

# *Semiannual Report to Congress*



## *Office of Inspector General*

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

*April 1, 2005 – September 30, 2005*

*November 2005*

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## ***EXECUTIVE SUMMARY***

This *Semiannual Report to Congress*, covering the period of April 1, 2005 through September 30, 2005, is submitted in accordance with the *Inspector General Act of 1978*, as amended. The Executive Summary highlights the most significant activities of the Federal Election Commission (FEC), Office of Inspector General (OIG) during this reporting period and are described in greater detail in subsequent sections of this report.

The Office of Inspector General is responsible for directing and carrying out audits, inspections, and investigations related to the Federal Election Commission programs and operations. The OIG recommends policies that promote economic, efficient, and effective use of agency resources and programs that prevent fraud, waste, abuse, and mismanagement. The OIG is also responsible for keeping Congress and the Commission fully informed regarding problems and deficiencies detected in FEC programs and operations, and the necessity for corrective action.

The audits performed by the OIG are conducted in accordance with the *Government Auditing Standards* issued by the Government Accountability Office (GAO). The investigations carried out by the OIG comply with the *Quality Standards for Investigations* developed by the President's Council on

Integrity and Efficiency (PCIE) and the Executive Council on Integrity and Efficiency (ECIE).

The fieldwork on *OIG-02-03, Audit of the FEC's Public Disclosure Process* has been completed and the draft report prepared. The main objectives and purpose for conducting this audit are to: 1) determine the extent, if any, of disclosure differences between candidate contributions reported by political committees and related political committee contributions reported received by candidates; and 2) determine whether an adequate process is in place to remedy any reporting discrepancies.

As part of the fieldwork, a review was done to evaluate the effect of returned checks by a candidate to a political action committee (PAC) on the disclosure process. This review assessed the occurrence of reporting variances between political action committees' disbursements and candidate committees' receipts in the 2001/2002 and 2003/2004 election cycles. The candidates' financial disclosure reports were examined to identify non-reporting of in-kind contributions from PACs. In-kind contributions are donations of goods, services, or property offered free or at a less than usual charge.

Additional details pertaining to the *Audit of the FEC's Public Disclosure Process – OIG-02-03* can be found on page 8, the section entitled **Audits.**

*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, or an independent external auditor as determined by the Inspector General, to audit the agency’s financial statements. Under a contract monitored by the OIG, Clifton Gunderson (GC) LLP, is the independent certified public accounting firm performing the FEC’s FY 2005 financial statement audit.

The OIG monitored the performance of the financial statement audit contractor. To do this, the approach and planning of the audit, along with the qualifications and independence of the auditors was reviewed. The work of the auditors throughout the audit was monitored along with examining audit documents and audit reports to ensure compliance with Government Auditing Standards and OMB Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

The OIG initiated an audit follow-up of the *Audit of the FEC's Fiscal Year 2004 Financial Statements – OIG-04-01* to determine the extent of

corrective action taken by management to address the forty-two outstanding audit findings and recommendations included in the FY 2004 independent auditors report.

Management provided the OIG with a corrective action plan, as well as updates, which detailed the actions taken and planned by management to implement the audit recommendations. The OIG's audit follow-up represents the OIG's assessment of management's implementation of audit recommendations since the completion of the FY 2004 audit and as of September 30, 2005. The OIG's audit follow-up resulted in the closure of twelve audit recommendations.

The OIG continues to work with agency management to address the remaining outstanding recommendations. The section entitled *Audit Follow-up*, starting on page 12, contains in depth information regarding the steps taken to complete the audit follow-up assessment.

The OIG closed one hotline complaint during this reporting period. There are currently seven hotline complaints open; three are in progress, and four are pending. One investigation remains open pending a decision by FEC management. For detailed information as it relates to the hotline

complaints, see page 14; for work associated with the investigation, see page 15.

Other activities that the Office of Inspector General participated in can be found in the section entitled *Additional Office of Inspector General Activity* located on page 16.

## ***THE FEDERAL ELECTION COMMISSION***

In 1975, Congress created the Federal Election Commission (FEC) to administer and enforce the *Federal Election Campaign Act* (FECA). The duties of the FEC, an independent regulatory agency, are to disclose campaign finance information; enforce the provisions of the law; and oversee the public funding of Presidential elections.

The Commission is made up of six members, who are appointed by the President and confirmed by the Senate. Each member serves a six-year term, and two seats are subject to appointment every two years. By law, no more than three Commissioners can be members of the same political party, and at least four votes are required for any official Commission action. The Chairmanship of the Commission rotates among the members each year, with no member serving as Chairman more than once during his or her term.

