

FEDERAL ELECTION COMMISSION

**PERFORMANCE AND ACCOUNTABILITY REPORT**  
(REPORTS CONSOLIDATION ACT OF 2000)

FISCAL YEAR 2009





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FEDERAL ELECTION COMMISSION  
WASHINGTON, D.C. 20463

OFFICE OF THE CHAIRMAN

## MESSAGE FROM THE CHAIRMAN

November 13, 2009

I am pleased to present the Performance and Accountability Report (PAR) of the Federal Election Commission for Fiscal Year (FY) 2009.

The Commission has received an unqualified opinion from its independent auditors on the Agency's FY 2009 annual financial statements. This unqualified opinion reflects a successful effort and commitment by the Commissioners and the FEC staff to ensure that the Commission's financial statements fairly and accurately present its fiscal position.

Throughout the 34-year history of the Federal Election Commission, the Agency has devoted considerable resources toward encouraging voluntary compliance with the federal campaign finance laws. Compliance with those laws inspires citizen confidence in the electoral process and in those persons we elect to represent us in government.

The 2008 election cycle, which closed in the first months of FY 2009, resulted in dramatic increases in campaign finance activity. During this cycle, the Commission received and processed, and timely and accurately disclosed to the public, the equivalent of nearly 12 million pages of financial reports. These reports disclosed approximately \$8.4 billion in raised funds resulting in a record-breaking 32 million separate receipts and expenditures.

During this recent election cycle, the Commission was challenged with the advent of new uses of the Internet, new ways of funding campaigns, and an explosion in the number of contributors. Despite these unprecedented circumstances, the Commission provided thorough and full public disclosure and diligent review of campaign finance reports in a timely manner.

The Commissioners are mindful that the transactions and reports requiring disclosure will continue to increase in number and complexity, and that the Commission must remain vigilant in exploring new and better ways to fulfill its mission. This year marked a dramatic step forward in that regard.

This year, the Commission conducted a full-scale reexamination of its policies, practices and procedures, an initiative commenced by the Commission in the fall of 2008 during the term of the previous Chairman, Donald F. McGahn II. This review included a notice in the *Federal Register* published in the fall of 2008 asking for public feedback on how well the Commission had been fulfilling its mission, and more importantly, how the Commission can improve going forward. The Commission invited public comment

and held two days of public hearings on ways in which the Commission can make its processes more transparent, fairer, and more efficient. This exercise was the most sweeping inquiry into our responsibilities in those areas since the inception of the Agency.

The Agency received numerous thoughtful, knowledgeable, and persuasive written and oral comments. These comments have already led to several new initiatives, including the adoption of a new audit hearing process, modifications of the Commission's procedures for consideration of Advisory Opinions and additions to the procedural rights for respondents in enforcement matters.

In order to improve upon its mission to provide public disclosure of campaign transactions and public education of campaign finance laws, the Commission this year launched an unprecedented inquiry into ways to improve its website and Internet communications. The focus of this initiative is to ensure that the Agency's website continues to be a state-of-the-art resource for disclosure of information to the public including (1) disclosure of campaign finance data, (2) information about federal campaign finance laws and (3) actions of the Commission. While the Commission has always been interested in learning how to improve its website, the Commission initiated a formal process this year to receive public input, opinions and analyses from website experts on how the Commission can make its website the best disclosure mechanism possible.

The Commission received public comments and held two days of public hearings as part of this website improvement initiative. The comments and testimony provided the Commission with many inventive ideas and strategies from experts and lay people alike, and the Commission is moving forward with its initiative to make the FEC website as accessible, navigable, and informative as possible. These comments, along with other suggestions from within the Agency, have already led to several improvements of the Commission's website. These accomplishments include: (1) initiation of electronic publication of a new *Weekly Digest* aimed at increasing transparency by providing the public with a weekly synopsis of Commission actions and events and a preview of upcoming activities; (2) development of new formats for downloading campaign finance data files that allow users increased flexibility and choice to customize their searches; (3) creation of a new disclosure data blog to increase the exchange of information between the managers of the FEC's website and public users; (4) addition of over 770,000 pages of past Matters Under Review (MURs) and complete case files of 1,500 Administrative Fine actions to the website database; and (5) development of a permanent website governance procedure for ongoing supervision and improvement of the website.

Beyond these initiatives, the Commission has continued to act in a timely fashion on enforcement cases, advisory opinions and regulatory matters. The Commission also was successful in eliminating a significant backlog of pending enforcement cases and regulatory matters that the Agency had been unable to address during the prior fiscal year when the Commission lacked the quorum necessary to conduct business for a six month period from January 1 through June 24, 2008.

All the Commissioners are very proud of the Agency's achievements this year and the Commission looks forward to even greater achievements in the years to come.

On behalf of the Commission,



Steven T. Walther  
Chairman



## HOW TO USE THIS REPORT

This *Performance and Accountability Report (PAR)* presents comprehensive performance and financial information on the Federal Election Commission's (FEC or Commission) operations. The report was prepared pursuant to the *Accountability of Tax Dollars Act of 2002* and Office of Management and Budget (OMB) Circular A-136, revised, *Financial Reporting Requirements*, and covers activities from October 1, 2008, through September 30, 2009.

The FEC places a high importance on keeping the public informed of its activities. To learn more about who we are and what we do to serve the American public, visit the FEC's website at [www.fec.gov](http://www.fec.gov) to access this report (click on "About the FEC" and then "Budget").

The *FY 2009 Performance and Accountability Report* is organized into four sections:


**Section I – Management's Discussion and Analysis (MD&A)** provides an overview of the FEC. It describes our mission, organizational structure and regulatory responsibilities.

**Section II – Performance Information** summarizes the FEC's strategic goal and related objectives and provides a forward-looking discussion of future challenges.

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

**Section IV – Other Accompanying Information** includes our Inspector General's assessment of the FEC's management challenges.





# SECTION I

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### SECTION I.A: MISSION AND ORGANIZATIONAL STRUCTURE

---

The Commission was created in 1975 as an independent regulatory agency to strengthen the integrity of the electoral process under the *Federal Election Campaign Act of 1971*, 2 U.S.C. 431 et seq., as amended (*FECA* or the *Act*). The Commission is also responsible for administering the public funding program for Presidential campaigns and conventions, as outlined in Title 26 Internal Revenue Code.

The primary objectives of the FEC are to (1) facilitate transparency through public disclosure of campaign finance activity; (2) encourage voluntary compliance with the *Act* by providing information and policy guidance to the public, media, political committees and election officials on the *FECA* and Commission regulations and enforcing the statute through audits, investigations and civil litigation; and (3) develop the law by administering and interpreting the *FECA* as well as the *Presidential Election Campaign Fund Act* and the *Presidential Primary Matching Payment Account Act*.

Congress created the FEC to administer and enforce the *FECA*. The *Act* reflects Congress's belief that democracy works most effectively when voters are able to make informed decisions in the political process; decisions based, in part, on knowing the sources of candidates' financial support. Public confidence in the political process depends not only on laws and regulations to ensure transparency, but also on the knowledge that those who disregard the campaign finance laws will face concrete consequences for non-compliance—hence, the Commission's focus on effective and fair enforcement of the law.

#### How the FEC is Organized

##### Organization

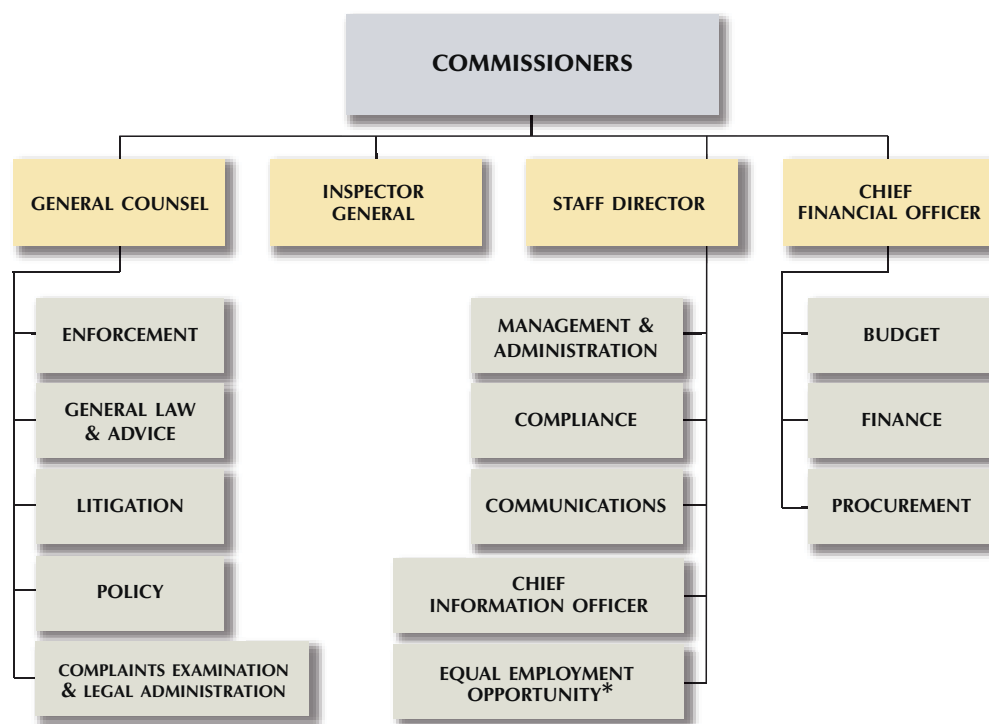
The FEC is structured to foster bipartisan decision-making. To accomplish its legislative mandate, the FEC is directed by six Commissioners, who are appointed by the President with the advice and consent of the Senate. By law, no more than three Commissioners can be members of the same political party. Each member serves a six-year term and two seats are subject to appointment every two years. The Chairmanship of the Commission rotates among the members, with no member serving as Chairman more than once during his or her term. The Commissioners meet regularly to formulate policy and to vote on significant legal and administrative matters. The *Act* requires a quorum of at least four votes for the Commission to adopt any official action or policy.

The FEC has its headquarters in Washington, D.C., and does not have any regional offices. The FEC's appropriation for FY 2009 was \$63.6 million, which provided for 375 full-time equivalent (FTE) positions. A single annual

## SECTION I – Management’s Discussion and Analysis

appropriation for salaries and expenses funds the FEC. The FEC is also authorized to collect fees to offset the costs of its conferences.

FIGURE 1 – FEC ORGANIZATIONAL CHART



\* The Director for Equal Employment Opportunity reports to the Staff Director on administrative issues but has direct reporting authority to the Commission on all EEO matters.

The Offices of the Staff Director, General Counsel and Chief Financial Officer support the agency in accomplishing its mission. The Office of the Inspector General, established within the FEC in 1988 under amendments to the *Inspector General Act*, is independent and reports to both the Commissioners and the Congress. The specific roles and responsibilities of each office are described in greater detail at <http://www.fec.gov/shtml>.

### Disclosure, Compliance and Enforcement

#### Disclosing Campaign Finance Information

Disclosing the sources and amounts of funds used to finance federal elections is one of the most important duties of the FEC. In fact, it would be virtually impossible for the Commission to fulfill any of its other responsibilities without disclosure. The public campaign finance reports are accessible through the FEC’s website at <http://www.fec.gov/finance/disclosure.shtml>. By making disclosure reports available online, the FEC provides an added incentive for the regulated community to comply with the campaign finance law.

In addition to making campaign finance reports available to the public, the FEC works to ensure that the information disclosed is accurate and complete. The Office of Compliance’s Reports Analysis Division (RAD) reviews all filed

statements and financial reports to track compliance with the law and to ensure that the public record provides a full and accurate representation of campaign finance activity. Analysts provide frequent telephone assistance to committee officials and encourage them to call the Division with reporting questions or compliance problems. In addition, the FEC is currently working to create a Frequently Asked Questions section on the FEC website to help committees comply with reporting requirements, as well as provide information to the public about RAD's internal processes.

If RAD identifies an error, omission, need for additional clarification or possible prohibited activity, a request for additional information (RAFI) is sent to the committee, affording the committee an opportunity to correct the public record, if necessary. If the committee is able to resolve the FEC's concerns, it may avoid an enforcement action. Should the committee not sufficiently address the FEC's concerns, the FEC may begin an enforcement action on the apparent violation.

### Encouraging Compliance through Education

Helping the regulated community understand its obligations under federal campaign finance laws is an essential component of voluntary compliance. The FEC, through its Office of Communications, places a significant emphasis on encouraging compliance. The Office of Communications consists of the following offices/divisions: 1) Information Division, 2) Public Disclosure Division, 3) Press Office and 4) the Office of Congressional, Legislative and Intergovernmental Affairs.

In recent years, the Commission's website has become one of the most important sources of instantly accessible information about the *Act* and Commission regulations. Members of the regulated community and the general public can use the website to track Commission rulemakings, search advisory opinions and closed enforcement matters, view campaign finance data and find reporting dates. This year, the Commission sought public comment on and took steps to improve this resource. Moreover, while the Commission continues to make available printed copies of its educational brochures and publications, these materials, along with other instructional information, such as the FEC's "Tips for Treasurers," are available and easy to access on the FEC's website.

The Commission also encourages voluntary compliance through outreach programs. The FEC hosts instructional conferences in Washington, D.C., and in other cities across the country, where Commissioners and staff explain how the *Act* applies to candidates and political committees. These conferences specifically address recent changes in the campaign finance law and focus on fundraising and reporting regulations. Additionally, the Commission responds to telephone inquiries and written requests from political committees seeking information about the law and assistance in filing disclosure reports.

### Enforcing the FECA

In fulfilling its statutory mission, the Commission often finds itself in a delicate balancing act. On the one hand, the Commission must administer, interpret and enforce the *FECA*, which the Supreme Court has said serves a compelling governmental interest. On the other hand, the Commission must remain mindful of the constitutional freedoms of speech and association, and the practical implication of its actions. The Commission recently sought public comment on its procedures and has begun implementing programs to better serve these goals.

The FEC has exclusive jurisdiction over civil enforcement of violations of the *Act* and coordinates with the U.S. Department of Justice, as appropriate, on matters involving both civil and criminal enforcement of the *Act*. Under the Commission's traditional enforcement program, the Commission learns of possible election law violations primarily through:

- The complaint process, whereby anyone may file a sworn complaint alleging violations of the *Act*;
- The Commission's review of a committee's reports, or a Commission audit;
- Voluntary self-reporting by representatives of candidates or political committees who believe that they may have violated the *Act*; and

## SECTION I – Management’s Discussion and Analysis

- The referral process, whereby other government agencies may refer possible violations of the *Act* to the FEC.

Swift and fair resolution of enforcement matters is one of the Commission’s highest priorities. Whether initiated by outside complaint or internal referral, the most complex and legally significant enforcement matters are handled by the Office of General Counsel (OGC).

Specifically, the OGC’s Enforcement Division:

- Recommends to the Commission whether to find “reason to believe” that the *Act* has been violated, a finding that formally initiates an investigation;
- Investigates potential violations of the *Act* by requesting, subpoenaing and reviewing documents, and interviewing and deposing witnesses;
- Conducts settlement negotiations on behalf of the Commission to reach conciliation agreements with respondents;
- Recommends to the Commission whether to find “probable cause” to believe the *Act* has been violated; and
- Recommends to the Commission whether to sue a respondent in Federal district court if conciliation cannot be reached.

If a conciliation agreement cannot be reached and the Commission votes to initiate civil litigation, it will file and prosecute a civil action in Federal district court to address the alleged violation of the *Act*. Depending on the size and complexity of the lawsuit, such cases may be resolved quickly or may require a significant amount of resources for several years.

To augment OGC’s enforcement role, the Office of Compliance manages several programs to improve the efficiency and effectiveness of the Commission’s enforcement efforts. These programs include: 1) Administrative Fine Program; 2) Alternative Dispute Resolution; and 3) Audit. The following provides a summary of each of these programs.

The Administrative Fine (AF) Program, implemented in July 2000 in response to a legislative mandate, helps the Commission enforce the timely filing of financial disclosure reports in a more streamlined and effective manner than that permitted by the traditional enforcement process. This Program, which is administered by the Office of Compliance’s Office of Administrative Review (OAR) and RAD, assesses monetary penalties for late and non-filed reports. RAD handles all reason-to-believe (RTB) recommendations and the final determination recommendations for those filers who do not submit challenges to the RTB finding and/or civil money penalty assessment. OAR handles the challenge review process and final determination recommendations in all instances when a filer challenges an RTB finding and/or civil money penalty assessment. The AF Program was set to expire at the end of calendar year 2008, but was extended by Congress through 2013.

The Alternative Dispute Resolution (ADR) program, implemented in October 2000, is designed to promote compliance with the *Act* by encouraging settlements outside the traditional enforcement or litigation processes. The ADR program aims to expedite resolution of certain less-complex enforcement matters and to reduce the cost of processing complaints through streamlined procedures. The ADR program is also aimed at promoting future compliance through settlements reflecting primarily remedial measures for candidates and political committees, such as training, audits and the hiring of compliance staff.

Through the Audit program, the Commission enforces the *Act* through audits of candidates and political committees. Commission auditors conduct mandatory audits, under Title 26, as discussed in the section on Public Funding below. In addition, auditors perform “for cause” audits, under Title 2, in those cases where political committees have failed to meet the threshold requirements for demonstrating substantial compliance with the *Act*. The Commission’s audit presence not only contributes to its enforcement efforts, but also encourages voluntary compliance within the regulated community.

## Interpreting and Developing the Law

To further its outreach and responsiveness to the public and regulated community, the Commission responds to questions from the regulated community about how the *Act* applies to specific situations by issuing advisory opinions (AOs). This year the Commission instituted a process for allowing parties that request an AO to appear and address the Commission under certain circumstances at public hearings where their requests are considered.

Furthermore, Commission initiatives, Congressional action, judicial decisions, petitions for rulemaking or other changes in campaign finance law often necessitate that the Commission update or adopt new regulations. Consequently, the FEC undertakes rulemakings either to write new Commission regulations or revise existing regulations.

## Funding Presidential Elections

### Public Funding

The Commission's responsibilities also include administering the public funding of Presidential elections, as outlined in the *Presidential Primary Matching Account Act* and the *Presidential Election Campaign Act*. The program is funded by taxpayers who voluntarily check off the \$3 designation for the Presidential Election Campaign on their income tax returns. Through the public funding program, the Federal government provides (1) matching funds to candidates seeking their party's Presidential nomination, (2) grants to Presidential nominating conventions and (3) grants to Presidential nominees for the general election campaigns.

Under the Presidential public funding program, the Commission (1) determines a candidate's eligibility to participate in the program, (2) certifies the amount of public funds to which the candidate or convention committee is entitled and (3) conducts a thorough examination and audit of the qualified campaign expenses of every candidate who receives payments under the program.

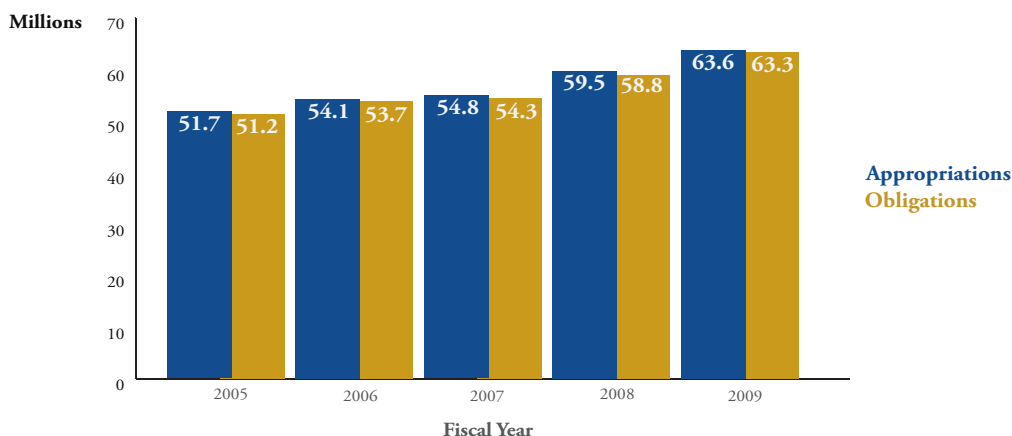
## SECTION 1.B: FEC PERFORMANCE GOALS, OBJECTIVES AND RESULTS

### Sources of Funds

The FEC receives an annual appropriation for Salaries and Expenses. In FY 2009, the FEC’s authorized funding level included an appropriation of \$63.6 million. The FEC also has the authority to collect fees from attendees of agency-sponsored educational conferences. The Commission uses those fees to defray the costs of conducting those conferences. In an effort to keep the fees as low as possible, the agency has not fully exercised that authority. Rather, the Commission sets its registration fees at a level that covers only the costs incurred by the agency’s conference-management contractor, including meeting room rental and conference meals and compensation. All other conference-related expenses, such as materials and staff travel, are paid using appropriated funds. Registration fees for FY 2009 were \$239,091.00.

Figure 2 (below) shows the agency’s appropriations and obligations from FY 2005 to 2009.

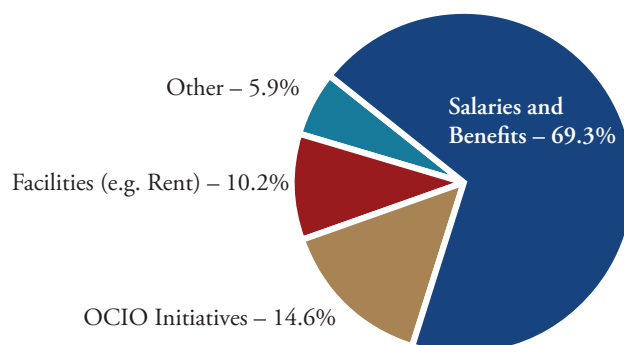
FIGURE 2 – SUMMARY OF FUNDING



### Personnel vs. Non-Personnel Costs

Figure 3 (below) represents the Commission’s actual FY 2009 expenditures by personnel and non-personnel costs. Personnel costs comprised 69 percent of the FEC’s costs; the remaining 31 percent was spent primarily on infrastructure, including Office of the Chief Information Officer (OCIO) software and hardware, office rent, building security and other related costs.

FIGURE 3 – FISCAL YEAR 2009 BY MAJOR CATEGORY





## Summary of Significant Performance Results

The remainder of this section provides a summary of the results of the FEC's key performance objectives, which are discussed in greater detail in Section II of this report.

FY 2009 represented the FEC's second year under its current strategic plan. The FEC's strategic framework consists of a mission statement supported by a single, overarching strategic goal, which is: To protect the integrity of the Federal campaign process by providing transparency, enforcing contribution restrictions and fairly administering the *FECA* and related statutes.

To help the Commission achieve its goal, the following three objectives were established:

- Transparency – Receiving Accurate and Complete Campaign Finance Disclosure Reports and Making Them Available to the Public
- Compliance – Education and Enforcement
- Development of the Law – Interpreting, Administering and Defending the *Act*

The strategic plan also incorporates means and strategies to achieve the Commission's overarching strategic goal: (1) operational processes; (2) the development and use of technologies; and (3) human resources. These objectives provide the framework for defining the strategic activities needed to measure effectively the Commission's success in achieving its goal.

The following table provides a summary of the Commission's actual FY 2008 and FY 2009 results of its performance measures, along with the targets set by the strategic plan over the past two years. Although these data show a marked improvement over the agency's FY 2008 performance, which was significantly hampered by the lack of a Commission quorum, the backlog of enforcement matters, audits, advisory opinion requests and other matters pending before the Commission from FY 2008 remained a challenge for the agency during FY 2009.

PERFORMANCE MEASURE	TARGET	FY 2008 ACTUAL	FY 2009 ACTUAL
Strategic Objective A: Transparency			
1. Process reports within 30 days of receipt as measured quarterly	95%	91%	78%
2. Meet the statutory requirement to make reports and statements filed on paper with the FEC available to the public within 48 hours of receipt	100%	100%	100%
Strategic Objective B: Compliance			
3. Conduct educational conferences and host roundtable workshops on the campaign finance law each election cycle, achieving a mean satisfaction rating of 4.0 on a 5.0 scale	100%	100%	100%
4. Issue press releases summarizing completed compliance matters within two weeks of a matter being made public by the Commission	100%	22%	63%
5. Issue press releases containing summaries of campaign finance data quarterly	100%	100%	75%
6. Process enforcement cases within an average of 15 months of receipt	100%	66%	76%
7. Process cases assigned to Alternative Dispute Resolution within 155 days of a case being assigned	75%	64%	26%

(cont.)

