognition are not met and the chance of the future confirming event or events occurring is more than remote but less than probable.

### **Revenues and Other Financing Sources**

#### **Annual Salaries and Expenses Appropriation**

Annual one year appropriations are provided by Congress and are available for obligation in the fiscal year for which it was provided to fund the overall operation of the FEC.

#### **Imputed Financing Sources**

In accordance with OMB Circular A-136, 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." 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.

## **Statement of Net Cost**

### **Sub-Organization Program Costs**

The FEC Statement of Net Cost is presented by Responsibility Segment. The Responsibility Segments are based on the FEC's mission and funding sources. The major programs that comprise the Responsibility Segments are: Obtain Compliance, Promote Disclosure and Public Financing.

### **Earned Revenue**

Earned revenues collected by FEC included fees for seminars and conferences held during the year in various parts of the country. Earned revenues collected by FEC also included amounts collected from the public for information provided under the *Freedom of Information Act (FOIA)*, primarily photocopying.

## **Net Position**

Net position is the residual difference between asset and liabilities and comprises Unexpended Appropriations and Cumulative Results of Operations.

Unexpended appropriations represents the unobligated balances and undelivered orders of FEC's appropriated funds. 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 closed, five years after the appropriations expire. Cumulative Results of Operations is the Net Result of FEC's operation since inception.

## **Statement of Custodial Activity**

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

## **Use of Estimates**

The preparation of financial statements in accordance with the accounting principles described above require management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying footnotes. Actual results could differ from those estimates.

## Note 2 – Non-Entity Assets

Non – entity assets consist of the following at September 30:

	<u>2006</u>	<u>2005</u>
Intragovernmental:		
Fund balance with Treasury (Custodial)	\$ 456,054	\$ 250,167
With the Public:		
Accounts Receivable	520,471	427,150
Total non-entity assets	\$ 976,525	\$ 677,317
Total entity assets	18,369,584	18,393,065
<b>Total Assets</b>	<b>\$ 19,346,109</b>	<b>\$ 19,070,382</b>

Non-entity assets are not available to finance FEC activities.

## Note 3 – Fund Balance with Treasury

Fund balances with Treasury consisted of the following at September 30:

	<u>2006</u>	<u>2005</u>
Appropriated Funds	\$ 9,612,427	\$ 8,317,158
Custodial Funds	456,054	250,167
<b>Total Fund Balance with Treasury</b>	<b>\$ 10,068,481</b>	<b>\$ 8,567,325</b>

### Status of Fund Balance with Treasury

	<u>2006</u>	<u>2005</u>
Unobligated Balance		
- Available	\$ 108,327	\$ 34,129
- Unavailable	1,970,003	1,760,367
Obligated Balance, Not Yet Disbursed	7,534,097	6,522,662
Custodial Funds	456,054	250,167
<b>Total Status of Fund Balance with Treasury</b>	<b>\$ 10,068,481</b>	<b>\$ 8,567,325</b>

Fund Balance with Treasury is an asset maintained with Treasury. The appropriated funds are available to pay current liabilities. FEC has the authority to disburse funds to agencies and institutions participating in its programs through the Treasury, which processes cash receipts and disbursements on its behalf. Custodial Funds consist of monies collected by FEC but not yet transferred to the U.S. Treasury. Custodial Funds are not available to finance FEC activities and are therefore classified as non-entity assets.

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 no longer available to incur new obligations. Obligated balances not yet disbursed include reimbursements and other income earned, undelivered orders and expended authority-unpaid.

#### Note 4 – Accounts Receivable, net

Accounts Receivable consist of the following at September 30:

	<b>2006</b>		
	<b>Gross Accounts Receivable</b>	<b>Allowance</b>	<b>Net Accounts Receivable</b>
<b>NON-ENTITY</b>			
With the Public	\$ 1,074,698	\$ 554,227	\$ 520,471
<b>TOTAL NON-ENTITY</b>	<b>\$ 1,074,698</b>	<b>\$ 554,227</b>	<b>\$ 520,471</b>
	<b>2005</b>		
	<b>Gross Accounts Receivable</b>	<b>Allowance</b>	<b>Net Accounts Receivable</b>
<b>NON-ENTITY</b>			
With the Public	\$ 869,161	\$ 442,011	\$ 427,150
<b>TOTAL NON-ENTITY</b>	<b>\$ 869,161</b>	<b>\$ 442,011</b>	<b>\$ 427,150</b>

Non-Entity Receivables consist of Civil Penalties assessed by FEC through its enforcement processes or conciliation agreements reached with parties. Three FEC offices administer the fines: the Office of General Counsel (OGC), the Office of Administrative Review (OAR) and the Office of Alternate Dispute Resolution (ADR). Each has a distinct role in the enforcement and collection process. The offices also have significantly different volumes. Therefore, each has a different rate of collection. The Allowance is based on the historical rate of collection for the office and an overall assessment of the debtor's willingness and ability to pay. OAR debts are referred to the U.S. Treasury for collection when delinquent. At September 30, 2006, OGC had receivables of \$354,750 and an allowance of \$62,791 (18%) for a net receivable of \$291,959. At September 30, 2005 OGC's receivable was \$285,750 and the allowance was \$65,187 (23%) for a net receivable of \$220,563. At September 30, 2006, OAR has a receivable of \$663,648 and an allowance of \$490,436 (74%) for a net receivable of \$173,212. For the year ended September 30, 2005, OAR was owed \$509,911 and the allowance was \$376,824 (74%) for a net receivable of \$133,087. The ADR receivable at September 30, 2006 was \$56,300 with an allowance of \$1,000 (2%) for a net receivable of \$55,300. At September 30, 2005 the receivable for ADR was \$73,500 while the allowance was \$0 (0%) for a net receivable of \$73,500.

### Note 5 – General Property and Equipment, Net

Capitalized property and equipment, net of accumulated depreciation, consisted of the following as of September 30, 2006 and 2005:

Asset Class	Service Life (years)	2006		
		Acquisition Value	Accumulated Depreciation	Net Book Value
Software	5	\$ 12,582,805	\$ 6,971,393	\$ 5,611,412
Desktop and laptop computers and peripherals	3	3,553,620	2,810,613	743,007
Leasehold Improvement	7 or less	4,912,211	3,566,376	1,345,835
Furniture	7	852,754	450,409	402,345
Equipment	7	0	0	0
Software-in-Development	n/a	654,558	–	654,558
Totals		\$ 22,555,948	\$ 13,798,791	\$ 8,757,157

Asset Class	Service Life (years)	2005		
		Acquisition Value	Accumulated Depreciation	Net Book Value
Software	5	\$ 8,661,885	\$ 5,206,852	\$ 3,455,033
Desktop and laptop computers and peripherals	3	2,956,069	2,098,701	857,368
Leasehold Improvement	7 or less	4,416,381	1,961,072	2,455,309
Furniture	7	852,754	306,338	546,416
Equipment	7	284,611	235,595	49,016
Software-in-Development	n/a	2,701,151	–	2,701,151
Totals		\$ 19,872,851	\$ 9,808,558	\$ 10,064,293

Depreciation expense was \$3,990,233 and \$3,133,559 for the periods ending September 30, 2006 and September 30, 2005, respectively.

