Federal Election Commission

Agency Financial Report

Fiscal Year 2018

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Federal Election Commission
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Message from the Chair

FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20463

OFFICE OF THE CHAIR

November 15, 2018

I am pleased to present the Federal Election Commission's (FEC) Agency Financial Report (AFR) for Fiscal Year (FY) 2018. The AFR 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 FEC protects the integrity of the Federal campaign finance process by providing the public with accurate and accessible information about how candidates raise and spend funds to support their campaigns, enforcing the campaign finance laws, and encouraging voluntary compliance through timely advice and educational outreach. By furnishing the public with timely and transparent campaign finance data and fairly and effectively enforcing the law, the Commission safeguards against corruption or its appearance and provides the citizenry with crucial information by which to evaluate candidates for Federal office.

The FEC continues to seek opportunities to make its systems and processes more efficient and effective, including efforts to redesign the FEC website and to migrate data to a cloud environment. As a result, the FEC was able to shut down one of its four physical data centers during FY 2018 and begin to realize lower annual costs for maintaining its campaign finance database, despite a steep rise in the number of financial transactions reported to the agency each year. At the same time, the FEC has continued to prioritize improving the customer service it provides and ensuring that campaign finance information is readily available to the public.

With respect to the agency's FY 2018 annual financial statements, the Commission received an unmodified opinion from its independent auditors. This unmodified opinion reflects the continued commitment by the Commissioners and FEC staff to ensure that the FEC's financial statements present fairly the agency's fiscal position.

The performance data described in the FEC's FY 2018 AFR were compiled and evaluated using appropriate techniques for achieving the desired level of credibility for the verification and validation of performance data relative to its intended use.

The efforts described in this report reflect the work and dedication of the agency's staff. The Commission looks forward to building on its achievements in FY 2018 in order to fulfill the mission of the agency in the most efficient manner possible.

On behalf of the Commission,

Caroline C. Hunter
Chair

How to Use This Report

This Agency Financial Report presents financial information, as well as relevant performance information, on the Federal Election Commission's 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, 2017 through September 30, 2018.

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 https://www.fec.gov/about/reports-about-fec/strategy-budget-and-performance/.

The FY 2018 Agency Financial Report is organized into three primary 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. It also includes relevant performance information related to the FEC's strategic goals and objectives to provide a forward-looking discussion of future challenges.

Section II – Financial Information, including the Independent Auditor's Report, detailing 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 III – Other Information includes our Inspector General's (IG) assessment of the FEC's management challenges and the FEC's response.

SECTION I – Management's Discussion and Analysis

Section I.A: Mission and Organizational Structure

The Federal Election Commission is an independent regulatory agency responsible for administering, enforcing, defending and interpreting the *Federal Election Campaign Act of 1971*, as amended (*FECA* or *the Act*).[1] Congress created the FEC to administer, enforce and formulate policy with respect to the *FECA*. The *Act* reflects a belief that democracy works best when voters can make informed decisions in the political process—decisions based in part on knowing the sources of financial support for Federal candidates, political party committees and other political committees. Public confidence in the political process also depends on the knowledge that participants in Federal elections follow clear and well-defined rules and face consequences for non-compliance.

Under the *Act*, all Federal political committees, including the committees of Presidential, Senate and House candidates, must file reports of receipts and disbursements. The FEC makes disclosure reports, and the data contained in them, available to the public through the Commission's Internet-based public disclosure system on the Commission's website, as well as in a public records office at the Commission's Washington, D.C. headquarters. The FEC also has exclusive responsibility for civil enforcement of the *Act*, and has litigating authority independent of the Department of Justice in U.S. district court and the courts of appeals. Additionally, the Commission promulgates regulations implementing the *Act* and issues advisory opinions responding to inquiries regarding interpretation and application of the *Act* and the Commission's regulations.

Additionally, the Commission is responsible for administering the Federal public funding programs for Presidential campaigns. This responsibility includes certifying and auditing all participating candidates and committees and enforcing the public funding laws.

The FEC has chosen to produce an Agency Financial Report (AFR) and Annual Performance Report (APR) pursuant to the *Government Performance and Results Act of 1993*, as amended. The FEC will include its FY 2018 Annual Performance Report with its Congressional Budget Justification and will post it on the FEC website at https://www.fec.gov/about/reports-about-fec/strategy-budget-and-performance/ in 2019.