## SECTION I – Management’s Discussion and Analysis

PERFORMANCE MEASURE		TARGET	FY 2008 ACTUAL	FY 2009 ACTUAL
8.	Process reason-to-believe recommendations for the Administrative Fine Program within 60 days of the original due date of the subject untimely or unfiled report	75%	79%	84%
9.	Process the challenges in the Administrative Fine Program within 60 days of a challenge being filed	75%	14%	60%
10.	Conclude non-Presidential audits with findings in an average of 10 months, excluding time delays beyond the Commission’s control, such as subpoenas and extension requests	100%	95%	12%
11.	Conclude non-Presidential audits with no findings in an average of 90 days from beginning of fieldwork	100%	100%	0%
12.	Conclude Presidential audits in an average of 24 months of the election, excluding time delays beyond the Commission’s control, such as subpoenas and extension requests	100%	N/A	100%
Strategic Objective C: Development of the Law				
13.	Complete rulemakings within specific time frames that reflect the importance of the topics addressed, proximity to upcoming elections, and externally established deadlines	100%	50% <sup>1</sup>	83%
14.	Issue all advisory opinions within 60-day and 20-day statutory deadlines	100%	97%	100%
15.	Issue expedited advisory opinions for time-sensitive highly significant requests within 30 days of receiving a complete request, or a shorter time when warranted	100%	60%	100%
16.	Ensure that court filings meet all deadlines and rules imposed by the Courts	100%	100%	100%
17.	Process public funding payments in the correct amounts and within established time frames	100%	100%	100%

Section II of this report presents the FEC’s Performance Report, which provides the annual program performance information submitted in accordance with the *Government Performance Results Act (GPRA)* in greater detail.

### Highlights of Performance Measures

Due to the six-month absence of a quorum during FY 2008, the Commission entered FY 2009 with a significant backlog of core business matters. The Commission has taken a number of steps during FY 2009 to resolve these pending matters while at the same time continuing to respond swiftly and appropriately to emerging issues. Since July 2008, the Commission has closed and made public over 350 cases through its traditional enforcement process and its Alternative Dispute Resolution and Administrative Fine programs, assessing nearly \$2.0 million in total civil penalties.

In addition to completing work on these pending enforcement and regulatory matters, the Commission undertook a broad review of its processes to ensure that its enforcement procedures are fair and efficient and that it continues to excel in providing the public and the regulated community with the most up-to-date and useable campaign finance information. In January 2009, the FEC held public hearings to receive comments on policies and procedures ranging from the way it considers and issues advisory opinions and policy statements to its audit, enforcement and administrative fine processes and the review of political committee reports. In July and August 2009, the FEC held

<sup>1</sup> This corrects the figure listed in the 2008 PAR.

hearings to receive public comments to aid its Website and Communications Improvement Initiative to optimize the FEC's communication with the public by ensuring the effective use of technology and internal procedures. By the close of FY 2009, the Commission had already implemented new procedures to improve due process in its advisory opinion and audit procedures. Under pilot programs launched this year, advisory opinion requestors or their counsel may, under certain circumstances, answer questions at the Commission's open meeting where the draft advisory opinion is considered, and political committees that are audited may have a hearing before the Commission prior to the Commission's adoption of a Final Audit Report. Additionally, in the area of communications, the Commission has transitioned to an electronic distribution system for its monthly newsletter, launched a YouTube channel and E-Learning page and begun providing live streaming audio of all public meetings and hearings. The agency continues its efforts to reach out to the public for guidance on how better to perform its mission.

The campaign finance activity and public interest in the 2008 elections eclipsed the record-breaking 2004 Presidential cycle. The unprecedented level of financial activity associated with the 2008 elections presented its own challenges. For the 2008 election cycle, fundraising reported by Presidential candidates alone exceeded \$2.7 billion, nearly triple the amount raised by Presidential candidates in the 2004 elections. Additionally, during the 2008 election cycle, individuals and groups other than political committees reported spending \$27.6 million on independent expenditures supporting or opposing Federal candidates, compared to just \$7.6 million in independent expenditures reported by such persons during the 2004 elections. In sum, the FEC received and processed a total of 12 million pages of financial activity disclosing \$8.4 billion in fundraising during the 2008 cycle. The increase in financial activity during this election cycle is striking, not only in terms of the total amount of money raised and spent, but also in the unprecedented volume of individual transactions, including contributions, expenditures, debts and loans. For the 2008 election cycle, over 32 million transactions were reported to the FEC, a 77 percent increase over the 2004 cycle. The increase in transactions was even more pronounced among the Presidential candidates themselves. Then-Senator Obama filed 94 documents disclosing 6.1 million transactions during the 2008 cycle. Senator McCain filed 177 documents disclosing 1.7 million transactions. Taken together, transactions reported by the 2008 general election nominees represent a 226% increase over those reported by President Bush and Senator Kerry in the 2004 cycle.

The agency succeeded in making 100 percent of the reports and statements it received on paper available to the public within 48 hours of receipt, while electronic filings were made available nearly instantaneously. As part of its statutory mandate, the FEC is continually working to make its campaign finance information available to the public in more robust and interactive formats on the FEC website.

In addition to making campaign finance data readily available to the public, the FEC reviews all reports, amendments and statements for accuracy, completeness and compliance with the law. New and amended reports for the current and past elections are received at the Commission on a daily basis. The Commission reviewed 71,352 documents out of 74,600 documents filed within FY 2009, and is well on its way to completing its review of 100 percent of the documents received.

The results of the review of the filings fall, generally, into the following categories:

- No instance of non-compliance;
- Request for Additional Information (RAFI); or
- Non-compliance is noted. In this case, the matter of non-compliance may be referred to ADR, OGC or Audit for further consideration.

Over the past number of years, the Commission has placed a significant emphasis on the review process to improve the FEC's ability to process cases more timely with more qualitative results. A key factor in helping the Commission achieve its target relates to the AF and ADR programs' handling of the less-complex cases, which not only improved the timeliness of addressing the cases, but also reduced the incidence of noncompliance.

## SECTION 1.C: ANALYSIS OF FEC FINANCIAL STATEMENTS AND STEWARDSHIP INFORMATION

The FEC’s FY 2009 financial statements and notes are presented here in the required format for the current year in accordance with OMB Circular A-136, as revised, *Financial Reporting Requirements*. The FEC’s current-year financial statements and notes are presented in a comparative format in Section III of this report.

The following table summarizes the significant changes in the FEC’s financial position during FY 2009.

NET FINANCIAL CONDITION	FY 2009	FY 2008	INCREASE/ (DECREASE)	% CHANGE
Assets	\$17,661,603	\$18,849,424	(\$1,187,821)	-6.3%
Liabilities	\$7,186,588	\$7,218,576	(\$31,988)	-0.4%
Net Position	\$10,475,015	\$11,630,848	(\$1,155,833)	-9.9%
Net Cost	\$66,826,731	\$62,024,007	\$4,802,724	7.7%
Budgetary Resources	\$65,792,156	\$61,452,650	\$4,339,506	7.1%
Custodial Revenue	\$1,383,882	\$2,305,665	(\$921,783)	-40.0%

The following is a brief description of the nature of each required financial statement and its relevance. The impact of some significant balances or conditions on the FEC’s operations are explained.

### Balance Sheet

The Balance Sheet presents the total amounts available for use by the FEC (assets) against the amounts owed (liabilities) and amounts that comprise the difference (Net Position). As a small independent agency, all of the FEC’s assets consist of Fund Balance with Treasury (FBWT), Property and Equipment (P&E) and Accounts Receivable. Fund Balance with Treasury (e.g., cash) is available through the Department of Treasury accounts, from which the FEC is authorized to make expenditures (i.e., obligations) and payments. FBWT increased by approximately \$307,000, or 2.9 percent from the prior year.

Accounts Receivable represent amounts due from the public for fines and penalties assessed by the FEC and referred to Treasury for collection, as deemed appropriate. In compliance with the DCIA, the OCFO takes into consideration the most appropriate approach to debt management. These amounts are not available for FEC operations and are sent to the U.S. Treasury as miscellaneous receipts. The accounts receivable balance decreased by approximately \$326,000, or 62 percent, from FY 2008.

### Statement of Net Cost

The Statement of Net Cost presents the annual cost of operating FEC programs. Gross costs are used to arrive at the total net cost of operations. The FEC’s total appropriation in FY 2009 was \$63.6 million, approximately \$4.4 million higher than in FY 2008. Roughly \$43.9 million, or 69 percent, of the budget was dedicated to personnel costs. Overall, net costs increased by \$4.8 million or 7.7 percent from FY 2008. The majority of the increase is attributable an increase of almost \$4.0 in personnel costs. This increase includes \$2.0 million for the cost of living adjustment (COLA), \$1.1 million for an overall increase of 9 FTEs, including having a full complement of Commissioners and their executive staff and the restructuring of several divisions during 2009. The remaining

increase of nearly \$800,000 is attributable to other costs of operations, including OCIO contracts, training, the annual rent adjustment and costs for services provided by other Federal agencies.

### Statement of Changes in Net Position

This statement presents in greater detail the net position section of the Balance Sheet, which includes Cumulative Results of Operations and Unexpended Appropriations. The statement identifies the activity that caused the net position to change during the reporting period. Total Net Position decreased by \$1.2 million, or 9.9 percent. Most of the change in net position is due to the acquisition of assets and depreciation expense. Depreciation expense of \$2.5 million is included in the net cost of operations and causes a decrease to net position. Appropriations used includes \$1.5 million for the acquisition of assets and causes an increase in net position.

### Statement of Budgetary Resources

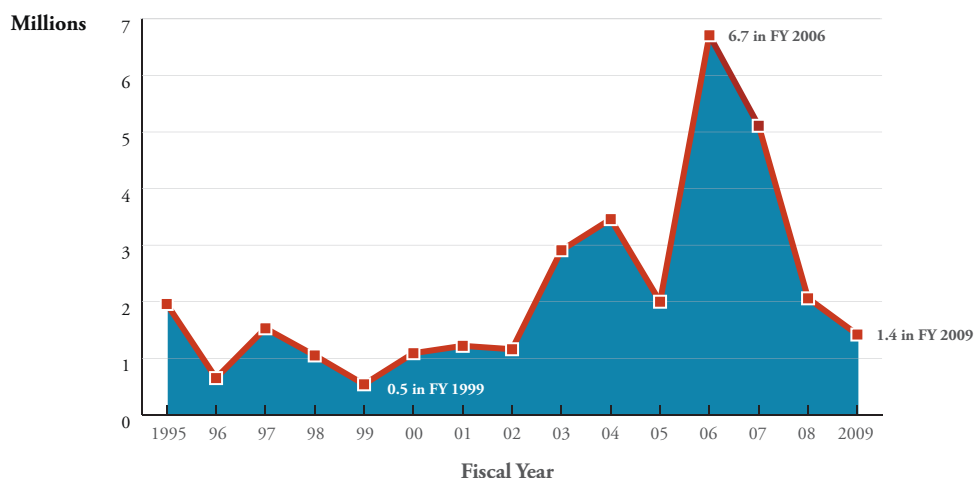
The Statement of Budgetary Resources provides information on the source and status of budgetary resources made available to the FEC during the reporting period. It presents the relationship between budget authority and budget outlays, as well as the reconciliation of obligations to total outlays. Total Budgetary Resources and Status of Budgetary Resources increased by approximately \$4.3 million, or 7.1 percent, over FY 2008. This increase primarily is derived from an increase in appropriations received.

### Statement of Custodial Activity

The Statement of Custodial Activity (SCA) represents an accounting of revenue and funds collected by the FEC that are owed to the U.S. Treasury's general fund. These monies are not available for FEC's use. Collection and revenue activity primarily result from enforcement actions that come before the Commission during the fiscal year. Revenue and collections on the SCA consist of collections on new assessments, prior year(s) receivables, and Miscellaneous Receipts. In FY2009, the total custodial revenue and collections decreased by approximately \$922,000 or 40 percent from FY 2008.

The chart below displays the assessment history for the past 15 years.

**FIGURE 4 – FINES ASSESSED, BY FISCAL YEAR**



## SECTION 1.D: ANALYSIS OF FEC’S SYSTEMS, CONTROLS AND LEGAL COMPLIANCE

### 1.D.i – Management Assurances

The *Federal Managers’ Financial Integrity Act of 1982 (FMFIA)* is implemented by OMB Circular A-123, revised, Management’s Responsibility for Internal Control and OMB Circular A-127, *Financial Management Systems*. The FEC management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the *FMFIA* and for performing a self-assessment under the guidance of its Directive 53, Implementation of OMB Circular A-123, *Internal Control Review*. Directive 53 outlines the process and describes roles and responsibilities for conducting risk assessments and internal control reviews.

Section 2 of the FMFIA requires federal agencies to report, on the basis of annual assessments, any material weaknesses that have been identified in connection with its internal and administrative controls. The reviews that took place during FY 2009 provide unqualified assurance that FEC systems and management controls comply with the requirements of the FMFIA.

Section 4 of the FMFIA requires that agencies annually provide assurance on programmatic internal controls and financial management systems, and effectiveness of internal control over financial reporting. The FEC evaluated its financial management systems in accordance with the FMFIA and OMB Circular A-127, as applicable. The results of management reviews provide unqualified assurance under Section 4 of the FMFIA that the FEC’s financial systems controls generally conform to the principles and standards required.

The FEC notes that the material weakness regarding Human Capital and the non-conformance regarding the integrated financial management system stated in the *FY 2008 Performance and Accountability Report* have been corrected.

The following table summarizes the results of this year’s *FMFIA* assessment:

EFFECTIVENESS OF INTERNAL CONTROL OVER OPERATIONS (FMFIA §2)						
Statement of Assurance	UNQUALIFIED					
MATERIAL WEAKNESS	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Human Capital	1	0	1	0	0	0
Total Material Weaknesses	1	0	1	0	0	0

<b>CONFORMANCE WITH FINANCIAL MANAGEMENT SYSTEMS REQUIREMENTS (FMFIA §4)</b>						
<b>Statement of Assurance</b>	<b>UNQUALIFIED</b>					
<b>NON-CONFORMANCE</b>	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
<b>Integrated Financial Management System</b>	1	0	1	0	0	0
<b>Total Non-Conformances</b>	1	0	1	0	0	0

The following table summarizes the results of this year's financial statement audit, performed:

<b>AUDIT OPINION</b>	<b>UNQUALIFIED</b>				
<b>RESTATEMENT</b>	<b>NO</b>				
<b>MATERIAL WEAKNESSES</b>	Beginning Balance	New	Resolved	Consolidated	Ending Balance
<b>Financial Accounting and Reporting Controls (Modified Repeat Finding)</b>	1	0	1	0	0
<b>Total Material Weaknesses</b>	1	0	1	0	0

#### **Prompt Payment Act**

The *Prompt Payment Act (PPA)* requires Federal agencies to make timely vendor payments and to pay interest penalties when payments are late. The FEC's on-time payment rate for FY 2009 was effectively 100 percent, with less than 0.01% of all invoices paid after the date required by the *PPA*.

#### **Improper Payments Information Act (IPIA) of 2002 Reporting**

The *IPIA of 2002* and OMB guidance requires agencies to identify those programs that are susceptible to significant erroneous payments, and determine an annual estimated amount of erroneous payments made in its operations. The FEC reviewed all of its programs and activities to identify those susceptible to significant erroneous payments. Approximately 69 percent of the FEC's expenditures pertain to salaries and benefits, which represents a low risk for improper payments, based on established internal controls. The FEC also reviewed all of its FY 2009 procurements for non-personnel costs to verify their accuracy and completeness. Accordingly, the FEC is unaware of any improper payments. The FEC continues to monitor its payment process to ensure that the risk of improper payments remains low.



FEDERAL ELECTION COMMISSION  
WASHINGTON, D.C. 20463

## Office of the Chairman

### Annual Assurance Statement on Internal Control

The Federal Election Commission (FEC) is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act of 1982 (FMFIA), as implemented through OMB Circular A-123, revised, Management's Responsibility for Internal Control. Internal control is an integral component of FEC management to provide reasonable assurance that (1) programs operate effectively and efficiently, (2) financial reports are reliable, and (3) programs comply with applicable laws and regulations.

The FEC conducted its evaluation of internal control over effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with OMB Circular A-123. Based on the results of the Fiscal Year 2009 evaluation, although some weaknesses are identified as discussed below, the FEC is advised that those weaknesses are not material; therefore, the FEC reports no material weakness under the FMFIA and is able to provide an unqualified statement of reasonable assurance that the Commission's internal control and financial management systems substantially meet the objectives of the FMFIA.

Although the FEC does not identify any material weaknesses in its internal controls, the Agency will strive in the coming year to (1) address the vulnerabilities that were identified in this year's evaluations, and (2) further improve the internal control review process itself through adoption of control testing procedures that are subject to oversight and verification. The FEC also plans to strengthen its governance framework by (1) continuing to evaluate and update the Agency's internal directives and policies and (2) specifically addressing the challenges identified by the Inspector General in her Statement on the FEC's Management and Performance Challenges dated October 15, 2009. Specifically, the Commission proposes:

- To conduct meetings as necessary among all Commissioners and agency managers to discuss and resolve any ongoing challenges and to keep abreast of issues involving managers as soon as they occur.
- To develop and implement a written plan, approved by the Commission, to meet succession issues for all department heads.
- To review and revise the Commission's Strategic Plan, as needed, to address and resolve ongoing challenges.
- To commit to best practices that effectively manage and mitigate risks associated with operating the Commission's mission-critical information systems.

A handwritten signature in blue ink that reads "Steven T. Walther".

Steven T. Walther  
Chairman  
October 23, 2009



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

The Inspector General’s report in Section IV identified four areas specific to management and performance challenges, which were also identified last year: 1) Governance, 2) Human Capital Management, 3) Information Technology Security and 4) Financial Reporting.

### **Governance**

The Commission agrees with the Inspector General that the agency has continued to face challenges in retaining key leadership and management positions. The Commission is committed to improving its governance framework. In FY 2009, the Commission made several important hires. In early FY 2010, the Commission appointed an interim Staff Director and has taken concrete steps to permanently fill the Staff Director position, which has been vacant since October 31, 2009. The agency is also continuing to implement its annual performance planning system.

### **Human Capital Management**

The Commission is committed to strengthening its programs and activities designed to sustain leadership and knowledge management, results-oriented performance culture, talent management and accountability in accordance with the Human Capital Assessment and Accountability Framework (HCAAF). The FEC has already submitted to the Office of Personnel Management (OPM) for final approval the agency’s first draft Strategic Human Capital Plan and Human Capital Accountability Plan, and is dedicated to building a diverse Federal workforce that is skilled, flexible and focused on results and service.

The Inspector General observed that the Commission confronts the same burgeoning challenge facing the rest of the Federal government: implementing modern human capital programs and policies to ensure we have the right people in the right jobs at the right time to meet the challenges we face. The FEC has made significant progress towards improving several of its critical human capital management systems, which include (1) hiring, (2) retention and (3) employee development. The Commission undertook a comprehensive human capital management initiative, which included enhancements to recruitment, strategic hiring and evaluating and training the current workforce. These initiatives will help ensure that the goals and objectives of key FEC priorities are achieved.

### **Information Technology Security**

We agree with the Inspector General’s assessment that the FEC faces the same security challenges shared by other departments and agencies in the Federal government, and we are taking affirmative steps to improve our IT security posture. In July 2007 the agency implemented a security review policy that contains the basic elements of a continuous monitoring program, and the agency’s expansion of its security review policy into a more comprehensive continuous monitoring program should be completed by February 2010. The agency has also made significant progress in establishing a continuity of operations plan (COOP). The FEC chose to develop and implement a multi-phase COOP development plan that covers three years during which the agency can address funding issues and meet the education and training needs of the entire agency workforce on COOP activities. We have completed the first two phases of the program, and the entire multi-year project is expected to be completed by the end of FY 2010. We are also working to improve access controls by implementing a new agency-wide FEC System Access application (FSA) to automate the process of tracking staff and contractors from the beginning to the end of their FEC employment.

### **Financial Reporting**

Overall, the FEC agrees with the OIG’s statements regarding financial reporting. Since the FY 2008 financial statement audit, the Office of the Chief Financial Officer (OCFO) has made a number of improvements and overcome the material weakness identified last year. FY 2009 marked the first full year of utilizing the General Services Administration (GSA) as its financial services provider, and our FY 2009 year-end close out and the preparation for the financial statement audit showed significant improvement over prior years. A financial statement

## SECTION I – Management’s Discussion and Analysis

preparation guide, a financial statement checklist and a financial planning schedule were also in place for FY 2009, providing for better management of the busy year-end process. The FEC has already realized cost savings by utilizing GSA and continues to review processes for ways to streamline operations. For example, the FEC is transitioning to GSA’s fixed asset module to eliminate the need to manually reconcile property with the capitalization schedule. The OCFO continues to provide managers timely, accurate and useful financial information, such as monthly status of funds reports, which is fundamental to ensuring that resources are utilized in support of agency priorities. During FY 2009, GSA provided FEC staff training on how better to use the accounting system for financial reporting and analysis.

The OCFO achieved these successes despite challenging circumstances. In FY 2009 the Procurement Director was called to six-month active military duty and another contract specialist was absent due to medical circumstances. However, the OCFO had only one net loss of staff and was able to meet staffing challenges through proactive contract work performed earlier in the year to establish blanket purchase agreements (BPAs) to provide for temporary support with the appropriate technical skills, as needed. Also, in FY 2009 the Commission hired a new CFO and, again, proactively planned for a six-week overlap with the out-going CFO prior to his retirement. This type of planning allowed the FEC to adjust personnel and priorities effectively to ensure on-going successful financial and procurement support for the agency. The OCFO additionally focused on increased training for all staff members, including informal cross-training. This allowed for skills across the OCFO to improve and for staff to work more effectively together. For FY 2010, the OCFO plans to continue to build upon this approach and expand the training opportunities to include other FEC offices.

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

The Commission is subject to numerous legislative and regulatory requirements that promote and support effective internal control. Such laws and regulations the FEC adheres to, as applicable, include:

- Annual Appropriation Law – establishes the FEC’s budget authority;
- *Inspector General Act of 1978, as amended (IG Act)*;
- *Government Performance and Results Act (GPRA) of 1993*;
- *Federal Financial Management Improvement Act of 1996 (FFMIA)*;
- *Clinger-Cohen Act of 1996*;
- *Debt Collection Improvement Act of 1996, as amended*; and
- *Chief Financial Officers (CFO) Act*, as amended by the *Accountability of Tax Dollars Act of 2002*.

The proper stewardship of Federal resources is a fundamental responsibility of the FEC. These laws help the FEC improve the management of its programs and financial operations, and assure that programs are managed in compliance with applicable law.

## **SECTION 1.E: POSSIBLE FUTURE EFFECTS OF EXISTING EVENTS AND CONDITIONS**

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There are several existing events and conditions that may affect the FEC in the future. As detailed in Sections 1.B and 2.A, the 2008 Presidential elections resulted in an extraordinary level of campaign finance activity, not only with regard to the \$8.4 billion dollars raised but also the unprecedented number of individual transactions reported. The number of transactions involved in many committee reports has already challenged the FEC's existing software and review processes, requiring new OCIO solutions and training for staff required to work with new applications. As the agency completes its audit and enforcement duties with regard to this election, we expect that the level of activity and the complexity of the information reported to the FEC will necessitate a greater commitment of staff time and resources than what was needed for past election cycles.

Court decisions in pending litigation could also significantly impact the FEC in the coming year. As detailed in Section 2.C., the Commission is currently defending challenges to core aspects of the campaign finance law's regulatory and disclosure scheme. In addition to allocating resources to this important litigation, the Commission recently issued several Notices of Proposed Rulemaking to address a decision in one of these cases. Depending on the scope and nature of the courts' decisions in these matters, the Commission may need to initiate even more rulemakings this year.

Finally, the Commission anticipates increased AO requests as the 2010 election cycle draws near. The outcome of the cases discussed above may also create an increase in AO requests during this cycle.

## **SECTION 1.F: OTHER MANAGEMENT INFORMATION, INITIATIVES AND ISSUES**

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### **e-Review**

The Commission continues to use technology to manage more effectively its ever-increasing workload. One such initiative being developed is e-Review, which is a web-based review system that will allow the FEC to review campaign finance reports to generate, circulate and image outgoing RFAI letters to committees and to provide management with reports detailing key performance metrics. Once fully implemented, it is anticipated that e-Review will better allow the FEC to keep pace with the increasing number, size and complexity of financial reports submitted by the regulated community.

### **Website Improvement**

The Commission also places a high priority on ensuring the effective use of technology and internal procedures to optimize its communication with the public. In July and August, 2009, the Commission held public hearings to receive comments on proposed website improvements as part of its Website and Internet Communications Improvement Initiative. The Commission is pursuing several programs to update and improve its website, enable the agency to keep pace with the latest technological developments and facilitate greater information sharing, communication and collaboration on the web. For example, the Commission introduced a new down-loadable data format on its website at [www.fec.gov](http://www.fec.gov) and also introduced new data feeds, which will further the Commission's efforts to improve service to, and promote interactive communications with, the regulated community. The website improvement process makes information available in open and exportable formats and through RSS feeds, which allows for automated updates and more flexible use of the information. Looking to the future, the Commission intends to make these technologies a basic part of its overall disclosure program.

