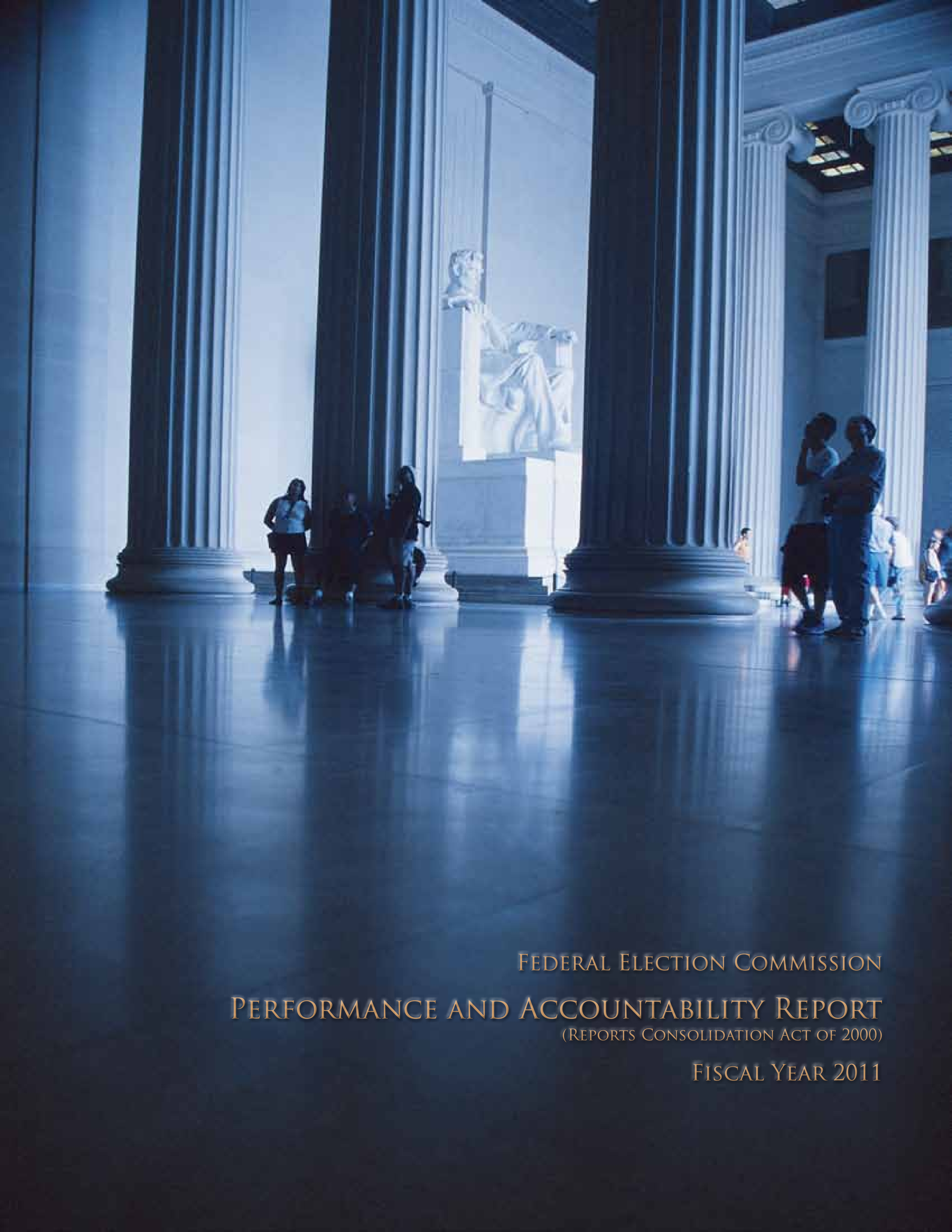

Federal Election Commission

Performance and Accountability Report

(Reports Consolidation Act of 2000)

Fiscal Year 2011

Federal Election Commission

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(Reports Consolidation Act of 2000)

Fiscal Year 2011

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Message From The Chair

November 15, 2011

I am pleased to present the Federal Election Commission's (FEC) *Performance and Accountability Report* (PAR) for Fiscal Year (FY) 2011. The PAR reflects the agency's program performance and financial activities over the past year and demonstrates our continued commitment to administering the *Federal Election Campaign Act of 1971*, as amended (the *Act*).

The Commission received an unqualified opinion from its independent auditors with respect to the agency's FY 2011 annual financial statements. This unqualified opinion reflects the continued commitment by the Commissioners and FEC staff to ensuring that the FEC's financial statements present fairly the agency's fiscal position.

Given the usual increase in campaign activity each cycle and the new types of spending available as a result of court decisions, the Commission expects the 2012 elections to set new records in campaign finance activity, with spending topping $11 billion. Accordingly, in FY 2011, the FEC focused on ensuring that resources are in place to effectively administer and enforce the *Act* during the 2012 federal election cycle.

As detailed in this report, the Commission took a number of steps during FY 2011 to ensure that it will be fully successful in its mission to receive and make public the reports filed in connection with the 2012 elections, and it has augmented its programs to help make data from these reports, and other campaign finance information, available to the public in new and more accessible formats. In order to meet the public's growing demand for campaign finance information, the Commission has invested significant resources in its website and the capacities of its electronic filing servers. For example, the FEC has improved navigation of its website to provide summary presentations of information for PACs and party committees and has enhanced the Campaign Finance Maps on its home page to provide immediate access to information regarding candidates in the 2012 Presidential and Congressional elections. The agency is also building a data warehouse framework to allow FEC staff and the public to easily retrieve information stored across a range of systems and this year moved to implement its Enterprise Content Management system agency-wide.

The Commission also devotes considerable resources to providing those who file with the Commission assistance in complying with the law. The Commission has augmented its educational outreach programs in the past year to provide more cost-effective access to information on reporting obligations. In recent years, the agency launched a YouTube channel and an E-Learning page to allow the public the convenience of participating in training without the costs of travel. This year the agency took this program a step further and initiated a program to provide live, interactive webinars to offer additional distance learning opportunities to the public. As with its other efforts to leverage technology, the Commission believes that these cost-saving steps will allow the agency to reach more people more effectively as it carries out the agency's mission.

In addition to ensuring disclosure, the Commission has the responsibility to administer, interpret and enforce the *Act*. Public confidence in our elections depends not only on transparency, but on the assurance that those who participate in federal elections do so within the laws established by Congress. A significant portion of Commission staff is dedicated to reviewing all filed reports for accuracy, completeness and compliance with the laws. In FY 2011, the Reports Analysis Division reviewed over 72,000 documents. The Commission also has made significant progress in processing enforcement cases more timely and efficiently. For FY 2011, the Commission closed 145 enforcement cases in an average of 10.1 months, which included $527,125 in negotiated civil penalties.

The Commission also considered 28 advisory opinion requests during FY 2011 to address questions regarding many areas of the law. It issued two interpretive rules of existing Commission regulations: one on electronic contribution re-designations and the other on reporting independent expenditures. The Commission issued an Advance Notice of Proposed Rulemaking regarding disclaimers appearing on Internet ads and recently completed final rules on standards of conduct of FEC Commissioners and employees. The Commission has continued to work on a number of significant rulemaking projects during the year to address court decisions such as *Citizens United* and *SpeechNow*. In that regard, it published and received comments on two Notices of Availability for rulemaking petitions submitted separately by Representative Chris Van Hollen and the James Madison Center for Freedom of Speech.

The performance data described in the FEC's FY 2011 PAR were compiled and evaluated using the agency's existing methods for the complete and accurate collection, recording and processing of data, and I have no reason to doubt the completeness or reliability of our performance data. During FY 2012 the Commission intends to consider and implement the most cost-effective techniques for achieving the desired level of credibility for the verification and validation of performance data relative to its intended use, as instructed by the October 27, 2011, revisions to the Office of Management and Budget's Circular A-136 and as required by the *Government Performance and Results Act Modernization Act of 2010*.

All of the efforts described in this report are the result of hard work by the agency's talented and dedicated staff. The Commission looks forward to building on FY 2011 achievements in order to fulfill the mission of the agency in the most efficient manner possible.

On behalf of the Commission,

Cynthia L. Bauerly

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, 2010, through September 30, 2011.

The FEC places a high importance on keeping the public informed of its activities. To learn more about the FEC and what the agency does to serve the American public, visit the FEC's website at http:www.fec.gov. To access this report, click on "About the FEC" and then "Budget."

The *FY 2011 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 and the FEC's reponse.

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 federal campaign finance process under the *Federal Election Campaign Act of 1971*, as amended ("FECA" or "the Act"). The Commission is also responsible for administering the public funding program for Presidential campaigns and nominating conventions under the *Presidential Election Campaign Fund Act* and the *Presidential Primary Matching Payment Account Act*.

The *Act* reflects Congress's efforts to ensure that voters are fully informed about the sources of candidates' financial support. Public confidence in the political process depends not only on laws and regulations to ensure transparency of campaign finance, but also on the knowledge that noncompliance may lead to enforcement proceedings.

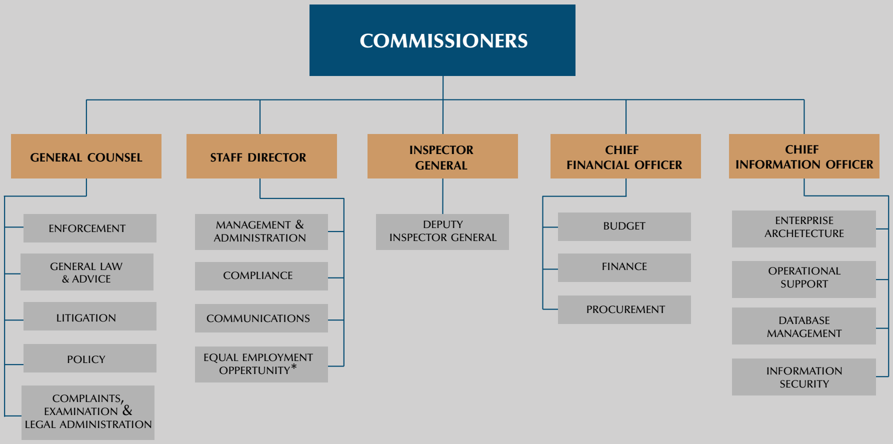
The primary objectives of the FEC are 1) to facilitate transparency through public disclosure of campaign finance activity; 2) to encourage voluntary compliance with the *Act* by providing information and policy guidance to the public, media, political committees and election officials on the FECA and Commission regulations and to enforce the statute through audits, investigations and civil litigation; and 3) to 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*.

How the FEC is Organized

Organization

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 Chair 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 at least four votes for the Commission to adopt any official action or policy, thus requiring bipartisan decision-making. The

FIGURE 1– FEC Organization 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.

FEC has its headquarters in Washington, D.C., and does not have any regional offices.

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/about/offices/offices.shtml.

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. The public campaign finance reports are accessible through the FEC's website at http://www.fec.gov/disclosure.shtml. By making disclosure reports available online immediately after they are filed, the FEC provides the public with up-to-date information about the financing of federal elections and political committees' compliance with 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 who have reporting questions or compliance problems.

If RAD identifies an error, omission, need for additional clarification or possible prohibited activity, a request for additional information (RFAI) 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 further Commission action. Should the committee not address the FEC's concerns sufficiently, the FEC may initiate an audit, begin an enforcement action or utilize alternative dispute resolution to remedy 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.

The Commission's website is its most important source of instantly accessible information about the *Act*, Commission regulations and Commission proceedings. Members of the regulated community and the general public can use the website to track Commission rulemakings; search advisory opinions, completed audits and closed enforcement matters; view campaign finance data and find reporting dates. During FY 2011, the FEC made a number of significant enhancements to the website's search capabilities. For example, it launched a Searchable Electronic Rulemaking System that allows users to search public documents developed in the course of the Commission's rulemaking process, introduced a new feature that allows real-time, comprehensive, searchable disclosure of independent expenditure activity and completed work on its Audit Report Search System, which provides a searchable database of audit reports issued by the Commission since 1976. In addition to these new search tools, the FEC made available updated Campaign Finance Maps that allow visitors to the FEC homepage immediate access to information regarding candidates in the 2012 Presidential and House and Senate elections.

As it prepares for the 2012 elections, the FEC continues to provide comprehensive educational materials on the website to help the public better understand new regulations and requirements under the campaign finance law. For example, the Commission now provides one-stop shopping for information about changes in the law on a "Recent Developments" web page that is accessible directly from the home page. The FEC also continues to provide enhanced and expanded instructional videos available through the site's E-Learning center, and a "Compliance Map" that provides easy access to state-by-state information detailing filing deadlines and the timeframes for certain pre-election obligations under the *Act.*

The Commission also encourages voluntary compliance through outreach programs. The FEC hosts instructional conferences and seminars in Washington, D.C., and in other cities across the country, where Commissioners and staff explain the *Act's* requirements to candidates and political committees. These conferences specifically address recent changes in the campaign finance laws and focus on fundraising and reporting regulations. Additionally, Commission staff meet with political committees upon request and respond to telephone inquiries and written requests from those seeking information about the law and assistance in filing disclosure reports. This year the Commission made a number of changes to its outreach program to make the program more cost effective for the agency and more affordable for candidates and committees who attend conferences and seminars.

The Commission has also taken steps in the past year to augment its educational outreach programs to provide more cost-effective access to information. For example, the Commission has launched a YouTube channel and E-Learning page to allow the public and the regulated community the convenience of participating in trainings without the costs of travel. The agency has also initiated a program to provide live, interactive webinars to offer additional distance learning opportunities to the public.

Enforcing the FECA

The Commission's statutory obligation is to administer, interpret and enforce the *Federal Election Campaign Act*, which serves the compelling governmental interest in deterring corruption and the appearance of corruption in financing elections. In doing so, the Commission must remain mindful of the First Amendment's guarantees of freedom of speech and association, and the practical implication of its actions on the political process.

The FEC has exclusive jurisdiction over civil enforcement of federal campaign finance laws and consults with the U.S. Department of Justice, as appropriate, on matters involving both civil and criminal enforcement of the *Act*. Commission enforcement actions, which are handled primarily by the Office of General Counsel (OGC), originate from a number of sources, including external complaints, referrals from other government agencies and internal referrals from the Audit or Reports Analysis divisions.

To augment OGC's traditional enforcement role, the Office of Compliance manages several programs that seek to remedy alleged violations of the *Act* and encourage voluntary compliance. These programs include: 1) the Alternative Dispute Resolution Program, 2) the Administrative Fine Program and 3) the Audit Division. The Commission's Alternative Dispute Resolution Program is designed to resolve matters more swiftly by encouraging the settlement of less-complex enforcement matters via a streamlined process that focuses on remedial measures for candidates and political committees, such as training, internal audits and hiring compliance staff. Violations involving the late submission of, or failure to file, disclosure reports are subject to the Administrative Fine Program. This Program is administered by the Office of Administrative Review (OAR) and RAD, which assess monetary penalties and handle challenges to the penalty assessments. Finally, the Audit Division conducts mandatory audits under the public funding statutes and performs "for cause" audits under the FECA in those cases where political committees have failed to meet the threshold requirements for demonstrating substantial compliance with the *Act.*

If the Commission cannot settle or conciliate a matter involving an alleged violation of the *Act,* the Commission may initiate civil litigation, and will file and prosecute a civil action in federal district court to address the alleged violation. Depending on the size and complexity of the lawsuit, such cases may be resolved quickly or may require significant resources for several years.

Interpreting and Developing the Law

The Commission responds to questions from the regulated community about how the *Act* applies to specific situations by issuing advisory opinions (AOs). In addition, 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

The Commission's responsibilities also include administering the public funding of Presidential elections, as provided in the *Presidential Primary Matching Account Act* and the *Presidential Election Campaign Fund 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 their 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.

Sources of Funds

The FEC receives a single, annual appropriation for Salaries and Expenses. In FY 2011, the FEC's authorized funding level included an appropriation of $66.4 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 2011 were $86,350.

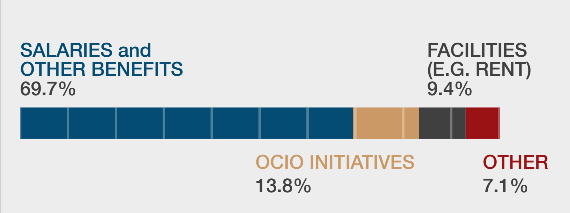
Figure 2 shows the agency's appropriations and obligations from FY 2006 to 2011.

FIGURE 2 – SUMMARY OF FUNDING (millions of dollars)

Personnel vs. Non-Personnel Costs

Figure 3 represents the Commission's FY 2011 obligations by personnel and non-personnel costs. Personnel costs comprised 70 percent of the FEC's costs; the remaining 30 percent was spent primarily on infrastructure and support, including software and hardware, office rent, building security and other related costs.

FIGURE 3 – FISCAL YEAR 2011 BY MAJOR CATEGORY



Section 1.B: FEC Performance Goals, Objectives And Results

Summary of Significant Performance Results

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 2011 represented the FEC's fourth 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, it established the following three objectives:

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 the Commission's support functions, which underpin its ability to pursue its mission. These functions strive to ensure the agency's strategic goal and objectives are met in the most efficient and effective manner.

The following table provides a summary of the Commission's actual FY 2008, FY 2009, FY 2010 and FY 2011 results of its performance measures, along with the targets set by the strategic plan.

	PERFORMANCE MEASURE	TARGET	FY 2008 ACTUAL	FY 2009 ACTUAL	FY 2010 ACTUAL	FY 2011 ACTUAL
	STRATEGIC OBJECTIVE A: TRANSPARENCY					
1.	Process reports within 30 days of receipt as measured quarterly	95%	91%	78%	91%	71%
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%	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%	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%	98%	100%
5.	Issue press releases containing summaries of campaign finance data quarterly	100%	100%	75%	75%	75%
6.	Process enforcement cases within an average of 15 months of receipt	100%	66%	76%	75%	89%
7.	Process cases assigned to Alternative Dispute Resolution within 155 days of a case being assigned	75%	64%	26%	64%	84%
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%	100%	100%
9.	Process the challenges in the Administrative Fine Program within 60 days of a challenge being filed	75%	14%	60%	100%	100%
10.	*Conclude non-Presidential audits with findings in an average of ten months, excluding time delays beyond the Commission's control, such as subpoenas and extension requests	100%	95%	12%	60%	26%
11.	Conclude non-Presidential audits with no findings in an average of 90 days from beginning of fieldwork	100%	100%	0%	100%	67%
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 exension requests	100%	N/A	100%	100%	0%
	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%	83%	50%	N/A
14.	Issue all advisory opinions within 60-day and 20-day statutory deadlines	100%	97%	100%	100%	100%

	PERFORMANCE MEASURE	TARGET	FY 2008 ACTUAL	FY 2009 ACTUAL	FY 2010 ACTUAL	FY 2011 ACTUAL
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%	N/A	100%
16.	Ensure that court filings meet all deadlines and rules imposed by the Courts	100%	100%	100%	100%	98%
17.	Process public funding payments in the correct amounts and within established time frames	100%	100%	100%	N/A	100%

* Note that in FY 2009 and 2010 the Commission adopted procedures that provide additional opportunities for audited committees to respond to potential findings, as well as more opportunities for the Commission to review audit reports prior to approval. In FY 2011, the Commission approved 22 audit reports of non-Presidential committees. Five of the audits with findings were completed within an average of ten months. The average processing time of the 22 audits with findings was approximately 25 months. Two audits with no findings were completed within an average of 90 days. The average processing time for the three audits with no findings was 143 days. Of the 14 Presidential audits related to the 2008 election cycle, 11 were completed by the end of FY 2011. The performance measures related to audits will be reconsidered when the agency revises its strategic plan.