## Note 6 – Liabilities Covered and Not Covered By Budgetary Resources

Liabilities Covered by Budgetary Resources are those for which budgetary resources are available in the current fiscal year. Liabilities Not Covered by Budgetary Resources result from the receipt of goods and services, or the occurrence of events, for which appropriations, revenues, or other financing sources necessary to pay the liabilities have not yet been made available through Congressional appropriation. These include *FECA* (see Note 6) and annual leave liability. FEC's liabilities covered and not covered by budgetary resources are as follows as of September 30, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
<b>Liabilities Covered by Budgetary Resources:</b>		
Accounts Payable – Intragovernmental	\$ 50,000	\$ 137,000
Accounts Payable – With the Public	864,387	884,084
Accrued Payroll and Benefits	1,395,736	1,484,178
Other	12,681	1,954
<b>Total Liabilities Covered by Budgetary Resources</b>	<b>\$ 2,322,804</b>	<b>\$ 2,507,216</b>
<b>Liabilities Not Covered by Budgetary Resources:</b>		
Intragovernmental:		
Custodial Liability	\$ 976,525	\$ 677,317
With the Public:		
Accrued Unfunded FECA Liability	17,631	36,076
Accrued Unfunded Annual Leave	1,931,980	1,963,941
<b>Total Liabilities Covered by Budgetary Resources</b>	<b>\$ 2,926,136</b>	<b>\$ 2,677,334</b>
<b>Total Liabilities</b>	<b>\$ 5,248,940</b>	<b>\$ 5,184,550</b>

## Note 7 – FECA Liability

The *Federal Employee's Compensation Act (FECA)* provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Claims incurred for benefits for FEC employees under *FECA* are administered by the Department of Labor (DOL) and are ultimately paid by the FEC.

The FEC accrues *FECA* liability at September 30th each year. *FECA* liability includes two components: (1) the accrued liability which represents money owed for claims paid by the DOL through the current fiscal year, for which billing to and payment by the FEC will occur in a subsequent fiscal year and; (2) the liability for future costs which represents the expected liability for approved compensation cases beyond the current fiscal year. Estimated future costs have been actuarially determined, using the model provided by DOL, and are regarded as a liability to the public because neither the costs nor reimbursement have been recognized by DOL. *FECA* liability is included in Liabilities Not Covered by Budgetary Resources, as described in Note 6.

### Note 8 – Commitments and Contingencies

In the opinion of FEC management and legal counsel, FEC is not a party to any legal actions which are likely to result in a material liability. Accordingly, no provision for loss is included in the financial statements.

### Note 9 – Leases

The FEC has a commitment under an operating lease for its headquarters office space. The lease is for a period of ten years and expires September 30, 2007. Under their lease agreement with GSA, the FEC is charged rent that is intended to approximate commercial rental rates. FEC has no capital leases. Future payments due under the lease:

#### Future Operating Lease Payments

<u>Fiscal Year</u>	<u>Lease</u> <u>Payments</u>
2007	\$ 4,075,749
Total Future Lease Payments	\$ 4,075,749



**Note 10 – Statement of Net Cost**

FEC's costs are broken into three main programs as noted below:

	<b>2006</b>			
	<b>Obtain Compliance</b>	<b>Promote Disclosure</b>	<b>Public Financing</b>	<b>Totals</b>
Intragovernmental gross costs	\$ 2,307,153	\$ 1,796,075	\$ 607,170	\$ 4,710,398
<b>Intragovernmental net costs</b>	<b>2,307,153</b>	<b>1,796,075</b>	<b>607,170</b>	<b>4,710,398</b>
Gross costs with the public	25,075,878	19,521,095	6,599,185	51,196,158
<b>Net costs with the public</b>	<b>25,075,878</b>	<b>19,521,095</b>	<b>6,599,185</b>	<b>51,196,158</b>
<b>Net Cost of Operations</b>	<b>\$ 27,383,031</b>	<b>\$ 21,317,170</b>	<b>\$ 7,206,355</b>	<b>\$ 55,906,556</b>

	<b>2005</b>			
	<b>Obtain Compliance</b>	<b>Promote Disclosure</b>	<b>Public Financing</b>	<b>Totals</b>
Intragovernmental gross costs	\$ 2,898,838	\$ 3,419,141	\$ 1,114,937	\$ 7,432,916
<b>Intragovernmental net costs</b>	<b>2,898,838</b>	<b>3,419,141</b>	<b>1,114,937</b>	<b>7,432,916</b>
Gross costs with the public	19,033,299	22,249,533	7,320,500	48,803,332
Less: earned revenues from the public	–	(185,860)	–	(185,860)
<b>Net costs with the public</b>	<b>19,033,299</b>	<b>22,263,673</b>	<b>7,320,500</b>	<b>48,617,472</b>
<b>Net Cost of Operations</b>	<b>\$ 21,932,137</b>	<b>\$ 25,682,814</b>	<b>\$ 8,435,437</b>	<b>\$ 56,050,388</b>

### Note 11 – Statement of Budgetary Resources

The Statement of Budgetary Resources (SBR) compares budgetary resources with the status of those resources. As of September 30, 2006, budgetary resources were \$56,527,231 and net outlays were \$52,480,533. As of September 30, 2005, budgetary resources were \$53,506,736 and net outlays were \$54,543,120.

#### Apportionment Categories of Obligations Incurred

FEC receives apportionments of its resources from OMB. Category A apportionments are those for resources that can be obligated without restriction on the purpose of the obligation, other than to be in compliance with legislation underlying programs for which the resources were made available. Prior to FY 2006 Category B apportionments were to be used for Information Technology enhancements only. Beginning in FY 2006 the B fund designation was eliminated.

The apportionment categories of obligations incurred are summarized below at September 30, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Direct:		
Category A	\$ 54,448,901	\$ 43,207,209
Category B	0	8,505,031
<b>Total Apportionment Categories of Obligations Incurred</b>	<b><u>\$ 54,448,901</u></b>	<b><u>\$ 51,712,240</u></b>

#### Comparison to the *Budget of the United States Government*

Statement of Federal Financial Accounting Standards No. 7 (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)*. However, the *Budget* has not yet been published. The *Budget* is scheduled for publication in February 2007 and will be available through OMB. Accordingly, information required for such disclosure is not available at the time of publication of these financial statements.

## Note 12 – Custodial Revenues and Accounts Receivable

FEC uses the accrual basis of accounting for the collections of fines, penalties and miscellaneous receipts. Collectibility by FEC of the fines and penalties is based on the responsible parties' willingness and ability to pay:

	<u>2006</u>	<u>2005</u>
<b>Fines, Penalties and Other Misc. Revenue</b>	\$ 6,602,398	\$ 2,592,444
<b>Accounts Receivable for Fines, Penalties and Other Miscellaneous Receipts</b>		
Accounts Receivable	\$ 1,074,698	\$ 869,161
Less: Allowance for Doubtful Accounts	554,227	442,011
<b>Total</b>	<u>\$ 520,471</u>	<u>\$ 427,150</u>

## Note 13 – Explanation of the Relationship Between Liabilities Not Covered by Budgetary Resources on the Balance Sheet and the Change in Resources that Fund Expenses Recognized in Prior Periods of Operations

The decrease in *FECA* liability of \$18,445 and annual leave liability of \$31,961 from FY 2005 is included in the Resources that fund expenses recognized in prior periods of operations line on the Statement of Financing. In FY 2005, there was a decrease of \$7,349 in the *FECA* liability. See Note 6 for liability balances. Undelivered orders at September 30, 2006 and 2005 totalled \$5,211,294 and \$4,015,447 respectively.