### **Campaign Finance Map Enhancements**

The FEC continues to enhance the Campaign Finance Maps located on its website in order to provide the public and the regulated community with timely, robust and interactive campaign finance information. These easy-to-use maps of the United States, one for Presidential elections and another for House and Senate elections, allow the user to select candidates for comparison using bar charts to display such financial categories as contribution and disbursement totals, debts and cash on hand through the most recent reporting period. The improvements to the Campaign Finance Maps made during this fiscal year make campaign finance information available in more open and exportable formats and through dynamic data feeds. The FEC’s Campaign Finance Maps development team is also utilizing open architecture technologies to provide web service and application programming interface (API) features to the Campaign Finance Maps to ensure that information can be easily integrated into other systems and applications.

### **Enterprise Content Management System**

The FEC has launched an Enterprise Content Management (ECM) system initiative to provide tools and strategies to capture, manage, store, preserve and deliver agency-wide content. Under the ECM initiative, the FEC will design a system to store, search and retrieve documents that will be available to all appropriate Commission staff. The system will encourage collaboration throughout the agency by managing and documenting changes and ensuring the security of materials as they move through various Commission offices.

### **System Certification and Accreditation Program**

The FEC has fully implemented its Certification & Accreditation program, which provides senior management with the knowledge necessary to address risks to its mission-critical information systems in an efficient and cost-efficient manner. In the first phase of the program, the FEC conducted a third-party risk assessment of its mission critical information systems and general support system. This unbiased third-party review identified any system vulnerability and threats posed against core applications, as well as determined the probability of a threat actually exploiting a known vulnerability and the potential impact of that exploitation. Finally, a risk matrix was developed that allows senior management to understand and make informed, cost-effective decisions concerning risk mitigation. The second phase involved evaluating current control effectiveness, determining the severity of planned controls and evaluating the impact of implementing planned security controls. During the second phase, the FEC developed a Plan of Actions and Milestones (POA&M) to address any issues found as a result of testing and mitigate any residual risk. The final phase consists of developing and implementing a continuous monitoring program that constantly scrutinizes security control effectiveness to maintain stated security goals and address any newly discovered risks.

### **Data Warehouse**

In FY 2009, the FEC conducted a study to determine the best approach for housing and accessing FEC data. As a result of that study, the FEC has moved forward in implementing a comprehensive Data Warehouse System, which will provide an infrastructure to store the increasingly large volume of information the Commission receives in the most efficient way possible. This will permit the Commission to provide fast, flexible and comprehensive disclosure of campaign finance information to the public, while integrating that information with materials from FEC policy actions, including report review, advisory opinions, audits and enforcement actions. This Data Warehouse System will provide the public and the regulated community with timely and robust campaign finance information and greatly improve the public’s ability to access campaign finance data.

## **SECTION 1.G: LIMITATIONS OF THE FINANCIAL STATEMENTS**

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The principal financial statements have been prepared to report the financial position and results of operations of the FEC pursuant to the requirements of 31 U.S.C. §3515(b). While the statements have been prepared from the books and records of the FEC in accordance with U.S. generally accepted accounting principles (GAAP) for Federal entities and the formats prescribed by the OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.





# SECTION II

## PERFORMANCE REPORT

### PERFORMANCE PURPOSES, OBJECTIVES AND RESULTS

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

The FEC defines much of its work in the context of election cycles, which represent two calendar years. For example, the 2008 election cycle included calendar years 2007 and 2008, which also spanned parts of three fiscal years—the last three quarters of FY 2007, all of FY 2008 and the first quarter of FY 2009. Accordingly, certain data is most meaningful in measuring the FEC's performance by election cycle, making it difficult to provide meaningful performance data on a fiscal-year basis. Therefore, the results of the FEC's performance, as discussed in this section, include data by either fiscal year or by election cycle, depending on which option presents the results in the most informative manner.

### STRATEGIC GOAL AND OBJECTIVES FOR FY 2009

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To achieve its mission, as detailed in Section I, the FEC has identified one overarching strategic goal. This goal is supported, in turn, by three strategic objectives and underlying activities that guide the operations of the FEC and its staff on a day-to-day basis.

#### STRATEGIC GOAL

To protect the integrity of the Federal campaign process by providing transparency, enforcing contribution restrictions and fairly administering the FECA and related statutes.

#### OBJECTIVE A: TRANSPARENCY

Receiving Accurate and Complete Campaign Finance Disclosure Reports  
and Making Them Available to the Public

#### OBJECTIVE B: COMPLIANCE

Education and Enforcement

#### OBJECTIVE C: DEVELOPMENT OF THE LAW

Interpreting, Administering and Defending the Act

## SECTION II – Performance Report

Management excellence is a key strategy by which the Commission strives to ensure these objectives are met in the most efficient and effective manner. The Commission recently drafted an updated human capital plan to better address the following elements: (1) strategic alignment; (2) workforce planning; (3) leadership development; and (4) knowledge transfer and results-oriented performance. The Commission believes that, in addition to investing in its people, strong financial management and up-to-date technology are critical means to achieving its strategic goal.

In FY 2008 the Commission reviewed the performance measures and refined them, thereby enhancing the FEC's ability to capture and report data in a more meaningful manner. The following provides a detailed discussion of the FEC's performance measures, as outlined in its updated Strategic Plan.

### RESULTS BY OBJECTIVE

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#### **Objective A: Transparency – Receiving Accurate and Complete Campaign Finance Disclosure Reports and Making Them Available to the Public**

The FEC provides the public with the data to make educated, informed decisions in the political process based, in part, on information concerning where candidates for Federal office derive their financial support. The FEC gauges its effectiveness through a series of indicators designed to measure performance in areas that promote confidence in the campaign finance process.

The FEC promotes voluntary compliance by fully disclosing campaign finances for Federal elections. The following provides a discussion of the results achieved in carrying out these objectives and activities.

##### *Performance Measures*

- Process reports within 30 days of receipt as measured quarterly; and
- Meet the statutory requirement to make reports and statements filed on paper with the FEC available to the public within 48 hours of receipt.

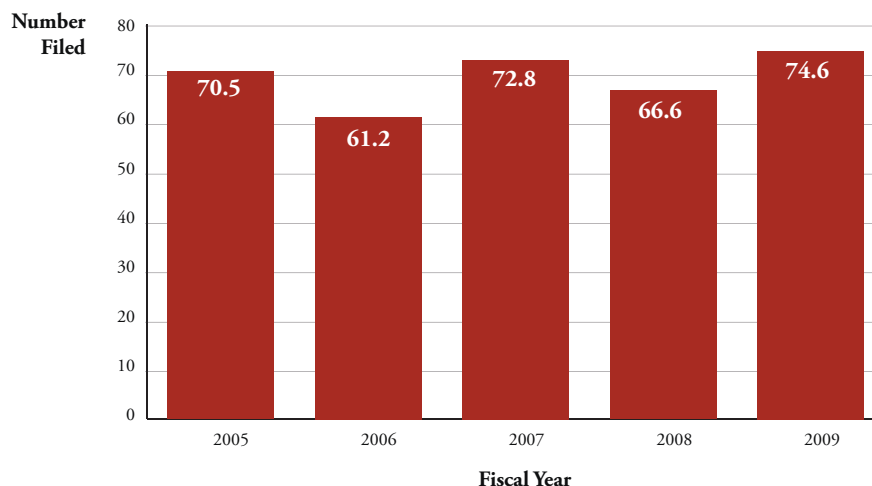
The Commission's mandatory electronic filing ("e-filing") rules require any committee that receives contributions or makes expenditures in excess of \$50,000 in a calendar year, or that has reason to expect to do so, to submit its reports electronically. These mandatory e-filing provisions apply to any political committee or other person required to file reports, statements and/or designations with the FEC. Under *FECA*, these requirements do not apply to Senate candidate committees (and other persons who support Senate candidates only), who file with the Secretary of the Senate.

The e-filing system acts as the point of entry for submission of electronically filed campaign finance reports, providing faster access to reports and streamlining operations. Specifically, the system provides for public disclosure of electronically filed reports, via the FEC website, within minutes of being filed. When a committee files a financial disclosure report on paper, FEC staff scan and enter the information disclosed in the report into the FEC electronic database. The Commission's Public Disclosure Division ensures that a copy is available for public inspection within 48 hours of receipt, both electronically on the website and at the FEC's offices, located at 999 E Street, NW., Washington, D.C.

Figure 5 (opposite) shows the total number of campaign finance reports and statements filed with the FEC each fiscal year since 2005. As illustrated, election years (the odd fiscal years) show a spike in the number of filings received by the FEC. The public can access the campaign finance reports and data at <http://www.fec.gov/disclosure.shtml>.



FIGURE 5 – REPORTS AND STATEMENTS FILED (IN THOUSANDS)



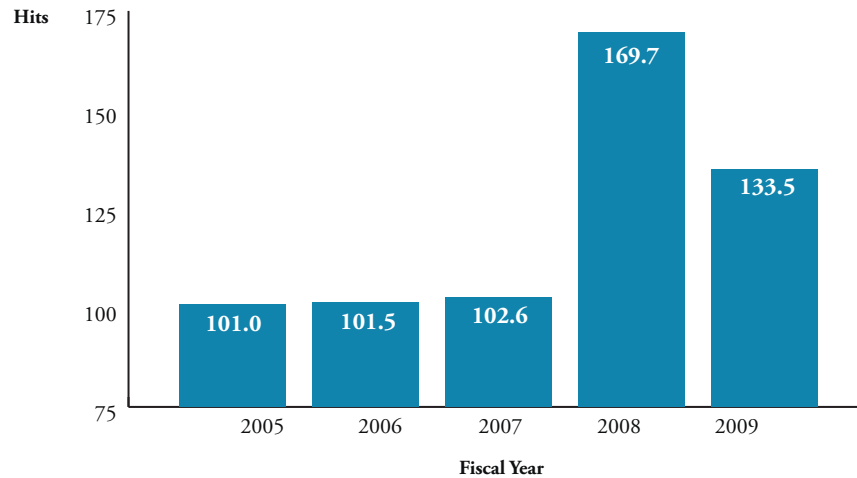
The FEC achieved a 100 percent success rate in making the financial disclosure reports and statements available to the public within 48 hours of receipt. This fiscal year has again seen a significant increase in the volume of data associated with filings. For example, to-date, the data equivalent to the number of pages for filings received has been approximately 8.0 million pages, a one-third increase over the approximately 6.0 million pages received in fiscal year 2008. By comparison, during the last comparable fiscal year covering a Presidential general election, FY 2005, the FEC received slightly under 5.0 million pages. Although the FEC has not increased its staffing from last year, it still has been successful in achieving its mandate.

After the reports are imaged for disclosure purposes, the data is coded and entered into the FEC's database for review to assess accuracy and complete disclosure of campaign finance information. The agency's goal is to code and enter 95 percent of the reports within 30 days of receipt. For FY 2009, the FEC was able to process 78 percent of the reports within 30 days of receipt. The agency's ability to meet this performance goal was significantly hampered by the loss of three data coding staff positions since the last Presidential election cycle and the unprecedented number of individual transactions involved in the 2008 elections.

The FEC's website ([www.fec.gov](http://www.fec.gov)) represents the major source of Federal campaign finance information. The FEC website provides access to the campaign finance data that has been submitted by candidates and committees and posted on-line by the FEC staff. The public's interest in campaign finance information is illustrated in Figure 6 on page 24, which shows a continued high number of hits on the FEC's website by users seeking campaign finance data and other information. During FY 2009, the website received approximately 133.5 million hits.

## SECTION II – Performance Report

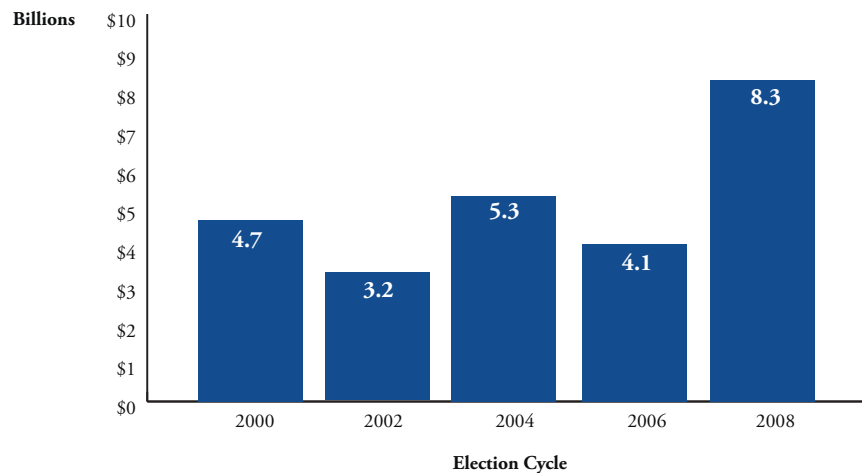
FIGURE 6 – TOTAL WEBSITE HITS (IN MILLIONS)



To make campaign finance data more accessible to the public, the FEC launched an interactive map providing users immediate access to contribution information for the 2008 Presidential, House and Senate elections. Users can access the amount of funds raised on a state-by-state basis, contributions, cash-on-hand and the distribution of contributions by amount with a simple click at [www.fec.gov/DisclosureSearch/mapApp.do](http://www.fec.gov/DisclosureSearch/mapApp.do). Furthermore, users can access lists of contributors by name, city and amounts of contributions within the first three digits of any zip code. Contribution data is updated within one day of the FEC's receipt of electronically filed Presidential disclosure reports.

A Presidential election cycle includes expenditures related to the election of: 1) the President; 2) all seats in the House of Representatives; 3) one-third of the Senate seats; and 4) any special elections required to fill vacant seats. Figure 7 illustrates that expenditures related to Federal elections are on the rise, especially as they relate to a Presidential election year. Total receipts collected during the 2008 election cycle were \$8.4 billion, while disbursements were approximately \$8.3 billion. By comparison, for the 2004 Presidential election cycle, total receipts were \$5.5 billion and total disbursements were \$5.3 billion.

FIGURE 7 – DISBURSEMENTS IN FEDERAL ELECTIONS (IN BILLIONS)



Besides making campaign finance reports available to the public, the FEC works to ensure that the information disclosed is accurate and complete. The Office of Compliance's Reports Analysis Division reviews all reports to track compliance with the law and to ensure that the public record provides a full and accurate representation of campaign finance activity. If the FEC's review identifies an apparent violation or raises questions about the information disclosed on a report, the Office of Compliance sends a request for additional information to the committee, affording the committee an opportunity to correct the public record, if necessary. If the committee is able to resolve the FEC's concerns, it may avoid an enforcement action. If not, the Commission has several tools available to it, such as the Administrative Fine Program, audits and the Alternative Dispute Resolution program, as well as traditional enforcement action.

## Objective B: Compliance – Education and Enforcement

Helping the regulated community understand its obligations under the *Act* is an essential component of voluntary compliance. The FEC places a significant emphasis on encouraging compliance through its Information Division, Press Office and Office of Congressional, Legislative and Intergovernmental Affairs.

The Commission encourages voluntary compliance through outreach programs. The FEC hosts instructional conferences in Washington, D.C., and in other cities across the country, where Commissioners and staff explain how the *Act* applies to candidates and political committees. These conferences specifically address recent changes in the campaign finance laws and focus on fundraising and reporting regulations. Additionally, the Commission responds to telephone inquiries and written requests seeking information about the law and assistance in filing disclosure reports.

The FEC has exclusive jurisdiction over the civil enforcement of the Federal campaign finance law. In exercising that authority, the Commission uses a variety of methods to uncover possible campaign finance violations. Instances of non-compliance may lead to an FEC enforcement case, or Matter under Review (MUR). In some cases, respondents may be given the option to participate in the Commission's Alternative Dispute Resolution program, which seeks to resolve matters more swiftly. By law, all these matters must remain confidential until they are closed. Normally, violations involving the late submission of FEC reports or failure to file reports are subject to the Administrative Fine Program.

### *Performance Measures*

- Conduct educational conferences and host roundtable workshops on the campaign finance law each election cycle, achieving a mean satisfaction rating of 4.0 on a 5.0 scale 100% of the time
- Issue press releases summarizing completed compliance matters within two weeks of a matter being made public by the Commission
- Issue quarterly press releases containing summaries of campaign finance data
- Process 100% of enforcement cases within an average of 15 months of receipt
- Process 75% of the cases assigned to Alternative Dispute Resolution within 155 days of a case being assigned
- Process 75% of reason-to-believe recommendations for the Administrative Fine Program within 60 days of the original due date of the subject untimely or unfiled report
- Process 75% of the challenges in the Administrative Fine Program within 60 days of a challenge being filed
- Conclude non-Presidential audits with findings in an average of 10 months, excluding time delays beyond the Commission's control, such as subpoenas and extension requests
- Conclude non-Presidential audits with no findings in an average of 90 days from beginning of fieldwork

## SECTION II – Performance Report

- Conclude Presidential audits in an average of 24 months of the election, excluding time delays beyond the Commission's control, such as subpoenas and extension requests

Results achieved in carrying out these objectives and activities are detailed below.

### **Expanding Awareness**

The FEC's education and outreach programs provide the regulated community with the information they need to comply with the campaign finance laws and provide the public with the context necessary to interpret the campaign finance data filers disclose. The FEC operates a press office and maintains a toll-free line to respond to inquiries regarding campaign finance data.

In recent years, the Commission's website has become one of the most important sources of instantly accessible information about the *Act* and Commission regulations. In addition to viewing campaign finance data, anyone with Internet access can use the website to track Commission rulemakings, search advisory opinions and closed enforcement matters, view campaign finance data and find reporting dates. The Commission places a high emphasis on providing educational materials about the campaign finance law and its requirements. Toward this end, the FEC has moved its focus away from the printing and manual distribution of its educational materials and instead looked for ways to leverage available technologies to create and disseminate dynamic and up-to-date educational materials through the website. While the Commission continues to make available printed copies of its educational brochures and publications, transitioning to primarily web-based media has already allowed the agency to reduce significantly its printing and mailing costs and use of resources while at the same time encouraging new and expanded ways of communicating with the public via the website.

As part of its broad effort to improve Internet communications and better serve the educational needs of the public and the regulated community, the Commission also recently added an E-Learning section to its Educational Outreach web page and launched its own YouTube channel, which can be found at either <http://www.fec.gov/info/elearning.shtml> or <http://www.youtube.com/FECTube>. The E-Learning page offers interactive presentations that allow users to test their knowledge of the information presented and video workshops, which are hosted on YouTube. The curriculum currently includes presentations about the Commission and campaign finance law, and highlights from the FEC's recent roundtable workshop on the lobbyist bundling disclosure provisions of *HLOGA*. The FEC plans to continue to expand its E-Learning program with additional content and technical improvements during the coming year.

One significant way the Commission encourages voluntary compliance is by hosting conferences across the country, where Commissioners and staff explain how the *Act* applies to candidates, parties and political action committees. The FEC held four conferences in FY 2009, three in the District of Columbia and one in Chicago, Illinois. Less formal educational seminars were held in Tallahassee, Florida, Columbus, Ohio, and Kansas City, Missouri. The FEC also hosted roundtable workshops at its headquarters to explain new regulations requiring disclosure of certain contributions bundled by lobbyists and to help committees prepare their campaign finance reports. The success of these efforts is evidenced by the evaluation scores and comments received. The overall rating for each event exceeded a 4.0 out of a possible 5.0.

### **Responding to Potential Violations**

The FEC responds to a variety of enforcement matters through its Office of General Counsel (OGC) and Administrative Fine (AF) and Alternative Dispute Resolution (ADR) programs. Under the Commission's traditional enforcement program, the Commission learns of possible election law violations primarily through:

- The Commission's review of a committee's reports or through a Commission audit;
- The complaint process, whereby anyone may file a sworn complaint alleging violations of the *Act*;
- Voluntary self-reporting by representatives of candidates or political committees who believe that they may have violated the *Act*; and

- The referral process, whereby other government agencies may refer possible violations of the *Act* to the FEC.

The most complex and legally significant enforcement matters are handled by OGC, which:

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

Closed enforcement matters are available online through the Commission’s Enforcement Query System at <http://eqs.sdrdc.com/eqs/searcheqs>.

### **Office of General Counsel**

Enforcement matters are handled by OGC pursuant to the procedures set forth in *FECA*. Over the past several years, the General Counsel has initiated a number of management and organizational changes to increase the quality and efficiency of the FEC’s enforcement work, and has implemented policy initiatives to facilitate the processing of matters under review. As a result, OGC continues to meet its obligations to the Commission and the public to handle its caseload efficiently and effectively. During the fiscal year, the Commission completed processing 228 enforcement cases, of which 173 cases (76%) were closed within 15 months. The average processing time for enforcement cases was 13.9 months.

### **Alternative Dispute Resolution**

The Alternative Dispute Resolution (ADR) program was implemented in FY 2001 to facilitate settlements outside of the traditional enforcement or litigation processes. The program’s primary objective is to enhance the agency’s overall effectiveness through more expeditious resolution of enforcement matters with fewer resources required to process complaints and internal referrals.

Generally, a case is considered processed when it is closed. A case is closed when the Commission votes on the recommendation made by ADR as to what final action should be taken. During FY 2009, ADR processed 84 cases to closure and assessed \$200,395 in civil penalties.

The Commission’s lack of a quorum during FY 2008 created a backlog of cases for FY 2009. On September 30, 2008, there were 56 active cases pending resolution, more than twice the average number of cases pending at the end of previous fiscal years. Many of these cases were part of the backlog of Commission matters resulting from the earlier six-month period without a quorum. ADR met its 155-day processing benchmark in 26 percent of cases, short of its 75% goal. Total average processing time was negatively impacted by those cases left from the prior fiscal year and by staffing issues in the ADR Office, which operated throughout the fiscal year with only one dispute resolution specialist instead of two. In early FY 2010 the Commission selected a permanent ADR Director and initiated steps to fill the vacancy in the ADR Office

### **Administrative Fine Program**

In response to a legislative mandate, an Administrative Fine (AF) Program was implemented in July 2000 to address untimely filing or non-filing of disclosure reports in a more efficient and effective manner. This program is administered by the Commission’s Office of Administrative Review and RAD, which are within the Office of Compliance.

## SECTION II – Performance Report

Since the Program's inception in July 2000 through September 30, 2009, the Commission has closed 1,974 cases and assessed fines of almost \$3.64 million. In July 2009, the Commission raised certain civil penalty amounts assessed under the Program, as mandated by the *Inflation Adjustment Act*.

An administrative fine case begins when the Reports Analysis Division (RAD) finds that a committee failed to file a required report or filed a required report late. For FY 2009, RAD exceeded its performance goal, processing 84 percent of the RTB recommendations within 60 days of the subject reports' due date. The average completion time for these recommendations was 47 days.

During FY 2009, OAR reviewed 67 challenges submitted by committees in response to a reason-to-believe (RTB) finding and/or civil money penalty. OAR reviewed 60 percent of these challenges within 60 days of receipt. Many of the challenges that were not completed within 60 days of receipt required coordination with OGC and in-depth legal analysis or additional information from the respondents, which contributed to delays in resolving those challenges. Although OAR did not meet its performance goal of processing 75 percent of challenges within 60 days of receipt, the average completion time for all FY 09 challenges was just shy of this goal, with an average completion time of 70 days and a median completion time of 56 days. OAR has reviewed 556 challenges submitted from the Program's inception through FY 2009.

### Conducting Audits

The Audit Division's major responsibilities concern the public funding of Presidential campaigns and audits of various political committees. This division evaluates the Presidential primary candidates' applications for matching funds and determines the amount of contributions that may be matched with federal funds. As required by 26 U.S.C., the FEC audits all recipients of public funds. In addition, pursuant to 2 U.S.C. §438(b), the Commission audits non-Presidential committees that, according to FEC determinations, have not complied with the law. The Audit Division publishes its findings in audit reports, which can be found at [http://www.fec.gov/audits/audit\\_reports.shtml](http://www.fec.gov/audits/audit_reports.shtml).

The FEC's goals with respect to conducting audits in a timely and efficient manner are to:

- Conclude non-Presidential (for cause) audits with findings in an average of 10 months, excluding time delays beyond the Commission's control, such as subpoenas and requests for extensions of time to respond to audit reports;
- Conclude non-Presidential audits with no findings in an average of 90 days from the beginning of field work; and
- Conclude Presidential Audits in an average of 24 months of the general election, excluding time delays beyond the Commission's control, such as subpoenas and requests for extensions of time to respond to audit reports.

An audit concludes with the public issuance of an audit opinion following the Commission's approval. Because the Commission lacked a quorum for a six-month period in fiscal year 2008, any business requiring Commission approval during this time was suspended, including Commission approval to conduct audits "for cause." Consequently, the number of "for cause" audits conducted in fiscal year 2009 was much lower than in prior years.

In FY 2009, the Commission approved 28 audit reports resulting from audits "for cause." Findings were reported in 25 of the total 28 "for cause" audit cases concluded by the Audit Division. Three of these audits (12 percent) were concluded in an average of ten months. The three audits with no findings were completed in an average of 192 days. A major contributor to the increased time required to conclude "for cause" audits with findings was that Audit staff was engaged in presenting to five new Commissioners a backlog of cases waiting for their consideration. As the Commission worked through the backlog, additional work and interaction with audited committees slowed the progress of current cases. Three other committees undergoing audits were extended offers for hearings under the Commission's new pilot program that allows audited committees to request a hearing before the Commission

in cases where the Audit Division's draft Final Audit Report concludes that the committee violated the *Act* or Commission regulations. Audit hearings provide audited committees an opportunity to present oral arguments to the Commission directly and to answer Commissioners' questions.