** During FY 2011, the Commission did not issue any final regulations. There were no internally or externally established rulemaking deadlines for FY 2011.

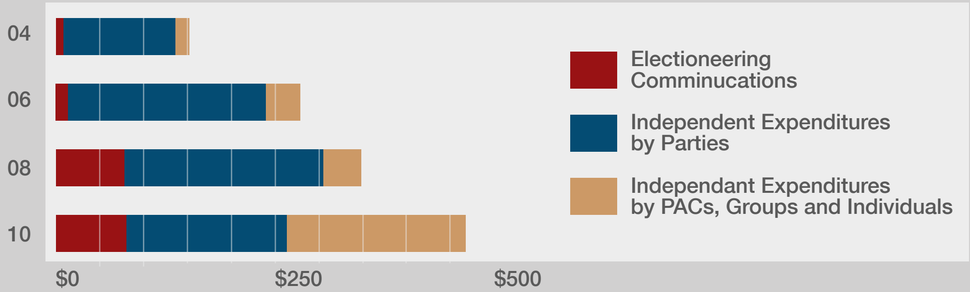
Section II of this report presents the FEC's Performance Report, which provides the annual program performance information submitted in accordance with the *Government Performance Results Act* in greater detail.

Highlights of Performance Measures

In FY 2011, the Commission focused significant attention on ensuring that it provides the public with the most up-to-date and accessible campaign finance information, that Commission procedures are fair, efficient and transparent and that it provides comprehensive educational outreach to the public and the regulated community.

While campaign finance activity reported to the FEC has risen steadily over the past several cycles, major court decisions after the 2008 election cycle have changed the regulatory environment by removing certain restrictions on the use of financial resources. Notably, in January 2010 the Supreme Court issued its decision in *Citizens United v. FEC*, which held that corporations and unions may use their general treasury funds to pay for electioneering communications and independent expenditures. Subsequently, following a decision by the U.S. Court of Appeals for the D.C. Circuit in *SpeechNow.org v. FEC* and a consent judgment in *Carey v. FEC*, certain political committees may accept funds in unlimited amounts for independent political activity. These committees have come to be known as Independent Expenditure Only Political Committees (IEOPCs), "Super PACs" or "Hybrid PACs." Previously, the statute subjected all political action committees (PACs) to a $5,000 limit on contributions received. An increase in "outside spending" (that is, spending by individuals and groups other than candidates and parties) in connection with Congressional races was already apparent in the 2010 cycle. As detailed in Figure 4 (left), independent expenditures made by traditional PACs, Super PACs and "others" (i.e., individuals and other groups that are not political committees) showed a more than four-fold increase between the 2008 and 2010 elections. Typically, election-related spending is lower in non-Presidential election cycles.

Figure 4 – Outside Spending In Congressional Races (in millions of dollars)



The Commission took a number of steps during FY 2011 to ensure that it will be fully successful in its mission to receive reports filed in connection with the 2012 elections and make these reports and other campaign finance information available to the public expeditiously. First, the FEC continues to make information about independent expenditures and electioneering communications available in nearly real time as the information is received. Second, the FEC has initiated a project to provide a portal for summary presentations of information for PACs and party committees. These new presentations will offer improved navigation and display data through charts, graphs and other visualizations that help provide context for the information so that users will be able to design their own data queries. Third, the Commission expanded the federal campaign finance disclosure platform, which includes both the data catalog (an easy-to-use tool for accessing various categories of disclosure data, such as Leadership PACs and their sponsors, independent expenditures and committee summaries) and the federal campaign finance maps, by adding information covering multiple election cycles. These enhancements make it easier for public visitors to www.fec.gov to view, research and understand the complex and growing universe of campaign finance information disclosed to the Commission.

Beyond the overall increase in disclosure activity, the FEC's website and electronic filing systems are also subject to spikes of increased use. For example, in a single week--between October 1 and October 8, 2010—individuals reported $3.8 million and PACs reported $15.5 million in independent expenditures. Similarly, while the FEC's website averaged 45,000 hits per day in FY 2011, on the July 15 reporting deadline the site received 108,981 hits in one day. The Commission has taken steps to ensure that it can accept both very large and a very large number of electronically filed reports, while accommodating spikes in web traffic without creating delays in disclosure. This year the FEC initiated a project to improve the website's performance. The Commission has also upgraded its electronic filing systems with more powerful servers to handle heavier loads and made changes to the way it allocates its processing resources to separate the receipt of reports from the initial processing of those filings. This change allows more filings to pass through the process at any one time and speeds overall processing by reducing competition for computer resources.

In addition to making campaign finance data readily available to the public, the FEC reviews reports, amendments and statements for accuracy, completeness and compliance with the law. The Commission received 77,588 documents during FY 2011, including new and amended reports for the current and past election cycles. As part of an ongoing effort to assist the filing community with compliance, the Commission is developing a Reports Analysis Division (RAD) web page which will contain a list of frequently asked questions regarding filing and disclosure requirements, as well as access to the various resources available to assist filers with compliance. Further, RAD continues to offer extended phone coverage on filing due dates and has initiated a program to send RFAIs via email, to provide faster and more convenient notification to committees.

As with the improvements made to the disclosure program, many improvements made to the review and compliance programs center on increasing the transparency and accessibility of the process. For example, during FY 2011 the Commission made permanent a program that allows committees to have legal questions considered by the Commission earlier in the review and audit processes and launched a searchable audit database to allow users to search audit reports in the same way that they can search for advisory opinions on the Commission's website, http://www.fec.gov/audits/audit_reports.shtml. In addition, the Commission has established an agency procedure to formally define the scope of documents that will be provided to respondents at certain stages in enforcement proceedings in order to ensure that respondents are given relevant information ascertained by the Commission during an investigation.

The Commission has also taken steps in the past year to augment its educational outreach programs to provide more cost-effective training to the regulated community. For example, the Commission has launched a YouTube channel and E-Learning page to allow the public and the regulated community the convenience of participating in trainings without the costs of travel. The agency has also initiated a program to offer live, interactive webinars to provide additional distance learning to the public.

In FY 2011 the FEC held a regional conference in Minneapolis, Minnesota. In addition, the agency replaced its annual series of Washington, D.C., conferences with six lower-cost, one-day seminars and several topic-based workshops held at FEC headquarters. Each full-day seminar or half-day roundtable focused on a specific group or legal issue, allowing participants to choose only the programs most relevant to them at a fraction of the cost of a full conference. The new program also allowed the Commission to be more responsive to the demand for outreach and provide new trainings. 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.

Section 1.C: Analysis Of FEC Financial Statements And Stewardship Information

The FEC's FY 2011 financial statements and notes are presented in the required format 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 2011:

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 $1.7 million or 13 percent from the prior year.

NET FINANCIAL CONDITION	FY 2011	FY 2010	INCREASE/ (DECREASE)	% CHANGE
Assets	$19,322,268	$17,559,053	$1,763,215	10.0%
Liabilities	$8,768,399	$7,723,040	$1,045,359	13.5%
Net Position	$10,553,869	$9,836,013	$717,856	7.3%
Net Cost	$68,145,263	$69,768,762	($1,623,499)	-2.3%
Budgetary Resources	$68,464,522	$68,690,110	($225,588)	-0.3%
Custodial Revenue	$1,157,318	$1,023,494	$133,824	13.1%

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 *Debt Collection Improvement Act of 1996* (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. Accounts receivable increased by approximately $196 thousand to $211 thousand from FY 2010.

In 2010, the FEC issued Final Rules to implement the DCIA. The FEC entered into a Letter of Agreement, which included the agency profiles, with the Department of Treasury effective September 29, 2011, in accordance with the DCIA.

Statement of Net Cost

The Statement of Net Cost presents the annual cost of operating the FEC program. Gross costs are used to arrive at the total net cost of operations. The FEC's total appropriation in FY 2011 was $66.4 million, approximately the same as FY 2010's. Roughly $45 million, or 70 percent, of obligations were dedicated to personnel costs. Overall, net costs decreased by approximately $1.6 million or 2.3 percent from FY 2010. The decrease of approximately $1.6 million is primarily attributable to other costs of operations, including decreases in Office of Chief Information Officer (OCIO) contracts and other contracts, as well as a decrease of $217 thousand in imputed costs.

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 increased by approximately $718 thousand or 7 percent, which is primarily the result of depreciation, amortization, and impairment expenses that are offset by acquisition of assets and the change in unexpended appropriations.

Statement of Budgetary Resources

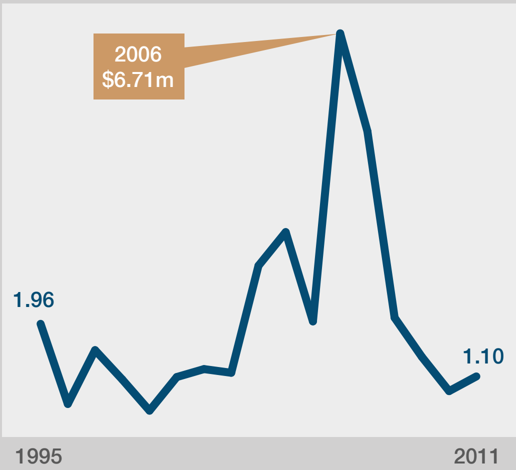
The Statement of Budgetary Resources provides information on the source and status of budgetary resources made available to the FEC during the reporting period. It presents the relationship between budget authority and budget outlays, as well as the reconciliation of obligations to total outlays. Total Budgetary Resources and Status of Budgetary Resources decreased by approximately $226 thousand, or 0.3 percent, from FY 2010. This decrease primarily is derived from a decrease 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 the 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 FY 2011, the total custodial revenue and collections increased by approximately $134 thousand or 13 percent from FY 2010.

The chart below displays the assessment history for the past 16 years.

FIGURE 5 – FINES ASSESSED, BY FISCAL YEAR
(in millions of dollars)



Section 1.D: Analysis Of FEC's Systems, Controls And Legal Compliance

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

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

- Annual Appropriation Law – establishes the FEC's budget authority;
- *Inspector General Act of 1978*, as amended;
- *Government Performance and Results Act of 1993*, as amended;
- *Federal Financial Management Improvement Act of 1996*;
- *Clinger-Cohen Act of 1996*;
- *Debt Collection Improvement Act of 1996*, as amended; and
- *Chief Financial Officers 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.

1.D.ii – 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 their internal and administrative controls. The reviews that took place during FY 2011 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.

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 2011 was nearly 100 percent, with less than 0.01 percent of all invoices paid after the date required by the PPA.

Improper Payments

The *Improper Payments Information Act of 2002* (IPIA), the *Improper Payments Elimination and Recovery Act of 2010* (IPERA) and OMB guidance require agencies to identify those programs that are susceptible to significant erroneous payments, and determine an annual estimated amount of erroneous payments made in their operations. The FEC reviewed all of its programs and activities to identify those susceptible to significant erroneous payments. Approximately 70 percent of the FEC's obligations 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 2011 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.

THE FEDERAL ELECTION COMMISSION
Washington, DC 20463

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 by OMB Circular A-123, revised, *Management's Responsibility for Internal Control*. Internal control is an integral component of 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 with applicable laws and regulations in accordance with OMB Circular A-123. Based on the results of the Fiscal Year 2011 internal control review, the FEC reports no material weakness under the FMFIA and is able to provide an unqualified statement of assurance that the internal controls and financial management systems meet the objectives of FMFIA.

Cynthia L. Bauerly
Chair
October 18, 2011

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

The Inspector General's report in Section IV identifies three areas specific to management and performance challenges, which were also identified last year: 1) Governance, 2) Human Capital Management and 3) Information Technology Security. As the Inspector General notes, over the past three years the FEC has been challenged by a high number of vacancies in key leadership positions, including the Staff Director, General Counsel and Deputy Staff Director for Management and Administration. However, in FY 2011 the Commission successfully filled each of these positions and, with new leadership in place, has taken steps to enhance its governance framework and address its human capital challenges. For example, in FY 2011 the FEC made significant progress in responding to the recommendations stemming from OPM's audit of its human capital practices, including drafting a Strategic Human Capital Management Plan and undertaking an analysis of the FEC's Office of Human Resources to identify and mitigate competency gaps. The FEC has also made significant progress toward implementing its Continuity of Operations Plan (COOP) and continues to look for additional ways to improve and refine its IT security program. The FEC's full response to the Inspector General's assessment of its performance in these areas appears in Section IV.

Section 1.E: Possible Future Effects Of Existing Events And Conditions

Several existing events and conditions may affect the FEC in the future. Total disbursements for the 2010 federal elections exceeded $5 billion, a 24% increase over 2006, the last midterm cycle. The FEC projects that the total amount disbursed for the 2012 election cycle could top $11 billion. As the agency completes its review, audit and enforcement duties with regard to the 2010 elections and begins reviewing reports filed in connection with the 2012 elections, the Commission expects that the level of activity reported to the FEC may necessitate a greater commitment of staff time and resources than what was needed for past election cycles.

Some of the increased levels of campaign finance activity may be due to recent court decisions, which could also significantly impact the FEC in the coming year. As detailed in Section 2.C., the decisions affect core aspects of the campaign finance law and could increase the scope and volume of campaign finance disclosure. The complete effects of the decisions may not be apparent for some time.

Section 1.F: Other Management Information, Initiatives And Issues

Website Improvement

The Commission places a high priority on ensuring the effective use of technology and internal procedures to optimize its communication with the public. During FY 2011, the Commission continued to take advantage of the data catalog platform implemented during the previous year to expand the range of federal campaign finance information provided to the public through searchable, sortable and downloadable data technologies. The FEC also enhanced its data catalog and the federal campaign finance maps available on its homepage to provide data across multiple election cycles. As part of this commitment to making campaign finance information easier to access and more complete, the Commission began a project to provide a portal on the FEC website for summary presentation of PAC and party activity. The portal will offer better navigation and enhanced visual presentations of the data to help put the information into a larger context and allow users to better understand campaign finance trends. The Commission is equally committed to responding to trends in how users access information on www.fec.gov. In order to serve the increasing number of people accessing the FEC website via mobile devices, the Commission has begun work to ensure that, based on usage, selected web content is formatted for mobile device users.

Enterprise Content Management System

Following a study in FY 2009, the FEC launched an agency-wide Enterprise Content Management (ECM) system for sharing and storing documents in a way that fosters collaboration between FEC offices, maximizes efficiency and supports compliance with agency document policies and records management. The ECM system was initially deployed with a small user group. In FY 2010, the FEC began transitioning additional staff to its ECM system. Although the system has only been live for FEC staff for a short time, the agency has already begun to realize efficiencies in automating workflow processes through ECM. All of the agency's staff will use the ECM system by FY 2014, and the ECM system will also form the base for the initiation of Enterprise Search Capability.

Data Warehouse

The FEC's data warehouse framework allows FEC staff and the public to retrieve information stored across a range of systems by providing a single source of reliable, time-oriented and subject-oriented data in an easy-to-access, flexible form. In FY 2011, the FEC team, including a technical team and subject matter experts, worked closely with a data warehouse contractor to successfully implement the data warehouse prototype. In FY 2012, the agency intends to begin taking advantage of the data warehouse infrastructure currently being implemented in the data warehouse prototype. For example, the FEC intends to replace the existing campaign finance search processes currently available at fec.gov. The current processes are limited by the amount of data available for searches (*e.g.*, only including contributions from individuals where the specific amount is at least $200, and with no ability to search committee operating expenditures) and also by narrow search criteria and an antiquated format for displaying results. These processes remained unchanged for more than a decade and thus required investments in staff time and resources for improvement.

The FEC began its data warehousing project in FY 2009. The prototype was completed in FY 2011 and implementation of the FEC data warehouse is expected to span FY 2012 to FY 2014.

Enterprise Search Capability

Agency-wide Enterprise Search Capability will allow FEC staff and the public to search multiple and disparate content sources with one query. With Enterprise Search, a user can perform searches of multiple data sources and receive results that are sorted and arranged into a useful form. In the FEC's context, this capability would permit a website user, for example, to perform a single topic search to find Commission regulations, advisory opinions, audit reports and enforcement documents that address a particular topic, instead of requiring separate searches in each of those databases. This project was begun in FY 2011, and the first phase of implementation will begin in FY 2012. This phase focuses on Enterprise Search tool selection and the enhancement of existing fec.gov website search functionalities. In the future, the agency intends to expand the Enterprise Search infrastructure to search across ECM and FEC e-mail databases. The FEC expects to complete this project by FY 2015.

Human Capital

The FEC made considerable progress in FY 2011 in responding to issues identified in OPM's evaluation of the agency's human capital practices. The Commission filled several leadership positions during the year, including the Staff Director, General Counsel and the Deputy Staff Director for Management and Administration, that are key to the agency's strategic planning efforts. The FEC also drafted a Strategic Human Capital Management Plan to initiate succession planning; ensure the agency acquires, develops and maintains the best talent; improve human resources policies and procedures; and measure individual employee performance effectively. In addition, the FEC chartered a Labor Management Forum under the authority of Executive Order 13522, *Creating Labor-Management Forums to Improve Delivery of Governmental Services*. The Forum is intended to promote improvements in overall FEC efficiency and effectiveness, improve employee satisfaction, assist in the development of cooperative and productive labor-management relations and encourage the involvement of employees in workplace issues through their union representatives. In FY 2011, the Forum identified its members and goals, along with metrics for measuring its success at meeting those goals.

Section 1.G: Limitations Of The Financial Statements

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

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*.

Strategic Goal And Objectives For FY 2011

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

In FY 2008 the Commission reviewed its performance measures and refined them in the agency's five-year Strategic Plan, 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 2008-2013 Strategic Plan.