# Appendix A: Inspector General Statement



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 13, 2006

Each year, the Inspector General is required to provide a summary and assessment of the most serious management and performance challenges facing the Federal Election Commission. The requirement is contained in the Reports Consolidation Act of 2000 (Public Law 106-531), an amendment to the Chief Financial Officers (CFO) Act of 1990. The attached document responds to the requirement, and provides the annual statement on Commission challenges to be included in the *Federal Election Commission Performance and Accountability Report (PAR) Fiscal Year (FY) 2006*.

The Inspector General has identified three areas for inclusion in the FEC's FY 2006 PAR:


- Human Capital Management
- Information Technology Security
- Financial Reporting

The Inspector General identified these same three challenges in the 2005 PAR and continues to believe the issues remain challenges for the FEC. This year, human capital management is highlighted, due in part to the increased importance in this area as a result of the departure of several senior management of the FEC. Overall, the FEC has devoted significant efforts to address the challenges and progress is being made on these important areas.

The Inspector General's assessment is based on information derived from a combination of several sources; including Office of Inspector General audit and inspection work,

Commission reports, and a general knowledge of the Commission's programs and activities.

The Reports Consolidation Act of 2000 permits agency comment on the Inspector General's statements. Agency comments, if applicable, are to be included in the final version of the PAR that is due on November 15, 2006.

  
Lynne A. McFarland  
Inspector General

Attachment

Cc: Patrina M. Clark, Staff Director  
John D. Gibson, Acting Chief Financial Officer

Federal Election Commission  
2006 Management and Performance Challenges

(Prepared by the FEC's Office of Inspector General)

HUMAN CAPITAL MANAGEMENT

Strategic management of human capital is a vital function, key to creating and sustaining a high performing organization. It is a process for identifying the human capital required to meet organizational goals and developing strategies to meet these requirements. Workforce issues, such as recruitment, training, retaining talented employees, succession planning, and development of leadership, has challenged Federal agencies for many years. In fact, the Office of Management and Budget (OMB), the Office of Personnel Management (OPM), and the Government Accountability Office (GAO) have all made the strategic management of human capital a top priority.

In addition to traditional workforce issues, the FEC also faces significant challenges associated with the departure over the last year of several mission critical senior staff. The former Staff Director and the Director of Budget, Planning and Management both retired in the last year. The individuals that held these positions worked in various positions at the FEC for approximately 30 years each. In January 2006, the FEC experienced another significant departure of two long-serving Commissioners and their staff. Former Commissioners Scott E. Thomas and Danny L. McDonald were both appointed by President Ronald Reagan and served in this capacity for over twenty years. Other mission critical senior staff that left their positions in the last year include: the Deputy Staff Director for Audit and Review; Director of the Office of Equal Employment Opportunity; Chief Financial Officer; and the Budget Officer.

The addition of new Commissioners and their staff, along with a new Staff Director, has brought a significant amount of change in the last year. The FEC has made a concerted effort to effectively respond to the human capital challenge over the past year. The Office of Human Resources and Labor Relations has continued to focus their efforts on programs that draw exceptional talent to the Commission, provide opportunity for advancement, as well as, expand workforce skills that support a wide variety of capacities throughout the agency. Through the student intern program developed to attract students with diverse education and experience, the Commission has experienced some success. For example, the FEC hired three former legal interns into full time positions; two in FY 2006; and another former intern is scheduled to begin full time employment in 2007.

Developing training programs, such as the executive development program, to enhance employee performance and address training gaps identified is an ongoing responsibility. In response to the significant and sudden changes resulting from the departure of several mission critical positions, the Office of Human Resources developed training sessions to assist employees in the process of coping with change in the workplace and managing stress. However, plans to execute a formal executive level training program for the Commission's senior managers in 2006 were not fully implemented due to the number of vacant senior staff positions. The Office of Human Resources conducted several internal training sessions in 2006 to provide the Commission's leaders with information regarding

the performance management system. Once the vacant senior staff positions have been filled, the Office of Human Resources will continue in their efforts to identify and address the training needs of the senior level management.

To improve the quality of work life, the Commission implemented a flexiplace pilot program in March 2006 to learn about the benefits and problems of flexiplace arrangements at the Commission. Flexiplace is the Commission's version of telecommuting. The pilot program's objectives are to help the Commission use its resources more efficiently and effectively, increase productivity and job satisfaction, and improve the quality of the employees' work and family life without diminishing the quality of the services provided by the Commission. Prior to the start of the pilot program, the Inspector General (IG) believes the FEC had been reluctant to implement the telecommuting concept as compared to other Federal agencies. However, the IG is encouraged by the number of employees participating in the pilot program. Forty employees occupying positions in three Commission offices are involved in the pilot program: Office of the General Counsel, the Audit Division, and the Office of Administrative Review. At the end of the pilot program, the FEC plans to assess the results and determine the feasibility of continuing the program. Due to the competitive employment market and the increased risk of terrorist attacks since 2001, the IG believes the question is not whether the program will continue, but to what extent the FEC embraces the flexiplace concept FEC-wide.

During the past year, effort was expended to use effective hiring strategies to expand the pool of qualified applicants in order to recruit senior level staff. These efforts resulted in the selection of Patrina M. Clark as the new Staff Director of the Commission, a staff position mandated by the Federal Election Campaign Act (FECA). Ms. Clark joined the Commission in July of 2006 and comes to the Commission with an extensive Federal background with experience in management of human resources, information technology, comptroller, and public affairs offices.

Under the direction of the Commissioners, the newly appointed Staff Director has begun a process that will transform the Commission, and continue to build on its strengths. Management's plans involve organizational restructuring, recruiting for vacant senior level positions, and succession strategies that will improve the FEC's operations and effectiveness. In addition, the FEC has received OPM approval for the creation of a senior level position that will be responsible for developing strategic human capital initiatives. Agency leadership has also established several forums for employees to openly express their ideas and suggestions for improvement of the FEC. These forums include the creation of a suggestion box and email address to collect employee ideas, as well as the creation of an internal FEC blog (web log). The IG believes these communication mediums are essential to fostering an open and collegial environment. To build greater awareness and familiarity with the opportunities and challenges the Commission collectively faces, a new employee orientation program was developed. The new program will provide all new employees with a basic awareness and understanding of the agency's mission. Additionally, the Staff Director's office has plans to finalize the development of a new employee handbook that will serve as an agency reference tool. Other planned actions to address workforce issues include: employee focus groups, monthly brown bag lunches with the Commissioners and quarterly town hall meetings to keep the communication flowing among senior management and the staff. Furthermore,



continued participation in the annual Federal Human Capital Survey provides senior managers with important information that aids in the development of other programs and policies needed to address possible problem areas identified.

The IG recognizes the progress made over the past year to address major staff changes and the continued efforts to provide professional development and training opportunities that attract and retain a talented skilled workforce. However, the agency must improve on incorporating human capital initiatives into the budgetary and strategic planning processes. Once the agency's strategic planning process encompasses human capital initiatives, the Commission will have an effective plan that will ensure that the FEC has a work force capable of meeting the long term challenges associated with carrying out the agency's mission.

The agency needs to meet this challenge in order to address all other management challenges. With OPM's recent approval for the creation of a senior level management position that focuses on strategic management of human capital, the agency appears to be embracing the positive direction of change. However, continued efforts are needed to ensure that the agency's workforce planning efforts become institutionalized and continue to get the high level of attention they have received over the past year.