Presidential committee audits demand more time and resources than *FECA* "for cause" audits because of their complexity. The number of audits is dependent on the number of candidates who participate in the public funding program. In the 2008 election cycle, the Commission approved the eligibility of nine candidates to receive Presidential Primary Matching Funds. One candidate subsequently withdrew from the program. The Commission also audits the publicly funded national convention committees, their host committees and General Election candidates. Of 14 Presidential audits related to the 2008 election cycle, five were completed in FY 2009 in an average of 8.5 months. The Commission is on track to accomplish its goal of completing the remaining nine Presidential audits within 24 months after the 2008 Presidential election

### **Objective C: Development of the Law – Interpreting and Administering the Act**

The Commission provides formal interpretation of the *Act* through the promulgation of regulations and the issuance of advisory opinions (AOs).

#### *Performance Measures*

- Complete rulemakings within specific time frames that reflect the importance of the topics addressed, proximity to upcoming elections and externally established deadlines 100% of the time
- Issue all advisory opinions within 60-day and 20-day statutory deadlines 100% of the time
- Issue expedited advisory opinions for time-sensitive highly significant requests within 30 days of receiving a complete request, or a shorter time when warranted, 100% of the time
- Ensure that court filings meet all deadlines and rules imposed by the Courts 100% of the time
- Process public funding payments in the correct amounts and within established time frames 100% of the time

Results achieved in carrying out these objectives and activities are detailed below.

#### **Regulations**

Commission initiatives, Congressional action, judicial decisions, petitions for rulemaking or other changes in campaign finance law often necessitate that the Commission update or adopt new regulations. Consequently, the FEC undertakes rulemakings either to write new regulations or revise existing regulations.

The Policy Division of OGC drafts Notices of Proposed Rulemaking (NPRMs) for Commission consideration. NPRMs provide an opportunity for members of the public and the regulated community to review proposed regulations, submit written comments to the Commission and testify at public hearings, which are conducted at the FEC when appropriate. The Commission considers the comments and testimony and deliberates publicly regarding the adoption of the final regulations and the corresponding Explanations and Justifications, which provide the rationale and basis for the new or revised regulations.

The Commission worked on 10 rulemaking projects during FY 2009, and completed six. Of the six completed rulemakings, five were concluded within specific time frames that reflected the importance of the topics addressed, proximity to upcoming elections and externally established deadlines. One rulemaking – *HLOGA* bundling – was successfully completed in FY 2009, but did not meet its externally established deadline.

- Millionaire's Amendment repeal – completed
- *HLOGA* bundling – completed

## SECTION II – Performance Report

- Administrative Fine Program extension – completed
- Civil Monetary Penalty Inflation Adjustment – completed
- Election Assistance Commission regulations transfer – completed
- Petitions for Rulemaking on candidate debates – completed
- *HLOGA* travel – pending
- Shays coordinated communications – pending
- Shays voter registration and get-out-the-vote activity – pending
- Shays candidate appearances at State party fundraisers - pending

In early FY 2009, the Commission completed a rulemaking to repeal the regulations that had previously implemented the *Bipartisan Campaign Reform Act's* (BCRA) Millionaires' Amendment. The Millionaires' Amendment increased certain contribution limits and coordinated party expenditure limits for Senate and House of Representatives candidates facing opponents who spent significant amounts of personal funds. When a self-financed opponent spent personal funds above a certain threshold amount, the Millionaires' Amendment permitted a candidate to accept individual contributions under increased contribution limits. See 2 U.S.C. §§441a(i) and 441a-1(a). This was found unconstitutional by the Supreme Court in *Davis v. FEC*.

The Commission also completed a rulemaking pursuant to statutory provisions in *HLOGA*, which changed the Commission's existing candidate travel rules and created new reporting requirements for candidates' committees, political party committees and leadership PACs who credit lobbying entities that bundle contributions. Because of the lack of a quorum during FY 2008, the Commission did not meet the statutory deadline for implementing the bundling rules. The Commission completed the bundling rules on February 17, 2009. The Commission has not yet completed the *HLOGA* travel rulemaking.

Two other completed rulemakings dealt with fines and penalties stemming from enforcement cases. One of these rulemakings extended the Administrative Fine Program for another five years. The other adjusted the amounts of the civil money penalties to account for inflation.

The Commission also completed a rulemaking transferring regulations that implement the *National Voter Registration Act of 1993* from the FEC to the Election Assistance Commission (EAC). These rules, formally created by the FEC, were shifted to the EAC by the *Help America Vote Act of 2002*. The Commission also disposed of two petitions for rulemaking on candidate debates. Notices of Disposition were sent to the petitioners near the end of the fiscal year.

Lastly, the Commission began work on three rulemakings to implement the U.S. Court of Appeals for the District of Columbia Circuit decision in *Shays v. FEC*. These rulemakings will address coordinated communications, definitions of voter registration and get-out-the-vote activity and fundraising by candidates and Federal officeholders for State party committees and other entities.

### **Advisory Opinions**

Advisory opinions (AO) are official Commission responses to questions regarding the application of Federal campaign finance law to specific factual situations. The *Act* generally provides the Commission with 60 days to respond to an AO request. For AO requests from candidates in the two months leading up to an election, the *Act* provides the Commission with 20 days to respond to the request. On its own initiative, the Commission also makes available an expedited process for handling certain time-sensitive requests that are not otherwise entitled to expedited processing under the *Act*. The Commission has placed special emphasis on expediting its processing and consideration of these highly significant AO requests. The Commission strives to issue these advisory opinions in 30 days.



The number of AO requests that the Commission receives is subject to cycles and is somewhat higher during election years. During FY 2009, the Commission completed 100 percent of AOs within the statutory deadlines. The Commission did not receive any 20-day requests. Furthermore, the Commission issued two expedited advisory opinions within 30 days during FY 2009. The average number of days from receipt of the complete AO request to issuance of the AO was 27 days for expedited requests and 49 days for 60-day requests that did not have extended deadlines.

### **Defending Challenges to the Act**

The Commission is the exclusive representative of the FEC before the Federal district and circuit courts, and before the Supreme Court with respect to cases involving publicly financed Presidential candidates. It also has primary responsibility for defending the *Act* and Commission regulations against court challenges. In FY 2009, 100 percent of the Commission's court filings met all deadlines and rules imposed by the courts.

After the Supreme Court decided *FEC v. Wisconsin Right to Life, Inc.*, in 2007, the Commission promulgated a regulation implementing that decision; the Commission is now defending both that regulation and a related challenge to disclosure provisions as applied to certain electioneering communications in *Citizens United v. FEC*. In that case, the Commission prevailed before a three-judge district court, and the plaintiff has appealed to the Supreme Court, which held reargument in the case at a special session on September 9, 2009.

In other ongoing litigation, the Commission is defending a lawsuit brought by SpeechNow.org, which alleges that the *Act's* limits on contributions to political committees is unconstitutional as applied to groups that receive contributions only from individuals and who make only independent expenditures with their funds. The Commission is also defending against two "as applied" lawsuits brought by the Republican National Committee and other plaintiffs: one concerns the application of *BCRA's* soft money ban to contributions that will allegedly be used solely for nonfederal activities, and the other involves the *Act's* limits on party coordinated expenditures.

In addition, a three-judge panel of the U.S. Court of Appeals for the District of Columbia Circuit issued a decision in *EMILY's List v. FEC* on September 18, 2009. The decision invalidated regulations concerning how political committees must allocate funds to pay for activity that affects both State and Federal elections.

### **Public Funding**

In addition to enforcing the *FECA*, the Commission is responsible for administering the public funding of Presidential elections, as specified in the public funding statutes at 26 U.S.C. §§9001-9039. The Commission certifies a candidate's eligibility to participate in the program, establishes eligibility for payments and conducts a thorough examination and audit of the qualified campaign expenses of every candidate who receives payments under the program.

To be eligible for public funds, a Presidential candidate or a party convention committee must first submit a letter of agreement and a written certification in which the candidate or committee agrees to:

- Spend public funds only for campaign-related expenses or, in the case of a party convention, for convention-related expenses;
- Limit spending to amounts specified by the campaign finance law;
- Keep records and, if requested, supply evidence of qualified expenses;
- Cooperate with an audit of campaign or convention expenses;
- Repay public funds, if necessary;
- Pay any civil penalties assessed by the FEC; and
- Document that Primary candidates have met the "threshold requirement" for eligibility by raising in excess of \$5,000 in each of 20 states.

## SECTION II – Performance Report

Presidential Primary candidates may present matching funds requests (submissions) up until the first Monday in March of the year following the election. During fiscal year 2009, the FEC processed four submissions for matching funds. These submissions were processed in the correct amounts and within established time frames 100 percent of the time and resulted in recommendations to the Commission to certify \$332,204 in payments to Presidential Primary candidates.

For the 2008 General Election, the Republican Presidential nominee, Sen. John McCain (AZ), received \$84.1 million in public funds to conduct his general election campaign and raised an additional \$46.4 million for legal and accounting expenses. The Democratic Presidential nominee, then-Sen. Barack Obama (IL), raised a total of \$745.7 million in private funds for his primary nomination and general election campaign. It was the first time in the history of Presidential public financing that a major party nominee declined to accept public funds for the General Election.

### **Legislative Recommendations**

The Commission is empowered to recommend to the President and to Congress suggested improvements to the Federal campaign finance law. In accordance with the *Act*, on March 19, 2009, the Commission submitted the following Legislative Recommendations to the President and the Congress.

*Electronic Filing of Senate Reports–Recommendation:* Congress should require electronic filing for all Senate candidates and their authorized committees (and for those persons and political committees filing designations, statements, reports or notifications pertaining only to Senate elections) if they have, or have reason to expect to have, aggregate contributions or expenditures in excess of the threshold amount determined by the Commission.

*Fraudulent Misrepresentation of Campaign Authority–Recommendation:* Congress should revise the prohibitions on fraudulent misrepresentation of campaign authority to encompass all persons purporting to act on behalf of candidates and real or fictitious political committees and political organizations. In addition, Congress should remove the requirement that the fraudulent misrepresentation must pertain to a matter that is “damaging” to another candidate or political party.

*Conversion of Campaign Funds–Recommendation:* Congress should amend *FECA*'s prohibition of the personal use of campaign funds to extend its reach to all political committees.

*Senior Executive Service–Recommendation:* Congress should delete the exclusion of the FEC from eligibility for the Senior Executive Service under the *Civil Service Reform Act of 1978*. This would align the Commission's personnel structure and practices with that of other comparable Federal agencies.

Greater detail concerning the Commission's legislative recommendations can be found at <http://www.fec.gov/law/legrec2009.pdf>.



# SECTION III

## AUDITOR'S REPORT AND FINANCIAL STATEMENTS

### MESSAGE FROM THE CHIEF FINANCIAL OFFICER

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November 16, 2009

The PAR summarizes the agency's annual accomplishments, in addition to providing financial and performance information. I am pleased that the FEC sustained an unqualified audit opinion on the financial statements this year. Additionally, the FEC was able to correct the material weakness that had been reported in the audit of the FY 2008 financial statements. This performance benchmark validates our efforts to ensure that the financial statements of the agency, and of the funds for which we are stewards, are fairly presented. This achievement is also a testament to the hard work and dedication of the FEC's staff.

The FEC is committed to effective and efficient management of its resources. In addition to the improvements mentioned by the Chairman, the agency also undertook the following efforts during FY 2009:

- Updated or established a number of important directives and policies, including: FEC procurement policies; funds control document, in accordance with OMB Circular A-11; and the financial statement preparation guidance.
- Improved the internal control program to include an inventory of the agency's policies and procedures.
- Received a successful audit review from OPM regarding overall human resource operations.
- Increased the agency's training budget by more than 125% from FY 2008--providing the opportunity for employees to improve and maintain critical skills.
- Improved overall IT security.

These steps continue to drive the agency toward overall better performance and financial management. The FEC continually strives to improve in order to more effectively support the agency's mission. For FY 2010, the OCFO expects to focus on continuing to update directives and policies and improve accessibility to these important documents.

Looking ahead, the FEC will continue to seek opportunities to modernize and upgrade business systems. Effective financial management remains an important aspect for mission success and we will continue to look to build on the prior years financial management successes. Also, I want to thank the Commission, senior managers and the OCFO staff for all of their efforts and support to ensure a successful year in financial management.

Sincerely,



Mary G. Sprague  
Chief Financial Officer

## SECTION III – Auditor’s Report and Financial Statements



### 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 2009 Financial Statements

DATE: November 13, 2009

Pursuant to the Chief Financial Officers Act of 1990, commonly referred to as the “CFO Act,” as amended, this letter transmits the Independent Auditor’s Report issued by Leon Snead & Company (LSC), P.C. for the fiscal year ending September 30, 2009. The audit was performed under a contract with, and monitored by, the Office of Inspector General (OIG), in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable provisions of Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

#### Opinion on the Financial Statements

LSC audited the balance sheet of the Federal Election Commission (FEC) as of September 30, 2009, and the related statements of net cost, changes in net position, budgetary resources, and custodial activity (the financial statements) for the year then ended. The objective of the audit was to express an opinion on the fair presentation of those financial statements. In connection with the audit, LSC also considered the FEC’s internal control over financial reporting and tested the FEC’s compliance with certain provisions of applicable laws and regulations that could have a direct and material effect on its financial statements. The financial statements of the FEC as of September 30, 2008, were audited by other auditors whose report dated November 7, 2008, expressed an unqualified opinion on those statements.

In LSC’s opinion, the financial statements present fairly, in all material respects, the financial position, net cost, changes in net position, budgetary resources, and custodial activity of the FEC as of, and for the year ending September 30, 2009, in conformity with accounting principles generally accepted in the United States of America.

#### Report on Internal Control

In planning and performing the audit of the financial statements of the FEC, LSC considered the FEC's internal control over financial reporting (internal control) as a basis for designing auditing procedures for the purpose of expressing their opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the FEC's internal control. Accordingly, LSC did not express an opinion on the effectiveness of the FEC's internal control.

Because of inherent limitations in internal controls, including the possibility of management override of controls; misstatements, losses, or noncompliance may nevertheless occur and not be detected. According to the American Institute of Certified Public Accountants:

- A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.
- A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is a more than remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.
- A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

LSC's consideration of internal control was for the limited purpose described in the first paragraph in this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. LSC did not identify any deficiencies in internal control that LSC would consider to be material weaknesses, as defined above. However, LSC identified, as listed below, two deficiencies in internal controls that LSC considers to be significant deficiencies.

- Internal Controls over Financial Reporting
- Information Technology (IT) Security Control Weaknesses

#### Report on Compliance with Laws and Regulations

FEC management is responsible for complying with laws and regulations applicable to the agency. To obtain reasonable assurance about whether FEC's financial statements are free of material misstatements, LSC performed tests of compliance with certain provisions of laws and regulations, noncompliance which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin No. 07-04, as amended. LSC did not test compliance with all laws and regulations applicable to FEC.

### SECTION III – Auditor’s Report and Financial Statements

The results of LSC’s tests of compliance with laws and regulations described in the audit report disclosed an instance of reportable noncompliance that is required to be reported under U.S. generally accepted government auditing standards or OMB guidance.

LSC identified a reportable noncompliance in the area of:

- Compliance with the Debt Collection Improvement Act

#### Audit Follow-up

The independent auditor’s report contains recommendations to address deficiencies found by the auditors. Management was provided a draft copy of the audit report for comment and generally concurred with the findings and recommendations. In accordance with OMB Circular No. A-50, *Audit Follow-up*, 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 financial statement audit.

#### OIG Evaluation of Leon Snead & Company’s Audit Performance

We reviewed LSC’s report and related documentation and made necessary inquiries of its representatives. Our review was not intended to enable the OIG to express, and we do not express an opinion on the FEC’s financial statements; nor do we provide conclusions about the effectiveness of internal control or conclusions on FEC’s compliance with laws and regulations. However, the OIG review disclosed no instances where LSC did not comply, in all material respects, with *Government Auditing Standards*.

We appreciate the courtesies and cooperation extended to LSC and the OIG staff during the audit. If you should have any questions concerning this report, please contact my office on (202) 694-1015.



Lynne A. McFarland  
Inspector General

#### Attachment

Cc: Alec Palmer, Acting Staff Director/Chief Information Officer  
Mary G. Sprague, Chief Financial Officer  
Thomasenia P. Duncan, General Counsel

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**FEDERAL ELECTION COMMISSION**

**Audit of Financial Statements**

**As of and for the Year Ended  
September 30, 2009**

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**Submitted By**

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

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**LEON SNEAD  
& COMPANY, P.C.**

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Inspector General  
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### **Independent Auditor's Report**

We have audited the balance sheet of the Federal Election Commission (FEC) as of September 30, 2009, and the related statements of net cost, changes in net position, budgetary resources, and custodial activity (the financial statements) for the year then ended. The objective of our audit was to express an opinion on the fair presentation of those financial statements. In connection with our audit, we also considered the FEC's internal control over financial reporting and tested the FEC's compliance with certain provisions of applicable laws and regulations that could have a direct and material effect on its financial statements. The financial statements of FEC as of September 30, 2008, were audited by other auditors whose report dated November 7, 2008, expressed an unqualified opinion on those statements.

#### **SUMMARY**

As stated in our opinion on the financial statements, we found that the FEC's financial statements as of and for the year ended September 30, 2009, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

Our consideration of internal control would not necessarily disclose all deficiencies in internal control over financial reporting that might be material weaknesses under standards issued by the American Institute of Certified Public Accountants. Our testing of internal control identified no material weaknesses in financial reporting. However, our audit identified two significant deficiencies relating to internal controls over financial reporting, and FEC's agency-wide Information Technology (IT) security program.

The results of our tests of compliance with certain provisions of laws and regulations disclosed one instance of noncompliance relating to the Debt Collection Improvement Act that is required to be reported herein under *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements* (as amended).

The following sections discuss in more detail our opinion on the FEC’s financial statements, our consideration of the FEC’s internal control over financial reporting, our tests of the FEC’s compliance with certain provisions of applicable laws and regulations, and management’s and our responsibilities.

**OPINION ON THE FINANCIAL STATEMENTS**

We have audited the accompanying balance sheet of the FEC as of September 30, 2009, and the related statements of net cost, changes in net position, budgetary resources, and custodial activity for the year then ended. The financial statements of FEC as of and for the year ended September 30, 2008, were audited by other auditors whose report dated November 7, 2008, expressed an unqualified opinion on those statements.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position, net cost, changes in net position, budgetary resources, and custodial activity of the FEC as of and for the year ended September 30, 2009, in conformity with accounting principles generally accepted in the United States of America.

The information in the Management’s Discussion and Analysis section is supplementary information required by accounting principles generally accepted in the United States of America or OMB Circular A-136, *Financial Reporting Requirements*. We have applied certain limited procedures, which consisted principally of inquiries of FEC management regarding the methods of measurement and presentation of the supplementary information and analysis of the information for consistency with the financial statements. However, we did not audit the information and express no opinion on it. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit of the financial statements of the FEC, as of and for the year ended September 30, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the FEC’s internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the FEC’s internal control. Accordingly, we do not express an opinion on the effectiveness of the FEC’s internal control.

Because of inherent limitations in internal controls, including the possibility of management override of controls; misstatements, losses, or noncompliance may nevertheless occur and not be detected. A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is a more than remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph in this section of the report and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified, as discussed below, two deficiencies in internal controls that we consider to be significant deficiencies.

#### **1. FEC Needs to Improve Internal Controls over Financial Reporting**

Several of the deficiencies that impacted FEC's 2008 financial management operations either had not been fully corrected, or were not corrected until late in fiscal year 2009. We noted additional issues that impacted financial management operations during the 2009 fiscal year. These issues resulted in part because FEC did not have a permanent Chief Financial Officer (CFO), until March 2009 and the Office of the Chief Financial Officer (OCFO) was not fully staffed until late in fiscal year 2009. Taken together, these deficiencies represented a significant deficiency in internal controls over financial reporting.

##### **a. FEC Needs to Improve Accruals of Accounts Payable**

OCFO personnel did not accrue certain accounts payable at the end of fiscal year 2008 and incorrectly posted these transactions as 2009 fiscal year activity. FEC did not have appropriate processes in place to accrue accounts payable for year-end financial reporting purposes. As a result, costs on FEC's 2009 Statement of Net Cost (SNC) were overstated by approximately \$200,000. Conversely, liabilities on the 2008 Balance Sheet and costs on the 2008 SNC were understated by this same amount.

Statement of Federal Financial Accounting Standards (SFFAS) No. 1 provides "for financial reporting purposes, liabilities are recognized when goods and services are received or are recognized based upon an estimate of work completed under a contract or agreement." SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, requires liabilities to be recognized when goods and services are received. Under that standard, agencies are required to estimate the work completed under contracts and accrue expenses

and liabilities for goods and services received, even if the agency has not yet been billed.

We tested a sample of 2009 expense transactions and determined that FEC had not correctly accrued accounts payable at the end of the 2008 fiscal year. We analyzed the impact of these errors and determined that FEC had misstated both the 2009 and 2008 financial statements by including 2008 expenses in 2009 account balances. We expanded our tests in this area to determine if similar errors had been made at 2009 year-end, and we did not identify similar problems with the 2009 accrual process.

We discussed this matter with OCFO personnel who agreed that the transactions should have been accrued and included in the 2008 FEC financial statements. While not material, the transactions also impacted the 2009 financial statements. To address this problem, the OCFO developed additional controls and issued new accounting policies that they believe will correct this problem area.

**Recommendations**

1. Strengthen controls over the accruals of accounts payable, and ensure that supervisory reviews of accounts payable accruals are performed.
2. Update OCFO policies to incorporate the new strengthened processes for identifying and posting accounts payable accruals.

**Agency Response**

Management partially concurs. Management concurs that it is important to have appropriate controls over the accruals of accounts payable. However, Management notes that the referenced Statement of Federal Financial Accounting Standards (SFFAS) 5, *Accounting for Liabilities of the Federal Government*, is not the appropriate criteria to cite when discussing deficiencies with accounts payable accruals. Management recognizes that one invoice was improperly excluded from the accounts payable estimate as of September 30, 2008. However, we feel this was an isolated incident and the issue noted is not indicative of a lack of internal controls over financial reporting. In our opinion, the error noted is immaterial to the FY 2008 and FY 2009 financial statements taken as a whole.

Management believes that the appropriate controls were already in place in FY 2008. However, Management concurs that the operational documentation at the end of FY 2008 lacked clarity. Therefore, during the preparation of the FY 2009 second quarter interim statements, the Office of the Chief Financial Officer (OCFO) proactively strengthened its written procedures for this

process of identifying and posting estimated accounts payable. Management notes that the improved written procedures were in place for the remainder of the year. The accounts payable accrual process has since been added to the draft version of the Accounting Manual. Management expects to release the updated Accounting Manual within the next 180 days.

**Auditor Comments**

We identified the deficiency in internal controls over financial reporting during our testing of 2009 transactions. Our statistical sample of 2009 transactions identified two invoices that were improperly recorded as expenses in the 2009 fiscal year. As a result of this error, the 2009 financial statements were overstated, and the 2008 financial statements were understated. Since these transactions were selected through a statistically valid method, we believe they represent a deficiency in internal controls, and do not represent “one isolated incident” as stated by FEC officials.

We disagree with FEC officials that appropriate controls were in place in 2008. In addition, the ineffective processes which were followed by FEC were in place through a significant portion of fiscal year 2009. This is evidenced by the changes made in the accrual process by FEC to address our Notice of Findings and Recommendations (NFR) issued after the June 30, 2009 interim financial statements were issued.

In our NFR provided to FEC officials, we cited SFFAS No. 1 as the criteria for our NFR. We have added this reference to our finding in this final audit report. SFFAS No. 5, paragraph 3 provides “The concept of a liability in this document is consistent with those in Statements Number 1 and 2. The definition amends the stated definition of a liability in SFFAS Number 1.” In addition, this standard provides the definition and the general principle for recognition for a liability, and is applicable to FEC.

**b. Internal Controls over Purchase Card Purchases**

During 2008, OCFO personnel did not follow appropriate control processes for the review and approval of purchase card invoices. In order to clear out 2008 delinquent billings, OCFO personnel researched the transactions and paid about \$7,000 to the purchase card vendor for identified transactions. To expedite the work for the remaining amounts, OCFO personnel made payments to clear the delinquent amounts because they could not identify supporting documentation.

The Treasury Financial Manual, Vol. I, Part 4, Chapter 4500, *Government Purchase Cards*, states “...the cardholder and approving official will review the cardholder statement of account received at the end of each monthly

billing cycle and follow contract procedures for identifying discrepancies. The cardholder statement must be submitted to the designated billing office within a time frame that allows them to process and pay the consolidated invoice within the Prompt Payment Act deadline.”