## ***OFFICE OF INSPECTOR GENERAL***

*The Inspector General Act of 1978* (P.L. 100-504), as amended in 1988, states that the Inspector General is responsible for: 1) conducting and supervising audits and investigations relating to the Federal Election Commission's programs and operations; 2) detecting and preventing fraud,



waste, and abuse of agency programs and operations while providing leadership and coordination; 3) recommending policies designed to promote economy, efficiency, and effectiveness of the establishment; and 4) keeping the Commissioners and Congress fully and currently informed about problems and deficiencies in FEC agency programs and operations, and the need for corrective action.

The mission of the OIG is to be an independent, objective voice that aids the Commission by promoting positive change, accountability and integrity. An inventory of suggested audits and investigations received from a variety of sources is maintained. The most important challenges on which to focus our work are identified and the final step is to plan and conduct audits and investigations that address those challenges.

The OIG follows the standards contained in the *Quality Standards for Federal Offices of Inspector General*, published by the President's Council on Integrity and Efficiency (PCIE) and the Executive Council on Integrity and Efficiency (ECIE), and GAO's *Yellow Book*. Our investigations comply with the *Quality Standards for Investigations*, which has been developed by the PCIE and ECIE.

## **AUDITS**

**TITLE:**                    **Audit of the FEC's Public Disclosure Process**

**ASSIGNMENT #:**        **OIG – 02-03**

**RELEASE DATE:**       **In Progress**

**PURPOSE:**            The main objectives and purpose for conducting the audit is to: 1) to determine the extent, if any, of disclosure differences between candidate contributions reported by political committees and related committee contributions reported received by candidates; and 2) to determine whether an adequate process is in place to remedy any reporting discrepancies.

The fieldwork was completed this reporting period. Reviews of the effect of returned checks and amended reports on the disclosure process were completed. The lack of reporting of in-kind contributions by candidates was also analyzed. In-kind contributions are donations of goods, services, or property offered free or at a lesser than usual charge. In-kind contributions are required to be reported as monetary contributions, and the amount must also be included as an operating expenditure.

The OIG also contacted the FEC's Reports Analysis Division to determine the status of the implementation of the new automated review

program for campaign financial disclosure reports. The automated review program may resolve some campaign data reporting discrepancies.

A large amount of information was retrieved from the Commission's Web site and reviewed by the OIG to ascertain what information and in what format the information was available to the public. The OIG also reviewed the 2005 legislative recommendations proposed by the agency to determine whether any of the recommendations would effect the disclosure of campaign contributions.

A draft report has been completed and the OIG plans to forward the report to management for comment. The final audit report should be released during the next reporting period.

## **AUDITS**

**TITLE:**                    **Audit of the FEC's Fiscal Year 2005 Financial Statements**

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

**RELEASE DATE:**       **In Progress**

**PURPOSE:**            *The Chief Financial Officers Act of 1990* (Public Law 101-576, commonly referred to as the “CFO Act”), as amended, requires the FEC OIG, or an independent external auditor, as determined by the Inspector General, to conduct an annual financial statement audit. The audit for FY 2005 commenced during this reporting period.

The OIG is responsible for oversight of the financial statement audit. This includes: 1) reviewing the auditor’s approach and planning of the audit; 2) evaluating the qualifications and independence of the auditors; 3) monitoring the work of the auditors throughout the audit; 4) examining audit documents and reports to ensure compliance with Government Auditing Standards, and OMB Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*; and 5) other procedures the OIG deemed necessary to oversee the contract and audit.

The OIG was also responsible for oversight of the prepared by client (PBC) list used during the audit to list documents and information needed by the auditors to conduct the audit. The PBC list is an Excel spreadsheet and provides a list of the information and the due dates of the records in order for the auditors to complete the audit according to the audit schedule agreed upon with management. During this time, the OIG added additional functionality to the PBC list to enable management, and the auditors the ability to easily sort information in the PBC list.

Numerous meetings were attended by the OIG staff, including bi-monthly meetings with senior management and the auditors to provide management with updates and concerns. OIG staff also conducted meetings with the auditors as necessary. The OIG expects the audit to be completed, and the report released, as required, by November 15, 2005.