#### INFORMATION TECHNOLOGY SECURITY

Information technology (IT) security, while improving at the FEC, continues to be a challenge for the agency. The challenge the FEC faces in IT security is shared by other departments and agencies in the Federal government. The Government Accountability Office (GAO) has listed IT security on their list of high-risk areas since 1997. GAO's high-risk list includes Federal programs and operations that are subject to greater vulnerabilities to fraud, waste, abuse and mismanagement.

GAO has indicated IT security is a challenge government-wide in part due to the escalating threat of computer security incidents, the ease of obtaining and using hacking tools, the steady advance in the sophistication and effectiveness of attack technology, and the emergence of new and more destructive attacks. Some of the weaknesses GAO has cited at other Federal departments and agencies are also current weaknesses at the FEC. For example, the FEC has not conducted risk assessments every three years as part of an overall strategy to mitigate risks associated with its IT environment. In addition, the FEC's disaster recovery plan needs improvement to include a comprehensive contingency plan of its data centers, networks and telecommunication facilities. The disaster recovery plan should also include a prioritization and timeframe for recovering resources in the event of a disaster.

Continued commitment of the Information Technology Division staff has resulted in some success in addressing the IT security challenge in the last year. The FEC has improved the physical security controls over the data center and also strengthened the monitoring of potential network security incidents. Other improvements include better access control to ensure users are only granted the necessary and appropriate access rights on the server; and periodic reviews of the network firewall parameters to help

ensure appropriate safeguards are in place to protect the FEC network. In addition, in response to a government-wide request by the Office of Management and Budget, the FEC has taken steps to improve controls to help protect personally identifiable information that may be contained on FEC laptop computers and portable devices. Through the use of encryption and passwords, the controls will help protect sensitive personal information in the event of theft or loss of an FEC portable computer device.

Although the commitment of the FEC staff to improve IT security is key, the IG continues to believe the appropriate level of oversight and adherence to government-wide IT security standards are also important parts of an effective security program. GAO has cited the enactment of the Federal Information Security Management Act of 2002 (FISMA) as important legislation requiring the development, documentation, and implementation of an agency-wide information security program. However, as noted by the IG previously, the FEC is one of only a handful of Federal agencies that are exempt from FISMA. Notwithstanding this exemption, the IG and management over time have come to at least an informal understanding that the FEC should be expected to adhere to IT security “best practices”, which in the Federal government would include adherence to IT security standards published by the National Institute of Standards and Technology (NIST). The IG hopes that with the necessary resources and time, the FEC will eventually formally adopt adherence in principle to FISMA and the NIST standards.

#### FINANCIAL REPORTING

Beginning in fiscal year (FY) 2004, the FEC was required to prepare and submit annual audited financial statements as a result of the Accountability of Tax Dollars (ATD) Act of 2002. The submission of audited financial statements to Congress and the Office of Management and Budget is an important component to effective financial management. Effective financial management encompasses the FEC’s responsibility to use tax dollars appropriately; to prevent fraud, waste and abuse; and produce timely, accurate and useful financial information for day-to-day decisions. The requirement to prepare and submit audited financial statements has been a challenge for the FEC, in part because the agency had not previously been subject to the requirements.

Contributing to the FEC challenge of improving financial management has been a lack of continuity in several key financial and budget positions at the agency. In the past three years, four different individuals have held the position of Chief Financial Officer. In addition, the Systems Accountant and two Budget Officers also separated or retired from the agency in the last year. Fortunately, the Accounting Officer, and a majority of his immediate staff have provided important continuity during the last several years. Furthermore, as a result of the CFO’s recent resignation, the FEC was able to fill the acting CFO position with a seasoned FEC manager with thirty years of institutional knowledge of FEC operations and programs.

A very significant project that has recently gotten underway at the FEC is a plan to migrate to a Financial Management Line of Business (FMLoB) sometime in FY 2007. The Federal government has undertaken the Line of Business (LoB) initiative, both in financial management and human resources, to assist agencies in their efforts to improve management in these areas. Specifically, the LoB initiative is intended to provide

economies of scale, so that a single entity provides financial services to several other entities. Among the goals of the LoB initiative are to facilitate stronger internal controls and reduce costs by providing a competitive alternative for agencies to acquire, develop, and operate financial management systems through shared service providers.

Achieving cost and quality improvements through the FMLoB is one of the President's top management priorities. The FEC is currently at a critical decision point since the FEC's financial management software vendor no longer supports software application updates. As a result, for a relatively small Federal agency like the FEC, the LoB concept makes good business sense due to the costs and resources that are necessary to internally maintain an effective financial management system. The IG believes the LoB initiative has the potential to provide overall cost savings, efficiencies and improvements to financial management on a short and long term basis if the FEC takes full advantage of the services available through the LoB initiative.



# Appendix B: Report on the Status of FMFIA Non-Conformance

MATERIAL WEAKNESS	FY FIRST NOTED	STATUS	CORRECTIVE ACTIONS
<b>Cost Accounting System and Processes</b>			
1. Establish formal and comprehensive cost allocation methodology and related policy and procedures.	2005	Completed: April 2006	Implemented cost allocation and Time Reporting System (TRS) effective April 2006.
2. Cross-train employees to minimize the risks of major interruptions in normal business operations.	2005	Completed: July 2006	The TRS was developed jointly with ITD. As such, training related to TRS was cross-functional. For example, the program offices and Acting Budget Officer have received TRS training. The Budget Analyst will be trained when hired.
3. Establish a review process wherein a person, other than the preparer, reviews the work performed to ensure accuracy and propriety.	2005	Completed: July 2006	The Budget Officer is responsible for generating information/output from TRS. The CFO then reviews and approves the allocation percentages derived and documents the review.
4. Maintain audit trails to support the allocation methodology and amounts	2005	Completed: September 2006	TRS has embedded edit checks and audit trails to support the allocation percentages. The CFO is responsible for reviewing the reports quarterly.
5. Evaluate the functional requirements for the new cost accounting system to ensure that the minimum level of cost accounting required in SFFAS No. 4 is attained.	2005	Completed: September - October 2006	The CFO, Accounting Officer and an outside contractor have reviewed the requirements of SFFAS and found FEC to be in compliance. A new policy, procedures and documentation were developed.
<b>Administrative Fines, Civil Penalties and Miscellaneous Receipts</b>			
6. Establish and implement policy and procedures ensuring communication and coordination between program offices and finance office on activities with financial impact. The policy should also clearly establish the FEC's revenue recognition policy. The finance office should design a standard report outlining all the necessary information to record the financial activities. The report should be prepared and submitted timely at least monthly by the program offices to the finance office.	2005	Completed: July-September 2006	Finance met with the program offices in Dec. 2005 to discuss information needed by Finance. Finance developed detailed spreadsheets by cases which track receivables, collections and payables (budget clearing). These spreadsheets were completed in July 2006 and are sent to the offices for confirmation each month.