Our review of a statistical sample of transactions processed during fiscal year 2009 identified expenses totaling approximately \$15,000 that were for the payment of several delinquent purchase card transactions that should have been researched and corrected by the prior card holder during fiscal year 2008. While OCFO personnel certified all the transactions as valid purchases, our tests showed that approximately \$8,000 were not properly matched to purchase orders, or invoices and receiving reports that supported the payments made. The prior cardholder allowed these accounts to remain unprocessed instead of documenting and reconciling each purchase invoice timely.

We discussed this matter with OCFO personnel who agreed that the original transactions should have been reconciled by the original cardholder, and matched with proper supporting documents.

**Recommendation**

3. Re-emphasize, in writing, to purchase cardholders and managers their responsibilities associated with managing the purchase card program payment process and the need for effective internal controls as discussed in FEC Procurement Procedures.

**Agency Response**

Management concurs that the credit card statement should have been reconciled by the original card holder. However, Management believes that the corrections needed to address this issue have already been put in place. This was an exception to FEC’s approved processes and is not indicative of the FEC purchase card process. Additionally, as part of the corrective action plan prepared in response to the OIG audit, the OCFO is already in the process of revising and strengthening the purchase card procedures.

**Auditor Comments**

FEC officials concur with the finding and that there was an exception to the approved processes. We continue to believe that FEC should reinforce to purchase card holders the internal control processes that should be followed in this important procurement area. This is reinforced by the problems noted by the OIG in its procurement and contract management audit released in September 2009.

**c. Prior Control Weaknesses Impacted Current Operations**

FEC officials addressed two weaknesses reported in the prior year audit report at the beginning of fiscal year 2009. In other cases, corrective actions were not implemented or completed until late in fiscal year 2009. The problems listed below continued to impact FEC financial management operations during a substantial portion of the 2009 fiscal year.

- The 2008 audit reported that FEC did not have adequate resources and employees with appropriate financial management accounting and reporting skills. The agency experienced turnover in key financial positions during fiscal year 2008 and adequate resources were not always available to fill the vacancies. As a result, the Accounting Officer had to take on some of these responsibilities leaving FEC with insufficient resources to effectively administer quality assurance procedures within their financial reporting environment.

Our review determined that the FEC did not fully correct the problem dealing with the lack of adequate human resources and personnel with the skill sets needed for an effective financial management operation until late in the 2009 fiscal year. However, by the end of the 2009 fiscal year, the FEC had hired a new CFO (March 2009), completed the restructuring of the OCFO, filled additional positions, and hired a contractor to assist with accounting operations. In addition, training was provided to OCFO officials and staff to assist in staff development throughout the 2009 fiscal year. As of the end of the fiscal year, this problem would no longer represent a significant deficiency to FEC's future financial management operations.

- FEC did not have a comprehensive policy bulletin or guidance memorandum as required by OMB Circular A-136. FEC had not established a formalized timeline for completing key processes and controls related to the financial statement process.

We reviewed the actions that FEC took to address this outstanding issue during fiscal year 2009. We found that the FEC had issued updated or new guidance addressing most of the areas where weaknesses were noted in the prior report. However, we found that a significant portion of this guidance was not issued until after March 2009, and another key policy document, the FEC Accounting Manual, was still in draft as of September 30, 2009.

**Recommendations**

4. Update and issue the Accounting Manual within the next six months.
5. Establish a policy that requires OCFO policies and procedures to be periodically reviewed and updated, such as on a two to three year cycle.

**Agency Response**

Management partially concurs with these recommendations, and noted that a significant amount of work to address these recommendations has already been accomplished. Management does not concur that the accounting manual was in draft as of September 30, 2009.

**Auditor Comments**

Our finding discusses the actions that the FEC took during the 2009 fiscal year to address this 2008 deficiency. As discussed in our finding, significant portions of the overall guidance were not updated or completed until May 2009 or later. In addition, the accounting manual provided to us during the audit contained numerous proposed changes, and the OCFO acknowledges in their response to the draft report that the accounting manual would be completely updated in the next 180 days; another indication the manual has not been finalized.

**d. Manual Systems Represent Unnecessary Risks to FEC’s Financial Management Operations**

FEC uses a service provider for its general ledger and core financial management system operations. The FEC also uses spreadsheets, database applications, and PeopleSoft to perform selected accounting operations. The financial management processes that utilize significant manual operations include:

- **Collections and Accounts Receivable – Fines and Penalties.**  
Accounting for collections, accounts receivable, or fines and penalties involves a significant amount of manual operations. The OCFO must request accounts receivable information from three divisions. After the OCFO obtains the relevant information, the data is input into a database. A journal voucher is prepared quarterly and submitted to the service provider to record the accounts receivable information into the FEC’s core accounting system. Collections, however, are processed to the general ledger when the payments are received. Therefore, only at the end of each quarter, after the journal voucher is posted to the general



ledger, does the custodial cash and accounts receivable reflect an accurate balance.

- **Property and Equipment and Accumulated Depreciation.**  
Our review of PP&E disclosed that FEC is using a combination of automated and manual processes to manage its property. Effective February 1, 2008, capitalized assets are recorded in the general ledger with the use of a flexible posting logic system. FEC also uses an access database to manage FEC's personal property inventory and to compute depreciation. These entries are then input into the general ledger with a journal voucher.
- **Payroll Reporting.**  
Because the payroll system does not interface with the accounting system, FEC must use a PeopleSoft application that is no longer supported by the vendor. This process also requires FEC to perform manual operations to reconcile the payroll data and prepare journal vouchers to input the payroll data into its accounting system.

OCFO officials are currently analyzing the financial management operations of FEC and assessing whether the agency should convert these operations to systems operated by its service provider. OCFO is actively working with its two service providers to interface the payroll system and the accounting system.

#### **Recommendation**

6. Partner with FEC service providers to develop a time-phased plan to convert the manual systems and processes to automated systems that are integrated or interfaced with the core accounting system. Establish a goal of converting these systems by the end of 2010.

#### **Agency Response**

Management concurs that agencies should consider automating manual processes whenever it is appropriate and cost-effective to do so. OCFO has implemented necessary compensating controls to minimize risks of any manual process. However, FEC will continue to evaluate the potential benefits of adopting automated systems and implementing interfaces to streamline financial processes.

#### **Auditor Comments**

We continue to believe that it is important for FEC to convert its manual processes to automated systems that are integrated or interfaced with the core

accounting system. This problem was also reported as part of a material weakness in the 2008 financial statement audit report.

**2. IT Security Control Weaknesses**

The Federal Election Commission (FEC) has corrected several of the significant deficiencies that were identified in the 2008 financial statement audit report, and has developed plans of action and milestones (POA&M) to address all remaining deficiencies identified in that report. However, our 2009 audit of information technology (IT) security controls applicable to FEC’s general support system (GSS) disclosed other internal control weaknesses that FEC needs to address. During our audit, we noted that FEC had contracted with an independent contractor to perform a risk assessment and analysis of controls in the GSS.

The FEC’s Office of General Counsel provided us with a document that identified that FEC is exempt from all Federal Information Security Management Act (FISMA) requirements, National Institute of Standards and Technology (NIST) publications, Federal Information Processing Standards (FIPS), the E-Government Act, the Paperwork Reduction Act, the Computer Security Act of 1987, and OMB Circular A-130, *Management of Federal Information Resources*, Appendix III, Security of Federal Automated Information Resources, among others. In effect, FEC is exempt from following most federal laws, regulations, standards, and OMB requirements dealing with IT security and related issues.

In developing standards and guidelines required by law, NIST consults with other federal agencies and offices as well as the private sector to improve information security, to avoid unnecessary and costly duplication of effort, and ensure that NIST publications are complementary with the standards and guidelines employed for the protection of national security systems. In addition to its comprehensive public review and vetting process, NIST collaborates with the Office of the Director of National Intelligence, the Department of Defense, and the Committee on National Security Systems to establish a common foundation for information security across the federal government.

NIST notes that a common foundation for information security will provide the federal government and their support contractors, more uniform and consistent ways to manage the risk to organizational operations that results from operations and use of information systems. In addition, a common foundation for information security will also provide a strong basis for reciprocal acceptance of security authorization decisions and facilitate information sharing.

Since FEC is exempt from most federal legislative and OMB directives related to IT security requirements, FEC selects and implements the security controls the agency determines are appropriate for its information system. These internal

agency selections have major implications on the FEC agency-wide IT security program and the operations and assets of the agency.

In order to determine whether the security controls (security controls are the management, operational, and technical safeguards employed within an organizational information system to protect the confidentiality, integrity, and availability of the system and its information) selected and placed in operation by FEC provided “adequate security”, as it pertains to FEC’s GSS, we used the federal government’s recommended minimum security controls for non-national security systems as a “best practices” standard. These minimum security controls are contained in NIST Special Publication (SP) 800-53, *Recommended Security Controls for Federal Information Systems and Organizations*. OMB Circular A-130, Appendix III, defines “adequate security” as security commensurate with the risk and magnitude of the harm resulting from the loss, misuse, or unauthorized access to or modification of information.

We performed tests of selected minimum security controls in all seventeen security requirements identified for federal information and information systems in FIPS 200, *Minimum Security Requirements for Federal Information and Information Systems*. Our tests were accomplished through analysis of documents and/or data provided to us by the FEC Office of the Chief Information Officer (OCIO), interviews with OCIO personnel, including the Chief Information Security Officer (CISO), walk-through of operations, other tests and analysis, and review of the FEC’s independent contractor report on security risks identified in FEC’s GSS.<sup>1</sup>

The results of our review of IT security controls, and the corrective actions planned by FEC, if applicable, are discussed below.

**a. Actions Taken to Address Deficiencies Reported in the 2008 Financial Statement Report**

We reviewed the significant deficiencies reported in the above cited report and FEC’s plan of action and milestones (POA&M), and performed tests to determine if FEC had corrected the prior reported deficiencies. In summary, we found that FEC had corrected most of the problems reported. We determined that the OCIO had prepared a detailed POA&M for each deficiency, identified personnel responsible for the corrective actions, established target dates for key milestones, and monitored the POA&M. The table below details those areas where corrective actions are still ongoing.

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<sup>1</sup> FEC – Local Area Network (General Support System), Risk Assessment, dated December 24, 2008, completed by an independent contractor under contract with FEC.

**SECTION III – Auditor’s Report and Financial Statements**

<b>Issue Reported</b>	<b>FEC Actions</b>	<b>LSC Testing and Conclusions</b>
Users who had left the organization retained active accounts.	FEC advised that it would strengthen controls to ensure that this area is corrected.	We found that FEC had made improvements, but had not corrected the issue completely. This issue remains open.
FEC has not yet fully developed contingency planning and Continuity of Operations Plans (COOP) processes. In discussions with OCIO personnel, we were advised that FEC had developed a multi-phased plan to address these deficiencies.	FEC has received funding to deploy phase I of its POA&M. Phase I enables FEC to complete the test plan and schedule exercises necessary to test the contingency plan. FEC estimates that the exercises and testing should begin in early 2010. The last phase of FEC’s contingency planning process entails the development of a COOP plan. This part has not yet been funded and it is estimated that the COOP will not be completed until the end of fiscal year 2010.	We found that FEC had made improvements, but had not corrected the issue completely. This issue remains open.
PeopleSoft application is currently running Oracle Release 8i and this version is no longer supported.	FEC uses the system to process payroll accounting data from NFC <sup>2</sup> , and generates a journal voucher to make the accounting entries in the GSA accounting system. FEC is working with NFC and GSA to create an interface between NFC and GSA. FEC believes that this will be accomplished by the end of the fiscal year.	We discussed this matter with Director of Accounting. OCFO personnel advised that they are working with the NFC and GSA to integrate the NFC data with the GSA accounting system. While this issue is not addressed, the actions taken by FEC will result in corrective action in the near future. However, this issue remains open.

OCIO officials advised us that although the vendor no longer provides support for this version of Oracle, it does provide limited support, which includes assisting customers with “work-arounds” that may arise. OCIO officials also advised that, in addition to FEC’s considerable experience with this product, the FEC has tested and maintains Oracle 8i applications and data backups

<sup>2</sup> The National Finance Center, a component of the Department of Agriculture, provides payroll systems services for FEC.

allowing it to restore any database to a useable state in the event of any problem.

**b. Access Controls Need Strengthening**

Because FEC does not have the necessary software to identify a user's specific access authorities, FEC has been unable to perform periodic reviews of users' access authorities. Best practices identify periodic, (at least annual), review of access authorities granted to users as a key control practice. This process provides a key control technique to ensure access authorities remain current, since users frequently change positions and errors can occur when inputting access authorities. Without periodic re-certifications of the user's access, any improper access could continue indefinitely.

We discussed this issue with the CISO who agreed that FEC needs to perform the required review of access controls. The CISO advised that the FEC obtained the necessary software on October 20, 2009, and once the configuration and testing of the software is completed, the periodic review of access controls will begin.

We tested the FEC's current account settings against the minimum settings required by best practices and identified exceptions relating to password history enforcement, maximum password age, and minimum password age.

We also compared FEC's controls for remote access to the best practice requirements and found that FEC had not implemented sufficient controls for its dial-up access. For a moderate risk system, such as FEC's GSS, best practices require the organization to employ automated mechanisms to facilitate the monitoring and control of remote access methods; use cryptography to protect the confidentiality and integrity of remote access sessions; control all remote accesses through a limited number of managed access control points; permit remote access for privileged functions only for compelling operational needs; document the rationale for such access in the security plan for the information system; and employ multifactor authentication.

We determined that the dial-up access for FEC currently does not meet any of these benchmarks. In contrast, FEC requires personnel who access the network through connections other than dial-up access, to use multi-factor authentication, a virtual private network (VPN) connection, and full disk encryption. The CISO advised that the FEC does not believe that remote access controls discussed in best practices are applicable to FEC's dial-up access.

NIST SP 800-53 (AC-17 Remote Access) provides that “Remote access is any access to an organizational information system by a user...communicating through an external network (e.g., the Internet). Examples of remote access methods include dial-up, broadband, and wireless.” As noted above, the controls, in our opinion, are applicable to FEC’s dial-up access.

**c. Continuous Monitoring**

Government Accountability Office’s (GAO) “*Standards for Internal Control in the Federal Government*” documents the five standards of internal control. One of these standards requires agencies to assure that ongoing monitoring occurs in the course of normal operations. Under the standard, monitoring is to be performed continually and is ingrained in the agency’s operations. A continuous monitoring program includes an ongoing assessment of security control effectiveness to determine if the current deployed set of security controls need to be modified or updated based on changes in the information system or its operational environment.

We reviewed the continuous monitoring program of FEC, and the independent contractor’s risk assessment of FEC’s general support system, and noted the following problems:

- Access controls – FEC was not monitoring the role of remote users who had accessed the FEC LAN.
- Audit and Accountability controls – FEC had not established routine review procedures for FEC’s general support system audit logs in order to identify inappropriate or suspicious activity.
- Risk Assessment – FEC had not established and documented the frequency of vulnerability scans throughout the enterprise, or established a continuous monitoring capability that incorporated at least quarterly vulnerability scans of FEC’s network and workstations.

FEC’s current processes call for a service provider to perform vulnerability scanning of the FEC external network quarterly. The service provider performed scans in June 2008 and December 2008; however, the agency did not maintain documentation to support correction of the weaknesses identified in the scans. Our review of these scans showed that several of the same problems were identified in both scans.

FEC does not perform scanning of workstations and devices attached to the network. Therefore, vulnerability identification, patch levels, and compliance with security configurations would not be identified through FEC’s current scanning processes. OCIO officials confirmed that FEC has not yet performed scanning in these areas.

OCIO officials have established a POA&M to address the problems noted above.

**d. Federal Desktop Core Configuration Compliance Not Implemented**

FEC has not implemented best practices and OMB mandated security requirements for its desktop workstations. These security requirements have been generally accepted as providing necessary strengthening of the federal IT systems. OMB has issued guidance, dating from March 2007 that requires all federal agencies to implement the Federal Desktop Core Configuration (FDCC) security configuration. Federal agencies are required to adopt all of the minimum settings in order to be compliant. FDCC settings are substantially more restrictive than the current FEC settings. Some security enhancements that are required by FDCC include the following:

- Running the system as a standard user and not as administrator.
- Establishing a minimum 12 character password and requiring the password to change every 60 days.
- Disabling wireless service.
- Setting the system cryptograph to use FIPS compliant algorithms for encryption, hashing, and signing.
- Disallowing drivers that are not digitally signed by Microsoft.

**e. Personnel Security Controls Strengthened but Gaps Remain**

FEC has policies and procedures in place to ensure that personnel who separated from the agency had their network accesses timely removed. For fiscal year 2009, we compared the list of personnel who separated from the agency within a three-month period to the dates that each person's network access was terminated. Network access was cancelled by the next business day for nine of the ten individuals who had separated during this period; however, network access for one individual was not removed for approximately three months after the individual had separated from FEC. OCIO personnel attributed the problem to oversight, has reviewed the circumstances surrounding the discrepancy, and advised that the OCIO has implemented compensating controls to ensure that the problem does not recur.

**f. Interconnection Agreements Not Completed**

Agencies using best practices require providers of external information system services to comply with organizational information security requirements and employ appropriate security controls in accordance with applicable federal laws, Executive Orders, directives, policies, regulations, standards, and guidance. Best practices define government oversight and user

responsibilities for external information system services. They also establish requirements for monitoring security controls.

An external information system service is implemented outside of the authorization boundary of the organizational information system. For services external to the organization, a chain of trust requires that the organization establish and retain a level of confidence that each participating provider maintains adequate protection for the services rendered to the organization. Service-level agreements define the expectations of performance for each required security control, describe measurable outcomes, and identify remedies and response requirements for any identified instance of noncompliance.

We reviewed the service providers and contractors currently used by the FEC, and noted that only one of the three entities, the National Finance Center, had an agreement with FEC that complied with the best practice requirements set out above.

FEC has established a POA&M to correct this issue.

**g. Policies and Procedures Should be Established to Meet Best Practices**

As noted above, the FEC’s Office of General Counsel provided us with a document that identified that FEC is exempt from all FISMA requirements, National Institute of Standards and Technology (NIST) publications, Federal Information Processing Standards (FIPS), E-Government Act, Paperwork Reduction Act, Computer Security Act of 1987, and OMB Circular A-130, Appendix III, Security of Federal Automated Information Resources, among others.

OMB has released extensive guidance on required IT security requirements to all federal governmental entities through circulars, bulletins, and memoranda. Much of this guidance cites as authoritative sources the laws and regulations that the FEC’s Office of General Counsel (OGC) has determined that FEC is exempt from compliance. These determinations cite legal authorities, and do not deal with the appropriateness of whether these requirements (controls) would further strengthen FEC’s IT security program. For some areas, such as accounting requirements, OGC has noted that the FEC may use the exempted document as a model.

Currently, the FEC must analyze each document released by OMB and other authoritative sources, and determine whether FEC is required to implement the guidance, and if exempt, whether the FEC should adopt the controls. In effect, this process requires FEC to independently establish a separate IT control standard settings process for FEC.



We identified a prior OIG audit, dated December 2007, Assignment No. OIG-07-02, *Report on the 2007 Performance Audit of the Federal Election Commission's Compliance with Section 522 of the Consolidated Appropriations Act, 2005*, that reported concerns similar to ours. The report concluded that deficiencies identified in the report were attributable to two main factors, one cause was the "...lack of an overall risk-based compliance and governance framework at the FEC."

The report stated that "FEC decisions on whether to adhere to IT ... security federal government guidelines often appear to be made based on legal interpretations of laws and OMB memorandums, rather than on sound risk management." The report noted that this is supported by evaluating the significant legal resources that management assigned to decision making compared with limited resources for risk management activities. The report cited as an example, management's decision not to perform privacy impact assessments. This decision was made based on an FEC OGC opinion that the FEC did not legally have to comply with this requirement, rather than on sound risk management.

The prior report noted, and we confirmed, that other federally appropriated organizations that are exempt from FISMA and NIST guidelines have formally adopted these requirements as a matter of best practice to help ensure that sound internal controls are established and followed.

Our review of FEC's guidelines, standards and policies noted that the IT security program procedures do not reference any authoritative requirements or standards. FEC procedures are not formatted to follow federal standards, and do not address many of the specific minimum control techniques required by best practices. In addition, we noted that the FEC standards, policies and guidance are usually not dated, authenticated with a signature, or include a date when the documents will be updated.

**h. Configuration Management**

We reviewed the independent contractor's report on the IT security control requirement for configuration management. We noted the following configuration management deficiencies were identified: FEC does not have a formal Change Control Process in place to include proper review and sign-off from all responsible managers; and mandatory configuration settings for system components are not currently established; and hardening guidelines are not in place to ensure system components are configured to the most restrictive settings.

FEC has developed a POA&M to address these deficiencies.

**Recommendations**

7. Formally adopt as a model for FEC the NIST IT security controls established in FIPS 200, *Minimum Security Requirements for Federal Information and Information Systems*, and SP 800-53, *Recommended Security Controls for Federal Systems and Organizations*.
8. Perform an annual independent assessment to determine whether FEC’s agency-wide IT security program meets minimum security controls established by NIST.
9. Implement a process to require users’ supervisors to recertify a user’s access authorities annually, and maintain documentation to support actions taken to address any changes required by the reviews.
10. Adopt Federal Desktop Core Configuration (FDCC) standards and implement these standards by the end of the 2010 fiscal year.
11. Include workstations and devices attached to the network in periodic scans performed by FEC.
12. Maintain documentation showing actions taken to address the problems identified by the vulnerability scans.
13. Implement best practice controls over FEC’s dial-up access.
14. Review the circumstances surrounding the untimely removal of the separated employee’s access to FEC’s network, and ensure controls are in place to remove the employee’s access immediately upon departure.
15. Develop an OCIO policy that requires standards, guidelines and policies to be dated, authenticated with a signature, and scheduled for review and update.
16. Prepare a detailed POA&M for items identified in the risk assessment of the GSS.

**Agency Response**

Management concurs with recommendations 9, 10, 11, 12, 14, 15, and 16. Management did not concur with recommendations 7, 8, and 13. Concerning recommendations 7 and 8, FEC officials noted that it is already closely mirroring the NIST framework; uses the IT security controls in FIPS 200 and SP 800-53 as guidance; and deviates from the model only after careful evaluation. FEC officials noted that FEC is developing a continuous monitoring program and uses the NIST documentation as guidance. Management did not concur with

recommendation 13. FEC dial-up users make a direct connection to the FEC's modem pool when establishing a remote connection. Thus, an encrypted line is not necessary, and the cost of adding additional overhead caused by encryption outweighs the benefits to an already slow communications link.

**Auditor Comments**

We continue to believe that FEC should implement recommendation 13. NIST SP 800-53 (AC-17 Remote Access) provides that "Remote access is any access to an organizational information system by a user...communicating through an external network (e.g., the Internet). Examples of remote access methods include dial-up, broadband, and wireless." We believe that the dial-up is an external connection and the control requirements are applicable to FEC's dial-up access.

Concerning recommendations 7 and 8, we recognized in the finding that the FEC engaged an independent contractor to assess its general support system, using NIST SP 800-53 minimum security controls as a basis for the assessment. We reviewed the assessment report and related documentation; FEC's POA&M that was prepared to address the weaknesses identified by the assessment; and performed independent tests of many of the NIST SP 800-53 minimum security control requirements. Our review identified that the assessment tested 168 control areas, and concluded whether the controls were implemented, partially implemented, not implemented, planned to be implemented, or not applicable to the FEC environment. In addition, we noted that included in the independent contractor's report was a disclaimer, noting that while the risk assessment used NIST Publications as a guide, the FEC maintains its exemption from NIST and FISMA.

The independent contractor's assessment report concluded that 82 controls were implemented, 28 were partially implemented, 19 were not implemented, 20 were planned to be implemented, and 19 were not applicable to FEC's IT environment. These results indicate that approximately 44 percent of the controls applicable to FEC's IT environment were not fully implemented at the time of the review. We reviewed the FEC's POA&M prepared as part of this assessment, and noted that the document consolidated the control weaknesses identified in the contractor's report into 23 areas that needed to be corrected. Of this number, 8 were rated as high risk, 14 were rated as moderate risk, and 1 as low risk.

As noted in our audit, and in the independent contractor's assessment, FEC has not fully implemented a significant number of the minimum IT security control requirements established by best practices. During our audit, we did not locate any policies or procedures, or supporting documentation, that showed either what analytical reviews are required or were performed, to support FEC's determination that a specific control requirement should not be adopted or implemented. To illustrate, we discussed with FEC officials the lack of

compliance with FDCC requirements concerning password settings that OMB has mandated that all Federal agencies adopt. We were advised that FEC users would not support moving from the current password settings to the FDCC required settings, and FEC could not commit to implementing the substantially strengthened password settings. FEC’s current password settings are substantially less rigid than the mandated FDCC settings.