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1 The Commission's primary responsibilities pertain to the *Federal Election Campaign Act of 1971,* Public Law 92-225, 86 Stat. 3 (1972) as amended (*codified at* 52 U.S.C. §§ 30101-30145) (formerly at 2 U.S.C. §§ 431-55) (the *Act* or the *FECA*). The Commission's responsibilities for the Federal public funding programs are contained in the *Presidential Election Campaign Fund Act,* Public Law 92-178, 85 Stat. 562 (1971) (*codified at* 26 U.S.C. §§ 9001-13) and the *Presidential Primary Matching Payment Account Act,* Public Law 93-443, 88 Stat. 1297 (1974) (*codified at* 26 U.S.C. §§ 9031-42).

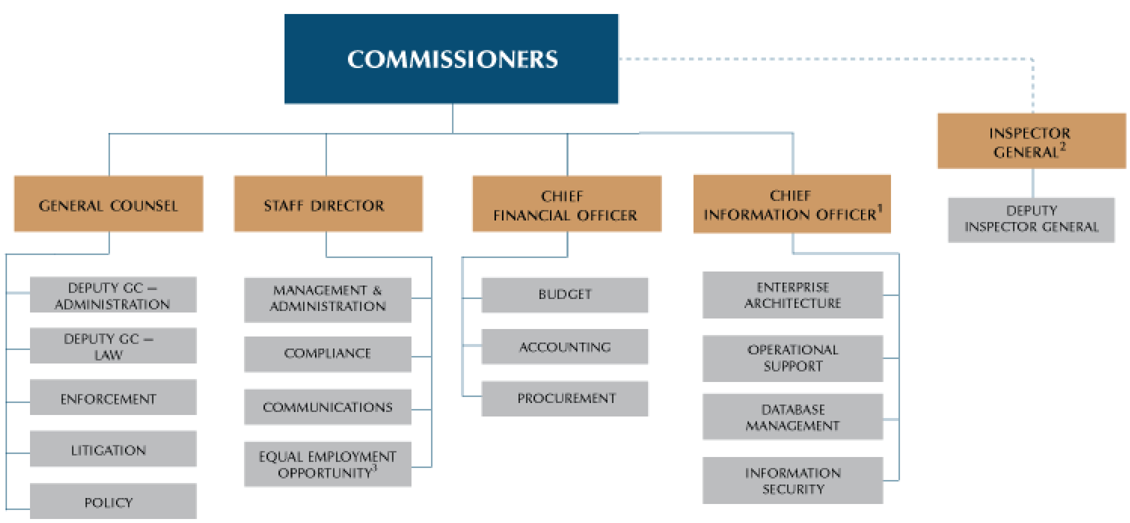
Mission Statement

The FEC's mission is to protect the integrity of the Federal campaign finance process by providing transparency and fairly enforcing and administering Federal campaign finance laws.

Organizational Structure

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. Commissioners may serve beyond their six-year terms until new Commissioners are confirmed. The Chairmanship of the Commission rotates among the members, with no member serving as Chair more than once during his or her six-year term. The Commissioners are responsible for administering and enforcing the *Act* and meet regularly to formulate policy and to vote on significant legal and administrative matters. The *Act* requires the affirmative vote of four members of the Commission to approve official actions, thus requiring bipartisan decision-making. The FEC has its headquarters in Washington, D.C. and does not have any regional offices.

Figure 1: FEC Organizational Chart



1 The position of Chief Information Officer normally reports directly to the Staff Director who, in turn, reports to the Commission itself. At present, however, the same individual is serving in both the position of the Staff Director and the position of the Chief Information Officer, pursuant to an authorization by the Commission and based, in part, on an advance decision from the Comptroller General. Accordingly, the organizational chart reflects both positions – the Staff Director and the Chief Information Officer – as reporting directly to the Commission.

2 The Office of the Inspector General (OIG) independently conducts audits, evaluations, and investigations. OIG keeps the Commission and Congress informed regarding major developments associated with their work.

3 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. See 29 CFR 1614.102(b)(4).

As noted in Figure 1, the offices of the Staff Director, General Counsel, Chief Information Officer and Chief Financial Officer support the agency in accomplishing its mission. The Office of the Inspector General, established within the FEC in 1989 under the 1988 amendments to the *Inspector General Act*, is independent and reports both to the Commissioners and to Congress. The specific roles and responsibilities of each office are described in greater detail below.