**Appendix B | Report on the Status of FMFIA Non-Conformance**

MATERIAL WEAKNESS	FY FIRST NOTED	STATUS	CORRECTIVE ACTIONS
7. Document the policy and basis for the allowance for uncollectable accounts.	2005	Completed: September 2006	Procedures are documented in the Accounting Manual section 2.3.9. Spreadsheets exist to record the monthly transactions.
<b>General Property and Equipment</b>			
8. Reconcile the total of the individual property items in the property system to the bulk purchase total recorded in the books to ensure completeness of the property system records.	2005	Completed: March 2006	FEC began recording bulk purchases of computers in detail in the property system in FY 2006. All purchases from that point forward are recorded in detail. FEC has also certified all capitalized assets are in good condition and in use as of 09/30/06.
9. Document physical inventory procedures, results, and reconciliation and maintain the documentation to audit trail purposes.	2005	Completed: September 2006	A physical inventory was taken of all capitalized assets by FEC personnel in September 2006. A contractor performed the inventory of non-capital assets. Results were made available to CG. No adjustments to the books were necessary.
10. Revise the software capitalization policy to comply with SFAS No. 10.	2005	Completed: March 2006	FEC performed a review of its capitalization policy in March 2006 and found no changes were needed.
11. Enforce compliance and consistent implementation of policies and procedures related to completing receiving reports and the review and approval of obligating memos or documents.	2005	Completed: April 2006	The receiving report was redesigned and placed in service in April 2006.
12. Establish a standard process and policy where program offices are required to notify the finance office of any property acquisition or disposition with accounting impact to ensure proper and timely recording of the transaction.	2005	Completed: June 2006	Finance met with ITD several times during FY 2006 to ensure it had the latest status of software in development. FEC intends to develop a form in FY 2007 to replace e-mail notifications.
<b>Entity-Wide Security Program</b>			
13. Implement a framework of policies and standards to mitigate risks associated with the information resources management.	2005	Completed September, 2004	Completed \\Ntsrv1\fec-wide\FEC IT Policies and Standards\IT System Security Program Policy Cover Letter.pdf
14. Complete the documentation, approval and implementation of an entity-wide security program plan.	2005	Completed September, 2004	Completed \\Ntsrv1\fec-wide\FEC IT Policies and Standards\IT System Security Program Policy Cover Letter.pdf
15. Develop and implement security plans for all major applications and MCGSS as part of a risk mitigation strategy.	2005	Completed September, 2004	Completed.
16. Ensure that Resource Classifications in FEC's security plans accurately reflect the risk and vulnerabilities of FEC systems.	2005	Requires additional funding	Funds were requested in the 06 budget but they were not available. The best case for completion of a partial risk assessment would be 2007 if funds become available.
17. Complete the implementation of the program for the continuous monitoring and evaluation of the computer security policy and control effectiveness.	Modified from 2004	Completed September, 2005	Completed.

MATERIAL WEAKNESS	FY FIRST NOTED	STATUS	CORRECTIVE ACTIONS
18. Conduct risk assessments at least every three years as part of an overall strategy to mitigate risks associated with its information technology environment.	2005	Requires additional funding	Funds were requested in the 06 budget but they were not available. The best case for completion of a partial risk assessment would be 2007 if funds become available.
19. Certify that the major applications and MCGSS are operating according to FEC's security requirements.	2005	Requires additional funding	Funds were requested in the 06 budget but they were not available. The best case for completion of a partial certification would be 2007 if funds become available.
20. Strengthen FEC's program to document corrective actions and verify that weaknesses identified have been addressed. Ensure and document that recommendations from the most recent network security review have been implemented.	Modified from 2004	Completed December, 2005	Completed.
<b>Controls to Protect Information</b>			
21. Create a new GL system application role to give employees with necessary and appropriate Access rights to fulfill their job responsibility.	Modified from 2004	Completed January, 2006	Completed \Ntsrv1\fec-wide\FEC IT Policies and Standards\58-2.2 Account Management Policy.doc & 58-3.1 Logical Access Policy.doc
22. Monitor and record visitor access to the data center.	2005	Completed October, 2005	Completed. Process has been greatly improved and now in compliance with FEC's physical security policy.
23. Use access request forms to document user access rights and periodically review the access for appropriateness.	2005	Completed January, 2005	Completed \Ntsrv1\dsdd\System Security Plans\Completed\FEC LAN and PeopleSoft Security Plans & \NTSRV1\FEC-Wide\IT Policies and Standards\FEC Password Standard and Rules of Behavior.
24. Develop mitigating controls to ensure that GL system passwords are in agreement with FEC policy.	Modified from 2004	Completed January, 2005	Completed.
25. Automatically log network activity as required by the Audit Events Standard.	2005	Completed October, 2005	Completed. The FEC adjusted the Audit Events Standard to accurately reflect what it does under the current infrastructure.
26. Institute a process to manually review logs of users using budgetary overrides where the reviewer is an individual who does not have access to utilize the overrides.	2005	Completed August, 2006	Completed. The CFO now approved a list of all budget overrides used during the year.

**Appendix B | Report on the Status of FMFIA Non-Conformance**

MATERIAL WEAKNESS	FY FIRST NOTED	STATUS	CORRECTIVE ACTIONS
27. Periodically review the firewall rule set for appropriateness.	2005	Completed December, 2005	Completed.
28. Periodically review LAN user accounts and disable unnecessary user accounts.	2005	Completed March, 2006	Completed.
<b>Contingency Plan</b>			
29. Perform a Business Impact Analysis to formally identify and prioritize all critical data and operations on FEC's networks and the resources needed to recover them if there is a major interruption or disaster. Ensure that emergency processing priorities are established to assist in managing disaster situations more effectively for the network and include business owners in the discussion to determine how much backup data is needed on-hand to minimize the impact of a disaster.	Modified from 2004	Requires additional funding	Funds were requested in the 06 budget but they were not available. The best case for completion of a partial BIA would be 2007 if funds are available.
30. Establish alternative processing site for FEC's operations in the event of a disaster and ensure that an operational mechanism exists to update the disclosure database in the event that the FEC database is unavailable to replicate the disclosure database resident at the off-site location.	Modified from 2004	Not Cost Justified	The cost is prohibitive and not cost effective.
31. Develop a Continuity of Operations Plan (COOP) to support the continuation of the FEC's core mission in the event of a disaster that renders the FEC's facilities unusable.	2005	Requires additional funding	Funds were requested in the 06 budget but they were not available. The best case for completion of a partial COOP would be 2007, if funds are available.
32. Develop and document a comprehensive contingency of operations plan of FEC's data centers, networks and telecommunication facilities.	2005	Requires additional funding	Funds were requested in the 06 budget but they were not available. The best case for completion of a partial COOP would be 2007, if funds are available.
33. Fully implement the System Development Life Cycle Methodology.	Modified from 2004	Completed August, 2005	Completed. This was completed with the implementation of the ClearQuest Change Tracking in August 2005. Item is closed.



# Appendix C:

## Federal Election Commission Strategic Plan FY 2004-2009

PURSUANT TO GPRA AND OMB A-11 April 11, 2005 Submitted to Congress/OMB 2 FEDERAL ELECTION COMMISSION STRATEGIC PLAN FY 2004-2009 As directed by the Congress, OMB, and the GPRA, the Strategic Plan provides the framework for how the Federal Election Commission (FEC) will use its resources to implement and enforce the campaign finance laws during the 2002 (FY 2002-2003), 2004 (FY 2004- 2005), 2006 (FY 2006-2007) and 2008 (FY 2008-2009) election cycles. The information in this plan is consistent with all currently available OMB guidance including OMB Circular A-11, as revised, per Transmittal Memorandums for all OMB A-11 Supplements. The plan will be modified in accordance with any future OMB guidance to agencies concerning compliance with the provisions of Public Law 103-62, the Government Performance and Results Act (GPRA.) The FEC Strategic Plan will be reviewed and revised in the FY 2007 Budget preparation process.