In summary, we believe that unless the FEC formally adopts the NIST minimum security requirements, the FEC will continue to be at unnecessary risk.

A summary of the status of prior year recommendations is included in this report as Appendix 1.

We noted another control deficiency over financial reporting and its operation that we have reported to the management of the FEC and those charged with governance in a separate management letter dated November 13, 2009.

#### **COMPLIANCE WITH LAWS AND REGULATIONS**

The results of our tests of compliance with certain provisions of laws and regulations, as described in the Responsibilities section of this report, disclosed an instance of reportable noncompliance that is required to be reported under *Government Auditing Standards* and OMB Bulletin 07-04 (as amended).

#### **3. Compliance with Debt Collection Improvement Act**

FEC does not refer all delinquent debt to the U.S. Department of the Treasury as required by the Debt Collection Improvement Act of 1996 (DCIA). Only debts administered by the Office of Administrative Review (OAR) are referred to Treasury for collection. Receivables administered by the Office of General Counsel (OGC) and the office of Alternative Dispute Resolution (ADR) are collected within FEC. Our review identified several cases in which the delinquent debt had not been referred to Treasury or reported to credit bureaus as required. As a result, FEC is not in full compliance with the DCIA and OMB Circular A-129, *Policies for Federal Credit Programs and Non-Tax Receivables*, November 2000, as revised.

#### **Recommendation**

17. FEC should develop and enforce policies and procedures for debt collection that will ensure compliance with the DCIA and OMB A-129.

**Agency Response**

Management concurs with this recommendation, and on November 5, it presented to the Commission's Regulations Committee the need to establish policies and procedures to ensure full compliance with the DCIA and OMB A-129.

**Auditor Comments**

Since FEC fully concurs with this finding and recommendation, we have no additional comments.

**RESPONSIBILITIES**

**Management Responsibilities**

Management of the FEC is responsible for: (1) preparing the financial statements in conformity with generally accepted accounting principles; (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of the Federal Managers Financial Integrity Act (FMFIA) are met; and (3) complying with applicable laws and regulations. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies.

**Auditor Responsibilities**

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin 07-04, *Audit Requirements for Federal Financial Statements* (as amended). 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 (1) examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; (2) assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In planning and performing our audit, we considered the FEC's internal control over financial reporting by obtaining an understanding of the agency'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 07-04 (as amended) and *Government Auditing Standards*. We did not test all internal controls relevant to operating objectives as broadly defined by FMFIA. Our procedures were not designed to provide an opinion on internal control over financial reporting. Consequently, we do not express an opinion thereon.

As required by OMB Bulletin 07-04 (as amended), with respect to internal control related to performance measures determined to be key and reported in Management’s Discussion and Analysis, we made inquiries of management concerning the methods of preparing the information, including whether it was measured and presented within prescribed guidelines; changes in the methods of measurement or presentation from those used in the prior period(s) and the reasons for any such changes; and significant assumptions or interpretations underlying the measurement or presentation. We also evaluated the consistency of Management’s Discussion and Analysis with management’s responses to the foregoing inquiries, audited financial statements, and other audit evidence obtained during the examination of the financial statements. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion thereon.

As part of obtaining reasonable assurance about whether the agency’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and significant provisions of contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin 07-04 (as amended). We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to the FEC. Providing an opinion on compliance with certain provisions of laws, regulations, and significant contract provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

#### AGENCY COMMENTS AND AUDITOR EVALUATION

We have incorporated the agency’s response to our audit recommendations in the report, and have attached a copy of the response, in its entirety, as Appendix 2 to this report. In addition, we have added, where appropriate, auditor comments to address the issues raised by FEC in its response.

However, the FEC’s written response to the significant deficiencies identified in our audit has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on whether the actions proposed will remediate the problems noted.

**DISTRIBUTION**

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

*Leon Snead & Company, P.C.*  
Leon Snead & Company, P.C.  
November 13, 2009

Appendix 1

Status of Prior Year Recommendations

Recommendation	Status as of September 30, 2009
1. Fill vacant positions within the OCFO as soon as possible. Ensure that the individuals possess analytical, Federal accounting and financial reporting knowledge and experience to enhance the FEC’s ability to comply with accounting and financial reporting standards.	Recommendation closed.
2. Evaluate the resources and appropriate skills needed throughout the agency to meet FEC’s financial management and reporting responsibilities and implement a plan on achieving the results and recommendations of the evaluation.	Recommendation closed.
3. Ensure that appropriate and on-going training is provided to FEC employees on federal accounting and reporting and the accounting service provider’s financial system. Also, ensure OCFO personnel are properly cross-trained in department activities.	Recommendation closed.
4. Formalize and periodically update policies and procedures to a) ensure segregation of duties, b) provide guidance to management and staff in recording both recurring and unique transactions, including budgetary accounts, and c) provide guidance to management and staff in executing the financial statement preparation process in a manner that enhances the timeliness of financial statement preparation and minimizes the risk of preparing inaccurate financials.	Recommendation open.
5. Implement control activities to help ensure accounting transactions are recorded correctly, timely and are properly reviewed and adequate support documentation is maintained.	Recommendation open.
6. Establish formalized policies and procedures for performing continuous assessment of risk factors associated with financial reporting, evaluating relevant controls and developing or redesigning controls to mitigate risks. These policies should include a well-defined documentation process that contains an audit trail, verifiable results, and specific retention periods so that someone not connected with the procedures can understand the assessment process.	Recommendation closed.
7. Enforce the use of the Finance Office Check List throughout the entire fiscal year.	Recommendation closed.
8. Establish a mechanism for tracking manual journal entries sent to the service provider and maintaining associated support documents.	Recommendation closed.
9. Develop or redesign controls that strengthen the accountability structure related to the process for resolving audit findings.	Recommendation closed.
10. Re-evaluate if interfacing its standalone financial management systems with the service provider’s system is feasible and/or cost effective. If not feasible and/or cost effective, consider the subsystems used by the service provider’s financial management systems.	Recommendation open.
11. Finalize and implement FEC’s information classification policy and certification and accreditation policy along with any accompanying standards.	Recommendation closed.
12. Incorporate the results of risk assessments into FEC security plans.	Recommendation closed.
13. Utilize corrective action plans for all reviews of security controls whether performed internally or by a third-party.	Recommendation closed.



14. Certify and accredit all major applications and mission critical general support systems.	Recommendation closed.
15. Implement a process to ensure that background investigations are performed on all contractors prior to granting them access to FEC system resources.	Recommendation closed.
16. FEC should move all of its PeopleSoft financial processing capabilities to GSA or update its existing platform to vendor-supported versions/releases.	Recommendation open.
17. Develop and implement a Disaster Recovery Continuity of Operations Plan (COOP).	Recommendation open.
18. FEC should promptly terminate access to FEC resources for separated employees. Procedures should be documented and implemented to coordinate separations between Human Resources and IT management to ensure user accounts are immediately disabled upon termination.	Recommendation open.
19. Implement an exit clearance process to track separated FEC contractors and ensure that their access permissions are removed and all FEC property has been returned.	Recommendation closed.

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**Audit Recommendation #1:** Strengthen controls over the accruals of accounts payable, and ensure that supervisory reviews of accounts payable accruals are performed.

**Audit Recommendation #2:** Update OCFO policies to incorporate the new strengthened processes for identifying and posting accounts payable accruals.

**Management Responses for Recommendations #1 and #2:** Management partially concurs. Management concurs that it is important to have appropriate controls over the accruals of accounts payable. However, Management notes that the referenced Statement of Federal Financial Accounting Standards (SFFAS) 5, *Accounting for Liabilities of the Federal Government*, is not the appropriate criteria to cite when discussing deficiencies with accounts payable accruals. The Scope of SFFAS #5 paragraphs 2 and 3 specifically states:

*“2. This Statement articulates a general principle that should guide preparers of general purpose federal financial reports. It also provides more detailed guidance regarding liabilities resulting from deferred compensation, insurance and guarantees (except social insurance), certain entitlements, and certain other transactions. The Statement addresses liabilities not covered in Statement of Federal Financial Accounting Standards (SFFAS) Number 1, Accounting for Selected Assets and Liabilities...*

*3. The concept of a liability in this document is consistent with those in Statements Number 1 and 2. The definition amends the stated definition of a liability in SFFAS Number 1. This Statement establishes accounting for liabilities not covered in SFFAS No. 1 and 2. Statement Number 1 addresses only those selected liabilities that routinely recur in normal operations and are due within a fiscal year. The liabilities covered in Statement Number 1 are accounts payable, interest payable, and other current liabilities, such as accrued salaries, accrued entitlement benefits payable, and unearned revenue.”*

Management recognizes that one invoice was improperly excluded from the accounts payable estimate as of September 30, 2008. However, we feel this was an isolated incident and the issue noted is not indicative of a lack of internal controls over financial reporting. In our opinion, the error noted is immaterial to the FY 2008 and FY 2009 financial statements taken as a whole.

Management believes that the appropriate controls were already in place in FY 2008. However, Management concurs that the operational documentation at the end of FY 2008 lacked clarity. Therefore, during the preparation of the FY 2009 second quarter interim statements, the Office of the Chief Financial Officer (OCFO) proactively strengthened its written procedures for this process of identifying and posting estimated accounts payable. Management notes that the improved written procedures were in place for the remainder of the year. The accounts payable accrual process has since been added to the draft version of the Accounting Manual. Management expects to release the updated Accounting Manual within the next 180 days.

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**Audit Recommendation #3:** Re-emphasize, in writing, to purchase cardholders and managers their responsibilities associated with managing the purchase card program payment process and the need for effective internal controls as discussed in FEC Procurement Procedures.

**Management Response for Recommendation #3:** Management concurs that the credit card statement should have been reconciled by the original card holder. However, Management believes that the corrections needed to address this issue have already been put in place. At the time that the balance was identified, the individual no longer worked for the agency. As part of the approved procurement procedures, OCFO requires annual training through the GSA website for purchase card holders. This was an exception to FEC’s approved processes and is not indicative of the FEC purchase card process.

Additionally, as part of the corrective action plan prepared in response to an OIG procurement audit, the OCFO is already in the process of revising and strengthening the purchase card procedures.

**Audit Recommendation #4:** Update and issue the Accounting Manual within the next six months.

**Audit Recommendation #5:** Establish a policy that requires OCFO policies and procedures to be periodically reviewed and updated, such as on a two to three year cycle.

**Management Responses to Recommendations #4 and #5:** Management partially concurs. Management concurs that having current policies and procedures are an important aspect of effective financial management. However, Management believes that a significant amount of work to address these recommendations has already been accomplished.

The following is the status of OCFO Policies and Procedures:

OCFO Policies and Procedures						
Policy Name	Original Date	Latest Revision	Revision Status	Last Approval	Document Type	
Accounting Manual	4/1/2006	6/30/2009	Regularly updated on an as-needed basis	Director of Finance	Policy	
AP Accrual Process	4/13/2009	8/12/2009	Final	Director of Finance	Operational Procedure	
Funds Control Document	Non-applicable	6/22/2009	Final	CFO	Policy	
Financial Statement Preparation Guidance	5/28/2009	5/28/2009	Final	CFO	Policy	
Fixed Asset Policy Guide	10/7/2005	5/18/2009	Final	Director of Finance	Policy	

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PPE (Exhibit 3-29) of Accounting Manual	4/1/2006	5/20/2009	Final	Director of Finance	Operational Procedure
Procurement Office Policy & Procedures	6/12/2008	6/12/2008	Final	CFO	Policy
SAS 70 review policy	9/29/2009	10/9/2009	Final	Director of Finance	Policy

The above table shows that OCFO actively reviews and updates policies and procedures regularly.

Management does not concur that the Accounting Manual was in draft as of September 30, 2009. As indicated above, the Accounting Manual was first released on April 1, 2006. Only certain sections that related to the accounting system migration from PeopleSoft to GSA’s Pegasys were being updated during FY 2009. Therefore, Management believes that the Accounting Manual was in place for FY 2009 and plans to complete the update in the next 180 days.

**Audit Recommendation #6:** Partner with FEC service providers to develop a time-phased plan to convert the manual systems and processes to automated systems that are integrated or interfaced with the core accounting system. Establish a goal of converting these systems by the end of 2010.

**Management Response to Recommendation #6:** Management concurs that it is important for agencies to look to automate where appropriate and cost-effective. The OCFO has worked closely with GSA, NFC and OMB in order to identify opportunities for further automation with current systems. Management notes that manual processes do not always introduce risk. The OCFO has implemented necessary compensating controls to minimize risks of any manual processes. We believe the results of our annual FMFIA assessment as well as the results of the FY 2009 financial statement audit provide us a reasonable basis for concluding that the FEC’s controls are operating effectively. However, we will continue to evaluate the potential benefits of adopting automated systems and implementing interfaces to streamline financial processes.

**Audit Recommendation #7:** Formally adopt as a model for the FEC the NIST information technology (IT) security controls established in FIPS 200, *Minimum Security Requirements for Federal Information and Information Systems*, and SP 800-53, *Recommended Security Controls for Federal Systems and Organizations*.

**Audit Recommendation #8:** Perform, on an annual basis, an independent assessment to determine whether the FEC’s agency-wide IT security program meets minimum security controls established by NIST.

**Management Response #7 and #8:** Management does not concur with these two recommendations for the following reasons:

- The FEC is already closely mirroring the NIST framework and deviates from the NIST

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model only after careful evaluation.

- The FEC is already utilizing the IT security controls specified in FIPS 200 and SP 800-53 as guidance.
- The FEC is developing a continuous monitoring program to assess whether the agency is effectively meeting its minimum security controls. This continuous monitoring program and security control assessment uses NIST documentation as guidance.
- Congress exempted the FEC from NIST, and it would be improper for the FEC's Office of Chief Information Officer to disregard the will of Congress.
- It was not the original intent of NIST to impose a set of standards to which all Federal agencies must adhere. Rather, NIST states that "the purpose of its documentation is to provide guidance." See concluding statement
- It would not be in the agency's best interest to exclude automatically other possible sources of best practice due to adherence to one standard.

The 2009 CFO audit report also discussed at length issues the FEC had already identified and developed POA&Ms to address prior to that audit. These issues were identified because the FEC contracted with an independent vendor to conduct an unbiased risk assessment and system test and evaluation (ST&E). This independent risk assessment and ST&E are components of the Commission's Certification & Accreditation program.

**Audit Recommendation #9:** Implement a process to require users' supervisors to re-certify a user's access authorities at least annually, and maintain documentation to support that actions were taken to address any changes required by the reviews.

**Management Response #9:** Management concurs with this recommendation and will include sampling user's access for re-certification by access authorities to its continuous monitoring program. The FEC has researched, tested and purchased software to perform this function.

**Audit Recommendation #10:** Adopt Federal Desktop Core Configuration (FDCC) standards, and develop a POA&M to implement these standards by end of FY 2010.

**Management Response #10:** Management concurs with this recommendation and has included it within the GSS POA&M. The FEC has formed a NIST FDCC team to evaluate, test and implement NIST FDCC's security settings. However, best practice dictates that management strive to strike a balance between security and business needs. Therefore, the FEC reserves the right to implement only those controls it deems appropriate for its computing environment.

**Audit Recommendation #11:** Include workstations and devices attached to the network in periodic scans performed by the FEC.

**Management Response #11:** Management concurs with this recommendation; however, the FEC will need to evaluate the feasibility of scanning all of the agency's workstations to determine if additional software tools and staff are required to implement this control.

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**Audit Recommendation #12:** Maintain documentation showing actions taken to address the problems identified by the vulnerability scans.

**Management Response #12:** Management concurs with this recommendation and has included it within the GSS POA&M.

**Audit Recommendation #13:** Implement best practice controls over the FEC’s dial-up access.

**Management Response #13:** Management does not concur with this recommendation. FEC dial-up users make a direct connection to the FEC’s modem pool when establishing a remote connection. Thus, an encrypted line is not necessary.

Although the NIST standard dictates that encryption be applied for a remote dial-up connection, the requirement is based upon employing the Internet as a communications channel between the two end-points (the FEC LAN and the remote user’s laptop). This premise does not take into account the possibility of simply bypassing the Internet.

In the NIST scenario, the use of encryption would be advocated because data passing through the Internet communications channel would be insecure. However, the FEC does not utilize the Internet as a communications channel when a remote user connects to the FEC LAN during a dial-up connection. FEC dial-up users make a direct connection to the FEC’s modem pool when establishing a remote connection; therefore, an encrypted line is not necessary.

The FEC remote dial-up scenario is analogous to the FEC Human Resources (HR) Office connecting to the Office of Personnel Management (OPM) over a phone to discuss a sensitive issue. When HR establishes a phone connection to OPM, it is considered relatively secure because there is a direct connection between the two. This is the same process that occurs when a remote dial-up user connects to the FEC LAN, and it is relatively secure for the same reason: there is a direct connection between the two parties.

The only time communications would pass through the Internet would be if one (or both) parties are employing Voice over Internet Protocol (VoIP). At that point, encryption is automatically applied by the VoIP technology. The cost of adding additional overhead caused by encryption outweighs the benefits to an already slow communications link.

**Audit Recommendation #14:** Review the circumstances surrounding the untimely removal of a separated employee’s access to the FEC’s network, and ensure controls are in place to remove employees’ access immediately upon departure.

**Management Response #14:** Management concurs with this recommendation and considers this issue closed. As indicated, for nine out of ten individuals who had separated during this period, network accesses were removed by the next business day. The FEC investigated and concluded the single oversight was due to the exiting employee failing to notify the appropriate offices.

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The FEC has implemented compensating manual controls (email from HR to OIT Helpdesk on departure date) to ensure this oversight does not occur again. In addition, an automatic security control will be implemented to provide better tracking of such issues in December 2009.

**Audit Recommendation #15:** Develop an OCIO policy that requires standards, guidelines and policies to be dated, authenticated with a signature and scheduled for review and update.

**Management Response #15:** Management concurs with this recommendation and will add it to the GSS LAN POA&M. However, the FEC created 58A Information Technology Program Policy, which was signed by the Chief Information Officer and dated September 17, 2004. This policy serves as a single source reference for establishing uniform policies, responsibilities and authorities for implementing the Federal Election Commission's Information System Security Program. All subsequent IT security policies, standards and guidelines gain their authority from this document, and dates and signatures are therefore not required. However, in the interest of clarity the FEC will evaluate the advantage of dating, authenticating by signature and including a date for documents to be updated.

**Audit Recommendation #16:** Prepare a detailed POA&M for items identified in the risk assessment of the GSS.

**Management Response #16:** Management concurs with this recommendation and will add it to the GSS LAN POA&M.

**Concluding Statement for Auditor Findings # 7-16:**

As indicated in the audit report, the FEC has corrected the majority of findings identified in the 2008 financial statement audit report and has developed plans of actions and milestones (POA&M) to address all remaining deficiencies. The FEC has also developed POA&Ms to address those deficiencies identified during the 2009 Chief Financial Officer (CFO) audit. The majority of these deficiencies were brought to our attention prior to the 2009 CFO audit because the FEC contracted an independent vendor to conduct an unbiased risk assessment and system test and evaluation (ST&E). This independent risk assessment and ST&E are components of the Commission's Certification & Accreditation program.

A large portion of the 2009 audit report focuses on the CFO auditor's assertion that the FEC should adopt Federal Information Security Act (FISMA) and National Institute of Standards and Technology (NIST) guidance as a standard. Management does not concur with this assertion for several reasons. First, it would be improper for the FEC to disregard the will of Congress. Congress exempted the FEC from numerous laws and regulations. Whether Congress took this step to allow the agency to maintain a sense of autonomy from other components of the Federal government, or for other reasons, the fact remains that it did exempt the agency and that is the law.

Second, it should be noted that it was not the original intent of NIST to impose a set of standards to which all Federal agencies must adhere. As stated in NIST, "the purpose of its documentation

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is to provide guidance.” Bearing this in mind, the FEC does utilize NIST as one source of guidance when determining best practice. However, the FEC determined early in the policy development process that it would not be in the agency’s best interest to automatically exclude possible sources of knowledge due to adherence to one standard. This was demonstrated when the FEC engaged an independent contractor to perform an unbiased risk assessment and analysis of FEC security controls in its General Support System (GSS), the FEC Local Area Network (LAN). The independent contractor utilized the same NIST documentation as the CFO auditors when evaluating the FEC’s risk posture and security controls.

The FEC is already closely mirroring the NIST framework and only deviates from the NIST model after careful evaluation of a given situation and when the agency has determined that there is either a better or more cost effective method of achieving its IT security goals. It should be noted that NIST itself allows for justified deviations. One example is the FEC’s justification for not adhering to the NIST recommendation concerning remote access.



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**Audit Recommendation #17:** FEC should develop and enforce policies and procedures for debt collection that will ensure compliance with the DCIA and OMB A-129.

**Management Response to Recommendation #17:** Management concurs. On November 5, Management presented to the Commission's Regulations Committee the need to establish policies and procedures to ensure full compliance with the DCIA and OMB A-129. The Commission directed the OCFO and OGC to begin work to complete this project in calendar year 2010. Management notes that this issue only impacts approximately 11% of FEC's debt.

**BALANCE SHEET****As of September 30, 2009 and 2008 (in dollars)**

<b>Assets (Note 2)</b>	<b>2009</b>	<b>2008</b>
Intragovernmental:		
Fund balance with Treasury (Note 3)	\$ 10,911,130	\$ 10,603,627
Total Intragovernmental	10,911,130	10,603,627
Accounts receivable, net (Notes 2 & 4)	203,999	530,187
General property and equipment, net (Note 5)	6,546,474	7,714,712
Other	–	898
<b>Total assets</b>	<b>\$ 17,661,603</b>	<b>\$ 18,849,424</b>
<b>Liabilities (Note 6)</b>		
Intragovernmental:		
Accounts payable	\$ 29,594	\$ 84,455
Employer contributions and payroll taxes payable	462,082	412,450
Deferred rent	696,479	783,538
Custodial liability (Note 11)	203,999	530,187
Total Intragovernmental	1,392,154	1,810,630
With the public:		
Accounts payable	1,524,033	1,775,054
Accrued payroll and benefits	1,752,371	1,468,908
Unfunded leave	2,514,822	2,161,272
Other	3,208	2,712
<b>Total liabilities</b>	<b>7,186,588</b>	<b>7,218,576</b>
Commitments and contingencies (Note 7)		
<b>Net Position</b>		
Unexpended appropriations	7,145,579	6,866,188
Cumulative results of operations	3,329,436	4,764,660
<b>Total net position</b>	<b>10,475,015</b>	<b>11,630,848</b>
<b>Total liabilities and net position</b>	<b>\$ 17,661,603</b>	<b>\$ 18,849,424</b>

The accompanying notes are an integral part of these statements.

## STATEMENT OF NET COST

For the Years Ended September 30, 2009 and 2008 (in dollars)

<b>Program Costs:</b>	<u>2009</u>	<u>2008</u>
Administering and Enforcing the <i>FECA</i>		
Gross costs	<u>66,826,731</u>	<u>\$ 62,024,007</u>
Net program costs	<u>66,826,731</u>	<u>62,024,007</u>
<b>Net cost of operations (Note 9)</b>	<u><u>66,826,731</u></u>	<u><u>\$ 62,024,007</u></u>

The accompanying notes are an integral part of these statements.

**STATEMENT OF CHANGES IN NET POSITION**

For the Years Ended September 30, 2009 and 2008 (in dollars)

	<b>2009</b>	<b>2008</b>
	<b>Consolidated Total</b>	<b>Consolidated Total</b>
<b>Cumulative results of operations</b>		
Beginning balances	\$ 4,764,660	\$ 5,781,682
Beginning balances, as adjusted	4,764,660	5,781,682
<b>Budgetary financing sources</b>		
Appropriations used	62,985,321	58,873,362
<b>Other financing sources (non-exchange)</b>		
Imputed financing	2,406,186	2,133,623
Total financing sources	65,391,507	61,006,985
Net cost of operations	(66,826,731)	(62,024,007)
Net change	(1,435,224)	(1,017,022)
<b>Cumulative results of operations</b>	<b>3,329,436</b>	<b>4,764,660</b>
<b>Unexpended appropriations</b>		
Beginning balances	6,866,188	7,912,472
Beginning balances, as adjusted	6,866,188	7,912,472
<b>Budgetary financing sources</b>		
Appropriations received	63,618,000	59,224,000
Other adjustments	(353,288)	(1,396,922)
Appropriations used	(62,985,321)	(58,873,362)
<b>Total budgetary financing sources</b>	<b>279,391</b>	<b>(1,046,284)</b>
<b>Total unexpended appropriations</b>	<b>7,145,579</b>	<b>6,866,188</b>
<b>Net position</b>	<b>\$ 10,475,015</b>	<b>\$ 11,630,848</b>

The accompanying notes are an integral part of these statements.