## **AUDIT FOLLOW-UP**

**TITLE:** Follow-up Assessment - Audit of the FEC's  
Fiscal Year 2004 Financial Statements

**Original Audit Report:**

**Assignment #:** OIG – 04-01

**Release Date:** December, 2004

**Website:** <http://www.fec.gov/fecig/financial04.pdf>

**PURPOSE:** The OIG completed an audit follow-up of outstanding audit findings and recommendations included in audit report *OIG-04-01, Audit of the FEC's Fiscal Year 2004 Financial Statements*. The purpose of the audit follow-up was to determine the extent of corrective action taken by management to address the forty-two outstanding audit recommendations included in the FY 2004 independent auditor's report on internal control.

Management provided the OIG with a corrective action plan for the FY 2004 audit on February 11, 2005; as well as updates in June and September of 2005, detailing management's progress to address the material weaknesses and reportable conditions identified in the OIG's FY 2004 audit report. The OIG consulted with the CG-LLP auditors in order to complete the audit follow-up.

In summary, management has devoted significant efforts to implement the recommendations and progress is being made. The OIG's audit follow-up completed as of September 30, 2005 resulted in the closure of twelve audit recommendations.

## ***HOTLINE COMPLAINTS***

The Office of Inspector General established a hotline to enable employees and others to have direct and confidential contact with the OIG. The OIG receives complaints through various means such as U.S. mail, telephone, electronic mail, and personal visits to the OIG. Once a hotline complaint has been received, a preliminary inquiry is conducted. When the inquiry has been completed, the hotline complaint can be closed with no further action taken, referred to management for action, or closed and an investigation is opened on the issue.

One hotline complaint was closed this period. The complaint had been referred to the Department of Justice (DOJ) and the OIG assisted the DOJ in gathering information and interviewing witnesses. After this was completed, the DOJ declined to pursue this matter further. The OIG concurred and closed the hotline complaint.

The OIG currently has seven open hotline complaints. Four hotline complaints were pending and three were in progress at the close of this reporting period.



## *INVESTIGATIONS*

One investigation is currently open. The results of the investigation, along with the investigative report, have been given to management and closure of this investigation is pending a decision by management.

## ADDITIONAL OFFICE OF INSPECTOR GENERAL ACTIVITY

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

- The OIG reviewed a draft version of the *Federal Audit Executive Council's (FAEC)* charter and provided comments to the FAEC. The charter will document the purpose, authority, responsibilities, and membership of the FAEC. The purpose of the FAEC is to discuss and coordinate issues affecting the Federal audit community – with special emphasis on audit policy and operations of common interest to FAEC members. The scope and activities of the FAEC include, but are not limited to, coordinating joint audit projects; providing input on policy related to Federal government audits; and coordinating with the Government Accountability Office and the Office of Management and Budget on matters affecting audit policy.

- The OIG responded to a survey initiated by the PCIE/ECIE regarding a new e-learning initiative for the IG community. The survey requested information about the OIG's computer environment, as well as the OIG's workforce. The IG community launched the E-learning site (IGEL) during this reporting period. The FEC/OIG, along with other members of the IG community, is currently participating in the pilot program. The IGEL site, developed by SkillSoft has over 2,000 courses available and over 8,000 books on line in the 24x7 library. The key goal of the E-learning pilot is to improve professional development programs in a cost-effective manner.
- During this reporting cycle, the OIG received a total of 8,995 inquiries. The inquiries were received through a variety of channels, the U.S. Postal Service, telephone, electronic mail, and fax machine. Out of the 8,995 queries, 8,986 of them were e-mails – seventy-seven of those e-mails were forwarded to other entities. Nine inquiries required further action from the OIG. The remaining 8,909 queries required no attention.

## ***ECIE AND PCIE ACTIVITY***

The President's Council on Integrity and Efficiency (PCIE) and the Executive Council on Integrity and Efficiency (ECIE) were established by Executive Order 12805 – May 11, 1992, to coordinate and enhance governmental efforts to promote integrity and efficiency, and to detect and prevent fraud, waste and abuse in Federal programs. The PCIE is comprised of IGs appointed by the President of the United States. The ECIE consists of IGs appointed by the head of their respective agencies.

The Commission's Inspector General is an active member of the Executive Council on Integrity and Efficiency and has provided input to a number of initiatives proposed by the Council. The ECIE serves as a forum for the exchange of views for the Inspector General Community. The Council identifies, reviews, and discusses issues that are of interest to the entire IG Community. The IG attended regular meetings held by the ECIE, and joint meetings of the President's Council on Integrity and Efficiency and the Executive Council on Integrity and Efficiency.