Results By Objective

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 the sources and amounts of funds used to finance federal elections. The FEC gauges its effectiveness through a series of indicators designed to measure performance in areas that promote confidence in the campaign finance process.

Public Disclosure

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

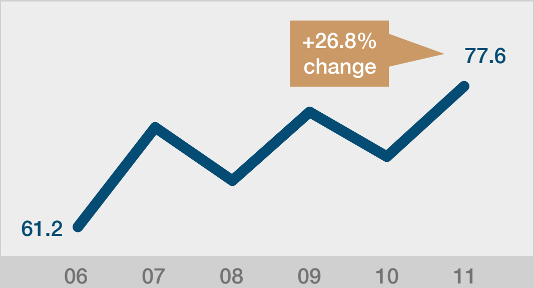
- Process reports within 30 days of receipt as measured quarterly; and
- Meet the statutory requirement to make reports and statements filed on paper with the FEC available to the public within 48 hours of receipt.

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. Under the *Act,* these mandatory e-filing provisions apply to any political committee or other person required to file reports, statements or designations with the FEC, except for Senate candidate committees (and other persons who support Senate candidates only).

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 in Washington, D.C.

Figure 6 shows the total number of campaign finance reports and statements filed with the FEC each fiscal year since 2005. Because elections occur in November, the associated spike in the number of filings received by the FEC is reflected in the odd-numbered fiscal years. The public can access the campaign finance reports and data at http://www.fec.gov/disclosure.shtml.

FIGURE 6 – REPORTS AND STATEMENTS FILED (in thousands)



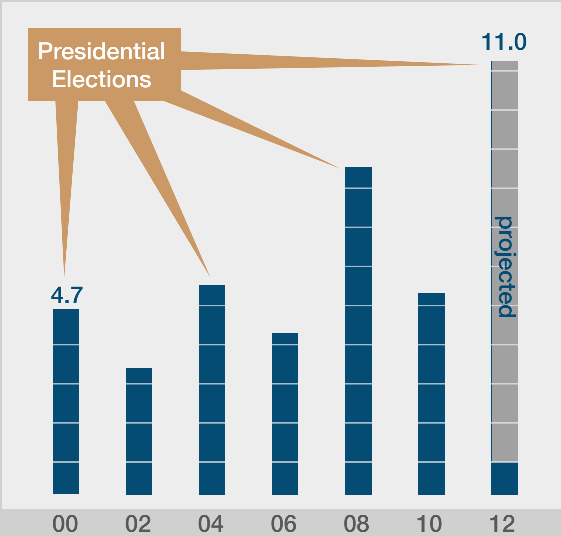
The FEC achieved a 100 percent success rate in making the financial disclosure reports and statements available to the public within 48 hours of receipt by the Commission. This fiscal year has again seen a significant increase over the last mid-term election year in the volume of data associated with filings.

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 ensure 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 2011, the FEC was able to process 71 percent of the reports within 30 days of receipt.

A mid-term election cycle at the federal level includes expenditures related to the election of: 1) all seats in the House of Representatives, 2) one-third of the Senate seats and 3) any special elections required to fill vacant seats. Figure 7 illustrates that expenditures related to federal elections are on the rise, including as they relate to mid-term election years. The data presented in Figure 7 are based on campaign finance reports, which use two calendar years as an election cycle. All other data on the FEC's performance in this report are by fiscal year.

Total receipts collected for the 2010 election cycle reached $4.9 billion, and disbursements were approximately $5.1 billion. The FEC projects that the total reported disbursements for the 2012 Presidential election could reach $11 billion.

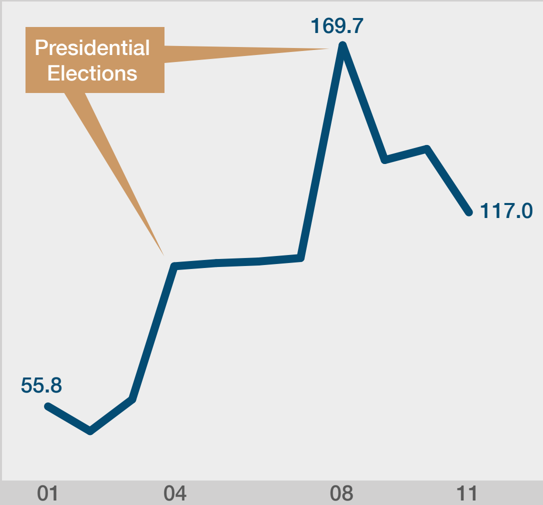
FIGURE 7 – DISBURSEMENTS IN FEDERAL ELECTIONS (in billions of dollars)



The FEC Website

The FEC's website (www.fec.gov) represents the major source of federal campaign finance information. The FEC website provides access to campaign finance data 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 8, which shows a continued high number of hits on the FEC's website by users seeking campaign finance data and other information. During FY 2011, the website received approximately 117.0 million hits.

FIGURE 8 – TOTAL WEBSITE HITS (in millions)



To make campaign finance data more accessible to the public, the FEC provides an interactive map allowing users immediate access to contribution information for the 2012 Presidential election. 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 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 disclosure reports. The agency provides a similar map for House and Senate elections.

The agency also created a Compliance Map to assist members of the regulated community in their efforts to comply with campaign finance law. (http://www.fec.gov/info/ElectionDate). The Compliance Map lists all reporting dates and other significant information tied to each state's election calendar, such as the time periods when special requirements for electioneering communications and federal election activity apply. Like the interactive Disclosure Map of contribution information, the Compliance Map provides quick access to information on a state-by-state basis in an easy-to-use format.

Assuring Accurate and Complete Reports

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 (RAD) 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, RAD sends a request for additional information (RFAI) letter 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, the Alternative Dispute Resolution Program and the traditional enforcement program.

As part of a continued effort to increase the transparency of RAD's processes and to assist the filing community with compliance, the Commission is developing a RAD web page which will contain a list of frequently asked questions regarding filing and disclosure requirements, as well as access to the various resources available to assist filers with compliance. Further, RAD continues to offer extended phone coverage on filing due dates in order to ensure timely disclosure of campaign finance activity and has initiated a program to send RFAIs via email, to ensure timely notification to committees. By emailing RFAIs, RAD eliminates the costs of printing and mailing these notices. The agency estimates that, based on FY 2011 data, printing these notices via email will allow it to save the cost of printing and mailing 10,000 RFAIs.

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, Reports Analysis Division, Press Office and Office of Congressional, Legislative and Intergovernmental Affairs.

The Commission also encourages voluntary compliance through outreach programs. The FEC hosts instructional conferences and seminars in Washington, D.C., and in other cities across the country, where Commissioners and staff explain how to comply with the *Act* 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 less-complex matters more swiftly by encouraging settlement using a streamlined process that focuses on remedial measures for candidates and political committees. 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 percent 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 percent of enforcement cases within an average of 15 months of receipt;
- Process 75 percent of the cases assigned to Alternative Dispute Resolution within 155 days of a case being assigned;
- Process 75 percent 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 percent 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 ten 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; and
- 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 it needs 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 maintains a toll-free line to respond to inquiries regarding campaign finance data. Additionally, Campaign Finance Analysts in the Reports Analysis Division provide assistance with filing disclosure reports. The FEC also operates Press and Congressional Affairs offices.

The Commission's website is one of the most important sources of instantly accessible information about the *Act,* Commission regulations and Commission proceedings. In addition to viewing campaign finance data, anyone with Internet access can use the website to track Commission rulemakings, search advisory opinions, audits and closed enforcement matters, view campaign finance data and find reporting dates. The Commission places a high emphasis on providing educational materials about campaign finance laws and their 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 has 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 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 to comply with the *Act* to candidates, parties and political action committees. In FY 2011 the FEC held a regional conference in Minneapolis, Minnesota. In addition, the agency replaced its annual series of Washington, D.C., conferences with six lower-cost, one-day seminars and several topic-based workshops held at FEC headquarters. Each full-day seminar or half-day roundtable focused on a specific group or legal issue, allowing participants to choose only the programs most relevant to them at a fraction of the cost of a full conference. The new program also allowed the Commission to be more responsive to the demand for outreach and provide new trainings. 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, Audit, Administrative Fine and Alternative Dispute Resolution (ADR) Programs.

Office of General Counsel

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 through a Commission audit;
- 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 that allows the Commission to formally initiate an investigation;
- Investigates potential violations of the FECA by requesting, subpoenaing and reviewing documents and interviewing or deposing witnesses;
- Conducts negotiations on behalf of the Commission to reach conciliation agreements with respondents; and
- Files suit in federal district court if conciliation is unsuccessful.

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

Enforcement matters are handled by OGC pursuant to the procedures set forth in the 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. In FY 2011, the Commission closed 145 enforcement cases in an average of 10.1 months, which included $527,125 in negotiated civil penalties. The Commission closed 129 cases (89%) within 15 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 ADR 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 the ADR Office as to what final action should be taken. During FY 2011, the ADR Office processed 25 cases to closure and assessed $43,950 in civil penalties. The Commission met its 155-day processing benchmark in 84 percent of ADR cases, exceeding the goal of meeting this benchmark in 75 percent of cases.

Administrative Fine Program

In response to a legislative mandate, an Administrative Fine (AF) Program was implemented in July 2000 to address late and non-filing of disclosure reports in a more efficient and effective manner. The AF Program is administered by the Commission's Office of Administrative Review (OAR) and Reports Analysis Division (RAD), which are within the Office of Compliance. Since the AF Program's inception in July 2000 through September 30, 2011, the Commission has closed 2,350 cases and assessed fines of $4.1 million.

An administrative fine case begins when the Commission finds that a committee failed to file a required report or filed a required report late, and makes a reason-to-believe (RTB) finding. For FY 2011, RAD exceeded its performance goal, processing 100 percent of the RTB recommendations within 60 days of the subject report's due date. The average completion time for these recommendations was 53.1 days.

During FY 2011, OAR reviewed 60 challenges submitted by committees in response to a RTB finding and/or civil money penalty. OAR reviewed 100 percent of these challenges within 60 days of receipt. The average completion time for challenges was 52.5 days. Overall, OAR has reviewed 625 challenges submitted from the Program's inception through FY 2011. The Program continues to successfully reduce the number of late and non-filed reports and encourages campaign finance transparency through the timely filing of campaign finance reports.

Conducting Audits

The FEC conducts audits of any committees that, according to internal thresholds, have not substantially complied with the law. As required by the public funding statutes, the FEC also audits all Presidential campaigns and nominating conventions that receive public funds. Audit Reports and related documents are located at http://www.fec.gov/audits/audit_reports.shtml.

Over the past several years, the Commission has adopted procedures that provide additional opportunities for audited committees to respond to potential findings, as well as more opportunities for the Commission to review audit reports prior to approval. In addition, significant changes have been made to the format of the audit reports in an effort to more clearly present the findings of the Audit staff and to distinguish the disposition of the matter by the Commission. In order to maintain alignment with the agency's Strategic Plan for FY 2008 to 2013, the performance measures related to audits have not been revised to reflect the significant changes made to the audit report processing system. The Audit Division has initiated several new time management procedures in response to the changes noted above. These policy initiatives should facilitate the efficiency of the audit process.

In FY 2011, the Commission approved twenty-two audit reports of non-Presidential committees. Twenty-six percent of the audits with findings were completed within an average of ten months. The average processing time of audits with findings was approximately 25 months. Two audits with no findings were completed within an average of 90 days. The average processing time for audits with no findings was 143 days.

Of 14 Presidential audits related to the 2008 election cycle, 11 were completed by the end of FY 2011. The policy initiatives noted above will also be applied to audits of any publicly funded committees in the future.

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 percent of the time;
- Issue all advisory opinions within 60-day and 20-day statutory deadlines 100 percent 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 percent of the time;

- Ensure that court filings meet all deadlines and rules imposed by the Courts 100 percent of the time; and
- Process public funding payments in the correct amounts and within established time frames 100 percent 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's strategic plan contemplates the completion of rulemakings within time frames that take into account the importance of the topics addressed, proximity to upcoming elections and externally established deadlines. There were no externally imposed or internally established deadlines for any of the rulemaking projects the Commission worked on during FY2011. The rulemakings in process are:

- *Citizens United*
- *SpeechNow/EMILY's List/Carey* cases
- *James Madison Center Petition for Rulemaking*
- *Representative Chris Van Hollen Petition for Rulemaking*
- Standards of Conduct
- Disclaimers for Internet Advertisements

The Commission has continued to work on a number of significant rulemaking projects during FY 2011, including rulemakings to comply with the court decisions in *Citizens United*, *Speech Now*, *EMILY's List* and *Carey*. In this regard, the Commission published two Notices of Availability of petitions for rulemaking submitted separately by Representative Chris Van Hollen and the James Madison Center for Freedom of Speech. Comments have been received on both notices. In addition, the Commission recently issued an Advance Notice of Proposed Rulemaking regarding disclaimers appearing on Internet ads. The Commission also issued two interpretive rules of existing Commission regulations: one on electronic contribution redesignations and the other on reporting independent expenditures. Lastly, in consultation with the Office of Government Ethics, the Commission worked to complete final rules on standards of conduct for FEC Commissioners and employees, which were approved in October 2011.

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. The Commission continued to issue AOs during FY 2011 addressing the implications of the *Citizens United*, *SpeechNow.org* and *EMILY's List* decisions, and anticipates it may receive additional requests. During FY 2011, the Commission completed within the deadlines 100% of the 28 AOs considered.[1] The Commission completed work on two 20-day requests and three expedited requests during FY 2011. The average number of days from receipt of a complete AO request to Commission action on it was 47

1 Four 60-day advisory opinions and one 20-day advisory opinion had extended deadlines, and the remainder were completed within the statutory deadlines

days for 60-day requests that did not have extended deadlines, 19 days for the 20-day AO request that did not have an extended deadline and 18 days for the other expedited AOs.

Defending Challenges to the Act

The Commission represents itself in litigation 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 addition, the FECA authorizes the Commission to institute a civil action in enforcement matters that cannot be resolved through voluntary conciliation. The Commission's litigation docket currently includes 16 cases in six district courts, two appellate courts and the Supreme Court. The Commission's court filings in FY 2011 met deadlines and rules imposed by the courts 98% of the time.

The Commission's litigation docket is influenced by major cases that were concluded in FY 2010, such as the Supreme Court's decision in *Citizens United v. FEC*, which held that the *Act's* prohibitions on financing independent expenditures or electioneering communications with corporate general treasury funds were unconstitutional. The court upheld the disclosure requirements for these disbursements. In addition, two decisions of the U.S. Court of Appeals for the D.C. Circuit have further altered the state of the law: *SpeechNow.org v. FEC*, which concerned whether certain FECA provisions were constitutional as applied to a group that is devoted to running independent advertisements for and against candidates and makes no direct contributions to candidates; and *EMILY's List v. FEC*, which concerned sources of funding for various types of activities and public communications by non-connected committees, and the treatment of funds received in response to solicitations as contributions.

For instance, on August 19, 2011, the Commission entered into a stipulated order and consent judgment in *Carey v. FEC*, agreeing that it would not enforce against the National Defense PAC (NDPAC) the *Act's* amount limitations with regard to contributions received for independent expenditures as long as NDPAC maintains a separate bank account for these unlimited funds and allocates its administrative expenses between its accounts in a manner that closely corresponds to the percentage of activity for each account. In addition, the Commission's current litigation docket includes challenges to its regulation defining "express advocacy" and its approach to determining whether an organization is a political committee (*Real Truth Obama, Inc. v. FEC*), the ban on contributions and expenditures made by foreign nationals (*Bluman v. FEC*) and the Commission's regulation governing disclosure by persons who make electioneering communications (*Van Hollen v. FEC*).

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. 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 and convention committee that receives payments under the program.

Section III
Auditor's Report And Financial Statements

Message from the Chief Financial Officer

November 15, 2011

I am pleased to present the Commission's financial statements for Fiscal Year (FY) 2011. The financial statements are an integral part of the *Performance and Accountability Report*. The Commission received an unqualified (clean) opinion on the Agency's financial statements from the independent auditors. This marks the third consecutive year with no material weaknesses identified. The Commission continues to improve its overall financial management by taking advantage of opportunities to modernize and upgrade business systems, facilitating training initiatives and updating directives and policies to build toward more effective and efficient management of its resources. The continued efforts of the FEC employees can be seen in the progress of the results of the financial statement audit.

In FY 2010, financial statement auditors found that there were errors in the agency's accounts payable accrual. During FY 2011, the Office of the Chief Financial Officer (OCFO) implemented more internal controls over this process and this finding was closed.

The agency is still coordinating with the U.S. Department of Agriculture, National Finance Center and the General Services Administration (GSA) to establish an interface between the payroll and accounting systems. Based on the current schedule, the interface is expected to be operational by the 2nd quarter of FY 2012.

The agency continues to improve its information technology (IT) security controls. As technology becomes more and more sophisticated, the need for robust cyber security becomes more and more important. While the auditors still identified IT security controls as a significant deficiency for FY 2012, the agency is making significant progress on this issue.

In addition, the FEC:

- Provided agency-wide training on contracting officer technical representative responsibilities and Appropriations Law;
- Completed all phases and established the agreement with the U.S. Department of Treasury to refer debt as required by the *Debt Collection Improvement Act of 1996*;
- Revised the internal financial reports and completed the budget and accounting code changes necessary to support the Common Government-wide Accounting Classification with the GSA;
- Initiated the FEC Bridge system to replace a legacy system that provides payroll reports. This initiative was started in order to upgrade to a more current software system and automate as many manual steps as possible;

- Continued to implement electronic processing of documents to reduce the use of resources as well as support the agency's telework program and the continuity of operations plan; and
- Implemented the requirements of the *Improper Payments Elimination and Recovery Act*. The agency is currently in compliance with this act.

The Commission and the FEC staff remain committed to the agency's mission and are proud of the work we were able to accomplish in FY 2011. For FY 2012, the FEC will continue to seek opportunities to modernize and upgrade its business systems and processes to achieve even greater levels of operational efficiency. The OCFO looks forward to another successful year.

Sincerely,

Mary G. Sprague

Mary G. Sprague
Chief Financial Officer

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 2011 Financial Statements

DATE: November 14, 2011

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, 2011. 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, 2011, 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, 2010, were also audited by LSC whose report dated November 12, 2010, 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, 2011, 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.

The results of LSC's tests of compliance with laws and regulations described in the audit report disclosed no instance of noncompliance with laws and regulations that are required to be reported under U.S. generally accepted government auditing standards or OMB guidance.