## STATEMENT OF BUDGETARY RESOURCES

### For the Years Ended September 30, 2009 and 2008 (in dollars)

	<u>2009</u>	<u>2008</u>
<b>Budgetary Resources (Note 10)</b>		
Unobligated balance, brought forward, October 1	\$ 1,961,438	\$ 2,828,858
Recoveries of prior year obligations	561,893	793,729
<b>Budget authority</b>		
Appropriations received	63,618,000	59,224,000
Spending authority from offsetting collections		
Collected	4,113	2,985
Total budget authority	63,622,113	59,226,985
Permanently not available	(353,288)	(1,396,922)
<b>Total budgetary resources</b>	<b><u>\$ 65,792,156</u></b>	<b><u>\$ 61,452,650</u></b>
 <b>Status Of Budgetary Resources</b>		
Obligations incurred		
Direct	\$ 63,706,280	\$ 59,491,212
Unobligated balances		
Apportioned	325,307	426,366
Unobligated balances not available	1,760,569	1,535,072
<b>Total status of budgetary resources</b>	<b><u>\$ 65,792,156</u></b>	<b><u>\$ 61,452,650</u></b>
 <b>Change In Obligated Balance</b>		
Obligated balance, net		
Unpaid obligations, brought forward, October 1	\$ 8,642,189	\$ 7,420,596
Obligations incurred, net	63,706,280	59,491,212
Gross outlays	(62,961,322)	(57,475,890)
Recoveries of prior year unpaid obligations, actual	(561,893)	(793,729)
Obligated balance, net, end of period		
Unpaid obligations	8,825,254	8,642,189
Total, unpaid obligated balance, net, end of period	<u>8,825,254</u>	<u>8,642,189</u>
 <b>Net Outlays</b>		
<b>Gross outlays</b>	62,961,322	57,475,890
Offsetting collections	(4,113)	(2,985)
<b>Net outlays</b>	<b><u>\$ 62,957,209</u></b>	<b><u>\$ 57,472,905</u></b>

The accompanying notes are an integral part of these statements.

**STATEMENT OF CUSTODIAL ACTIVITY**

For the Years Ended September 30, 2009 and 2008 (in dollars)

	<u>2009</u>	<u>2008</u>
<b>Revenue Activity</b>		
Sources of cash collections		
Civil penalties	\$ 1,275,568	\$ 2,428,750
Administrative fines	407,274	58,496
Miscellaneous receipts	27,228	95,262
<b>Total cash collections</b>	<u>1,710,070</u>	<u>2,582,508</u>
Accrual adjustments	(326,188)	(276,843)
<b>Total custodial revenue (Note 11)</b>	<u><u>\$ 1,383,882</u></u>	<u><u>\$ 2,305,665</u></u>
 <b>Disposition Of Collections</b>		
Transferred to U.S. Treasury	\$ 1,710,070	\$ 2,582,508
Amounts yet to be transferred	(326,188)	(276,843)
<b>Total disposition of collections</b>	<u><u>\$ 1,383,882</u></u>	<u><u>\$ 2,305,665</u></u>
 <b>Net custodial activity</b>	<u><u>\$ –</u></u>	<u><u>\$ –</u></u>

The accompanying notes are an integral part of these statements.

# NOTES TO THE FINANCIAL STATEMENTS

## Note 1 – Summary of Significant Accounting Policies

### Reporting Entity

The Federal Election Commission (FEC or Commission) was created in 1975 as an independent regulatory agency with exclusive responsibility for administering, enforcing, defending and interpreting the *Federal Election Campaign Act (FECA) of 1971*, 2 U.S.C. 431 *et seq.*, as amended by the *Bipartisan Campaign Reform Act of 2002 (BCRA)*, Pub. L. 107-155, 116 Stat. 81 (2002) (“the Act”). The Commission is also responsible for administering the public funding programs (26 U.S.C. §§ 9001–9039) for Presidential campaigns and conventions, which includes certification and audits of all participating candidates and committees, and enforcement of public funding legislation.

The financial activity presented relates to the execution of the FEC congressionally approved budget. Consistent with Federal Accounting Standards Advisory Boards’ (FASAB) *Statement of Federal Financial Accounting Concept No. 2, “Entity and Display,”* the Presidential Election Campaign Fund (“the fund”) is not a reporting entity of the FEC. Financial activity of the funds is budgeted, apportioned, recorded, reported and paid by the Department of Treasury, and therefore, the accounts of the Presidential Election Campaign Fund are not included in the FEC’s financial statements.

### Basis of Accounting and Presentation

As required by the *Accountability of Tax Dollars Act of 2002*, the accompanying financial statements present the financial position, net cost of operations, changes in net position, budgetary resources, and custodial activity of the FEC. While these financial statements have been prepared from the books and records of the FEC in accordance with U.S. Generally Accepted Accounting Principles (GAAP) and in accordance with the form and content for entity financial statements specified by the Office of Management and Budget (OMB) in Circular A-136, as revised, *Financial Reporting Requirements*, as well as the accounting policies of the FEC, the statements may differ from other financial reports submitted pursuant to OMB directives for the purpose of monitoring and controlling the use of the FEC’s budgetary resources. Generally Accepted Accounting Principles for federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), which is the official body for setting the accounting standards of the federal government.

These financial statements reflect both accrual and budgetary accounting transactions. Under the accrual method of accounting, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting is designed to recognize the obligation of funds according to legal requirements. Budgetary accounting is essential for compliance with legal constraints and controls over the use of Federal funds.

Throughout these financial statements, assets, liabilities, revenues and costs have been classified according to the type of entity with which the transactions are associated. Intra-governmental assets and liabilities are those from or to other Federal entities. Intra-governmental earned revenues are collections or accruals of revenue from other federal entities and intra-governmental costs are payments or accruals to other federal entities. These statements should be read with the understanding that they are for a component of the U.S. Government, a sovereign entity.

## SECTION III – Auditor’s Report and Financial Statements

### Assets

Assets that an entity is authorized to use in its operations are termed entity assets, while assets that are held by an entity and are not available for the entity’s use are termed non-entity assets. Most of the FEC’s assets are entity assets and are available to carry out the mission of the FEC, as appropriated by Congress. The FEC also has non-entity assets, which primarily consist of receivables from fines. These custodial collections are not available to the FEC to use in its operations and must be transferred to the U.S. Treasury.

### Fund Balance with Treasury

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

### Accounts Receivable

FEC’s accounts receivable represent amounts due from the public for fines and penalties assessed by the FEC and referred to Treasury for collection. The FEC establishes an allowance for the loss on accounts receivable from the public that are deemed uncollectible accounts. This is included in Accounts Receivable, net on the balance sheet. The allowance is a percentage of the overall receivable balance based on the collection rate of past balances.

### General Property and Equipment

General Property and Equipment (P&E) is reported at acquisition cost. General P&E consists of items that are used by FEC to support its mission. Depreciation on these assets is calculated using the straight-line method with no salvage value. Depreciation begins the month the asset is placed in service. Maintenance, repairs and minor renovations are expensed as incurred. Expenditures that materially increase values, change capacities or extend useful lives are capitalized. Refer to Note 5 for additional details.

### Liabilities

Liabilities represent amounts that are likely to be paid by the FEC as the result of transactions or events that have already occurred; however, no liabilities are paid by the FEC without an appropriation. Intragovernmental liabilities arise from transactions with other Federal entities. Liabilities classified as not covered by budgetary resources are liabilities for which appropriations have not been enacted (e.g., annual leave benefits and actuarial liability under the *Federal Employees Compensation Act*), and liabilities resulting from the agency’s custodial activities. The FEC has an intragovernmental liability to the U.S. Treasury for fines and miscellaneous receipts due from the public but not yet transferred. These funds may not be used to fund FEC operations.

### Accounts Payable

Accounts payable consist of liabilities to other entities or persons for amounts owed for goods, services and other expenses received but not yet paid at the end of the fiscal year. Accounts payable also consist of disbursements in transit recorded by the FEC but not paid by the U.S. Treasury.

### Accrued Payroll and Employer Contribution

Accrued payroll and benefits represents salaries, wages and benefits earned by employees, but not disbursed as of the statement date. Accrued payroll is payable to employees and therefore not classified as intragovernmental. Employer contributions and payroll taxes payable are classified as intragovernmental.



## Annual, Sick and Other Leave

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

## Federal Employee Benefits

A liability is recorded for estimated and actual future payments to be made for workers' compensation pursuant to the *Federal Employees Compensation Act (FECA)*. The liability consists of the net present value of estimated future payments calculated by the Department of Labor (DOL) and the actual unreimbursed cost paid by the DOL for compensation paid to recipients under this *FECA*. The future workers' compensation estimate was generated by the DOL from an application of actuarial procedures developed to estimate the liability for *FECA*, which includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The liability is calculated using historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. These projected annual benefits payments were discounted to present value.

## Employee Retirement Plans

FEC employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS), which became effective on January 1, 1987. Most FEC employees hired after December 31, 1983, are automatically covered by FERS and Social Security. For employees covered by CSRS, the FEC withheld 7.0 percent of base pay earnings. The FEC matches this withholding, and the sum of the withholding and the matching funds is transferred to the Civil Service Retirement System.

For each fiscal year, the Office of Personnel Management (OPM) calculates the U.S. Government service cost for covered employees, which is an estimate of the amount of funds that, if accumulated annually and invested over an employee's career, would be enough to pay that employee's future benefits. Since the U.S. Government's estimated service cost exceeds contributions made by employer agencies and covered employees this plan is not fully funded by the FEC and its employees. The FEC recognized approximately \$2,406,000 and \$2,100,000, respectively as of September 30, 2009 and 2008, as an imputed cost and as an imputed financing source for the difference between the estimated service cost and the contributions made by the FEC and its employees.

FERS contributions made by employer agencies and covered employees are comparable to the U.S. Government's estimated service costs. For FERS covered employees, the FEC made contributions of 11.2 percent of basic pay. Employees participating in FERS are covered under the *Federal Insurance Contribution Act (FICA)* for which the FEC contributes a matching amount to the Social Security Administration.

## Thrift Savings Plan (TSP)

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

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

## Commitments and Contingencies

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

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

## Revenues and Other Financing Sources

### Annual Appropriation

The FEC received all of its funding through an annual appropriation as provided by Congress.

### Imputed Financing Sources

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

### Statement of Net Cost

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

### Net Position

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

## Statement of Custodial Activity

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

## Use of Estimates

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

## Note 2 – Non-Entity Assets

Non – entity assets, which primarily represent amounts due to the FEC for fines and penalties on those that violated the requirements of the *Federal Election Campaign Act*, consist of the following as of September 30, 2009 and September 30, 2008:

	<u>2009</u>	<u>2008</u>
<b>With the Public</b>		
Accounts Receivable – Custodial	\$ 203,999	\$ 530,187
<b>Total non-entity assets</b>	203,999	530,187
<b>Total entity assets</b>	<u>17,457,604</u>	<u>18,319,237</u>
<b>Total Assets</b>	<u>\$ 17,661,603</u>	<u>\$ 18,849,424</u>

## Note 3 – Fund Balance with Treasury

Fund balances with Treasury consisted of the following as of September 30, 2009 and September 30, 2008:

	<u>2009</u>	<u>2008</u>
<b>Fund Balance</b>		
Appropriated Funds	<u>\$ 10,911,130</u>	<u>\$ 10,603,627</u>
<b>Total</b>	<u>\$ 10,911,130</u>	<u>\$ 10,603,627</u>

	<u>2009</u>	<u>2008</u>
<b>Status of Fund Balance with Treasury</b>		
Unobligated Balance		
Available	\$ 325,307	\$ 426,366
Unavailable	1,760,569	1,535,072
Obligated Balance not yet Disbursed	<u>8,825,254</u>	<u>8,642,189</u>
<b>Total</b>	<u>\$ 10,911,130</u>	<u>\$ 10,603,627</u>

Available unobligated balances represent amounts that are apportioned for obligation in the current fiscal year. Unavailable unobligated balances represent amounts that are not apportioned for obligation during the current fiscal year and expired appropriations that are no longer available to incur new obligations. Obligated balances not yet disbursed include unpaid delivered and undelivered orders.

## Note 4 – Accounts Receivable, net

All accounts receivable are with the public and consist of the following as of September 30, 2009 and September 30, 2008:

	2009		
	Gross Accounts Receivable	Allowance	Net Accounts Receivable
<b>With the Public</b>			
Fines and Penalties	\$ 297,498	\$ 93,499	\$ 203,999
<b>Total Non-Entity</b>	<u>\$ 297,498</u>	<u>\$ 93,499</u>	<u>\$ 203,999</u>
	2008		
	Gross Accounts Receivable	Allowance	Net Accounts Receivable
<b>With the Public</b>			
Fines and Penalties	\$ 706,556	\$ 176,369	\$ 530,187
<b>Total Non-Entity</b>	<u>\$ 706,556</u>	<u>\$ 176,369</u>	<u>\$ 530,187</u>

Non-Entity receivables consist of civil penalties and administrative fines assessed by FEC through its enforcement processes or conciliation agreements reached with parties. FEC has three offices that administer the penalties: the Office of General Counsel (OGC); the Office of Administrative Review (OAR); and the Office of Alternative Dispute Resolution (ADR). Each office has a distinct role in the enforcement and collection process. The allowance is based on the historical rate of collection and an overall assessment of the debtor’s willingness and ability to pay. Furthermore, debts administered by OAR are referred to the U.S. Treasury for collection when delinquent. The terms of the agreement between the FEC and the parties establish the conditions for collection.

## Note 5 – General Property and Equipment, Net

General Property and Equipment (P&E) is reported at acquisition cost. The capitalization threshold is established at \$25,000 and a useful life of two or more years. For bulk purchases, items are capitalized when the individual useful lives are at least two years and have an aggregate value of \$250,000 or more. The bulk purchase capitalization threshold is a new policy that was implemented in FY 2007. Acquisitions of P&E that do not meet the capitalization criteria are recorded as operating expenses. General P&E consists of items that are used by FEC to support its mission. Depreciation on these assets is calculated using the straight-line method with no salvage value. Depreciation begins the month the asset is placed in service. Maintenance, repairs and minor renovations are expensed as incurred. Expenditures that materially increase values, change capacities or extend useful lives are capitalized.

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

The headquarters building in which the FEC operates is leased through the General Services Administration (GSA) under an occupancy agreement, which manages the lease agreement between the Federal government and the

commercial entity. FEC is billed by GSA for the leased space based upon estimated lease payments made by GSA plus an administrative fee. The cost of the headquarters building is not capitalized. The costs of any leasehold improvements, which are managed through GSA, are financed with FEC appropriated funds. Construction costs of \$25,000 or more are accumulated as Construction in Progress until completion and then are transferred and capitalized as a Leasehold Improvement over five years or the remainder of the lease, whichever is less, effective FY 2009.

Internal use software development and acquisition costs of \$25,000 are capitalized as Software in Development until the development stage is completed and the software is tested and accepted. At acceptance, costs of Software in Development are reclassified as internal use software costs and amortized using the straight-line method over an estimated useful life of three years, effective FY 2009. The useful life of internal use software is shortened in FY 2009 because software becomes obsolete rapidly. Purchased commercial software that does not meet the capitalization criteria is expensed. Enhancements which do not add significant new capability or functionality are expensed.

The general components of capitalized property and equipment, net of accumulated depreciation, consisted of the following as of September 30, 2009, and September 30, 2008, respectively:

<b>2009</b>				
<b>Asset Class</b>	<b>Service Life (years)</b>	<b>Acquisition Value</b>	<b>Accumulated Depreciation</b>	<b>Net Book Value</b>
Software	3	\$ 12,969,440	\$ 8,015,792	\$ 4,953,648
Computers and peripherals	3	3,545,498	2,301,334	1,244,164
Furniture	5	852,754	787,719	65,035
Software-in-Development	n/a	<u>283,627</u>	<u>—</u>	<u>283,627</u>
<b>Total</b>		<u>\$ 17,651,319</u>	<u>\$ 11,104,845</u>	<u>\$ 6,546,474</u>

<b>2008</b>				
<b>Asset Class</b>	<b>Service Life (years)</b>	<b>Acquisition Value</b>	<b>Accumulated Depreciation</b>	<b>Net Book Value</b>
Software	5	\$ 15,937,663	\$ 10,811,741	\$ 5,125,922
Computers and peripherals	3 to 5	3,264,011	2,327,913	936,098
Furniture	7	852,754	725,573	127,181
Software-in-Development	n/a	<u>1,525,511</u>	<u>—</u>	<u>1,525,511</u>
<b>Total</b>		<u>\$ 21,579,939</u>	<u>\$ 13,865,227</u>	<u>\$ 7,714,712</u>

## Note 6 – Liabilities Not Covered By Budgetary Resources

Liabilities Not Covered by Budgetary Resources consisted of the following as of September 30:

<b>Liabilities Not Covered by Budgetary Resources</b>	<b>2009</b>	<b>2008</b>
<b>Intragovernmental</b>		
Custodial Fines and Civil Penalties	\$ 203,999	\$ 530,187
Deferred Rent	<u>696,479</u>	<u>783,538</u>
<b>Total Intragovernmental</b>	900,478	1,313,725
<b>With the Public:</b>		
Unfunded Annual Leave	2,514,822	2,161,272
FECA Liability	<u>3,208</u>	<u>2,712</u>
<b>Total Liabilities Not Covered by Budgetary Resources</b>	\$ 3,418,508	\$ 3,477,709
<b>Total Liabilities Covered by Budgetary Resources</b>	<u>3,768,080</u>	<u>3,740,867</u>
<b>Total Liabilities</b>	<u>\$ 7,186,588</u>	<u>\$ 7,218,576</u>

The FEC accrues a liability related to the *Federal Employee’s Compensation Act (FECA)* as of September 30, 2009, and September 30, 2008.

Beginning FY 2008, the FEC entered into a new lease agreement for its headquarters that provided a rent abatement of \$870,598 which covers the equivalent of two months of rent. Consistent with U.S. generally accepted accounting principles, the FEC has recorded rent abatement as deferred rent, which is amortized over the life of the ten year lease.

## Note 7 – Commitments and Contingencies

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

## Note 8 – Leases

FEC has no capital leases. The FEC has a commitment under an operating lease for its headquarters office space. Future payments due under the lease through September 30, 2017, are:

<b>Future Operating Lease Payments</b>			
<u>2009</u>		<u>2008</u>	
<u>Fiscal Year</u>	<u>Lease Payment</u>	<u>Fiscal Year</u>	<u>Lease Payment</u>
2010	\$ 5,755,351	2009	\$ 5,705,136
2011	5,818,278	2010	5,755,351
2012	5,883,092	2011	5,818,278
2013	5,949,852	2012	5,883,092
2014	6,018,614	2013	5,949,852
2015 and thereafter	18,489,353	2014 and thereafter	24,507,967
<b>Total Future Lease Payments</b>	<b>\$ 47,914,540</b>	<b>Total Future Lease Payments</b>	<b>\$ 53,619,676</b>

## Note 9 – Statement of Net Cost

FEC's costs are consolidated into one program, "Administer and enforce the *FECA*," and consisted of the following as of September 30, 2009, and September 30, 2008, respectively:

	<u>2009</u>	<u>2008</u>
<b>Intragovernmental gross costs</b>	\$ 9,328,231	\$ 8,373,674
Intragovernmental net costs	9,328,231	8,373,674
Gross costs with the public	57,498,500	53,650,333
<b>Net costs with the public</b>	<b>57,498,500</b>	<b>53,650,333</b>
<b>Net Cost of Operations</b>	<b>\$ 66,826,731</b>	<b>\$ 62,024,007</b>

In accordance with OMB Circular A-136, as revised, costs incurred for goods and services provided by other federal entities are reported in the full costs of FEC's program and are identified as "intragovernmental." All other costs are identified as "with the public."

## Note 10 – Statement of Budgetary Resources

The Statement of Budgetary Resources (SBR) compares budgetary resources with the status of those resources. For the years ended September 30, 2009, budgetary resources were \$65,792,156 and net outlays were \$62,957,209. For the year ended September 30, 2008, budgetary resources were \$61,452,650 and net outlays were \$57,472,905.

### Apportionment Categories of Obligations Incurred

The FEC receives apportionments of its resources from OMB. Apportionments are for resources that can be obligated without restriction, other than to be in compliance with legislation for which the resources were made available.

For the years ended September 30, 2009 and 2008, direct obligations incurred amounted to \$63,706,280, and \$59,491,212, respectively.

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

SFFAS No. 7, Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting, requires an explanation of material differences between budgetary resources available, the status of those resources and outlays as presented in the Statement of Budgetary Resources (SBR) to the related actual balances published in the *Budget of the United States Government (Budget)*. The Budget that will include FY 2009 actual budgetary execution information is scheduled for publication in February 2010, which will be available through OMB’s website at <http://www.whitehouse.gov/OMB>. Accordingly, information required for such disclosure is not available at the time of publication of these financial statements.

Balances reported in the FY 2008 SBR and the related President’s Budget reflected the following:

FY 2008	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Statement of Budgetary Resources	\$ 61,452,650	\$ 59,491,212	–	\$ 57,472,905
<i>Budget of the U.S. Government</i>	59,000,000	59,000,000	–	57,000,000
Difference	<u>\$ 2,452,650</u>	<u>\$ 491,212</u>	<u>\$ –</u>	<u>\$ 472,905</u>

The difference between the Statement of Budgetary Resources and the Budget of the U.S. Government for budgetary resources is primarily due to expired unobligated balances. The differences for obligations incurred and net outlays are due to rounding.



## Note 11 – Custodial Revenues and Liability

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

<b>Custodial Revenue</b>	<u>2009</u>	<u>2008</u>
Fines, Penalties and Other Miscellaneous Revenue	<u>\$ 1,383,882</u>	<u>\$ 2,305,665</u>
<b>Custodial Liability</b>		
Receivable for Fines and Penalties	\$ 297,498	\$ 706,556
Less: Allowance for Doubtful Accounts	<u>(93,499)</u>	<u>(176,369)</u>
<b>Total Custodial Liability</b>	<u>\$ 203,999</u>	<u>\$ 530,187</u>

## Note 12 – Undelivered Orders at the End of the Period

Undelivered orders as of September 30, 2009, and September 30, 2008, totaled \$5,057,173 and \$4,901,323, respectively.

## Note 13: Reconciliation of Net Cost of Operations to Budget

The objective of this information is to provide an explanation of the differences between budgetary and financial (proprietary) accounting. This is accomplished by means of a reconciliation of budgetary obligations and non-budgetary resources available to the reporting entity with its net cost of operations.

	<u>2009</u>	<u>2008</u>
<b>Resources used to finance activities:</b>		
Budgetary resources obligated		
Obligations incurred	\$ 63,706,280	\$ 59,491,212
Less: Recoveries and offsetting collections	<u>(566,007)</u>	<u>(796,714)</u>
Net obligations	63,140,273	58,694,498
Other resources		
Imputed financing from costs absorbed by others	<u>2,406,186</u>	<u>2,133,623</u>
<b>Total resources used to finance activities</b>	<u>65,546,459</u>	<u>60,828,121</u>
<b>Resources used to finance items not part of the net cost of operations</b>		
Change in budgetary resources obligated for goods, services, and benefits ordered but not yet provided	154,952	(181,865)
Resources that fund expenses recognized in prior periods	86,565	(2,424)
Resources that finance the acquisition of assets but do not affect cost of operations	<u>1,526,773</u>	<u>2,226,814</u>
<b>Total resources used to finance items not part of the net cost of operations</b>	<u>1,768,290</u>	<u>2,042,525</u>
<b>Total resources used to finance the net cost of operations</b>	63,778,169	58,785,596
<b>Components of the net cost of operations that will not require or generate resources in the current period</b>		
Components requiring or generating resources in future periods		
Increase in annual leave liability	353,550	196,794
Increase in deferred rent	<u>—</u>	<u>783,538</u>
Total	353,550	980,332
Components not requiring or generating resources		
Depreciation and amortization	2,517,816	2,258,079
Revaluation of assets or liabilities	<u>177,196</u>	<u>—</u>
Total	<u>2,695,012</u>	<u>2,258,079</u>
<b>Total components of the net cost of operations that will not require or generate resources in the current period</b>	<u>3,048,562</u>	<u>3,238,411</u>
<b>Net cost of operations</b>	<u>\$ 66,826,731</u>	<u>\$ 62,024,007</u>



**FEDERAL ELECTION COMMISSION**

WASHINGTON, D.C. 20463

Office of Inspector General

**MEMORANDUM**

**TO:** The Commission

**FROM:** Inspector General

**SUBJECT:** Inspector General Statement on the Federal Election Commission's Management and Performance Challenges

**DATE:** October 15, 2009

Each year, the Inspector General is required to provide a summary and assessment of the most serious management and performance challenges facing the Federal Election Commission (FEC). The requirement is contained in the *Reports Consolidation Act of 2000* (Public Law 106-531), an amendment to the *Chief Financial Officers (CFO) Act of 1990*. The attached document responds to the requirement, and provides the annual statement on Commission challenges to be included in the *Federal Election Commission Performance and Accountability Report (PAR) Fiscal Year (FY) 2009*.