### MISSION STATEMENT

**The mission of the FEC is to assure that the campaign finance process is fully disclosed and that the rules are effectively and fairly enforced, fostering the electorate's faith in the integrity of the nation's political process.** The sanctity of the political process is key to public faith in the policy decisions made by the elected and executive branches of government. Desired outcomes from the successful achievement of this mission include providing the electorate with the capability to make educated, informed decisions in the political process based in part on where candidates for Federal office derive their financial support, and the confidence that those who disregard the *Federal Election Campaign Act of 1971*, as amended, (*FECA*) restrictions on campaign financing and/or its requirements for public disclosure

will suffer real and evenhanded consequences for non-compliance. In attaining these outcomes, the FEC strives to foster and maintain an attitude of voluntary compliance with the rules of the campaign finance process. The FEC realizes that voluntary compliance and public confidence are necessary because limited budgetary resources preclude massive efforts to enforce the *FECA*. In any election cycle, nearly 8,000 committees file between 85,000 to 90,000 reports, which contain between 2.5 to 3.0 million itemized processed transactions (contributions), as well as millions of other itemized disbursements, receipts and other payments previously not entered into Commission databases (now filed electronically except for Senate reports and other committees with less than \$50,000 in activity.) At the same time, the FEC has the resources to audit less than 1% of the committees filing reports in any given cycle, and only has the capacity to actively pursue between 1.5 to 2% of total committees through the compliance (enforcement) process (average monthly total of active cases since FY 1995) at any given time. As a result, voluntary compliance is the only possible method to ensure widespread compliance with the *FECA* in the campaign finance universe as it is configured currently. Administering and enforcing the *FECA* includes facilitating public disclosure of campaign finance activity; providing information and policy guidance to the public, press, political committees, and elections officials on the law and Commission regulations; encouraging voluntary compliance with the disclosure and other requirements of the *FECA*; and 3 enforcing the statute through audits, investigations, and civil litigation. Administering and enforcing the *FECA* also involves implementing the public funding programs for Presidential campaigns and conventions. This includes certification and audits of participating candidates and committees, and enforcement of public funding legislation.

## DESCRIPTION OF GOALS AND OBJECTIVES

To achieve this mission, the FEC has identified three major goals and objectives. The transfer of the Office of Election Administration to the Election Assistance Commission in FY 2004 reduced the number of objectives from four to three. The goals and objectives are tied to the remaining three core FEC programs:

### PROGRAM I: Public Disclosure

Promoting disclosure of campaign finance reports required to be filed for public view under the *FECA* (Title 2): to promote full, accurate, and timely disclosure of campaign finance activity in Federal elections, and to provide information and policy guidance on the *FECA* to the public, press, and those persons and entities required to comply with the *FECA*.

### PROGRAM II: Compliance

Enforcing the disclosure and limitations provisions of the *FECA* (Title 2): to encourage and obtain voluntary compliance with the disclosure and limitations provisions of the *FECA* through enforcement of the *FECA* in a timely, consistent, and comprehensive manner.

### PROGRAM III: Public Financing

Implementing the presidential election public funding provisions of the *FECA* (Title 26): to successfully administer the public funding provisions of the *FECA* under Title 26 U.S.C. for qualified candidates in presidential elections. The successful outcome of these programs will lead to the achievement of the FEC mission to assure public confidence in the campaign finance system.

## ACHIEVEMENT OF GOALS AND OBJECTIVES—EXPECTED OUTCOMES

The expected outcome is that the public has a high level of faith and trust in the fairness of the campaign finance and political processes. Program outcomes include:

### Program I: Public Disclosure

Outcomes are:

- That sources of campaign funds in Federal elections are accurately, fully, and timely disclosed to the public;
- That the electorate can make informed decisions as to the sources of campaign funds for candidates for Federal office;
- That the electorate can readily obtain campaign finance information directly from the FEC in usable formats;
- That the press and media can use FEC data to more widely disclose campaign finance information;
- That the public and the campaign finance community can easily obtain policy guidance and assistance in understanding and complying with the *FECA*.

### Program II: Compliance

Outcomes are:

- That the public has confidence that the *FECA* is fairly and swiftly enforced;
- That the election community has a high level of confidence that the *FECA* is fairly enforced, resulting in a high level of voluntary compliance with the *FECA*;
- That the election community believes that there are real, timely consequences for violation of the disclosure and limitation provisions of the *FECA*;
- That FEC enforcement resources are focused on the most salient and significant compliance concerns under the *FECA*.

### Program III: Public Financing

Outcomes are:

- That the successful implementation of the public funding provisions of the *FECA* continues for each presidential election;
- That all Federal funds disbursed in presidential elections are properly certified and accounted for by eligible candidates;
- That all audits and enforcement actions related to public funding are completed in a fair and timely fashion;
- That there are real and timely consequences for failure to comply with the *FECA* requirements under Title 26.

## **RELATIONSHIP BETWEEN PERFORMANCE GOALS IN THE ANNUAL PERFORMANCE PLAN (BUDGET) AND GOALS AND OBJECTIVES IN THE STRATEGIC PLAN.**

### **Definition of an Election Cycle**

The Commission defines its work in the context of election cycles. An election cycle is defined generally as the preceding and actual election years, i.e., calendar years 2003 and 2004 constitute the 2004 election cycle. In the Strategic Plan, the FEC notes that the 2004 election occurs in FY 2005, and that the break in fiscal years (October 1) comes in the middle of the peak pre-election period when the FEC experiences its heaviest workloads for many programs. The flow of work for programs such as audits and enforcement actions is such that action on the referrals for audits and compliance actions from the 2004 election most likely will not be finalized for three to four 5 years after the election cycle. This is particularly true for presidential audits and enforcement cases arising from the public funding provisions of the *FECA*. Therefore, work undertaken or completed in any fiscal year will necessarily include work arising from two or more election cycles. Strategic Plan and Election Cycles/ Performance Plan and FY's The Strategic Plan discusses performance goals and workloads by election cycle (unless otherwise noted), while the Performance Plan (now Performance Budget) relates the activities of the specific fiscal year (FY 2005) to work from several election cycles. The Performance Budget request also relates the performance goals for the FY to the levels of funding, relating the impact of reduced funding to the obtainable level of outcomes possible.

### **STRATEGIC PLAN FY 2004-2009 PERFORMANCE GOALS**

The targets and goals included in this Strategic Plan are based on the assumption that the Commission receives an appropriation at least sufficient to fund 391 FTE in each FY, which is the Current Services Performance level. Any level of funding less than the Current Services Performance level is a Minimal Performance level. This reduced level of funding results in a reduced level of performance and jeopardizes the achievement of our mission and our major program objectives. The

reduced performance is reflected in several ways. For example, there would be slippage of the time frames for completion of data collection, reports review, and referrals for audits and/or compliance actions, as well as for responsiveness to requests for information and data inquiries. Reduced performance would also be reflected in delays in completing the milestones for the IT programs set forth in our IT Strategic Plan. In some instances, less would be accomplished as well as delays experienced. Minimal funding levels would also jeopardize the operations of the ADR and the administrative fine programs and the stand-alone Title 2 audit program (audits of committees not receiving Federal funds). The FEC has experienced a more than 1366% percent increase in total campaign finance activity since 1976 (from \$300 million in total disbursements in Federal elections in 1976 to over \$4.4 billion in the 2004 election.) This increase in total financial activity has led to a 27% increase in total documents filed in an election cycle since the 1984 cycle, as well as a 400% increase in itemized transactions entered into the disclosure databases since 1984. The Commission has met these increases with a relatively static level of staffing though the use of management initiatives, productivity increases, and the use of technological improvements. It is vital to the successful achievement of the FEC mission and major program objectives that the Current Services Performance level is funded. The goals identified below reflect the Current Services Performance level.