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

Lynne A. McFarland
Inspector General

Attachment

Cc: Alec Palmer, Staff Director/Chief Information Officer
Mary G. Sprague, Chief Financial Officer
Anthony Herman, General Counsel

FEDERAL ELECTION COMMISSION

Audit of Financial Statements

As of and for the Years Ended

September 30, 2011 and 2010

Submitted By

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

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Inspector General
The Federal Election Commission

Independent Auditor's Report

We have audited the balance sheets of the Federal Election Commission (FEC) as of September 30, 2011 and 2010, and the related statements of net cost, changes in net position, budgetary resources, and custodial activity (the financial statements) for the years 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.

SUMMARY

As stated in our opinion on the financial statements, we found that the FEC's financial statements as of and for the years ended September 30, 2011 and 2010, 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. However, our testing of internal control identified no material weaknesses in financial reporting. We did note one significant deficiency in internal controls over financial reporting, and one significant deficiency related to internal controls for the FEC's agency-wide Information Technology (IT) security program that are discussed later in our report.

The results of our tests of compliance with certain provisions of laws and regulations disclosed no instance of noncompliance 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 sheets of the FEC as of September 30, 2011 and 2010, and the related statements of net cost, changes in net position, budgetary resources, and custodial activity for the years then ended.

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 years ended September 30, 2011 and 2010, in conformity with accounting principles generally accepted in the United States of America.

The information in the Management's Discussion and Analysis section is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America or OMB Circular A-136, *Financial Reporting Requirements, revised*. 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. The Performance and Accountability Report, except for Management's Discussion and Analysis, is presented for the purposes of additional analysis and is not a required part of the basic financial statements. 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 years ended September 30, 2011 and 2010, 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 material weakness is a deficiency, or combination of significant deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that is less severe than a material weakness, yet important enough to merit attention by those charged with governance of the FEC.

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 deficiencies, 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, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

Findings and Recommendations

1. **Internal Controls over Financial Reporting**

   a. **<u>Controls over Disbursements Needed Strengthening</u>**

      Office of the Chief Financial Officer (OCFO) personnel incorrectly paid current year expenses with prior year funds. We attributed this problem to OCFO personnel who bypassed established internal controls. As a result, FEC was not in compliance with federal regulations.

      Title 31 U.S.C. §1502 (a) provides that, "The balance of an appropriation or fund limited for obligation to a definite period is available only for payment of expenses properly incurred during the period of availability or to complete contracts properly made within that period of availability and obligated consistent with section 1501 of this title. However, the appropriation or fund is not available for expenditure for a period beyond the period otherwise authorized by law." OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, revised, also provides guidance in this area.

      During our audit, we selected a statistical sample of 45 expense transactions and performed audit tests to ensure the propriety of the transactions. Our tests found that three of the transactions were not processed in compliance with budgetary requirements and agency policies. The three payments, all relating to the same vendor, totaling approximately $11,500, were incorrectly processed to 2010 and 2009 fiscal year obligations instead of current fiscal year obligations.

      OCFO officials concurred that a misclassification had taken place, researched and corrected the budget year classifications, and analyzed other payments as recommended in our interim Notice of Finding and Recommendation (NFR). OCFO officials also advised that additional training was provided to personnel to strengthen internal controls in this area.

Because we verified that the OCFO took action to implement the recommendations contained in our NFR, we are making no recommendations in this report regarding the correction of the misclassification error.

Agency Response

Management concurs, in part, that a misclassification occurred due to an administrative error. The error was due to a training issue rather than an employee bypassing internal controls. The amount was insignificant and had no impact on the financial statements. Of the $11,500 identified by the auditors, only $6,300 applied to the current year. The OCFO corrected the error before the end of the fiscal year, as recommended by the auditors. Since the auditors found no further issues with regard to this error, no other recommendations were made. Management does not concur with the finding that the error contributed to the significant deficiency for internal controls over financial reporting. Management believes that this error was insignificant and does not reflect a significant deficiency in the agency's internal controls.

Auditor Comments

We do not believe that the errors we identified were insignificant as FEC officials stated in their response. Based upon our assessment of these errors, we concluded that the weakness identified contributed to a significant deficiency in internal controls over financial reporting. We believe that violation of 31 U.S.C. 1502 which states that appropriations may be obligated or expended only during the period of availability specified by law is a significant issue. Documents we obtained as part of our testing showed that accounting personnel had voiced concerns about processing the transactions against prior year obligations. Despite these concerns, OCFO personnel overrode controls and improperly processed the payments to prior fiscal year obligations in order to use funding available in prior years.

FEC officials in their response stress that the errors noted were insignificant and had no impact on the financial statements. However, what must be considered is that OCFO personnel bypassed their established control procedures in order to improperly process payments. While we agree that the errors do not represent a misstatement in the financial statements, it should be noted that our statistical sample found an error rate of approximately seven percent for the transactions tested. FEC processed approximately 2,100 non-payroll expense transactions with an approximate dollar value of $17.6 million during FY 2011.

b. Manual Systems Introduce Unnecessary Risk

As of the end of the 2011 fiscal year, FEC had not converted its manual systems and processes to automated systems that are integrated or interfaced with the core accounting system. We attributed this problem to delays by FEC's service providers regarding the integration of the payroll system, and to FEC's position that manual systems regarding accounts receivable should not be converted. As a result, FEC accounts receivable and payroll systems remained at unnecessary risk, and are not in compliance with best practice control processes.

OMB Circular No. A-127, *Financial Management Systems*, revised, defines a core financial system as the system of record that maintains all transactions resulting from financial events. It may be integrated through a common database or interfaced electronically to meet defined data and processing requirements.

FEC uses a service provider (General Services Administration (GSA) - Pegasys) for its general ledger and core financial management system operations, and the National Finance Center (NFC) for payroll. The FEC also uses Excel spreadsheets and a PeopleSoft application to perform selected accounting operations. The financial management processes that still use significant manual operations include:

- Payroll Accounting. The NFC based payroll system does not interface with the Pegasys accounting system. FEC used a PeopleSoft application throughout FY 2011 that was no longer supported to perform limited accounting operations in order to process payroll transactions into the agency's accounting system. This process also required FEC to perform manual operations to reconcile the payroll data, and prepare standard vouchers to input the payroll data into its accounting system. As of October 2011, the agency has eliminated use of the PeopleSoft application.

  OCFO officials advised us that the FEC is working closely with NFC and GSA to integrate the NFC subsidiary system with Pegasys. The current timeline provides for these systems to be completely interfaced by March 2012.

- Accounting for Collections of Fines and Penalties. The accounting for accounts receivables within FEC consists of several manual operations. The OCFO receives accounts receivable information from three divisions within the agency in several formats including Excel, Law Manager (a legal case tracking application), and Word. After the data is received, the information is input into a spreadsheet for further manual processing. OCFO personnel use the information from the spreadsheet to prepare a standard voucher that is submitted monthly to the agency's service provider for posting to the general ledger. Collections received by FEC, however, are processed to the general ledger throughout the month when the payments are received. Therefore, only at the end of each month, after the standard voucher is posted to the general ledger, does the accounts receivable in the general ledger reflect an accurate balance.

Recommendations:

1. Continue to work with NFC and GSA so that the two service provider's systems can be interfaced according to the current timeline.

2. Develop a time-phased corrective action plan to convert the manual accounts receivable process to an automated and integrated system.

Agency Response

Management concurs that it is important for agencies to consider automating manual processes whenever it is appropriate and cost effective to do so. However, management does not agree with the auditor's interpretation of a financial management system. OMB Circular A-127, as revised in 2009, defines a financial management system as a system that "includes the core financial systems and the financial portions of mixed systems necessary to support financial management, including automated and manual processes, procedures, and controls, data, hardware, software, and support personnel dedicated to the operation and maintenance of system functions."

While the OCFO does have some manual steps in its financial process, the office has implemented compensating controls consistent with industry best practices to eliminate unnecessary risks.

The OCFO evaluated the GSA Accounts Receivable and Collection System (ARCS) and determined that the system could not be utilized for FECA receivables because it does not allow the customization needed to meet the individual needs of the offices that enforce FECA debts.

The Accounts Receivable balance is immaterial to the FEC's financial statements and the volume of transactions is minimal. The expense of migration to an automated process is currently not in the best interest of the FEC or the Federal Government because it is not cost effective. The cost-effectiveness criterion is consistent with the GAO's Report on Financial Management Systems (GAO-09-328), the testimony of OMB Controller before Congress on April 14, 2010, the draft of A-127 circulated October 15, 2010, and the OMB Memorandum M-11-29 Chief Information Officer Authorities, issued August 8, 2011.

As it relates to the payroll accounting, the OCFO verifies NFC data, independent of the PeopleSoft application, before submitting to GSA. The FEC is working closely with NFC and GSA on the integration of the payroll system with the GSA Pegasys accounting system. Additionally, the FEC is working on an Oracle upgrade project to replace the PeopleSoft application. These projects are expected to be completed during FY 2012.

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. It should be noted that this problem was reported by our predecessor auditors as part of a material weakness in their 2008 audit report. While the agency has made progress in correcting this past material weakness, the importance of eliminating manual systems or systems that do interface with the general ledger can be seen by the recent failure of its PeopleSoft application. A problem we and the prior auditors had identified for a number of years.

FEC officials cite a GAO report to support their position that systems do not need to be standardized and integrated. In fact, the report cited addresses problems with the lack of standardization and integration of financial systems. For example, the report cites, "Over a number of years, we have reported that modernizing federal financial management systems has been a challenge at many federal agencies due, in part, to the past practices of each federal agency attempting to implement its own systems which have all too often resulted in failure, have been delayed, and cost too much. Recognizing the seriousness of this problem, in March 2004, the Office of Management and Budget (OMB) launched the financial management line of business (FMLOB) initiative, in part, to improve the outcome of government wide financial management system modernization efforts and provide timely and accurate data for decision making through the use of more cost-effective shared service solutions. Under this approach, agencies are to consider the use of certain shared service providers for meeting common support services, such as information technology (IT) hosting and application management, rather than investing in costly and redundant agency-specific solutions."

We continue to disagree with management's conclusions as to the significance of the agency's accounts receivable and collections system. FEC's total custodial revenue for FY 2011 was over $1.1 million, and the volume of transactions is not minimal. The accounting for revenue consists of cumbersome manual and /or non-integrated operations involving several departments. Collections are posted to the general ledger when the payments are received, while accounts receivable is adjusted only at the end of each month, after the standard voucher is posted to the general ledger. We believe the agency should explore a more streamlined and timely approach which would be achieved through an integrated system.

2. IT Security Control Weaknesses

While we reported in our 2010 financial statement audit report that FEC had implemented corrective actions or had plans developed to address most of the IT control weaknesses, progress has slowed during the 2011 fiscal year and most problem areas continued to impact FEC's agency-wide IT security program. This was primarily due to the need for additional oversight by agency governance, and the absence of IT security procedures that meet best practices. As a result, FEC's information and information systems are at additional risk until actions are taken to fully remediate the weaknesses discussed below.

a. Configuration Management and USGCB/FDCC Security Controls Needs to be Fully Implemented

Configuration management issues continue to impact FEC. FEC has issued procedures to address some of the problem areas identified in prior reports. However, our tests found that the configuration management process does not identify and log all changes to the configuration of FEC's systems. Additionally, we again identified that the organization had not fully implemented the United States Government Configuration Baseline (USGCB)[1] requirements or ensured that its systems are in compliance with its own baseline configuration standards.

Best practices addressing configuration management provide that the organization should develop, document, and maintain under configuration control a current baseline configuration of the information system. Best practices further note that the baseline configuration should provide information about the standard software loaded for a workstation, server, or network component including operating system, installed applications with current version numbers and patch information, network topology, etc.

We compared the FEC provided configuration settings to a sample of laptop computers, and identified that the baseline configuration standards were not fully implemented. For example, one baseline configuration standard required that Simple File Sharing be disabled on workstations. However, our audit tests showed that this function had not been disabled. In addition, we identified specific services, such as; Universal Plug and Play, Netmeeting Remote Desktop Sharing, Remote Desktop Help Session Manager, and Remote Registry accesses that should have been disabled based on FEC's baseline configuration standards, but remained active on workstations tested.

The current FEC baseline configuration standards require that the "administrator account" be renamed and that access to administrator authorities is limited to users requiring such access. However, based on the computer settings we reviewed, users had been given local administrator rights that allowed them to change local settings such as screen saver usage, as well as the ability to start "services." We were able to perform selected administrator authorities on laptops we tested. In addition, our review of available reports identified servers that did not have necessary patches, fixes, or service packs installed. For example, for

[1] The purpose of the United States Government Configuration Baseline (USGCB) initiative is to create security configuration baselines for Information Technology products widely deployed across the federal agencies. The USGCB baseline evolved from the Federal Desktop Core Configuration (FDCC) mandate.

two devices we tested, the service packs installed were outdated, and had not been supported for approximately a year.

As we reported in our prior audit reports, FEC has not yet fully implemented security control requirements that OMB had established in 1997 as "best practices" security requirements for Windows computers (USGCB/FDCC). While FEC has established a project to adopt "selected" control requirements, the agency estimates that full implementation of "selected" controls will not be implemented until later in 2012. To illustrate, we have listed several requirements that could be easily changed, but have not, since we first reported this problem in our 2009 audit report. Details follow:

Access Control Objective	FEC Settings	FDCC Requirements	Meets FDCC
Enforce password history	5 passwords remembered	24	No
Maximum password age	180 days	60	No
Minimum password age	0 days	1	No
Minimum password length	8 characters	12 characters	No

Chief Information Officer (CIO) officials opined that FEC is 75 percent USGCB/FDCC compliant, and is working to implement selected additional components of the standard. These officials also opined that implementing many of the best practice security controls are too severe for FEC's computing environment.

We believe FEC's position that "…implementing many of mentioned security controls are not best practice and too severe for its computing environment…" conflicts with guidance issued by all authoritative sources for IT security in the federal government. This includes the OMB, the National Institute for Standards and Technology (NIST), the Government Accountability Office (GAO), and the Chief Information Officers Council (CIOC). In addition, NIST IT security standards which incorporate the FDCC standards are established through a work group that consists of representatives of Civil, Defense, and Intelligence communities, as well other organizations in the public and private sectors, in an effort to produce a unified information security framework for the federal government.

The CIOC (the principal interagency forum on federal IT management practices), of which the FEC CIO is a member, has endorsed the implementation of the FDCC and the USGCB. According to the CIOC, the USGCB creates a security configuration that provides baseline settings that federal agencies are required to implement for security reasons. The CIOC goes on to state in a September 15, 2010 memorandum, issued to all Council members, that the USGCB (and the FDCC) settings are "...the minimum requirements…intended to be the core set of security configuration settings by which all agencies should comply…." FEC's information and information systems are at increased risk by not adopting the minimum security requirements established for the federal government through the USGCB/FDCC standards.

Recommendations:

3. Implement baseline configuration standards for all workstations and require documentation and approval of any deviations from this standard.

4. Fully implement USGCB/FDCC standards.

5. Implement logging of configuration changes to ensure that all system changes are processed through the change management framework.

Agency Response

Management concurs, in part, with recommendation 3. The agency plans to establish baseline configuration standards for all workstations. However, these baseline configuration standards cannot be implemented until the completion of the FEC USGCB/FDCC Project. Management concurs, in part, with recommendation 4. The FEC is already 75 percent USGCB/FDCC compliant and is working to implement additional components of the standard. However, management disagrees with the auditors that every agency must fully implement the USGCB/FDCC standard. It is the intent of the standard that only those controls within USGCB/FDCC conducive to each agency's unique environment be implemented, and the decision to implement a particular control is left to the agency.

Management concurs, in part, with recommendation 5. Management recognizes the need to review and approve all configuration changes (including workstation configuration changes); however, management is currently evaluating whether the best course of action is to integrate this into the current change management framework.

Auditor Comments

FEC officials have concurred, in part to our recommendations. The primary difference between FEC's response and the audit recommendations relate to USGCB/FDCC security requirements. Federal IT security experts have determined that implementation of the USGCB/FDCC is required to meet minimal IT security levels. FEC officials, however, consider the standards advisory. As we have discussed above, we believe FEC's information and information systems are at increased risk by not adopting the minimum security requirements established for the federal government through the USGCB/FDCC standards.

b. <u>Vulnerability Scanning Process Needs Strengthening</u>

FEC has established a vulnerability scanning program; however, not all segments of FEC's network are currently included in the program. In addition, a comprehensive analysis of scanning results to identify root causes and track remedial actions were not always performed. We attributed this problem to FEC not adopting IT best practices. As a result, FEC has reduced assurances that the agency will detect potential vulnerabilities within its network.

OMB Circular A-130, *Management of Federal Information Resources*, Appendix III provides that agencies "should assure that each system appropriately uses effective security products and techniques, consistent with standards and guidance from NIST (best practices)." Best practices note that vulnerability scanning is a key security control that is part of an agency's risk assessment process.

Our review of the vulnerability scanning performed by FEC during fiscal year 2011 showed that many of the same problems reported in our prior audit continued to exist. For example, we found that over 200 of the 255 vulnerabilities identified in the 2011 scanning were also identified as problems in the scans performed in 2010 by FEC. We also found that individual workstations were excluded from the scanning process – a critical gap in the implementation of this control process. Therefore, the current vulnerability scanning process does not provide an accurate picture of FEC's security posture.

We discussed these problems with OCIO personnel who advised that although vulnerability scanning of workstations is prudent from a security standpoint, management has not evaluated the feasibility of integrating workstation scanning into its current vulnerability mitigation program. OCIO officials added that "scanning of workstations is not scheduled to occur until completion of the FDCC implementation project and the determination as whether workstation scanning will be a separate process or integrated into the current process cannot be made until then."

We continue to believe that vulnerability scanning is necessary for all of FEC's IT assets. Without a robust vulnerability scanning program, FEC is not aware of all vulnerabilities that may exist in its network, and; therefore, is unable to mitigate potential vulnerabilities that could risk FEC's information and information systems.

Recommendations:

6. Include all components of the general support system, including workstations, into the organization's vulnerability scanning process.

7. Implement procedures to ensure that scan results are subject to a "root cause" analysis to ensure that problems are fully resolved.

8. Develop a process to ensure that vulnerabilities identified through scanning are documented in a corrective action plan, and monitored to ensure timely remediation.

Agency Response

Management concurs, in part, with recommendation 6. Although FEC already scans workstations for viruses and spyware and has implemented an automated process for pushing security patches to all workstations to eliminate operating system vulnerabilities, additional vulnerability scanning of workstations is prudent. However, management has not evaluated the feasibility of integrating workstation scanning into its current vulnerability mitigation program. Scanning of workstations is not scheduled to occur until completion of the FDCC's project. Management cannot determine whether workstation scanning will be a separate process or integrated into the current process until then. Management concurs with recommendations seven and eight.