- **Office of the Staff Director (OSD)**

The Office of the Staff Director consists of four offices: 1) Management and Administration; 2) Compliance; 3) Communications; and 4) Equal Employment Opportunity. The Office of Management and Administration is responsible for the FEC's strategic planning and performance and works with the Commission to ensure the agency's mission is met efficiently. In addition, this office houses the Commission Secretary, the Office of Human Resources (OHR) and the Administrative Services Division (ASD). The primary responsibilities of the Office of Compliance are review of campaign finance reports and filing assistance, audits, administrative fines and alternative dispute resolution. The Office of Communications includes divisions charged with making campaign finance reports available to the public, encouraging voluntary compliance with the *Act* through educational outreach and training and ensuring effective communication with Congress, executive branch agencies, the media and researchers and the general public. The Equal Employment Opportunity Office administers and ensures compliance with applicable laws, regulations, policies and guidance that prohibit discrimination in the Federal workplace based on race, color, national origin, religion, age, disability, sex, pregnancy, genetic information or retaliation. The EEO Officer reports to the Staff Director on administrative issues, but has direct reporting authority on all EEO matters. *See* 29 CFR 1614.102(b).

- **Office of General Counsel (OGC)**

The Office of General Counsel consists of five organizational units: (1) the Deputy General Counsel—Administration; (2) the Deputy General Counsel—Law; (3) the Policy Division; (4) the Enforcement Division; and (5) the Litigation Division. The Deputy General Counsel—Administration directly supervises the Administrative Law Team, the Law Library and all OGC administrative functions. The Deputy General Counsel—Law has the primary responsibility for assisting the General Counsel in all of the substantive aspects of the General Counsel's duties and shares in the management of all phases of OGC programs, as well as directly supervising the agency's ethics program. The Policy Division drafts for Commission consideration advisory opinions and regulations interpreting the Federal campaign finance law and provides legal advice to the FEC's compliance programs. The Enforcement Division recommends to the Commission appropriate action to take with respect to administrative complaints and apparent violations of the *Act*. Where authorized, the Enforcement Division investigates alleged violations and negotiates conciliation agreements, which may include civil penalties and other remedies. If an enforcement matter is not resolved during the administrative process, the Commission may authorize suit in district court, at which point the matter is transferred to the Litigation Division. The Litigation Division represents the Commission before the Federal district and appellate courts in all civil litigation involving campaign finance statutes. This Division assists the Department of Justice's Office of the Solicitor General when the Commission's *FECA* cases are before the Supreme Court.

- **Office of the Chief Information Officer (OCIO)**

The Office of the Chief Information Officer (OCIO) consists of four units: (1) Enterprise Architecture; (2) Operational Support; (3) Data Administration; and (4) IT Security. The OCIO provides secure, stable and robust technology solutions for Commission staff and the public. OCIO both develops and maintains the systems that serve as the public's primary source of information about campaign finance data and law and ensures agency employees have a technology infrastructure that allows them to perform their day-to-day responsibilities administering and enforcing campaign finance law. OCIO also develops and supports analytic reporting tools that help staff perform their disclosure and compliance duties.

- **Office of the Chief Financial Officer (OCFO)**

The Office of the Chief Financial Officer is responsible for complying with all financial management laws and standards, and all aspects of budget formulation, budget execution and procurement.

Sources of Funds

The FEC also has the authority to collect fees from attendees of agency-sponsored educational conferences. The Commission may use 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 2018 were $161,630.

Figure 2 shows the agency's appropriations and obligations from FY 2014 to FY 2018.