### **PROGRAM I. DISCLOSURE**

To meet the goal that the public is fully informed about campaign finance sources, during each Federal election cycle (primaries and the general elections) the Commission will accomplish the following:

- A. Place between 85,000 to 90,000 reports and 20,000 to 25,000 statements from 7,500 to 8,000 committees filing reports on the public record each election cycle:
  1. Complete coding and entry of summary data from documents and statements filed each cycle and meet the 48 hour deadline for making documents public for 99% of those filed;
  2. Complete coding and entry of itemized data from reports filed, including 2.5 to 3.0 million itemized transactions per cycle, completing 95% within 45 days of reports being received at the

FEC, and all reports processed within a median 7 days from receipt at the commission;

3. Complete the review of all reports filed and refer all potential enforcement actions and audits each cycle, 60% of reviews within 90 days of receipt (quarterly filing periods);

4. Issue 20,000 Requests for Additional Information (RFAs) per cycle to correct the public record, 60% within 90 days of receipt of report (contacting filers within 90 days minimizes repetitious errors which tend to further burden the disclosure process);

5. Respond to requests for assistance from 40,000 filers per cycle.

B. Produce analytical summaries and releases of campaign finance data in summary form, and in the aggregate and by individual committees, periodically prior to each election, and in summary form after each general election:

1. Produce analytical releases after each election year quarterly report and the pre-general election report;

2. Produce Summary statistical analyses after each election cycle: Reports on Financial Activity;

3. Conduct a database accuracy review monthly for summary and itemized data entry.

C. Make FEC database and data available to requesters directly through on-line, website access:

1. Provide free access to the FEC disclosure database to all state elections offices wishing to participate and grant waivers for state filings for participating states: all 50 states and two territories;

2. Provide timely on-line access to the FEC disclosure database to the public through the FEC website and the storefront Public Records Office;

3. Make electronic filings available over the Internet upon receipt and processing at the FEC and make images of non-electronically filed reports also viewable on the FEC Web site: 4

million visits and over 100 million hits per cycle on the FEC Disclosure site.

D. Respond to over 200,000 requests for data, information, copies of reports or indices, and other requests for assistance each cycle (not including visits and hits on the FEC website):

1. 50,000 requests in Public Records;

2. 60,000 inquiries in Information, primarily over the toll-free line;

3. 16,000 requests in the Press Office, and 100 FOIA requests;

4. 10,000 requesters receive copies of materials and publications;

5. 75,000 computer indices and printouts.

E. Respond to Advisory Opinion requests and operates informational outreach programs:

1. Respond to 100% of 50 to 60 Advisory Opinion requests per cycle within 60 and 20-day statutory deadlines;

2. Publish an Annual Report each year, the *FEC Record* monthly, and provide prior notice of filing dates to filers;

3. Make FEC disclosure forms and copies of *FECA* and FEC Regulations available to filers electronically and in print form;

4. Produce additional informational and educational publications and videos such as campaign guides, brochures, and other pamphlets;

5. Conduct five to six campaign finance workshops to educate filers, and monthly roundtables on *FECA* issues.

## PROGRAM II. COMPLIANCE

To meet the goal that the public is assured of impartial and timely enforcement of *FECA*, the Commission will accomplish the following:

A. Make 100-125 referrals from the Reports Analysis Division for potential audit or enforcement per cycle:

1. Refer 75 committees for potential audits under 2 U.S.C. 438(b) per cycle, with 50 in the second year of cycle (e.g. FY 2005 for 2004 cycle) and all audit referrals of candidate committees within the statutory deadline of six months from the general election;
  2. Refer 45 to 50 committees for potential enforcement actions under 2 U.S.C. 437(g) per cycle
- B. Complete audits of committees referred under 2 U.S.C. 438(b), estimated 45-50 for each cycle:
1. 20-25 unauthorized (non-candidate) committees;
  2. 20-25 authorized (candidate) committees;
  3. Also complete review of all audits for legal issues.
- C. Process enforcement workload arising from complaints and the internal review and referral system for each cycle:
1. Process 175-200 complaints plus 45-50 internal referrals during the two-year period;
  2. Assuming an average total caseload of 125-150 cases in any given month, maintain an average active caseload of 50% of total caseload;
  3. Activate 50% of incoming cases on average over the election cycle.
- D. Close 175-200 cases in each election cycle, at least 50% with substantive Commission action. (This 50% represents cases in which the Commission has reached a substantive finding on the merits of the matter, other than dismissal, including findings of no RTB.)
- E. Conserve limited enforcement resources for more complex, substantive cases by continuing an administrative fine program for late and non-filing committees, removing non-filer enforcement from the standard complex enforcement process; close 375-400 cases in the second year of the cycle (e.g. FY 2005 for the 2004 cycle.)
- F. Conserve additional enforcement resources through the continued operation of the ADR program, designed to streamline the resolution

of administrative complaints and Title 2 audit referrals without resorting to the more complex, substantive enforcement procedures. Close 75-100 cases per election cycles, including any cases referred for mediation.

- G. Pursue resolution of cases through litigation and defend the FEC and *FECA* in suits brought by other parties to fully enforce the *FECA*:

1. Initiate litigation in an estimated 7-10 offensive suits per cycle (always meeting five-year statute of limitations);
2. Defend the FEC and *FECA* in 20-30 suits initiated per cycle.

### PROGRAM III. PUBLIC FINANCING

To meet the goal that the public funding programs under the *FECA* are fully implemented and fairly and speedily enforced, the Commission will accomplish the following: Within two years of each presidential general election:

- A. Complete the certification of payments to and audits of publicly funded candidates in presidential elections:
1. Process monthly certification requests for Federal matching funds (estimated 10-12 candidates in a presidential election with an incumbent, 15-17 candidates in an "open" presidential election);
  2. Audit primary candidates receiving Federal matching funds (same criteria for number of candidates);
  3. Audit at least four (major) national party convention and host committees receiving Federal funds for nominating conventions, and any eligible minor party convention committees;
  4. Audit general election candidate committees of two major parties (and any eligible minor parties). Within three years of each presidential general election:
- B. Complete legal review of presidential audits:
1. Review legal issues arising from primary audits, at least four convention audits, and two or three general election audits;



- 2. Resolve repayment questions for committees receiving Federal funds (always meeting three year statute of limitations).
- C. Initiate enforcement cases involving presidential committees referred through internal referral process or complaint.
- D. Provide Congress with a report on the public funding programs. Within four years of each presidential general election:
- E. Complete initial actions on enforcement cases involving presidential committees referred through internal process or complaint.