Auditor Comments

FEC officials agreed with our recommendations except for a decision as to how the scanning of workstations will be performed (separate process or integrated). Our concern is that workstations should be included as part of the scanning program by FEC. This scanning could be accomplished either as a standalone scanning program, or integrated with other network scanning.

c. Progress is Needed on System to Recertify Users' Access Authorities

FEC has not completed a periodic review of users' access authorities. We attributed this problem to the need for additional management oversight over this problem area. As a result, FEC officials have limited assurance that users have access only to information and information systems that are necessary to accomplish the users' job responsibilities. Best practices provides that an organization manage information system accounts, including reviewing accounts on a periodic basis.

We reviewed the progress made by FEC to implement agreed upon corrective actions concerning periodic certification of users' access authorities. We found that during fiscal year 2011 the agency had terminated the project established to develop processes to enable supervisors to recertify users' access authorities. OCIO officials advised us that the project was incorporated into another ongoing project dealing with a document and records management system. FEC officials estimated that the overall project will be completed by approximately June 2012.

Recommendations:

9. Establish and publish a policy that requires annual recertification of users' access authorities.

10. Assure sufficient resources are provided to the document and records management system (Livelink) so that it can be completed no later than June 2012.

Agency Response

Management concurs, in part, with recommendation 9. Although management agrees that recertification of user access authorities is prudent, management believes a biennial review would be a more efficient use of scarce resources. Management concurs, in part, with recommendation 10. However, management cannot guarantee that available resources will not be reallocated to accommodate the level of activity anticipated in connection with the 2012 election cycle.

Auditor Comments

FEC officials agree in part with our recommendations, and notes staffing issues as an impediment to our recommendation for annual reviews of user access authorities. Because FEC has never fully performed an agency-wide review of user access authorities, we believe that the review should be made annually until the number of issues noted is reduced to minimal levels.

d. Removal of User Access for Departed Personnel Needs Improvement

FEC continues to have problems timely removing network access for separated employee and contractor personnel. The absence of an effective process to control the removal of separated personnel from FEC's network poses a significant security risk to the agency's information and information systems.

Problems continued to exist even though FEC established a new system, FEC System Access (FSA), to control the timely addition and termination of users to FEC's network. As shown below, we identified personnel that had departed for up to three years, but were still active on FEC's network. Details follow:

Employee	Date Left Agency
Number 1	September 30, 2008
Number 2	May 26, 2010
Number 3	December 19, 2009
Number 4	March 2011
Number 5	March 2011

Recommendations:

11. Validate all active users to assure that only individuals who are currently and properly authorized have access to FEC's information and information systems.

12. Analyze the reasons separated personnel retained access to FEC systems, and develop additional controls to ensure that FEC timely removes access for individuals who leave the agency.

Agency Response

Management concurs with recommendations 11 and 12. Management has discovered the reasons why five individuals' access was not properly removed and is evaluating various additional controls to ensure that FEC timely removes access for individuals who leave the agency.

Auditor Comments

Since FEC concurs with this finding and the associated recommendations, we have no additional comments.

e. Effective Tracking of Security Awareness Training Needed

FEC needs to strengthen its control processes dealing with providing security awareness training and obtaining acknowledgement of the rules of behavior for employees and contractors. We attributed the problems to the absence of an effective tracking system that would identify personnel who did not take required training. As a result, FEC is not in compliance with its policies and best practices.

OMB Circular A-130, Appendix III requires that agencies provide security awareness training and rules of behavior to personnel prior to granting access to an agency's systems.

Information obtained on the 2011 security awareness training provided to FEC personnel and contractors disclosed ten people who had not completed the training by the required date. OCIO personnel were unable to provide documentation to support why the training had not been completed, and the personnel continued to have access to the system. In addition, since acknowledgement of rules of behavior is a part of the security training process, current rules of behavior were also not obtained for these individuals.

Recommendations:

13. Establish controls that would automatically suspend an individual's network access if security awareness training is not completed within required timeframes.

14. Ensure all personnel and contractors that have not yet taken the security awareness training complete it within the next 30 days.

Agency Response

Management concurs, in part, with recommendation 13 and 14. Management agrees that removing network access is prudent for those individuals who fail to complete security awareness training in a timely fashion; however, Commission approval will be required prior to implementation.

Auditor Comments

FEC concurs with this finding and the associated recommendations, and notes that Commission approval will be required before any changes can be implemented. We believe that adopting the audit recommendations will further strengthen FEC's IT security program.

f. Last Phase of COOP and Contingency Planning Needs Completion

While FEC has completed most of the last phase of its multi-year plan to implement a Continuity of Operations Plan (COOP) document, we found that FEC has not yet tested and exercised the COOP – a critical element in the development of a comprehensive and effective plan. We attributed this problem to the need for more effective oversight over the COOP testing process. As a result, FEC systems are at increased risk without a properly tested COOP document.

FEC's most recent COOP planning documents showed that the agency had planned to complete necessary testing and exercise of its COOP by July 2011. We discussed this matter with FEC officials, and were advised that the COOP testing was delayed due to the illness of a key project team member. The official added that the completion of testing was deferred until approximately the beginning of calendar year 2012.

Federal Continuity Directive No.1, *Federal Executive Branch National Continuity Program*, requires that COOP documents must be validated through tests, training, and exercises (TT&E), and that all agencies must plan, conduct, and document periodic TT&E to prepare for all-hazards continuity emergencies, identify deficiencies, and demonstrate the viability of their continuity plans and programs.

Recommendation:

15. Ensure that sufficient resources are assigned to the task of testing the COOP in order to reduce the risks to FEC operations.

Agency Response

Management concurs, in part, with recommendation 15. Management cannot guarantee available resources will not be reallocated to accommodate the level of activity anticipated in connection with the 2012 election cycle.

Auditor Comments

FEC officials concurred with the recommendation, except that resources may not be available to reallocate during an important election cycle. We believe that the testing of the COOP plan is a key area, and the agency should ensure that necessary resources are available to accomplish this important task.

g. Controls over Copy Protected Software and User Installed Files Needs Improvement

FEC needs to develop, document, and implement control processes dealing with copy protected software that address best practice requirements, and to restrict access over the applications, folders and data stored in the "userinstall" network folder. As discussed below, we identified control weaknesses in both areas, resulting in increased risk to the agency's information and information systems and non-compliance with software quantity license restrictions.

Best practices control requirements provide that the organization uses software and associated documentation in accordance with contract agreements and copyright laws, and employs tracking systems for software and associated documentation protected by quantity licenses to control copying and distribution.

- **User Installed Files**
  FEC personnel provided the auditors system data reports which identified that all FEC personnel and contractors with access to FEC's network have the authority to access the "userinstall" folder. We initially accessed this folder to perform control testing relating to copy protected software for one sample application. However, when we began our tests, we noted a large number of folders and files located in this network folder appeared to be executable applications, and some applications appeared to be copy protected software.

  We identified over 200 folders and files in the "userinstall" network folder. These folders and files consisted of approximately 75 applications, some of which dated to 2007, that were listed as executable. In addition, we identified approximately 80 additional sub-folders that in many cases also contained executable files. The remaining files and folders consisted of miscellaneous information and data. We tested the executable files in approximately 20 of these folders, and found that over fifty percent allowed us to install the application. We did not continue to fully install the application when it appeared the application would install an older version and/or was a network server application. For some files, we were denied access because of security controls or other errors that prevented installation of the application.

For those files where we continued to fully install the application, we installed copy protected software, and an old "trial version" of an application. For two applications in this folder relating to updates to server applications, we discussed the results of our testing with the CIO officials, and the applications were removed from this folder.

- **Copy Protected Software**
  To test the controls that FEC had established over copy protected software, we selected an application that had a quantity license limitation of 50 users. For this application, we found that the software was placed on an FEC network drive that was accessible to all FEC employees and contractors with FEC network access.

  When we requested from OCIO personnel the processes FEC followed to ensure that this application would be limited to 50 users, we were advised that the application's folder was secured, and only specific authorized users could install the application. However, our audit determined that the software could be installed by any of the approximately 400 users with access to FEC's network. As a result, FEC was at risk of being in violation of quantity licensing requirements for copy protected software.

  We requested from FEC the specific written control processes followed by the agency to ensure that it complied with purchased software quantity licensing requirements. However, we were not provided with specific written control procedures or processes that addressed best practice requirements or Commission directives. In fact, Commission Directive 58: *Electronic Records, Software and Computer Usage*, states, "Strict control over computer software is necessary to maintain the integrity and coherence of the agency's information technology architecture (ITA), (and) to comply with intellectual property copyright laws and licensing agreements…."

Recommendations:

16. Develop specific control processes and issue operational policies that establish automated control procedures to ensure that FEC uses software and associated documentation in accordance with contract agreements and copyright laws.

17. Restrict network folders & subfolders containing copyright applications and software to only authorized users based on the operational policies developed and implemented.

18. Review all folders and files on the "userinstall" network folder, and remove all applications and data that are not current, or do not meet the specific operational purposes of this folder.

Agency Response

Management concurs, in part, with recommendation 16. However, management disagrees with many of the conclusions cited in the finding. Management believes the risk of violating any copyright laws or user authorization is minimal compared to the increase in productivity of facilitating controlled user software installation software. Many of the items cited in the finding (such as older versions of software) are based upon operational necessity. However, management believes there may be room for improvement, and will review its methods to ensure that FEC uses software and associated documentation in accordance with contract agreements and copyright laws. Upon conclusion of the review, management will adjust its procedures and policies accordingly.

Implementing an automated process to control the security of the software installation process is dependent upon funding. In addition, limiting the use of software and associated documentation protected by quantity licenses to purchased licenses is dependent upon evaluating the cost versus risk of purchasing quantity licenses or purchased licenses per software package.

Management concurs, in part, with recommendation 17. Access to network folders & subfolders containing copyright applications and software is already restricted; however, management will evaluate the impact on operational effectiveness of further restricting access to userinstall and adjust its methods accordingly. Management concurs with recommendation 18.

Auditor Comments

FEC has a legal responsibility to comply with contract requirements, including meeting the licensing requirements for the software it purchases. The Government Accountability Office (GAO), *Standards for Internal Control,* in the Federal Government, defines the minimum levels of internal control in government and provides the basis against which internal control is to be evaluated. The standards require management to establish and maintain an environment throughout the organization that sets a positive and supportive attitude toward internal control and conscientious management. OMB Circular A-123, *Management's Responsibility for Internal Control*, provides that agencies and individual Federal managers must take systematic and proactive measures to develop and implement appropriate, cost-effective internal control for results-oriented management.

We disagree with FEC's position that it has implemented the necessary security controls to mitigate the risk to an acceptable level. Our tests showed that there were no effective controls in place to ensure that the agency complied with the software's quantity licensing requirements.

h. <u>FEC's IT Security Program Would be Strengthened by Adopting Federal Government Security Standards</u>

FEC has not adopted government-wide IT security controls and techniques issued by the National Institute of Standards and Technology (NIST). We attributed this condition to FEC management's belief that the agency's IT information and information systems are adequately secured even if many of the government-wide minimum security requirements have not been adopted by FEC. As a result, FEC's information and information systems are at increased risks.

In our 2009 and 2010 audit reports, we recommended that FEC adopt 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*, and other related NIST security documents. We also reported that the Government Accountability Office (GAO), that is also exempt from FISMA compliance, has voluntarily adopted the NIST security requirements. GAO stated that it adopted FISMA requirements to strengthen its information security program, and that FISMA and related federal guidance from the Office of Management and Budget constitute the cornerstone of its security program, establishing the procedures and practices that strengthen their protections through the implementation of security "best practices."

The Inspector General's "Statement on the Federal Election Commission's Management and Performance Challenges" dated October 14, 2010, stated:

> "… [we] first identified information technology security as a challenge in 2004, the first year the Inspector General prepared a report of this kind. 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 OIG 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."

The FEC commented on the Inspector General's management challenges, and noted that "In sum, the level of security provided by the FEC IT Security Program is within the guidance provided by applicable federal standards, including the exemption of the agency from FISMA and National Institute of Standards and Technology standards."

Although the FEC has actions ongoing to address some of the problem areas we have reported, overall progress has been slow. In other areas, FEC has not agreed to implement strengthened controls by fully adopting best practice control requirements. For example: FEC has not fully adopted: (1) USGCB/FDCC standards; (2) certification and accreditation controls that require independent reviews at least every three years; (3) risk assessment controls and vulnerability scanning; and (4) systems and services acquisition controls, including Federal Acquisition Regulations (FAR) related IT controls for contractors. The FAR requires agencies to include in IT contracts requirements that contractors must follow NIST security requirements. However, FEC officials advised us that the agency is exempt from these FAR requirements because the agency is exempt from the Paperwork Reduction Act and it's corresponding IT security requirements.

We requested documentation to determine whether FEC had completed an analysis of the risks associated with not adopting recognized IT security controls, and that officials had accepted the increased risks to the FEC information and information systems. However, we found neither a procedure that required such an analysis, nor documentation that an analysis had been performed.

We discussed this matter with OCIO officials who advised that it would be improper for the FEC to disregard the will of Congress, which has exempted FEC from FISMA compliance. These OCIO officials added that it was not the original intent of NIST to impose a set of standards to which all federal agencies must adhere. However, these officials added that FEC does utilize NIST as one source of guidance when determining best practice.

FEC officials' statements about disregarding the will of Congress have already been addressed by FEC's own Office of General Counsel (OGC). In documents provided to us, OGC has noted that FEC could elect to adopt NIST standards. In addition, FEC's comment that "…it was not the original intent of NIST to impose a set of standards that all federal agencies must adhere to" is not correct. For example, OMB Memorandum M-10-15, dated April 21, 2010, states: "…Is use of National Institute of Standards and Technology (NIST) publications required? Yes. For non-national security programs and information systems, agencies must follow NIST standards and guidelines."

Recommendations:

19. Formally adopt 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*.

20. Require FEC contractors to adhere to the FAR related IT controls when providing services to the FEC to ensure sufficient controls are in place to meet best practices.

Agency Response

Management does not concur with recommendation 19 for several reasons. Although the FEC is exempt from the Paperwork Reduction Act (PRA), which requires federal agencies to adhere to the National Institute of Standards and Technology (NIST) standards for information technology security, it continues to use these standards as guidance. As a small agency, the FEC would be especially burdened by the additional overhead expenses associated with adhering to all NIST standards. Instead, the agency retains the flexibility to adopt NIST guidelines as appropriate, which was the original intent of these standards, and to consider best practices identified from other sources where those standards will best serve the FEC's needs. NIST standards nevertheless form the basis for the FEC's security program.

Utilizing this guidance, the FEC has identified 29 best practices and implemented policies based upon them. The FEC is currently evaluating additional best practices to determine whether incorporating them into its security program will support the agency's overall IT security needs. In addition, the agency's 2009 third party, independent Certification and Accreditation project was based upon NIST standards. These policies and the Certification and Accreditation process not only describe the FEC's minimum security controls, but also affirm its decision not to rely upon a single source of guidance for best practices. Instead, the FEC draws upon other sources and tailors those best practices to its unique computing environment.

Management does not concur with recommendation 20. The FEC already requires contractors to comply with its IT security policies and best practices.

Auditor Comments

As we discussed in this and our prior audit reports, we believe that until FEC adopts best practice requirements that establish minimum security levels, the agency's information and information systems will remain at risk.

A summary of the status of prior year findings is included as Appendix 1.

We noted another control deficiency over financial reporting and its operation that we do not consider a significant deficiency, but still needs to be addressed by management. We have reported this matter to the management of the FEC, and those charged with governance in a separate letter dated November 10, 2011

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 no instance of noncompliance with laws and regulations that is required to be reported under *Government Auditing Standards* and OMB Bulletin 07-04 (as amended).

We noted a matter involving compliance with certain provisions of laws and regulations and its operation that we do not consider to be significant. We have reported this matter to the management of the FEC, and those charged with governance in a separate letter dated November 10, 2011.

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 believe that our audit provides a reasonable basis for our opinion.

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.

DISTRIBUTION

This report is intended solely for the information and use of the management, the Commission, 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, PC

Leon Snead & Company, P.C.
November 10, 2011

Status of Prior Year Reportable Conditions

Recommendation	Status As of September 30, 2011
1. Provide additional training to personnel involved in accounts payable control processes, and stress to supervisors that reviews of accounts payable accruals must be more effective. Ensure when errors are noted, the reviewer follows up to ensure corrections are made.	Recommendation closed.
2. Convert FEC manual systems and processes to automated systems that are integrated or interfaced with the core accounting system.	Recommendation open – reported as significant deficiency.
3. Ensure that FEC baseline configuration standards are implemented in accordance with FDCC requirements for all workstations.	Recommendation open – reported as significant deficiency.
4. Perform periodic assessments of baseline configuration settings as part of FEC's continuous monitoring program.	Recommendation open – reported as significant deficiency.
5. Include all components of the general support system, including workstations, into the organization's vulnerability scanning process to ensure that the general support system, in its entirety, is periodically assessed.	Recommendation open – reported as significant deficiency.
6. Implement additional controls to ensure that former employees' access to the network is terminated in accordance with FEC policies.	Recommendation open – reported as significant deficiency.
7. Assure sufficient resources are provided to complete the project dealing with the establishment of processes to enable periodic review of users' access authorities.	Recommendation open – reported as significant deficiency.
8. Require that dial-up access is properly secured as required by best practices, or terminate this type of access for users.	Recommendation closed.
9. Revise FEC procedures to require that all new personnel and contractors take the security awareness training, and acknowledge rules of behavior prior to being granted access to FEC systems.	Recommendation open – reported as significant deficiency.
10. Monitor the POA&M to ensure that the documents are completed and fully tested by the end of the 2010 calendar year.	Recommendation open – reported as significant deficiency.
11. Adopt as a model 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.	Recommendation open – reported as significant deficiency.

Appendix 2

THE FEDERAL ELECTION COMMISSION
Washington, DC 20463

November 10, 2011

MEMORANDUM

TO: Leon Snead and Company

FROM: Mary Sprague
Chief Financial Officer

Mary G. Sprague, CFO

Digitally signed by Mary G. Sprague, CFO
DN: cn=Mary G. Sprague, CFO, o=Federal Election Commission, ou=OCFO, email=msprague@fec.gov, c=US
Date: 2011.11.10 09:17:29 -05'00'

SUBJECT: Management Responses to Audit Findings

Please find attached the management responses to the audit findings as provided in the draft document sent by the Office of the Inspector General on November 7, 2011.