The OIG employees continually seek ways to improve skills and knowledge. For the period April 1, 2005 through September 30, 2005, the

Inspector General and/or the OIG staff attended the following training, meetings, programs, seminars, and/or conferences:

- ECIE – *Monthly Meetings*
- PCIE – *Financial Statement Audit Network (FSAN) Meeting*
- PCIE – *IT Roundtable Discussion*
- PCIE / ECIE – *2005 Annual Conference*
- PCIE / ECIE – *Federal Audit Executive Committee (FAEC) Conference/Meeting*
- PCIE / ECIE – *SkillSoft Program Administrators Training*
- PCIE / ECIE – *E-Learning Training Program Overview (FEC)*
- PCIE / ECIE – *SkillSoft – Writing to Reach an Audience*
- PCIE / Government Printing Office – *Inspections and Evaluation Roundtable Discussion*
- Government Executive – *Excellence in Government 2005 Conference*
- Association of Government Accountants (AGA) – *54th Annual Professional Development Conference*
- Association of Government Accountants (AGA) – *Financial Management in Transaction*
- Federal Election Commission – *Information Technology System Security Awareness Briefing*
- Federal Election Commission – *Microsoft Excel – Intermediate*

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

Section 4(a)(2)	Review of Legislation .....	16
Section 5(a)(1)	Significant Problems, Abuses, and Deficiencies .....	None
Section 5(a)(2)	Recommendations with Respect to Significant Problems, Abuses, and Deficiencies .....	None
Section 5(a)(3)	Recommendations Included in Previous Reports on Which Corrective Action Has Not Been Completed-(Table III) .....	23
Section 5(a)(4)	Matters Referred to Prosecuting Authorities .....	None
Section 5(a)(5)	Summary of Instances Where Information was Refused .....	None
Section 5(a)(7)	Summary of Significant Reports .....	8
Section 5(a)(8)	Questioned and Unsupported Costs-(Table I) .....	21
Section 5(a)(9)	Recommendations that Funds be put to Better Use (Table II) .....	22
Section 5(a)(10)	Summary of Audit Reports issued before the start of the Reporting Period for which no Management Decision has been made .....	N/A
Section 5(a)(11)	Significant revised Management Decisions .....	N/A
Section 5(a)(12)	Management Decisions with which the Inspector General is in Disagreement .....	None

**TABLE I**

**INSPECTOR GENERAL ISSUED REPORTS  
WITH QUESTIONED COSTS**

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

**TABLE II**

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

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



**TABLE III**

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

**Recommendations \***

<u>Report Title</u>	<u>Report Number</u>	<u>Issue Date</u>	<u>Number</u>	<u>Closed</u>	<u>Open</u>
Audit of the FEC's Fiscal Year 2004 Financial Statements	OIG-04-01	12/04	42	12	30

\* For additional details pertaining to the open/closed recommendations please refer to the *Audit Follow-up* section, located on page 12.

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

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

**Strategy:**

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

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

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

Focus OIG attention in the following areas of emphasis:

- managing change;
- resource allocation in relation to policy objectives;
- delivery of client service;
- causes of fraud and inefficiency; and,
- automation and communication.

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

**Strategy:**

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

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

**Strategy:**

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

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

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

**Objective A:** Maintain a dynamic strategic planning process.

**Strategy:**

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

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

**Strategy:**

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

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

**Strategy:**

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

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

**Strategy:**

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

**Objective E:** Establish a positive and productive working environment.

**Strategy:**

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

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

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

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

**Strategy:**

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

**Objective B:** Provide training and developmental opportunities to employees.

**Strategy:**

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

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

**Strategy:**

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

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

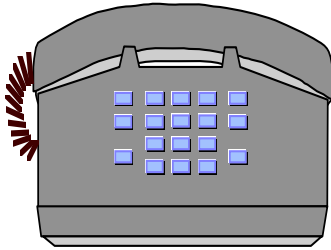
**Strategy:**

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

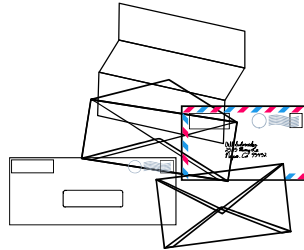
**Performance Measures:** All employees meet the training requirements; all employees have performance standards; and all employees meet the basic requirements for the position in which they were hired to perform.

## ***CONTACTING THE OFFICE OF INSPECTOR GENERAL***

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



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



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

Mail is opened by OIG staff members only.



You can also contact us by e-mail at: **oig@fec.gov**.  
Our Website address: **<http://www.fec.gov/fecig.shtml>**.

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