**KEY FACTORS THAT COULD AFFECT ACHIEVEMENT OF GOALS AND OBJECTIVES**

External factors that have the greatest potential to significantly and adversely affect our ability to achieve our statutory mission are those that affect the general application of the *FECA* itself. Such factors include, but are not limited to:

- The number of candidates who run for Federal office and the amount of money involved in the political process;
- Significant and substantive amendment to the *FECA* itself, which could either close present “loopholes” in the law and strengthen the FEC’s enforcement and disclosure operations, or changes loosening the regulations regarding the limits and restrictions on fundraising and reporting (recent *BCRA* amendments were an example of significant amendments to the *FECA*);
- Definitive Supreme Court judicial review of presently contested elements of the *FECA*, e.g. the definition of “express advocacy,” the legal determination of what activity by a group triggers registration as a committee (and thus reporting requirements and limitation provisions), and similar controversial elements of the present regulatory regime (the *BCRA* amendments to the *FECA* resolved some issues, left others still open, and created some potential new issues to be resolved);
- The solvency of the Presidential Election Campaign Fund and, as a consequence, the determination of presidential candidates to opt either in or out of the public funding programs;

- Significant increases or decreases in the level of competition in Federal election campaigns, the volume and intensity of fundraising for Federal campaigns, and the general political attitude, interest, and awareness of the public and the electorate, which can greatly influence the tone and competitiveness of elections;
- Major increases or decreases in the level of funding appropriated to the FEC and the presence and nature of any restrictions on the use of those funds;

All of these factors can influence the amount of money to be regulated by the FEC each election cycle, driving FEC workloads such as the number of reports filed and transactions to be processed, the volume of requests for information, data, and assistance made to the FEC, and the number of complaints filed with the Commission. Of all these factors, the status of the presidential fund and the appropriations level for the FEC are perhaps the most salient currently. Record levels of campaign finance activity in the past six election cycles, coupled with available budgetary resources, have severely strained the Commission’s ability to meet mission objectives and performance goals. The status of the presidential fund may become an active factor in future elections, because of declining public support of the check-off and absent any legislative fix to index income into the fund. Several major candidates have chosen not to participate in the public financing process in the presidential primaries for the 2000 and 2004 election cycles.

**FEC PROGRAM EVALUATION ACTIVITIES**

The FEC has a planning and budgeting system which is based on a detailed Management Information System (MIS), and is driven by program based workloads and activity data, outputs, and productivity measures. In an on-going evaluation process, the monthly MIS reports and FY based productivity measures are used to evaluate program efficiency and effectiveness. The FEC has also married the A-123 and A-127 processes, under the *Federal Managers’ Financial Integrity Act*, to ongoing program management activities, and has striven to relate the annual A-123 reports to the FEC Budget requests. The evaluation of program resources, mainly staff resources, and the resulting program outputs and productivity measures are used

in the internal planning and budget formulation processes. Commission Management Plans and Budget Requests are workload-driven, and related to resource levels and expected program activity levels. As a personnel intensive agency, about 70% of the Commission's resources are staff costs, and the remaining 30% represents mainly rent and other direct support for that staff. Using the MIS and Summary MIS reports, both produced on a monthly basis, all workloads, program outputs, productivity, and effectiveness and efficiency are being monitored, in monthly Management Reports. Several other tracking systems monitor the status of reports processing (filing, filming, data coding and entry, and reports review), enforcement and litigation activities, Advisory Opinions and regulatory rule making, and audit progress. The Enforcement Priority System continually adjusts active enforcement caseloads to match available resources. A major, multiyear effort to institute a Case Management system for OGC to track enforcement cases resulted in the system becoming fully operational in FY 2003. This system monitors case status and tracks staff time by case for all OGC programs, not just enforcement. The implementation of the Case Management system provides a significant tool for the FEC to monitor resource usage and case progress. The Performance Goals contained in this Strategic Plan and the annual FY based Performance Budgets are tied directly to the Commission's workload and activity measures and the level of funding requested. The on-going program activity monitoring and output measurement efforts enable the Commission to determine if its performance goals are being achieved. This provides the basis for future evaluation efforts.

### **STRATEGIC PLANNING ISSUES FY 2004-2009**

Over the next several election cycles, the FEC will be dealing with several major issues as it evaluates the annual performance of the agency and prepares budget requests. Some of the most significant issues include:

#### **Public Financing Issues**

- The status and sufficiency of the presidential election campaign fund in the 2004 and 2008 presidential elections;

- The role of the FEC in a mixed environment of publicly funded and privately funded presidential campaigns in the next two cycles (scope of audits, etc.);
- The impact of a potential severe shortfall of available public funds during a presidential election cycle;
- The possible collapse of public funding due to either the choice of the candidates and/or the shortfall of the fund.

#### **Filing and Processing Issues**

- The change in IT resources from the coding and entry-processing environment to the electronic filing environment (with a mix of the electronic filers and the Senate and smaller committees continuing to file under the manual system);
- The impact of the on-going issue of the Senate filings, which represent a significant segment of the filing universe that is not electronically filed;
- Maintaining consistency of data from electronic and non-electronic filers in the disclosure databases;

#### **Reports Review Issues**

- The implementation of the automated review system and processes by the 2006 election cycle;
- The resolution of significant reports review backlogs during the 2000 and 2002 election cycles: additional staff resources and the automated review procedures should relieve the workload pressure in RAD. RAD has significantly improved the timeliness of reports review in the 2004 cycle-to-date;
- The role of the review of reports and audits in the disclosure and compliance programs of the Commission.

#### **Information and Disclosure Issues**

- Possible changes in staff allocations in response programs because of the reduction of direct inquiries to FEC staff due to the use of IT and other technology to process demands for information, reports and data;
- Impact of possible FEC reorganization and restructuring of FEC programs in response to changing demands for information and data and related impact of *BCRA* changes on outreach efforts;

- Review of efficacy and scope of FEC outreach efforts to educate and inform the public and the filing community post-*BCRA*.

### **Compliance Issues**

Role of administrative fine program: extension of program beyond December 31, 2005; impact on filing and reporting of disclosure data and on RAD review programs;

- Scope of Title 2, or 438(b), Discretionary Audit program: expand number of audits, continue limited scope audit program
- Continuing role of the ADR program in the compliance and enforcement programs.
- Impact of *BCRA* implementation on compliance programs. Enforcement Issues
- Impact of ADR and administrative fine programs on OGC enforcement workloads; impact of automated review and adjustments to RAD thresholds on enforcement workloads;
- Impact of *BCRA* changes on enforcement workloads and programs;
- Efficacy of litigation and enforcement—setting precedents and building a case record in significant areas of the *FECA* and fostering compliance with the *FECA*, particularly with respect to new issues raised by the *BCRA* amendments to the *FECA*

### **Regulations and Policy Issues**

Areas of the *FECA* and/or Regulations that need to be clarified, or revisited for possible revision;

- Continuing impact of *BCRA* amendments and Supreme Court decision on FEC regulations and legal policy issues.



## Appendix D: Glossary of Terms

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**ADR**

Alternative Dispute Resolution

**BCRA**

Bipartisan Campaign Reform Act of 2002

**DAP**

Data Access Program

**EAC**

Election Assistance Commission

**EQS**

Enforcement Query System

**EPS**

Enforcement Priority System

**FEC**

Federal Election Commission

**FECA**

Federal Election Campaign Act

**FMFIA**

Federal Managers' Financial Integrity Act

**FTE**

Full Time Equivalent

**FY**

Fiscal Year

**GPRA**

Government Performance and Results Act

**IG**

Inspector General

**IT**

Information Technology

**MIS**

Management Information System

**MUR**

Matters Under Review

**OAR**

Office of Administrative Review

**OEA**

Office of Election Administration

**OGC**

Office of General Counsel

**OIG**

Office of the Inspector General

**OMB**

Office of Management and Budget

**PAR**

Performance and Accountability Report

**PAC**

Political Action Committee

**RAD**

Reports Analysis Division

**RTB**

Reason to Believe

**RFAI**

Request for Additional Information





For more information or to comment on this report,  
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