Please contact me at X1217 should there be additional questions.

cc: Lynne McFarland, Inspector General
Alec Palmer, Staff Director
Tony Herman, General Counsel

1. **Internal Controls over Financial Reporting**

Auditor Recommendation 1a: Controls over Disbursements Needed Strengthening

Management Response to 1a: Management concurs, in part, that a misclassification occurred due to an administrative error. The error was due to a training issue rather than an employee bypassing internal controls. The amount was insignificant and had no impact on the financial statements. Of the $11,500 identified by the auditors, only $6,300 applied to the current year. The OCFO corrected the error before the end of the fiscal year, as recommended by the auditors. Since the auditors found no further issues with regard to this error, no other recommendations were made. Management does not concur with the finding that the error contributed to the significant deficiency for internal controls over financial reporting. Management believes that this error was insignificant and does not reflect a significant deficiency in the agency's internal controls.

Auditor Recommendation 1b: Manual Systems Introduce Unnecessary Risk

Management Response to Recommendations #1 and 2: Management concurs that it is important for agencies to consider automating manual processes whenever it is appropriate and cost effective to do so. However, management does not agree with the auditor's interpretation of a financial management system. OMB Circular A-127, as revised in 2009, defines a financial management system as a system that "includes the core financial systems and the financial portions of mixed systems necessary to support financial management, including automated and manual processes, procedures, and controls, data, hardware, software, and support personnel dedicated to the operation and maintenance of system functions."

While the OCFO does have some manual steps in its financial process, the office has implemented compensating controls consistent with industry best practices to eliminate unnecessary risks.

The OCFO evaluated the GSA Accounts Receivable and Collection System (ARCS) and determined that the system could not be utilized for FECA receivables because it does not allow the customization needed to meet the individual needs of the offices that enforce FECA debts.

The Accounts Receivable balance is immaterial to the FEC's financial statements and the volume of transactions is minimal. The expense of migration to an automated process is currently not in the best interest of the FEC or the Federal Government because it is not cost effective. The cost-effectiveness criterion is consistent with the GAO's Report on Financial Management Systems (GAO-09-328), the testimony of OMB Controller before Congress on April 14, 2010, the draft of A-127 circulated October 15, 2010, and the OMB Memorandum M-11-29 Chief Information Officer Authorities, issued August 8, 2011.

As it relates to the payroll accounting, the OCFO verifies NFC data, independent of the PeopleSoft application, before submitting to GSA. The FEC is working closely with NFC and GSA on the integration of the payroll system with the GSA Pegasys accounting system. Additionally, the FEC is working on an Oracle upgrade project to replace the PeopleSoft application. These projects are expected to complete during FY 2012.

2. **IT Security Control Weaknesses**

Auditor Recommendation #3: Implement baseline configuration standards for all workstations and require documentation and approval of any deviations from this standard.

Management Response to Recommendation #3: Management concurs, in part, with recommendation #3. The agency plans to establish baseline configuration standards for all workstations. However, these baseline configuration standards cannot be implemented until the completion of the FEC USGCB/FDCC Project.

Auditor Recommendation #4: Fully implement USGCB/FDCC standards.

Management Response to Recommendation #4: Management concurs, in part, with recommendation #4. The FEC is already 75 percent USGCB/FDCC compliant and is working to implement additional components of the standard. However, management disagrees with the auditors that every agency must fully implement the USGCB/FDCC standard. It is the intent of the standard that only those controls within USGCB/FDCC conducive to each agency's unique environment be implemented, and the decision to implement a particular control is left to the agency.

Auditor Recommendation #5: Implement logging of configuration changes to ensure that all system changes are processed through the change management framework.

Management Response to Recommendation #5: Management concurs, in part, with recommendation #5. Management recognizes the need to review and approval all configuration changes (including workstation configuration changes); however, management is currently evaluating whether the best course of action is to integrate this into the current change management framework.

Auditor Recommendation #6: Include all components of the general support system, including workstations, into the organization's vulnerability scanning process.

Management Response to Recommendation #6: Management concurs, in part, with recommendation #6. Although FEC already scans workstations for viruses and spyware and has implemented an automated process for pushing security patches to all workstations to eliminate operating system vulnerabilities, additional vulnerability scanning of workstations is prudent. However, management has not evaluated the feasibility of integrating workstation scanning into its current vulnerability mitigation program. Scanning of workstations is not scheduled to occur until completion of the FDCC's project. Management cannot determine whether workstation scanning will be a separate process or integrated into the current process until then.

Auditor Recommendation #7: Implement procedures to ensure that scan results are subject to a "root cause" analysis to ensure that problems are fully resolved.

Management Response to Recommendation #7: Management concurs with recommendation #7.

Auditor Recommendation #8: Develop a process to ensure that vulnerabilities identified through scanning are documented in a corrective action plan, and monitored to ensure timely remediation.

Management Response to Recommendation #8: Management concurs with recommendation #8.

Auditor Recommendation #9: Establish and publish a policy that requires annual recertification of users' access authorities.

Management Response to Recommendation #9: Management concurs, in part, with recommendation #9. Although management agrees that recertification of user access authorities is prudent, management believes a biennial review would be a more efficient use of scarce resources.

Auditor Recommendation #10: Assure sufficient resources are provided to the document and records management system so that it can be completed no later than June 2012.

Management Response to Recommendation #10: Management concurs, in part, with recommendation #10; however, management cannot guarantee that available resources will not be reallocated to accommodate the level of activity anticipated in connection with the 2012 election cycle.

Auditor Recommendation #11: Validate all active users to assure that only individuals who are currently and properly authorized have access to FEC's information and information systems.

Management Response to Recommendation #11: Management concurs with recommendation #11.

Auditor Recommendation #12: Analyze the reasons separated personnel retained access to FEC systems, and develop additional controls to ensure that FEC timely removes access for individuals who leave the agency.

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Management Response to Recommendation #12: Management concurs with recommendation #12**.** Management has discovered the reasons why five individuals' access was not properly removed and is evaluating various additional controls to ensure that FEC timely removes access for individuals who leave the agency.

Auditor Recommendation #13: Establish controls that would automatically suspend an individual's network access if security awareness training is not completed within required timeframes.

Management Response to Recommendation #13: Management concurs, in part, with recommendation #13**.** Management agrees that removing network access is prudent for those individuals who fail to complete security awareness training in a timely fashion; however, Commission approval will be required prior to implementation.

Auditor Recommendation #14: Ensure all personnel and contractors that have not yet taken the security awareness training complete it within the next 30 days.

Management Response to Recommendation #14: Management concurs with recommendation #14.

Auditor Recommendation #15: Ensure that sufficient resources are assigned to the task of testing the COOP in order to reduce the risks to FEC operations.

Management Response to Recommendation #15: Management concurs, in part, with recommendation #15. Management cannot guarantee available resources will not be reallocated to accommodate the level of activity anticipated in connection with the 2012 election cycle.

Auditor Recommendation #16: Develop specific control processes and issue operational policies that establish automated control procedures to ensure that FEC uses software and associated documentation in accordance with contract agreements and copyright laws.

Management Response to Recommendation #16: Management concurs, in part, with recommendation #16. Management disagrees with many of the conclusions cited in the finding. Management believes the risk of violating any copyright laws or user authorization is minimal compared to the increase in productivity of facilitating controlled user software installation software. Management has implemented the necessary security controls to mitigate the risk to an acceptable level. Many of the items cited in the finding (such as older versions of software) are based upon operational necessity. However, management believes there may be room for improvement and will review its methods to ensure that FEC uses software and associated documentation in accordance with contract agreements and copyright laws. Upon conclusion of the review, management will adjust its procedures and policies accordingly.

Implementing an automated process to control the security of the software installation process is dependent upon funding. In addition, limiting the use of software and associated documentation protected by quantity licenses to purchased licenses is dependent upon evaluating the cost versus risk of purchasing quantity licenses or purchased licenses per software package.

Auditor Recommendation #17: Restrict network folders & subfolders containing copyright applications and software to only authorized users based on the operational policies developed and implemented.

Management Response to Recommendation #17: Management concurs, in part, with recommendation #17. Access to network folders & subfolders containing copyright applications and software is already restricted; however, management will evaluate the impact on operational effectiveness of further restricting access to userinstall and adjust its methods accordingly.

Auditor Recommendation #18: Review all folders and files on the “userinstall” network folder, and remove all applications and data that are not current, or do not meet the specific operational purposes of this folder.

Management Response to Recommendation #18: Management concurs with recommendation #18.

Auditor Recommendation #19: Formally adopt 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.

Management Response to Recommendation #19: Management does not concur with recommendation #19 for several reasons. Although the FEC is exempted from the Paperwork Reduction Act (PRA), which requires federal agencies to adhere to the National Institute of Standards and Technology (NIST) standards for information technology security, it continues to use these standards as guidance. As a small agency, the FEC would be especially burdened by the additional overhead expenses associated with adhering to all NIST standards. Instead, the agency retains the flexibility to adopt NIST guidelines as appropriate, which was the original intent of these standards, and to consider best practices identified from other sources where those standards will best serve the FEC’s needs. NIST standards nevertheless form the basis for the FEC’s security program. Utilizing this guidance, the FEC has identified 29 best practices and implemented policies based upon them. The FEC is currently evaluating additional best practices to determine whether incorporating them into its security program will support the agency’s overall IT security needs. In addition, the agency’s 2009 third party, independent Certification and Accreditation project was based upon NIST standards. These policies and the Certification and Accreditation process not only describe the FEC’s minimum security controls, but also affirm its decision not to rely upon a single source of guidance for best practices. Instead, the FEC draws upon other sources and tailors those best practices to its unique computing environment.

Auditor Recommendation #20: Require FEC contractors to adhere to the FAR related IT controls when providing services to the FEC to ensure sufficient controls are in place to meet best practices.

Management Response to Recommendation #20: Management does not concur with recommendation #20. The FEC already requires contractors to comply with its IT security policies and best practices.

BALANCE SHEET

As of September 30, 2011 and 2010 (in dollars)

Assets (Note 2)	**2011**	**2010**
Intragovernmental:		
Fund balance with Treasury (Note 3)	$ 14,625,074	$ 12,922,081
Total Intragovernmental	14,625,074	12,922,081
Accounts receivable, net (Note 4)	211,054	15,482
General property and equipment, net (Note 5)	4,486,140	4,621,490
Total Assets	**$ 19,322,268**	**$ 17,559,053**
Liabilities (Note 6)		
Intragovernmental:		
Accounts payable	$ 81,899	$ 117,692
Employer contributions and payroll taxes payable	481,949	432,326
Deferred rent	522,359	609,419
Custodial liability (Note 11)	211,054	15,482
Other	5,923	6,507
Total intragovernmental	1,303,184	1,181,426
With the public:		
Accounts payable	2,756,162	1,972,779
Accrued payroll and benefits	2,147,344	1,988,376
Unfunded leave	2,560,109	2,516,625
Contingent liability (Note 7)	-	60,110
Other	1,600	3,724
Total liabilities	**8,768,399**	**7,723,040**
Net Position		
Unexpended appropriations	9,154,459	8,406,931
Cumulative results of operations	1,399,410	1,429,082
Total net position	**10,553,869**	**9,836,013**
Total liabilities and net position	**$ 19,322,268**	**$ 17,559,053**

The accompanying notes are an integral part of these statements.

STATEMENT OF NET COST

For The Years Ended September 30, 2011 and 2010 (in dollars)

Program Costs:	**2011**	**2010**
Administering and Enforcing the *FECA*		
Gross costs	$ 68,145,263	$ 69,768,762
Net program costs	68,145,263	69,768,762
Net cost of operations (Note 9)	**$ 68,145,263**	**$ 69,768,762**

The accompanying notes are an integral part of these statements.

STATEMENT OF CHANGES IN NET POSITION

For The Years Ended September 30, 2011 and 2010 (in dollars)

	2011	2010
Cumulative results of operations		
Beginning balances	$ 1,429,082	$ 3,329,436
Beginning balances, as adjusted	$ 1,429,082	$ 3,329,436
Budgetary financing sources		
Appropriations used	65,197,402	64,733,066
Other financing resources (non-exchange)		
Imputed financing	2,918,189	3,135,342
Total financing sources	68,115,591	67,868,408
Net cost of operations	(68,145,263)	(69,768,762)
Net change	(29,672)	(1,900,354)
Cumulative results of operations	**$ 1,399,410**	**$ 1,429,082**
Unexpended appropriations		
Beginning balances	$ 8,406,931	$ 7,145,579
Beginning balances, as adjusted	$ 8,406,931	$ 7,145,579
Budgetary financing sources		
Appropriations received	66,500,000	66,500,000
Other adjustments	(555,070)	(505,582)
Appropriations used	(65,197,402)	(64,733,066)
Total budgetary financing sources	747,528	1,261,352
Total unexpended appropriations	**9,154,459**	**8,406,931**
Net position	**$ 10,553,869**	**$ 9,836,013**

The accompanying notes are an integral part of these statements.

STATEMENT OF BUDGETARY RESOURCES

For The Years Ended September 30, 2011 and 2010 (in dollars)

	2011	2010
Budgetary Resources (Note 10)		
Unobligated balance, brought forward, October 1	$ 2,356,330	$ 2,085,876
Recoveries of prior year obligations	141,022	588,194
Budget authority		
Appropriations received	66,500,000	66,500,000
Spending authority from offsetting collections		
Collected	22,240	21,622
Total budget authority	$ 66,522,240	$ 66,521,622
Permanently not available	(555,070)	(505,582)
Total budgetary resources	**$ 68,464,522**	**$ 68,690,110**
Status of Budgetary Resources		
Obligations incurred		
Direct	$ 65,164,366	$ 66,333,780
Unobligated balances		
Apportioned	1,295,458	367,800
Unobligated balances not available	2,004,698	1,988,530
Total status of budgetary resources	**$ 68,464,522**	**$ 68,690,110**
Change in Obligated Balance		
Obligated balance, net		
Unpaid obligations, brought forward, October 1	$ 10,565,751	$ 8,825,254
Obligations incurred, net	65,164,366	66,333,780
Gross outlays	(64,264,177)	(64,005,089)
Recoveries of prior year unpaid obligations, actual	(141,022)	(588,194)
Obligated balance, net, end of period:		
Unpaid obligations	11,324,918	10,565,751
Total, unpaid obligated balance, net, end of period	$ 11,324,918	$ 10,565,751
Net Outlays		
Gross Outlays	64,264,177	64,005,089
Offsetting collections	(22,240)	(21,622)
Net outlays	**$ 64,241,937**	**$ 63,983,467**

The accompanying notes are an integral part of these statements.

STATEMENT OF CUSTODIAL ACTIVITY

For The Years Ended September 30, 2011 and 2010 (in dollars)

	2011	2010
Revenue Activity		
Sources of cash collections		
Civil penalties	$ 494,014	$ 985,372
Administrative fines	363,849	103,669
Miscellaneous receipts	103,883	122,970
Total cash collections	961,746	1,212,011
Accrual adjustments	195,572	(188,517)
Total custodial revenue (Note 11)	**$ 1,157,318**	**$ 1,023,494**
Disposition of Collections		
Transferred to Treasury	$ 961,746	$ 1,212,011
Amount yet to be transferred	195,572	(188,517)
Total disposition of collections	**$ 1,157,318**	**$ 1,023,494**
Net custodial activity	$ -	$ -

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 of 1971* (FECA), 2 U.S.C. 431 et seq., as amended ("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 include 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 Board's (FASAB) *Statement of Federal Financial Accounting Concept No. 2, "Entity and Display*," the Presidential Election Campaign Fund is not a reporting entity of the FEC. Financial activity of the fund is budgeted, apportioned, recorded, reported and paid by the U.S. Department of Treasury (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) for the Federal Government 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.

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. Intragovernmental assets and liabilities are those from or to other federal entities. Intragovernmental earned revenues are collections or accruals of revenue from other federal entities and intragovernmental 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 Federal Government, a sovereign entity.

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 and penalties. These custodial collections are not available to the FEC to use in its operations and must be transferred to Treasury.

Fund Balance with Treasury

The FEC does not maintain cash in commercial bank accounts. Treasury processes cash receipts and disbursements. Fund Balance with Treasury consists 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

The 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, which 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 the FEC to support its mission. Depreciation or amortization on these assets is calculated using the straight-line method with no salvage value. Depreciation or amortization begins the day the asset is placed in service. Maintenance, repairs and minor renovations are expensed as incurred. Expenditures that materially increase the value, capacity or useful life of existing assets are capitalized. Refer to Note 5 *General Property and Equipment, Net* 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 Treasury for fines, penalties 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 consists 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 consists of disbursements in transit recorded by the FEC but not paid by Treasury.

Accrued Payroll and Employer Contribution

Accrued payroll and benefits represent 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. Thrift Savings Plan (TSP) contributions are classified as with the public.

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*. 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 DOL for compensation paid to recipients under the *Federal Employee's Compensation Act*. The future workers' compensation estimate was generated by DOL from an application of actuarial procedures developed to estimate the liability for the *Federal Employee's Compensation Act*, 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 and provided a matching contribution equal to the sum of the withholding.

For each fiscal year, the Office of Personnel Management (OPM) calculates the Federal 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 Federal 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 $2,918,000 and $3,135,000, as of September 30, 2011, and 2010 respectively, as an imputed cost and related 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 Federal Government's estimated service costs. For FERS covered employees, the FEC made contributions of 11.7 percent of basic pay (effective October 2010, OPM increased the rate from 11.2 to 11.7). Employees participating in FERS are covered under the *Federal Insurance Contribution Act* (FICA) for which the FEC contributed a matching amount to the Social Security Administration in FY 2010. Effective in FY 2011 FERS and CSRS – Offset employees were granted a 2% decrease in Social Security for tax year 2011 under the *Tax Relief, Unemployment Insurance Reauthorization and Job Creation Action Act of 2010*. During this period employees contributed 4.2% and the FEC contributed 6.2% to Social Security.