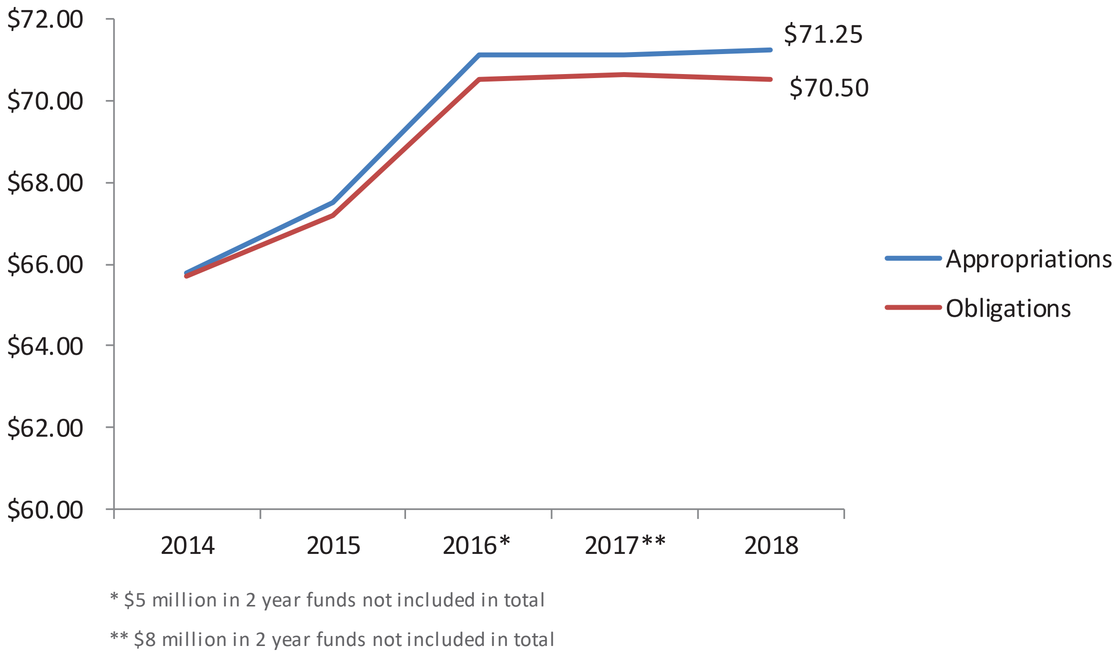


Figure 2: Summary of Funding (in millions of dollars)

Personnel vs. Non-Personnel Costs

Figure 3 represents the Commission's FY 2018 obligations by personnel and non-personnel costs. Personnel costs, which are primarily composed of salaries and employee benefits, accounted for 67 percent of the FEC's costs. The remaining 33 percent of the Commission's costs was spent on non-personnel items, such as infrastructure and support, software and hardware, office rent, building security and other related costs.

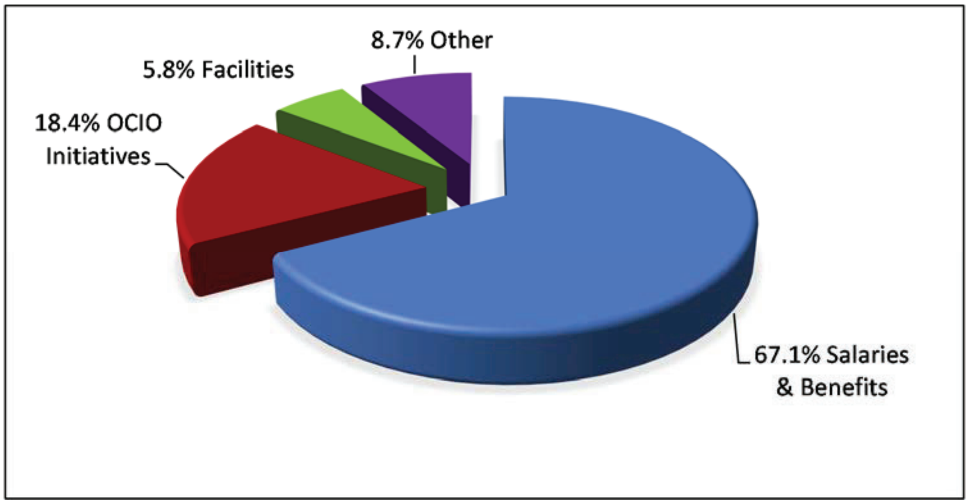


Figure 3: Fiscal Year 2018 by Major Category

Section I.B: Performance Goals, Objectives and Results

This section provides a summary of the results of the FEC's key performance objectives, which are discussed in greater detail in the FEC's FY 2018 APR. This report will be part of the FEC's FY 2020 Congressional Budget Justification, which will be available at https://www.fec.gov/about/reports-about-fec/strategy-budget-and-performance/ in 2019.

Strategic Goal

The strategic goal of the Federal Election Commission is to fairly, efficiently and effectively administer and enforce the *Federal Election Campaign Act*, promote compliance and engage and inform the public about campaign finance data and rules, while maintaining a workforce that delivers results.

Strategic Objectives

The *Act* reflects a belief that democracy works best when voters can make informed decisions in the political process—decisions based in part on knowing the sources of financial support for Federal candidates, political party committees and other political committees. As a result, the FEC's first strategic objective is to inform the public about how Federal campaigns and committees are financed. Public confidence in the political process also depends on the knowledge that participants in Federal elections follow clear and well-defined rules and face consequences for non-compliance. Thus, the FEC's second strategic objective focuses on the Commission's efforts to promote voluntary compliance through educational outreach and to enforce campaign finance laws effectively and fairly. The third strategic objective is to interpret the *FECA* and related statutes, providing timely guidance to the public regarding the requirements of the law. The Commission also understands that organizational performance is driven by employee performance and that the agency cannot successfully achieve its mission without a high-performing workforce that understands expectations and delivers results. Consequently, the FEC's fourth strategic objective is to foster a culture of high performance in order to ensure that the agency accomplishes its mission efficiently and effectively.

