

FEDERAL ELECTION COMMISSION

OFFICE OF INSPECTOR GENERAL



FINAL REPORT

**Audit of the Federal Election Commission's
Fiscal Year 2006 Financial Statements**

November 2006

ASSIGNMENT No. OIG-06-02

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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.

A handwritten signature in black ink that reads "Lynne A. McFarland". The signature is written in a cursive, flowing style.

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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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 Gundersen 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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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.

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 Gundersen LLP

Calverton, Maryland
November 7, 2006

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

Recommendation No.	Condition/Audit Area	Recommendation	Current Status
Material Weaknesses			
I. Cost Accounting System and Processes			
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
II. Administrative Fines, Civil Penalties and Miscellaneous Receipts			
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
II. Administrative Fines, Civil Penalties and Miscellaneous Receipts			
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.
III. General Property and Equipment			
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

Recommendation No.	Condition/Audit Area	Recommendation	Current Status
IV. Information Technology			
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

Recommendation No.	Condition/Audit Area	Recommendation	Current Status
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

Recommendation No.	Condition/Audit Area	Recommendation	Current Status
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

Recommendation No.	Condition/Audit Area	Recommendation	Current Status
33	Software Development and Change Control	Fully implement the System Development Life Cycle Methodology.	Closed
Reportable Conditions			
V. Financial Reporting			
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
VI. Payroll			
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

Recommendation No.	Condition/Audit Area	Recommendation	Current Status
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.