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 1 percent of base pay to their account and matches contributions up to an additional 4 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 and FERS not paid by the 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 recognized when a past event or exchange transaction has occurred, a future outflow or other sacrifice of resources is probable and the future outflow or sacrifice of resources is measurable. 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 cancelled 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 Treasury 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 GAAP 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*, consisted of the following as of September 30, 2011 and September 30, 2010:

	2011	2010
With the Public		
Accounts Receivable - Custodial	$ 211,054	$ 15,482
Total non-entity assets	211,054	15,482
Total entity assets	19,111,214	17,543,571
Total Assets	$ 19,322,268	$ 17,559,053

Note 3 – Fund Balance with Treasury

Fund Balance with Treasury consisted of the following as of September 30, 2011 and September 30, 2010:

	2011	2010
Fund Balances		
Appropriated Funds	$ 14,625,074	$ 12,922,081
Total	$ 14,625,074	$ 12,922,081

	2011	2010
Status of Fund Balance with Treasury		
Unobligated Balance		
Available	$ 1,295,458	$ 367,800
Unavailable	2,004,698	1,988,530
Obligated Balance not yet Disbursed	11,324,918	10,565,751
Total	$ 14,625,074	$ 12,922,081

Available unobligated balances represent amounts that are not 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 Receivables, Net

All accounts receivable are with the public and consisted of the following as of September 30, 2011 and September 30, 2010:

	2011		
	Gross Accounts Receivable	Allowance	Net Accounts Receivable
With the Public			
Fines and Penalties	$ 295,655	$ 84,601	$ 211,054
Total Non-Entity	$ 295,655	$ 84,601	$ 211,054

	2010		
	Gross Accounts Receivable	Allowance	Net Accounts Receivable
With the Public			
Fines and Penalties	$ 64,044	$ 48,562	$ 15,482
Total Non-Entity	$ 64,044	$ 48,562	$ 15,482

Non-Entity receivables consist of civil penalties and administrative fines assessed by the FEC through its enforcement processes or conciliation agreements reached with parties. The 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. Delinquent debts are referred to Treasury in accordance with the *Debt Collection Improvement Act of 1996*. 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. 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 the FEC to support its mission. Depreciation or amortization on these assets is calculated using the straight-line method with no salvage value. Depreciation or amortization begins the day 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 information technology equipment is three years.

The office 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 leasing entity. The 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 office 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. Leasehold improvements are amortized over the lesser of five years or the remaining life of the lease term.

The internal use software development and acquisition costs capitalization threshold changed as a result of a new policy that was implemented in FY 2011. Internal use software development and acquisition costs of $250,000 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. Purchased commercial software that does not meet the capitalization criteria is expensed. In addition, enhancements which do not add significant new capability or functionality are also expensed.

The general components of capitalized property and equipment, net of accumulated depreciation or amortization, consisted of the following as of September 30, 2011 and September 30, 2010, respectively:

	2011			
Asset Class	**Service Life (years)**	**Acquisition Value**	**Accumulated Depreciation/ Amortization**	**Net Book Value**
Software	3	$ 12,819,125	$ 11,332,522	$ 1,486,603
Computers and peripherals	3	3,747,630	2,748,888	998,742
Furniture	5	852,754	841,440	11,314
Software-in-Development	n/a	1,989,481	-	1,989,481
Total		$ 19,408,990	$ 14,922,850	$ 4,486,140

	2010			
Asset Class	**Service Life (years)**	**Acquisition Value**	**Accumulated Depreciation/ Amortization**	**Net Book Value**
Software	3	$ 13,005,597	$ 9,878,952	$ 3,126,645
Computers and peripherals	3	3,701,260	2,698,103	1,003,157
Furniture	5	852,754	818,878	33,876
Software-in-Development	n/a	457,812	-	457,812
Total		$ 18,017,423	$ 13,395,933	$ 4,621,490

Note 6 – Liabilities Not Covered by Budgetary Resources

Liabilities Not Covered by Budgetary Resources consisted of the following as of September 30, 2011 and 2010:

Liabilities Not Covered by Budgetary Resources		**2011**		**2010**
Intragovernmental				
Custodial Fines and Civil Penalties	$	211,054	$	15,482
Deferred Rent		522,359		609,419
Total Intragovernmental	$	733,413	$	624,901
With the Public				
Unfunded Annual Leave	$	2,560,109		2,516,625
Contingent Liability		-		60,110
FECA Liability		1,600		3,724
Total Liabilities Not Covered by Budgetary Resources	$	3,295,122	$	3,205,360
Total Liabilities Covered by Budgetary Resources		5,473,277		4,517,680
Total Liabilities	$	8,768,399	$	7,723,040

The FEC accrued a liability related to the *Federal Employee's Compensation Act* as of September 30, 2011 and September 30, 2010.

Beginning FY 2008, the FEC entered into a new lease agreement for its office building that provided a rent abatement of $870,598, which covers the equivalent of two months of rent. Consistent with 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

As of September 30, 2011, 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.

As of September 30, 2010, the FEC had a contingent liability in the amount of $60,110 as the result of an arbitrator's award of attorney's fees. In FY 2011, the FEC paid the amount awarded.

Note 8 – Leases

The FEC did not have any capital leases as of September 30, 2011 and September 30, 2010. The FEC has a commitment under an operating lease for its office space. Future payments due under the lease through September 30, 2017 are as follows:

Future Operating Lease Payments

2011		2010	
Fiscal Year	**Lease Payment**	**Fiscal Year**	**Lease Payment**
2012	$ 5,793,993	2011	$ 5,732,526
2013	5,857,305	2012	5,793,993
2014	5,922,515	2013	5,857,305
2015	5,989,682	2014	5,922,515
2016	6,058,864	2015	5,989,682
2017 and thereafter	6,130,122	2016 and thereafter	12,188,986
Total	**$ 35,752,481**	**Total**	**$ 41,485,007**

Note 9 – Statement of Net Cost

The FEC's costs are consolidated into one program, "Administering and Enforcing the FECA," and consisted of the following as of September 30, 2011 and September 30, 2010, respectively:

	2011	2010
Intragovernmental:		
Intragovernmental gross costs	$ 18,390,897	$ 17,997,548
Intragovernmental net costs	18,390,897	17,997,548
Public:		
Gross costs with the public	49,754,366	51,771,214
Net costs with the public	49,754,366	51,771,214
Net Cost of Operations	$ 68,145,263	$ 69,768,762

Costs incurred for goods and services provided by other federal entities are reported in the full costs of the FEC's program and are indentified 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 year ended September 30, 2011, budgetary resources were $68,464,522 and net outlays were $64,241,937. For the year ended September 30, 2010, budgetary resources were $68,690,110 and net outlays were $63,983,467.

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, 2011 and September 30, 2010, direct obligations incurred amounted to $65,164,366 and $66,333,780, 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 to the related actual balances published in the *Budget of the United States Government* (Budget). The Budget that will include FY 2011 actual budgetary execution information is scheduled for publication in February 2012, 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 2010 SBR and the related President's Budget reflected the following:

FY 2010	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Statement of Budgetary Resources	$ 68,690,110	$ 66,339,780	-	$ 63,983,467
Budget of the U.S. Government	67,000,000	66,000,000	-	64,000,000
Difference	$ 1,690,110	$ 339,780	$ -	$ (16,533)

The difference between the Statement of Budgetary Resources and the *Budget of the United States 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

The 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:

Custodial Revenue	**2011**	**2010**
Fines, Penalties, and Other Miscellaneous Revenue	$ 1,157,318	$ 1,023,494
Custodial Liability		
Receivable for Fines and Penalties	$ 295,655	$ 64,044
Less: Allowance for Doubtful Accounts	(84,601)	(48,562)
Total Custodial Liability	$ 211,054	$ 15,482

The Custodial Liability account represents the amount of custodial revenue pending transfer to Treasury. Accrual adjustments reflected on the Statement of Custodial Activity represent the difference between the FEC's opening and closing accounts receivable balances. Accounts receivable are the funds owed to the FEC (as a custodian) and ultimately to Treasury. The accrual adjustment for civil penalties is composed of a net increase of approximately $174,000 for FY 2011 and a net decrease of approximately $168,000 of custodial activities for FY 2010, respectively. The accrual adjustment for administrative fines is composed of a net increase of approximately $21,000 in FY 2011 and net decrease of approximately $21,000 in custodial activity for FY 2010, respectively.

Note 12 – Undelivered Orders at the End of the Period

Undelivered orders as of September 30, 2011 and September 30, 2010 totaled $5,851,773 and $6,048,071, 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.

	2011	2010
Resources used to finance activities		
Budgetary resources obligated		
Obligations incurred	$ 65,164,366	$ 66,333,780
Less: Recoveries and offsetting collections	(163,262)	(609,815)
Net obligations	65,001,104	65,723,965
Other resources		
Imputed financing from costs absorbed by others	2,918,189	3,135,342
Total resources used to finance activities	67,919,293	68,859,307
Resources used to finance items not part of the net cost of operations		
Change in budgetary resources obligated for goods, services, and benefits ordered but not yet provided	(196,299)	990,898
Resources that fund expenses recognized in prior periods	149,295	87,060
Resources that finance the acquisition of assets that do not affect net cost of operations	2,191,441	932,138
Total resources used to finance items not part of the net cost of operations	2,144,437	2,010,096
Total resources used to finance the net cost of operations	65,774,856	66,849,211
Components of the net cost of operations that will not require or generate resources in the current period		
Components requiring or generating resources in future periods		
Increase in annual leave liability	43,484	1,803
Other	132	60,627
Total	43,616	62,430
Components not requiring or generating resources		
Depreciation and amortization	2,184,617	2,589,436
Revaluation of assets or liabilities	142,174	267,685
Total	2,326,791	2,857,121
Total components of the net cost of operations that will not require or generate resources in the current period	2,370,407	2,919,551
Net cost of operations	$ 68,145,263	$ 69,768,762

Section IV
Other Accompanying Information

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 14, 2011

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) 2011.*

The Inspector General has identified three management and performance challenges for inclusion in the FEC's FY 2011 PAR:

Governance Framework
Human Capital Management
Information Technology Security

The Inspector General first identified information technology security as a challenge in 2004, the first year the Inspector General prepared a report of this kind. In 2005, human capital management was added, and in 2008, governance framework was also identified as a challenge for the FEC. In all three cases, these areas have continued to be challenges each year. While the FEC has made progress in addressing these areas, there still needs to be a considerable amount of progress before these issues are no longer considered challenges.

The Inspector General's annual assessment of management and performance challenges is based on information derived from a combination of several sources, including Office of Inspector General audit and inspection work, Commission reports, and a general knowledge of the Commission's programs and activities.

The *Reports Consolidation Act of 2000* permits agency comment on the Inspector General's statements. Agency comments, if applicable, are to be included in the final version of the PAR that is due November 15, 2011.

Lynne A. McFarland
Inspector General

Attachment

Cc: Alec Palmer, Staff Director and Chief Information Officer
Anthony Herman, General Counsel
Mary G. Sprague, Chief Financial Officer
Judy S. McLaughlin, Director, Office of Human Resources

FEDERAL ELECTION COMMISSION (FEC) MANAGEMENT and PERFORMANCE CHALLENGES FY 2011		
Governance Framework		
A governance framework consists of the structure and stability of an organization's senior leadership that are accountable for the organization's mission and objectives. The absence of a proper governance framework hinders the organization from efficiently and effectively carrying out the mission of the organization. The Inspector General's fiscal year 2008 assessment of management challenges documented the agency's challenge to recruit and retain staff in key senior leadership positions. The Office of Inspector General (OIG) notes that the FEC was successful in filling three key leadership positions that were vacant during fiscal year (FY) 2010 and into FY 2011. The Chief Information Officer, who had served as the Acting Staff Director since August 2009, was officially named as the permanent Staff Director, and the Deputy Staff Director for Management and Administration position, which had not been permanently staffed since July 2008, was also filled. In addition, the General Counsel (GC) position, which became vacant during FY 2010, was recruited from outside the agency and the new GC started at the FEC in September 2011. Although the FEC has made progress addressing challenges in the agency's governance framework, there are still challenges which are described below.		
Challenge	**Management Solution**[*]	**OIG Assessment/Comment**
1. Audit Follow-up		
• Management continuously fails to implement outstanding audit recommendations in a timely fashion. In addition, several FEC audit follow-up officials do not consistently comply with their responsibilities established in Commission Directive 50: Audit Follow-up. Specifically, the audit follow-up officials do not regularly meet with the OIG to resolve outstanding recommendations, or do not consistently provide status reports to the Commission regarding the status of outstanding audit recommendations.	• As a result of an OIG initiative, FEC follow-up officials have made some improvement in the reporting of outstanding recommendations to the Commission. For the *2010 Follow-up Audit of Privacy and Data Protection*, management stated that they will consider holding quarterly meetings with the OIG to discuss resolution of outstanding audit recommendations.	• The OIG currently has four (4) audits that collectively have 161 recommendations outstanding for more than six (6) months. The OIG conducted a follow-up audit of the FEC's transit benefit program in FY 2008 and recently conducted follow-up audits of procurement and contract management, and privacy and data protection. All three follow-up audits identified: management had made minimal improvement in each area; and additional audit findings and recommendations were reported by the OIG.

[*] The FEC management's response to the Inspector General's assessment follows in a separate document.

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Challenge	Management Solution	OIG Assessment/Comment
		Audit follow-up Cont'd. • The OIG believes that management can begin rectifying this situation by consistently complying with their responsibilities identified in Commission Directive 50. For example, this would include consistently providing the Commission with a status report in May and November of each year detailing the status of outstanding recommendations and conducting regular meetings with the Inspector General to discuss outstanding recommendations.
2. Business Plans		
• The agency continues to lack detailed business plans for the individual agency offices and divisions. These business plans should be linked to the agency's goals and objectives contained in the strategic plan that fulfill the mission of the agency. Due to the lack of business plans for the offices and divisions, individual employee performance plans are not aligned with documented goals and objectives of the offices and divisions, which can cause inadequate performance measures and performance results.	• Business plans have not been implemented for the various agency offices and divisions. However, the FEC has developed a timeline for revising the agency's strategic plan. According to the agency, the Commission is currently on the first phase of implementation. In FY 2012, the agency plans to identify the Commission's priority goals, and also plans to revisit agency priorities and strategic initiatives.	• Business plans for the offices and divisions that link to the agency's goals and objectives are critical to properly carry out the mission of the agency. The development of business plans for each office/division should also align with the individual employee performance plans to ensure clear performance measures and reporting adequate performance results.
3. Critical Agency Positions		
• Position Vacancies: Key positions including the Associate General Counsel for Enforcement and Assistant General Counsel for Enforcement have not been filled with permanent staff since July 2010. As fiscal year 2012 includes an election year, OIG considers these positions mission critical for the agency.	• Position Vacancies: The agency is currently recruiting for the two Office of General Counsel positions.	• Position Vacancies: The OIG is encouraged that the agency now is moving forward to fill these critical positions in FY 2012.

Challenge	Management Solution	OIG Assessment/Comment
Critical Agency Positions Cont'd. • Governance Structure: The agency has established Co-Chief Privacy Officers (Chief Information Officer and Associate General Counsel for General Law and Advice) who share the responsibilities of managing the FEC's privacy program along with fulfilling their other full-time duties.	• Governance Structure: Agency management does not believe a single Chief Privacy Officer is necessary to effectively oversee the FEC's privacy and data protection program. Instead, agency privacy responsibilities are shared between two senior officials.	• Governance Structure: The OIG believes the agency should have a single individual responsible for managing the FEC's privacy program. Having one individual appointed for privacy issues would allow the agency to: 1) adhere to required federal regulations in a timely fashion; 2) ensure proper handling of personally identifiable information within the agency; and 3) establish adequate oversight and monitoring, which a 2010 OIG follow-up audit concluded was not being accomplished under the agency's current governance structure for the privacy program. The two senior officials holding the positions of Co-Chief Privacy Officer (CPO) have full-time positions that are heavily involved in the core mission of the agency. For example, one of the Co-CPOs is responsible for the Information Technology Division, Office of the Staff Director, and co-managing the agency's privacy program. As demonstrated by recent OIG audit work, it is a challenge for the current Co-CPOs to devote the time necessary to ensure the FEC has a robust privacy and data protection program.

Challenge	Management Solution	OIG Assessment/Comment
4. ***Commission Directives***		
• As stated in the IG's FY 2010 management challenges, the Commission rescinded several policy directives covering agency programs/issues in 2007. However, updates or replacement guidance for agency staff has not been provided. The Commission currently has several directives that have been rescinded, but have not been replaced with new directives for programs/issues still active. In addition, the Commission has directives that are still in draft, and official directives that have effective dates as early as 1978.	• Minimal attention has been devoted to update or replace directives, or provide a better communication method to inform staff of policies and procedures.	• It is important that the agency maintain up-to-date policies and procedures so that expectations are clear and to illustrate proper business conduct to all staff. The agency should establish a process to ensure that all Commission directives are updated and communicated to staff.

FEDERAL ELECTION COMMISSION (FEC)
MANAGEMENT and PERFORMANCE CHALLENGES
FY 2011

Human Capital Management

The Office of Human Resources (OHR) and Labor Relations is vital to ensuring a human capital management framework is developed and implemented at the Commission, and that the framework supports the agency's overall goals and objectives. In June 2009, the Office of Personnel Management (OPM) performed an evaluation of the Commission's Human Capital Management and issued a report in November 2009 of its findings along with recommendations. The review encompassed the five areas of the Human Capital Assessment and Accountability Framework (HCAAF): Strategic Alignment; Leadership/Knowledge Management; Results Oriented Performance Culture; Talent Management; and Accountability. In January 2011, The FEC completed the Corrective action plans (CAPs) to address the outstanding OPM findings and recommendations. According to the FEC, several OPM findings were addressed in fiscal year 2010 and 2011 and many corrective action items are currently in process. Although the FEC has made some progress with implementing the OPM recommendations, it could take several years to remediate all the findings and to fully actualize a comprehensive HCAAF. The OIG has identified the major challenges facing OHR as described below.

Challenge	Management Solution*	OIG Assessment/Comment
1. Human Capital Framework		
• The FEC has struggled to create a comprehensive and effective human capital management system for the agency which was one of the most significant issues reported by OPM. This is partially due to the 75% turnover rate in OHR staff discussed in the OIG's management challenges in FY 2010.	• OHR has awarded two contracts to conduct an agency wide workforce analysis, competency gap analysis, and assessment of the FEC's future needs. Once these analyses are completed, the results will be used to develop a Human Capital (HC) Plan that aligns with the overall strategic plan of the FEC, identify mission critical positions, and develop a succession program.	• To determine if the FEC's human capital management system is fully implemented and working effectively, the HC plan will need to be fully defined, communicated agency wide, progress evaluated against desired results, continuously monitored, and reported on. The FEC OIG's fiscal year 2012 work plan includes an audit of OHR. As part of the audit, OIG will follow-up to ensure appropriate corrective actions were implemented to remediate existing human capital framework weaknesses identified by OPM.
2. Customer Service		
• Based on the FEC OHR's 2011 internal employee survey, customer service continues to be a challenge for OHR and much improvement is still needed. One of the areas that FEC's employees rated the lowest in terms of level of satisfaction was related to OHR response time to inquiries.	• OHR is in the process of implementing "HR on demand" which will be a centralized email system employees will be instructed to send all HR inquiries to. This will enable better oversight and response time for communications with FEC employees.	• OIG agrees that once the "HR on demand" email system is implemented, this should help management monitor OHR response time to employee inquiries.