The Inspector General has identified four areas for inclusion in the FEC's FY 2009 PAR:

- Governance Framework
- Human Capital Management
- Information Technology Security
- Financial Reporting

The Inspector General identified Human Capital Management, Information Technology Security and Financial Reporting as management and performance challenges in the 2005, 2006, and 2007 PARs. In the 2008 PAR, the Inspector General included Governance Framework as an additional challenge and continues to believe the above four issues remain challenges for the FEC. While the FEC has made some progress in addressing these areas, there still needs to be a substantial amount of work accomplished before they are no longer considered challenges. The Inspector General's assessment is based on information derived from a combination of several sources, including Office of Inspector General audit and inspection work, Commission reports, and a general knowledge of the Commission's programs and activities.

**SECTION IV – Other Accompanying Information**

The *Reports Consolidation Act of 2000* permits agency comment on the Inspector General's statements. Agency comments, if applicable, are to be included in the final version of the PAR that is due November 16, 2009.



Lynne A. McFarland  
Inspector General

**Attachment**

Cc: Alec Palmer, Acting Staff Director/Chief Information Officer  
Mary G. Sprague, Chief Financial Officer  
James J. Wilson, Director Office of Human Resources

#### GOVERNANCE FRAMEWORK

On November 13, 2007, President Bush issued Executive Order 13450, *Improving Government Program Performance*, instructing the “Federal Government to spend taxpayer dollars effectively, and more effectively each year. Agencies shall apply taxpayer resources efficiently in a manner that maximizes the effectiveness of Government programs in serving the American people.” The order instructed the head of each agency to approve and implement annual and long-term goals for programs, define and objectively measure outcomes, assign specific personnel the duty and authority to achieve the goals, and provide the resources necessary to achieve them. Further, the agency heads are required to ensure continuous accountability of the specified agency personnel responsible for achievement of the goals and efficiency in the use of resources to achieve the agency’s goals. In order to achieve the result, agency heads were to designate a Performance Improvement Officer (PIO) responsible for supervising the performance management activities of the agency, to include the development of the agency’s strategic plan, annual performance plans, and annual performance reports.

Requiring agencies to establish performance goals, appropriate metrics, and report results to the Office of Management and Budget (OMB), Congress and the public via the agency’s annual Performance and Accountability Report (PAR) is not new. The FEC has reported annual performance goals and results via the PAR since 2004. Prior to 2004, the agency reported results via the Government Performance and Results Act (GPRA) from 1998 to 2003. According to OMB Watch, a nonprofit research and advocacy group:

*“The crucial aspect in this executive order that attempts to extend influence is the requirement that the heads of agencies — including all government corporations and sponsored entities (i.e., Corporation for Public Broadcasting, Fannie Mae) and all independent agencies (i.e., Federal Communications Commission, Federal Election Commission) — appoint a senior executive to serve as a “performance improvement officer” to oversee all performance management activities of the agency, including development of strategic plans, annual performance goals, and performance reports. These performance improvement officers would also be required to advise the head of agencies as to the sufficient aggressiveness of program goals and realistic chances of achieving those goals given resource constraints.*

*This structure, in and of itself, is not a terrible proposal. A more formalized, streamlined, and hopefully accountable structure within each federal agency that reports to the agency head (and not OMB) that would focus on improving program performance and spending money wisely is certainly needed. This structure may even help to make strategic plans developed under GPRA more tangible within agencies and create an atmosphere that boosts staff productivity and morale.”*

## SECTION IV – Other Accompanying Information

In other words, the intent of Executive Order 13450 is to focus agency governance efforts by delegating responsibility, establishing adequate performance metrics, linking performance results directly to employees via performance plans, increasing internal monitoring and reporting, and revising metrics to ensure they accurately measure performance. In March 2008, the FEC's Chairman forwarded the FEC's Strategic Plan to OMB for review and approval, and appointed the Staff Director at that time as the agency's PIO. The Staff Director then appointed two Deputy PIOs in April 2008; however, little effort has been made to date in implementing the executive order largely due to attrition of the PIO and one of the deputies within four months of being delegated the responsibility.

The FEC's inability to retain staff in positions with key responsibilities for managing the agency continues to be a challenge. External resources to implement the executive order are readily available if the FEC could maintain continuity of staff and a focused effort for the period of time necessary to actually embed the required governance process. For instance, OMB maintains a listing of designated PIOs, however the FEC does not have a member or alternate listed. OMB also sponsors a monthly meeting of PIOs, but it appears FEC staff has not attended and therefore has not received the benefits of networking with other PIOs or accessed information on implementation methods and "best practices" used by other agencies. While the FEC's five year strategic plan was submitted to OMB in March 2008, no interim assessment has been conducted by the PIO to determine whether the program goals "are aggressive, realistic, and accurately measured." Further, there has been no assessment to determine whether the goals are accurately reflected in the individual performance plans of FEC staff. As mentioned in the initial 2008 Inspector General Management Challenge on Governance Framework, not all divisions in the FEC have performance measures included in the agency's strategic plan, many metrics are based on volume and not quality, and the agency lacks comprehensive business plans for the various divisions in which to link performance with organizational goals.

Since introducing Governance Framework as a management challenge facing the FEC in November 2008, the agency has retained a full quorum of Commissioners for more than a year. In March 2009, the FEC recruited and hired a Chief Financial Officer and a Staff Director; however, the agency still lacks continuity in senior leadership positions. At this time, the Staff Director position is again "acting" with the Chief Information Officer, who is also the Co-Chief Privacy Officer, performing the critical roles of Staff Director and PIO in addition to his other responsibilities. Further, the FEC did not recruit for a Deputy Staff Director of Management and Administration, and therefore there is no succession planned for periods when the Staff Director may be absent due to annual leave or illness, let alone periods of unplanned extended absence.

As such, the FEC has again extended its limited management resources to “maintenance mode” and does not have the capacity to effectively address the very management challenge the Staff Director was hired to address; managing and improving agency performance.

I encourage the Commissioners, as agency heads, to place greater emphasis on improving governance at the FEC through rigorous implementation of Executive Order 13450. The first steps required are to address the frequent turnover in the senior leadership position of Staff Director and again designate a PIO to implement a governance framework. Through the PIO, the Commission should require each division to create a business plan that defines, in detail, the objectives and goals of the business area and ensure the business plans are clearly linked to the organizational strategic plan. The business plans should document risks and key dependencies that may prevent the office or program from reaching its goals; the resources required to meet objectives; stakeholders and relationships; service standards (both internal and external); policies, procedures and guidelines for operations; key performance indicators; and reporting methods. It is important that all divisions, even those responsible for support functions rather than the core mission, document a business plan that outlines the areas of responsibility and resources required to effectively serve those divisions that directly support the core mission. The plans should link the agency’s strategic plan and employee performance plans in a governance framework designed to continuously improve performance. The Commission should require the divisions to report interim progress throughout the year and assess the adequacy of the performance metrics of both the divisional business plans and the agency’s strategic plan, on an annual basis. The result of such efforts will be an organization that operates efficiently and effectively, staffed by employees with a clear sense of how their day-to-day work efforts support the FEC’s mission.

#### HUMAN CAPITAL MANAGEMENT

In its January 2009 *High Risk Series Update*, the Government Accountability Office (GAO) stated “federal agencies do not consistently have the modern human capital programs and policies needed to ensure that they have the right people in the right jobs at the right time to meet the challenges they face.” The FEC Office of Inspector General (OIG) first reported Human Capital Management as a challenge facing the agency in its 2004 Performance and Accountability Report (PAR) and retains it as an ongoing challenge. Programs and plans designed to address the FEC’s ability to attract and retain a high performing workforce have progressed to some extent, but the results of the FEC’s 2008 Office of Personnel Management (OPM) Federal Human Capital Survey (FHCS) shows overall progress continues to be a challenge with some survey categories experiencing declines in employee ratings. Employee participation in the annual assessment for the agency remains low, with a 56 percent participation rate in 2008 compared to 63 percent in 2006. The agency’s Human Capital

## SECTION IV – Other Accompanying Information

Strategic Plan, designed to address program weaknesses, has been under development since 2007 and was planned for release in 2008. To date, the FEC's Human Capital Strategic Plan (2009 – 2013) remains in draft, as does the related fiscal year 2009 Performance Plan designed to measure whether initiatives to address human capital deliver the intended results. Without ongoing focused effort to implement programs planned to improve human capital management and continuously monitor and refine those programs, the FEC is likely to continue to experience significant challenges to maintain a high performing workforce required to meet organizational goals.

The Office of Human Resources and Labor Relations (OHR) implemented two programs last year to address human capital management challenges; employee recognition and awards program and flexiplace (telecommuting) program. The employee recognition program is separate from the annual employee performance evaluation and rating system. The FEC employee recognition program has entered its second year with 68 nominations received and 16 individual and group awards presented to 30 FEC staff in 2009. The number of employees nominated for awards increased 70 percent compared to 2008, a positive indication staff and supervisors recognize the importance of employee recognition. In addition to the formal awards ceremony, 11 monetary "on the spot" awards were presented to FEC staff in fiscal year 2009 as well as a number of informal "on the spot" awards of gift cards and merchandise. The Inspector General is unable to determine the number of informal awards provided to employees because the program management did not maintain a record of award distributions at the program level. If the program is successful, future Human Capital Survey results should reflect increases in employee perceptions that they are rewarded for providing high quality services, and for creativity and innovation. While not yet formally assessed by OHR, employees indicate more guidance is needed on award nominations and evaluations of nominees to ensure sufficient information is available and allows for fair and accurate assessments of nominees. According to the OHR Director, guidance for both nomination and assessments will be developed and provided to staff before the 2010 employee recognition program submission deadlines.

As noted in the OIG's 2008 assessment of human capital challenges, the flexiplace telework program, piloted in 2005, was finalized for bargaining unit employees in 2008. A formal program for non-bargaining unit employees has not yet been implemented and it is unclear of the extent to which non-bargaining unit employees have access to flexiplace working arrangements. The flexiplace program assessment initially scheduled in 2009, in accordance with the *Memorandum of Understanding between the Federal Election Commission and the National Treasury Employees Union* (May 2008), has not yet been performed. In its 2007 report *Human Capital: Greater Focus on Results in Telework Programs Needed*, GAO noted the following activities as necessary for "managing telework program results: (1) developing a business case for telework, (2) establishing measurable telework program goals, (3) establishing systems to collect data for telework program evaluation, and (4) identifying problems and making



appropriate adjustments.” It is not clear how the FEC will assess flexiplace program results or whether systems and processes currently in place provide sufficient data to support a full assessment of the program. According to the Director of OHR, anecdotal information from employees and supervisors indicates the program is successful, however, we believe that without a full assessment of the program performed in a timely manner, the FEC will not have the information necessary to refine the program and correct deficiencies. The 2008 FHCS results show 70 percent of respondents are not satisfied with their telework arrangements. The IG believes an assessment of the existing program, including availability and use by non-bargaining unit employees, would be valuable for all stakeholders, in order to understand the FEC’s flexiplace program strengths and weaknesses.

A major event impacting the FEC’s strategic human capital management and accountability activities in fiscal year 2009 was the OPM evaluation conducted in June 2009. Prior to the 2009 evaluation, the FEC had not had an evaluation of human resources or human capital functions since 2002. In June, the OPM evaluators assessed the agency’s human resource activities designed to sustain leadership and knowledge management, results oriented performance culture, talent management, and accountability in accordance with the Human Capital Assessment and Accountability Framework (HCAAF). Evaluation of how the various program areas contribute to organization mission accomplishment was also performed. During the evaluation, OPM met with many senior leaders and held focus group meetings with a number of agency staff. The evaluators also reviewed the FEC OHR policies, procedures, systems and processes for compliance with federal regulation. In June, after completing fieldwork, OPM held an exit conference and a final report to management is expected in early November 2009. OHR intends to make the final report available to all FEC staff.

Based on the initial evaluation results presented during the OPM review and at the exit conference, OHR developed a 60-day corrective action plan (CAP) to address deficiencies noted during the review. The CAP and associated documentation was forwarded to OPM for information purposes. As a result of the evaluation, OHR developed a Human Capital Accountability Plan and submitted it to OPM for approval. The Accountability Plan is intended to link the human capital strategic goals to specific management activities and measure the progress of human capital initiatives. In addition, OHR will submit its Human Capital Strategic Plan and associated Agency Human Capital Report to OPM annually as required under federal regulations<sup>1</sup>. Compliance with the annual assessment and reporting requirements should help ensure current and future human capital initiatives yield desired results, or are revised as needed.

According to GAO, “OPM and agencies should be held accountable for the ongoing monitoring and refinement of human capital approaches to recruit and hire a capable and committed federal workforce.” The FEC Human Capital Strategic Plan has been under development since 2007,

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<sup>1</sup> 5 C.F.R. §250.203 (2008).

## SECTION IV – Other Accompanying Information

with implementation originally planned for December 2008. In order to make meaningful progress in addressing the human capital challenges facing the agency, the Human Capital Strategic Plan should be finalized as soon as possible and objectives that are specific, measurable, achievable, realistic and time-related (SMART) should be developed and included in the Human Capital Accountability Plan. Interim, as well as annual monitoring and reporting of planned progress, is essential to addressing the human capital challenges facing the FEC. Further, OHR should provide clear guidance to supervisors and managers on hiring flexibilities, as well as options for hiring, rewarding, or addressing performance issues via updated personnel instructions made readily available to all staff on the intranet. In addition to measuring results through the Federal Human Capital Survey, other methods for more immediate feedback should be used by OHR. This may include employee satisfaction surveys or whole of organization anonymous surveys to gauge employee response to various human capital programs and initiatives. The IG looks forward to reviewing the results of the OPM evaluation and assisting the Commission and the Director of Human Resources and Labor Relations to ensure corrective actions planned are fully implemented and adequately address all findings and recommendations reported by OPM.

### INFORMATION TECHNOLOGY SECURITY

Information technology (IT) security, while improving each year at the FEC, continues to be a challenge for the agency. The challenge the FEC faces in IT security is shared by other departments and agencies in the federal government. The 2009 Government Accountability Office (GAO) *High Risk List* has identified “Protecting the Federal Government’s Information Systems” as a risk related to many other government agencies. According to GAO, over the last several years, most agencies have not implemented controls to sufficiently prevent, limit or detect unauthorized access to computer networks, systems, and information, and weaknesses were reported in such controls at 23 of 24 major agencies for fiscal year (FY) 2008.

As reported by GAO in 2008, the underlying cause for the weaknesses in IT security controls is that agencies have not fully or effectively implemented agency-wide information security programs. An entity-wide security management program should be in place to establish a framework and continuing cycle of activity to manage security risks, develop security policies, assign responsibilities, and monitor the adequacy of computer security related controls. It should also represent the foundation for an entity’s security control structure and a reflection of senior management’s commitment to addressing security risks. In the FEC’s 2008 financial statement audit report, the independent public accounting firm identified the need for the FEC’s Commission-wide security management program to be enhanced as a significant deficiency. Since the FY 2008 financial statement audit, the FEC has made progress in addressing the weaknesses identified by the auditors.

The FEC has taken the following actions since the audit to improve IT security:

- implemented a framework of policies and standards to mitigate risks associated with the management of its information resources;
- established a plan of action and milestones (POA&M) for internal reviews of security controls;
- contracted with an independent vendor to complete a risk assessment and analysis of FEC security controls in its general support system (GSS), the FEC local area network (LAN);
- completed a security plan for the GSS (LAN); and
- completed a certification and accreditation for the GSS (LAN) which will provide a form of quality control and determine the extent to which the controls are implemented correctly, operating as intended, and producing the desired outcome with respect to meeting the security requirements for the system.

However, the FEC still lacks a continuous monitoring and evaluation program of the computer security policy and control effectiveness. Although a POA&M has been established to correct the identified weakness, the plan of action to correct this weakness has not been finalized but is expected to be corrected in February 2010. GAO has stated that monitoring and evaluating policy and controls effectiveness is one of the key elements to implementing an agency-wide information security program. The FEC has taken important steps to establish and implement an effective information security program; however, steps still need to be taken to ensure that the FEC has a complete and robust security program.

Also reported in the FY 2008 financial statement audit report, as part of the significant deficiency, is the FEC's lack of a disaster recovery plan, a continuity of operations plan (COOP), and weaknesses regarding access controls. To address the lack of a COOP, the FEC has developed a disaster recovery plan. In conjunction with that step, a multi-phase project plan has been developed and when all stages are complete, the FEC will have a full COOP. Although the FEC has plans in place, the weakness continues to exist because the COOP has not been fully developed and implemented to support the continuation of the agency's core mission in the event of a disaster. The full implementation of the FEC's COOP is expected to be completed by the end of FY 2010. In regards to access controls, the FEC has developed a POA&M to create formal access control policies and procedures to address the weakness identified in the 2008 audit. However, just as the much needed COOP, the plan of action to strengthen access controls has not been fully implemented. Full implementation of formal access control policies and procedures are not expected to be completed until mid-year FY 2010.

## SECTION IV – Other Accompanying Information

While the commitment of the FEC staff to improve IT security is vital, the OIG continues to believe the adherence to government-wide IT security standards is an important part of an effective security program. GAO has cited the enactment of the Federal Information Security Management Act of 2002 (FISMA) as important legislation requiring the development, documentation, and implementation of an agency-wide information security program. The FEC is one of a handful of federal agencies that are exempt from FISMA. While the IG and management have come to an informal understanding that the FEC should be expected to adhere to IT security “best practices,” which in the federal government would include adherence to IT security standards published by the National Institute of Standards and Technology (NIST), the IG feels that the FEC should formally adopt adherence in principle to FISMA and the NIST standards. We continue to believe this is a necessary and an important step for the FEC to ensure that the agency’s vital operations are safe and secure according to government standards.

### FINANCIAL REPORTING

Beginning in fiscal year (FY) 2004, the FEC has been required to prepare and submit annual audited financial statements as a result of the Accountability of Tax Dollars (ATD) Act of 2002. The submission of audited financial statements to Congress and the Office of Management and Budget is an important component to effective financial management. The requirement to prepare and submit audited financial statements has been a continuing challenge for the FEC. The frequent staff turnover over the past several years in the Chief Financial Officer (CFO) position, along with several other factors, have contributed to this continuing challenge. Although there have been improvements made throughout fiscal year 2009, the ability to produce timely, accurate, and reliable financial information in an efficient and effective manner, throughout the course of the year, continues to be a challenge for the FEC.

In FY 2008, the independent public accounting firm who conducted the FEC’s 2008 financial statement audit reported a material weakness related to the FEC’s financial accounting and reporting controls. The material weakness identified three reportable conditions: *insufficient resources and personnel with appropriate federal accounting and reporting skill sets; inadequate financial statement preparation and reporting; and a Non-integrated Financial Management System*. The Inspector General (IG) believes that insufficient resources and personnel without appropriate federal accounting and reporting skill sets, and inadequate financial statement preparation and reporting, are conditions linked directly to the challenge of producing timely, accurate, and reliable financial information. Timely, accurate, and useful financial information is essential for making day-to-day operating decisions; managing the government’s operations more efficiently, effectively, and economically; meeting the goals of federal financial management reform legislation (i.e. the ATD Act of 2002); and ensuring accountability on an ongoing basis.

The IG acknowledges that the FEC has made improvements in financial reporting throughout the fiscal year. In March 2009, the FEC hired a permanent CFO to direct necessary changes to staffing and establish the appropriate policies and procedures to improve financial management of the agency's resources. The CFO, as well as the Accounting Director, has made several changes to financial management processes in the Office of the Chief Financial Officer (OCFO) by guiding the implementation and revision of policies and procedures, such as:

- the accounting manual;
- a financial statement preparation guide;
- a finance office financial statement preparation checklist;
- an annual financial planning schedule;
- FEC Directive 53, Internal Controls; and
- FEC Directive 67, Reception and Representation Fund.

Although these policies and procedures will serve as resources for OCFO staff in financial management, some of these policies and procedures are still in draft form and must be finalized and distributed to the appropriate individuals to ensure that staff are adhering to formal policies and procedures.

The OCFO has taken several steps to address the reportable condition of insufficient personnel who do not possess appropriate federal accounting and reporting skill sets. The OCFO has undergone a significant staff restructuring in FY 2009. In addition to hiring a new CFO, the office also filled a vacancy in the financial systems analyst position, elevated four existing accounting technician staff to financial analyst positions, provided cross-training to OCFO staff, and conducted working meetings to provide staff training on financial reconciliations.

In FY 2008, the FEC migrated to a Line of Business (LoB) and outsourced a portion of its financial accounting function to the General Services Administration (GSA). The goals of a LoB are to facilitate stronger internal controls, efficiency, and reduce costs by providing a competitive alternative for agencies to acquire, develop, and operate financial management systems through shared service providers. The FEC's reliance on contractor support for financial management has increased since the end of FY 2008 due to staff vacancies and additional support needed to produce timely, accurate, and reliable financial information. In addition to the GSA LoB contract, the FEC is also contracting with two separate firms for financial management services. Although the IG acknowledges overall improvements in the FEC's financial operations, it has yet to be determined whether the FEC's progress in improving financial reporting will also yield long-term overall cost savings, one of the major benefits of the federal government's LoB initiative.

## SECTION IV – Other Accompanying Information

The Inspector General is confident the accounting and financial management staff is consistently making progress to correct the financial accounting and reporting control weaknesses identified from the FY 2008 audit. Continuous progress in addressing these weaknesses and properly equipping the OCFO staff with the appropriate skill sets will have a positive impact on the OCFO's ability to produce timely, accurate, and reliable financial information throughout the course of the year.



# APPENDIX A

## LIST OF ACRONYMS

<b>ADR</b>	Alternative Dispute Resolution	<b>FICA</b>	Federal Insurance Contribution Act
<b>AF</b>	Administrative Fine	<b>FISMA</b>	Federal Information Security Management Act
<b>AICPA</b>	American Institute of Certified Public Accountants	<b>FMFIA</b>	Federal Managers' Financial Integrity Act
<b>AO</b>	Advisory Opinion	<b>FMLOB</b>	Financial Management Line of Business
<b>ATDA</b>	Accountability of Tax Dollars Act	<b>FOIA</b>	Freedom of Information Act
<b>BCRA</b>	Bipartisan Campaign Reform Act	<b>FTE</b>	Full-time Equivalent
<b>CFO</b>	Chief Financial Officer	<b>FY</b>	Fiscal Year
<b>CIO</b>	Chief Information Officer	<b>GAAP</b>	Generally Accepted Accounting Principles
<b>CFR</b>	Code of Federal Regulations	<b>GAO</b>	Government Accountability Office
<b>CHRIS</b>	Comprehensive Human Resources Integrated System	<b>GPRA</b>	Government Performance and Results Act
<b>CSRS</b>	Civil Service Retirement System	<b>GSA</b>	General Services Administration
<b>DOL</b>	Department of Labor	<b>HLOGA</b>	Honest Leadership and Open Government Act
<b>E&amp;J</b>	Explanation and Justification	<b>IG</b>	Inspector General
<b>FASAB</b>	Federal Accounting Standards Advisory Board	<b>IPIA</b>	Improper Payments Information Act
<b>FBWT</b>	Fund Balance with Treasury	<b>IRS</b>	Internal Revenue Service
<b>FCAT-HR</b>	Federal Competency Assessment Tool for Human Resources	<b>IT</b>	Information Technology
<b>FEC</b>	Federal Election Commission	<b>LOB</b>	Line of Business
<b>FECA</b>	Federal Election Campaign Act	<b>MD&amp;A</b>	Management's Discussion and Analysis
<b>FECA</b>	Federal Employees Compensation Act	<b>MUR</b>	Matters under Review
<b>FERS</b>	Federal Employees' Retirement System	<b>NFC</b>	U. S. Department of Agriculture National Finance Center
<b>FMIA</b>	Federal Financial Management Improvement Act		

<b>NIST</b>	National Institute of Standards and Technology
<b>NPRM</b>	Notices of Proposed Rulemaking
<b>OCFO</b>	Office of the Chief Financial Officer
<b>OCIO</b>	Office of the Chief Information Officer
<b>OAR</b>	Office of Administrative Review
<b>OGC</b>	Office of General Counsel
<b>OHR</b>	Office of Human Resources
<b>OIG</b>	Office of the Inspector General
<b>OMB</b>	Office of Management and Budget
<b>OPM</b>	Office of Personnel Management
<b>P&amp;E</b>	Property and Equipment
<b>PART</b>	Performance Assessment Rating Tool
<b>PAC</b>	Political Action Committee
<b>PAR</b>	Performance and Accountability Report
<b>PEC</b>	Presidential Election Campaign
<b>PMA</b>	President's Management Agenda
<b>RAD</b>	Reports and Analysis Division
<b>RFAI</b>	Request for Additional Information
<b>SAS</b>	Statement on Auditing Standards
<b>SBR</b>	Statement of Budgetary Resources
<b>SFFAS</b>	Statement of Federal Financial Accounting Standards
<b>SHCP</b>	Strategic Human Capital Plan
<b>SNC</b>	Statement of Net Cost
<b>SOF</b>	Statement of Financing
<b>TSP</b>	Thrift Savings Plan
<b>USC</b>	United States Code