Objective 1: Engage and Inform the Public about Campaign Finance Data

The FEC's 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. This system provides for public disclosure of electronically filed reports, via the FEC website, within minutes of being filed. During FYs 2019 and 2020, the FEC will continue work to upgrade the agency's eFiling platform. In FY 2017, the Commission published a study of its current eFiling platform, including a survey of the existing functionality of the FEC's free filing software and an in-depth investigation of needs expressed by filers.[2] The FEC will rely on the recommendations of this study to improve its

[2] Available at https://fec.gov/about/reports-about-fec/agency-operations/e-filing-study-2016/.

eFiling platform to allow greater operating system flexibility for users when generating filings for submission to the Commission and increase the consistency and accuracy of reporting. The FEC's new eFiling platform is expected to improve the process for validating filings prior to acceptance and generate modern file outputs that will provide for more flexibility in accessing data.

The Commission is continuing the redesign of its website by developing a user-centered online platform to deliver campaign finance information to its diverse base of users. This effort will ensure that the FEC provides full and meaningful campaign finance data and information in a manner that meets the public's increasing expectations for data customization and ease of use.

Performance measures for assessing progress on this Strategic Objective include measures to ensure that data from campaign finance reports are quickly made available to the public and that the FEC pursues programs to make data more accessible to the public.

Performance Goal 1-1: Improve the public's access to information about how campaign funds are raised and spent.

Key Indicator: Percent of reports processed within 30 days of receipt.								
FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Actual	FY 2017 Actual	FY 2018 Target	FY 2018 Actual	FY 2019 Target	FY 2020 Target
88%	79%	92%	100%	96%	95%	100%	95%	95%

Objective 2: Promote Compliance with the FECA and Related Statutes

Helping the public 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 (RAD), Press Office and Office of Congressional, Legislative and Intergovernmental Affairs. The FEC measures its progress in meeting this Objective through two performance measures: one that measures the Agency's efforts to encourage voluntary compliance through educational outreach and information and another that measures the FEC's efforts to seek adherence to *FECA* requirements through fair, effective and timely enforcement and compliance programs. Progress against these measures is detailed in the charts below.

Encourage voluntary compliance with FECA requirements through educational outreach and information.

The FEC's education and outreach programs provide information necessary for compliance with campaign finance law and give the public the context necessary to interpret the campaign finance data filers disclose. The FEC maintains a toll-free line and public email accounts to respond to inquiries regarding campaign finance data disclosed to the public and questions about how to comply with campaign finance law and its reporting requirements.

One way the Commission encourages voluntary compliance is by hosting conferences across the country, where Commissioners and staff explain how the *Act* applies to candidates, parties and political action committees. These conferences address recent changes in the law and focus on fundraising, methods of candidate support and reporting regulations.

The FEC also devotes considerable resources to ensuring that staff can provide distance learning opportunities to the general public. 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 law and its requirements. Toward this end, the FEC has moved its focus away from the printing and manual distribution of its educational materials and instead looked for ways to leverage available technologies to create and disseminate dynamic and up-to-date educational materials through the website. While the Commission continues to make available printed copies of its educational brochures and publications, transitioning to primarily web-based media has 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 this broad effort to improve its Internet communications and better serve the educational needs of the public, the Commission maintains its own YouTube channel, which can be found at https://www.youtube.com/user/FECTube. The YouTube channel offers a variety of instructional videos and tutorials that enable users to obtain guidance tailored to their specific activities.

The agency's educational outreach program has been significantly enhanced with the addition of an online training service that enables political committees, reporters, students and other groups to schedule live, interactive online training sessions with FEC staff. This on-demand service allows the FEC to provide tailored, distance learning presentations and training to the public in a manner that will significantly increase the availability of FEC staff to serve the public. The service also offers an efficient and effective way for alternative dispute resolution and other enforcement respondents to satisfy the terms of their agreements with the agency.

Performance Goal 2-1: Encourage voluntary compliance with FECA requirements through educational outreach and information.