* The FEC management's response to the Inspector General's assessment follows in a separate document.

Challenge	Management Solution	OIG Assessment/Comment
<u>Customer Service Cont'd.</u> • The quality of customer service provided by OHR needs to be improved. Currently, OHR does not have the organizational structure that is necessary to provide efficient and effective customer service to Commission employees. Specifically, due to the size of the OHR staff, cross-training will be necessary to ensure the necessary skill sets are developed to ensure sufficient coverage is available when members are on leave and/or when assistance is needed during heavier workloads. In addition, as the new OHR staff becomes more knowledgeable on FEC operations, the HR Director's time can be devoted less on responding to day-to-day issues and instead focused on supervision, strategic planning, and other managerial issues. In order to make meaningful gains in this area, the entire OHR staff must be committed to achieving these goals.	• Once the OHR competency gap analysis is completed, individual development plans will be created which will include recommended training necessary to ensure adequate cross-training.	• Once the competency gap analysis is completed and individual development plans are created, management must ensure that OHR staff receives the proper training and that performance is monitored against desired results.
3. *Policies and Procedures*		
• Policies for human resource management are not adequately kept up to date and are not widely distributed to all FEC staff when finalized.	• HR policies are in the process of being updated. The Director of OHR is considering utilizing Livelink, a computer software application, to house all HR policies.	• Outdated policies that are still relevant should be updated as soon as possible and communicated to all staff.

FEDERAL ELECTION COMMISSION (FEC) MANAGEMENT and PERFORMANCE CHALLENGES FY 2011		
Information Technology Security		
The FEC's information technology security program has made several improvements since 2004. However, steps still need to be taken to ensure that the FEC has a complete and robust security program. The challenges faced by the FEC in information technology (IT) security are shared by other federal agencies. The Government Accountability Office (GAO) has identified monitoring and evaluating IT policy and controls effectiveness as a key element to implementing an agency-wide security program. An agency–wide security management program should be in place to establish a framework to manage security risks, develop security policies, assign responsibilities and monitor the adequacy of computer security related controls.		
Challenge	**Management Solution***	**OIG Assessment/Comment**
1. Best Practice Standards		
• FEC has not implemented information technology (IT) security standards issued by the National Institute of Standards and Technology (NIST) due to their exemption from the Paperwork Reduction Act (PRA), a law which includes a requirement that federal agencies adhere to NIST IT security standards. Rather than voluntarily adopt the NIST standards, or another set of IT security best practices, as other PRA exempt agencies have done, the FEC has chosen an ad-hoc set of IT security policies and procedures. This approach increases the risk that FEC information is subject to unauthorized access, use, disclosure, and modification.	• The Commission disagrees that the agency should formally adopt government-wide IT security standards. FEC management has stated to the Inspector General on several occasions that the agency follows IT security best practices.	• Since 2004, the OIG has reported, and continues to believe that it is in the best interest of the agency to formally adopt government-wide IT security standards to ensure the FEC has an effective information security program. For several years, the OIG's auditors have identified IT practices that are not aligned with the minimal best practice standards that are followed by federal agencies government-wide. Lastly, the agency has failed to adequately define the set of best practices used to secure the FEC's information technology.

* The FEC management's response to the Inspector General's assessment follows in a separate document.

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Challenge	Management Solution	OIG Assessment/Comment
Best Practice Standards Cont'd. • Although mandated in the Federal Acquisition Regulation (FAR), the FEC does not require their IT contractors to follow FAR IT security standards due to the FEC's exemption from the PRA.	• FEC management disagrees that the agency should require IT contractors working for the FEC to adhere to government-wide IT security standards.	• The FEC has stated that IT contractors are evaluated against the FEC's established best practice standards; however, the OIG believes this approach is inadequate because the best practice standards used by the FEC consistently do not meet the minimal best practice standards used government-wide, are often times not documented, and risk analyses have not been conducted to justify the agency's deviations from the government-wide IT best practice standards.
2. *Continuity Of Operations Plan (COOP)*		
• FEC has not completed training and testing of the FEC's COOP, which is a critical control process in the design and finalization of FEC's COOP. In addition, FEC has not provided all of the office and division managers responsible for COOP with the appropriate materials for their office's COOP.	• FEC held an IT information session in the summer of 2011 for agency staff stating their plan to begin testing the COOP to ensure all areas are working properly and to commit to continuous monitoring of the plan. FEC has not communicated with those managers involved with COOP regarding when they will receive the final copy of their COOP materials; and a training and test schedule.	• The OIG believes that the FEC has not devoted sufficient resources to ensure the agency's COOP is finalized, the plan is tested, and responsible officials are trained on the plan. To properly prepare the agency in case of a disaster, appropriate resources should be assigned to this task as soon as possible to complete this important control process. The contract for the development of the FEC's COOP plans for each division was completed in November 2010. Nearly twelve months later, the FEC has not provided all responsible officials with the final COOP materials; and testing and training have not been provided or scheduled for all divisions.

Challenge	Management Solution	OIG Assessment/Comment
3. ***User Access Controls***		
• FEC has struggled with the IT controls over user access since FY 2004. For example, in 2009 the FEC failed to terminate computer network access for several separated employees. Some employees' access was not terminated until three (3) months after they were separated from the agency. In 2010, it was noted that 18 network accounts for separated employees were still active. More recently, one employee's network access was still active after being separated from the agency for three (3) years.	• FEC has agreed to evaluate the feasibility of implementing an automatic security control that will disable all user accounts after 30 days of inactivity.	• The OIG believes the FEC would gain a greater benefit from putting forth the effort to improve their current electronic resource (FEC System Access) and human resource training to ensure network access for separated employees is terminated in a timely manner. However, if management finds it feasible to implement the automatic security control for terminated employees, this should be an improvement from the current process.
• FEC has failed to fully implement the Federal Desktop Core Configuration (FDCC) requirements that the Office of Management and Budget (OMB) has established in 1997 as "best practices" for computer configurations. The FEC has failed to: o disable functions such as workstation file sharing, remote desktop sharing, and remote registry access; o timely install patches, hot-fixes, and service packs; o ensure service packs are updated and still supported by the vendor; and o implement a continuous monitoring program that would identify deficiencies.	• FEC has chosen to select certain FDCC requirement to implement based on their definition of best practice, "management strives to strike a balance between security and business needs." FEC has stated that the agency is 75% compliant with FDCC requirements and expects full implementation of the selected requirements by 2012.	• The OIG continues to believe that the FEC should implement the minimum FDCC requirements established for the federal government to reduce the agency's security risk and exposure to viruses and potential IT hackers. In addition, deviations from the minimum security controls that have been established for the federal government should be based on documentation showing the accepted risks from not adopting the minimum security control, and the benefits gained.

FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20463

**MANAGEMENT'S RESPONSE TO THE
MANAGEMENT AND PERFORMANCE CHALLENGES
IDENTIFIED BY THE INSPECTOR GENERAL**

In a memorandum dated October 14, 2011, the agency's Inspector General (IG) identified three challenges facing management. The Federal Election Commission's response to the IG's assessment is detailed below.

Governance

As the Inspector General notes, over the past three years the FEC has been challenged by a high number of vacancies in key leadership positions, including the Staff Director, General Counsel and Deputy Staff Director for Management and Administration. However, in FY 2011 the Commission successfully filled each of these positions and, with new leadership in place, has taken significant steps to enhance its governance framework. One area of improvement is the agency's response to audit findings. For example, in the past three years, the Office of the Chief Financial Officer (OCFO) has made significant progress in establishing and updating important policies and procedures. The OCFO has implemented a corrective action plan (CAP) in response to the findings of the procurement audit. To ensure compliance with FEC Directive 50, the OCFO provides any of their CAPs to the Commission as part of the quarterly financial reports. The latest update was provided by the CFO on October 17, 2011. Similarly, the 2010 Follow-up of the Inspector General's Audit of Privacy and Data Protection was completed in May 2011, and a CAP was provided to the Commission and Inspector General's Office on June 8, 2011, with future reports to be provided on a quarterly basis.

The agency also made progress during the year in responding to the Inspector General's FY 2008 follow-up audit of the FEC's transit benefit program. The Office of the Inspector General (OIG) recommended a total of 58 corrective actions. Since that time, Office of Human Resources (OHR) personnel have conducted frequent meetings with OIG officials and provided and updated a CAP, as needed. In October 2010, OHR met formally with the OIG, and the offices held a number of additional informal meetings, maintaining frequent contact throughout the year. In January, May and September of 2011, OHR submitted updated CAPs to the OIG. To date, 44 out of the 58 recommended corrective actions have been implemented. The remaining 14 actions fall under four major areas: program application, annual recertification, policy and training. These remaining actions are planned to be completed during FY 2012.

In addition, the agency made significant progress in FY 2011 in responding to findings from OPM's June 2009 evaluation of the FEC's human resources practices. As a result of a meeting held in February 2011 between OPM and FEC officials, the FEC and OPM agreed upon the FEC's plan for addressing the its human capital challenges. The agency subsequently drafted a Human Capital Plan, as recommended by OPM, and also solicited private sector assistance for conducting an in-depth analysis of its entire workforce. On August 15, 2011, the FEC provided the OIG with an updated CAP for the OPM Audit. The Commission has completed 11 out of the 33 actions recommended by OPM, and the remaining actions are in various stages of development and implementation.

In order to ensure that it successfully fulfills its mission and makes the best use of its human capital resources, the Commission devotes significant attention to the agency's management plan and the annual goals of each division or office within the agency. At the beginning of FY 2011, each division developed and submitted divisional goals. However, because the agency was under several Continuing Resolutions and did not receive a budget until April 2011, the Commission could not approve the agency's management plan until the end of the third quarter of the fiscal year. As a result, the agency was not left with enough time to develop meaningful divisional business plans based on actual FY 2011 funding. However, individual performance plans for managers were aligned with divisional goals, as defined at the beginning of the fiscal year.

Human Capital

The Commission made notable improvements in its human capital management during the year and has overcome many of its recent challenges. During 2010, OHR experienced significant and sudden staff turnover that disrupted its response to OPM's 2009 evaluation of the FEC's human capital management. In FY 2011, OHR was again fully staffed and undertook an analysis of the office in order to determine its competency gaps. To mitigate the identified gaps, the FEC initiated a project to restructure the office, and a pilot scenario will be tested in FY 2012. The agency also provided leadership coaching for the OHR Director, and OHR staff went through two team-building sessions. In addition to these efforts to improve soft skills, OHR staff took training courses to improve their technical skills during FY 2011.

As recommended in OPM's assessment of the FEC's human capital management, the FEC is also drafting a Strategic Human Capital Management Plan to initiate succession planning; ensure the agency acquires, develops and maintains the best talent; improve Human Resources policies and procedures and measure individual employee performance effectively. Additionally, the Commission will critically evaluate the distribution of its workforce and identify any missing skills and competencies required for effective and efficient delivery of the Commission's new strategic direction and priority initiatives.

The FEC is also committed to building an effective and collaborative relationship with the National Treasury Employees Union (NTEU), the exclusive representative of FEC bargaining unit employees. Two-thirds of the Commission's employees are NTEU members. The Commission will work cooperatively with the NTEU in developing its Strategic Human Capital Management Plan. In addition, the FEC chartered a Labor Management Forum under the authority of Executive Order 13522, *Creating Labor-Management Forums to Improve Delivery of Governmental Services*.[1] The Forum is intended to promote improvements in overall FEC efficiency and effectiveness, improve employee satisfaction, assist in the development of cooperative and productive labor-management relations and encourage the involvement of employees in workplace issues through their union representatives. In FY 2011, the Forum identified its members and goals, along with metrics for measuring its success at meeting those goals.

1 The President, *Creating Labor-Management Forums to Improve Delivery of Government Services*, Exec. Order 13522, 74 Fed. Reg. 66203 (Dec. 14, 2009).

The Commission has also begun developing a new strategic plan, as required by the *GPRA Modernization Act of 2010*. One outcome of these strategic planning activities is expected to be updated performance measures and individual performance plans that tie the performance of each FEC employee to the strategic goal and objectives of the agency. Improving the FEC's performance management system will require steady and long-term cultural and practical changes, and much work remains to be done. However, the progress made in FY 2011 toward a comprehensive and effective human capital management strategy will ensure that the Commission is well prepared to face future human capital challenges and has the necessary tools for understanding and managing its future workforce.

Information Technology Security

The agency maintains the highest level of commitment to its information technology security. Although the FEC is exempted from the *Paperwork Reduction Act* (PRA), which requires federal agencies to adhere to the National Institute of Standards and Technology (NIST) standards for information technology security, it continues to use these standards as guidance. As a small agency, the FEC would be especially burdened by the additional overhead expenses associated with adhering to all NIST standards. Instead, the agency retains the flexibility to adopt NIST guidelines as appropriate, which was the original intent of these standards, and to consider best practices identified from other sources where those standards will best serve the FEC's needs. NIST standards nevertheless form the basis for the FEC's security program. Utilizing this guidance, the FEC has identified 29 best practices and implemented policies based upon them. The FEC is currently evaluating additional best practices to determine whether incorporating them into its security program will support the agency's overall IT security needs. In addition, the agency's 2009 third party, independent Certification and Accreditation project was based upon NIST standards. These policies and the Certification and Accreditation process describe not only the FEC's minimum security controls, but also affirm its decision not to rely upon a single source of guidance for best practices. Instead, the FEC draws upon other sources and tailors those best practices to its unique computing environment.

The FEC also continues to make significant progress in establishing and implementing its Continuity of Operations Plan (COOP). The COOP for the entire agency, complete with individual division volumes, was completed in November 2010. Agency leadership and division management played a major role in the development of the overall COOP. The FEC plans to conduct testing of the COOP at the individual division level, as well as at the overall agency level, during FY 2012. The FEC's COOP is accessible to all agency personnel via the agency's internal network.

In addition, the FEC continues to improve upon the FEC System Access (FSA) application implemented last year to improve access controls by automating the process of tracking staff and contactors from the beginning to the end of their FEC employment. In FY 2011, the FEC was already 75% compliant and, with continued improvements to the system, including human resources training, expects to increase that percentage in FY 2012.

Improper Payments Information Act Reporting Details

The *Improper Payments Information Act* (IPIA) of 2002, as amended by the *Improper Payments Elimination and Recovery Act* (IPERA) *of 2010*, requires agencies to review all programs and activities they administer and identify those which may be susceptible to significant erroneous payments. In FY 2011, the FEC performed a systematic review of its program and related activities to identify processes which may be susceptible to significant erroneous payments. Significant erroneous payments are defined as annual erroneous payments in the program exceeding both $10 million and 2.5 percent or $100 million of total annual program payments. The risk assessment included the consideration of risk factors that are likely to contribute to significant improper payments. The risk assessment was performed for the FEC's only program area which is to administer and enforce the *Federal Election Campaign Act*.

Risk Assessment

In FY 2011 the FEC considered risk factors as outlined in OMB Memorandum M-11-16, *Issuance of Revised Parts I and II to Appendix C of OMB Circular A-123* which may significantly increase the risk of improper payments and determined that none are applicable to FEC's operations. Based on the systematic review performed the FEC concluded that none of its program activities are susceptible to significant improper payments at or above the threshold levels set by OMB.

Recapture of Improper Payments Reporting

The FEC has determined that the risk of improper payments is low; therefore, implementing a payment recapture audit program is not applicable to the agency.

IPIA (as amended by IPERA) REPORTING DETAILS	AGENCY RESPONSE
Risk Assessment	Reviewed as noted above.
Statistical Sampling	Not Applicable.*
Corrective Actions	Not Applicable.*
Improper Payment Reporting	Not Applicable.*
Recapture of Improper Payments Reporting	Not Applicable.*
Accountability	Not Applicable.*
Agency information systems and other infrastructure	Not Applicable.*
Barriers	Not Applicable.*

*The FEC does not have programs or activities that are susceptible to significant improper payments.

APPENDIX
List of Acronyms

ADR	Alternative Dispute Resolution
AF	Administrative Fine
AICPA	American Institute of Certified Public Accountants
AO	Advisory Opinion
ATDA	Accountability of Tax Dollars Act
BCRA	Bipartisan Campaign Reform Act
CFO	Chief Financial Officer
CIO	Chief Information Officer
CFR	Code of Federal Regulations
CHRIS	Comprehensive Human Resources Integrated System
CSRS	Civil Service Retirement System
DOL	Department of Labor
E&J	Explanation and Justification
FASAB	Federal Accounting Standards Advisory Board
FBWT	Fund Balance with Treasury
FCAT-HR	Federal Competency Assessment Tool for Human Resources
FEC	Federal Election Commission
FECA	Federal Election Campaign Act
FECA	Federal Employees Compensation Act
FERS	Federal Employees' Retirement System
FFMIA	Federal Financial Management Improvement Act
FICA	Federal Insurance Contribution Act
FISMA	Federal Information Security Management Act
FMFIA	Federal Managers' Financial Integrity Act
FMLOB	Financial Management Line of Business
FOIA	Freedom of Information Act
FTE	Full-time Equivalent
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GPRA	Government Performance and Results Act
GSA	General Services Administration
HLOGA	Honest Leadership and Open Government Act
IG	Inspector General

IPIA	Improper Payments Information Act
IRS	Internal Revenue Service
IT	Information Technology
LOB	Line of Business
MD&A	Management's Discussion and Analysis
MUR	Matters under Review
NFC	U. S. Department of Agriculture National Finance Center
NIST	National Institute of Standards and Technology
NPRM	Notices of Proposed Rulemaking
OCFO	Office of the Chief Financial Officer
OCIO	Office of the Chief Information Officer
OAR	Office of Administrative Review
OGC	Office of General Counsel
OHR	Office of Human Resources
OIG	Office of the Inspector General
OMB	Office of Management and Budget
OPM	Office of Personnel Management
P&E	Property and Equipment
PART	Performance Assessment Rating Tool
PAC	Political Action Committee
PAR	Performance and Accountability Report
PEC	Presidential Election Campaign
PMA	President's Management Agenda
RAD	Reports and Analysis Division
RFAI	Request for Additional Information
SAS	Statement on Auditing Standards
SBR	Statement of Budgetary Resources
SFFAS	Statement of Federal Financial Accounting Standards
SHCP	Strategic Human Capital Plan
SNC	Statement of Net Cost
SOF	Statement of Financing
TSP	Thrift Savings Plan
USC	United States Code