Key Indicator: Educational outreach programs and events achieve targeted satisfaction rating on user surveys.								
FY 2013 Actual	**FY 2014 Actual**	**FY 2015 Actual**	**FY 2016 Actual**	**FY 2017 Actual**	**FY 2018 Target**	**FY 2018 Actual**	**FY 2019 Target**	**FY 2020 Target**
N/A	N/A	4.34	4.53	4.43	4.0 or higher on a 5.0 scale	4.53	4.0 or higher on a 5.0 scale	4.0 or higher on a 5.0 scale

Seek adherence to FECA requirements through fair, effective and timely enforcement and compliance programs.

The FEC has formed strategies for ensuring that its enforcement and compliance programs are fair, effective and timely. 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 remains 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. It 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 matters generated by information ascertained by the Commission in the normal course of carrying out its supervisory responsibilities. Enforcement matters are handled by OGC pursuant to the requirements of the *FECA*. If the Commission cannot settle or conciliate a matter involving an alleged violation of the *Act*, the Commission may initiate civil litigation by filing and prosecuting a civil action in Federal district court to address the alleged violation. Closed enforcement matters are available via the FEC website.

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 Program. The Commission's Alternative Dispute Resolution Program is designed to resolve matters more swiftly by encouraging the settlement of less-complex enforcement matters with 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 RAD and the Office of Administrative Review (OAR), which assess monetary penalties and handle challenges to the penalty assessments. The Audit Program conducts "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,* and conducts mandatory audits under the public funding statutes. Subject to limited redactions, threshold requirements approved by the Commission and used by RAD and the Audit Division are public.

Performance Goal 2-2: Seek adherence to FECA requirements through fair, effective and timely enforcement and compliance programs.

Key Indicator: Of the enforcement matters resolved during the fiscal year, the percentage that was resolved within 15 months of the date of receipt.								
FY 2013 Actual	**FY 2014 Actual**	**FY 2015 Actual**	**FY 2016 Actual**	**FY 2017 Actual**	**FY 2018 Target**	**FY 2018 Actual**	**FY 2019 Target**	**FY 2020 Target**
72%	28%	49%	38%	68%	50%	61%	50%	50%

Objective 3: Interpret the FECA and Related Statutes

Commission initiatives, Congressional action, judicial decisions, petitions for rulemaking or other changes in campaign finance law may necessitate that the Commission update or adopt new regulations. Consequently, the FEC undertakes rulemakings either to write new Commission regulations or revise existing regulations. The Commission also provides guidance on how the *Act* applies to specific situations through the advisory opinion process and represents itself in most litigation before the Federal district court and appellate courts. The Commission's three primary means for providing interpretive guidance for the *Act* and related statutes are discussed below.

Regulations

The Policy Division of OGC drafts various rulemaking documents, including Notices of Proposed Rulemaking (NPRMs), for Commission consideration. NPRMs provide an opportunity for the public to review proposed regulations, submit written comments to the Commission and, when appropriate, testify at public hearings at the FEC. 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.

Advisory Opinions

An advisory opinion (AO) is an official Commission response to questions regarding the application of Federal campaign finance law to specific factual situations. The *Act* requires the Commission to respond to AO requests within 60 days. For AO requests from candidates in the two months leading up to an election, the *Act* requires the Commission to respond within 20 days. 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 strives to issue these advisory opinions in 30 days.

Defending Challenges to the Act

The Commission represents itself in most litigation before the Federal district and appellate 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 *Act* authorizes the Commission to institute civil actions to enforce the *Act*.

Performance Goal 3-1: Provide timely legal guidance to the public.

Key Indicator: Percent of legal guidance provided within statutory and court-ordered deadlines.								
FY 2013 Actual	**FY 2014 Actual**	**FY 2015 Actual**	**FY 2016 Actual**	**FY 2017 Actual**	**FY 2018 Target**	**FY 2018 Actual**	**FY 2019 Target**	**FY 2020 Target**
N/A	100%[3]	100%[4]	100%[5]	100%[6]	100%	100%[7]	100%	100%

3 The Commission obtained extensions to consider ten advisory opinion requests in FY 2014; four of those extensions were attributable to the Federal government shutdown during October 2013. The Commission did not have any rulemakings during FY 2014 with statutory or court-ordered deadlines.

4 The Commission obtained extensions to consider two advisory opinion requests in FY 2015. The Commission did not have any rulemakings during FY 2015 with statutory or court-ordered deadlines.

5 The Commission obtained extensions to consider six advisory opinion requests in FY 2016.

6 The Commission obtained extensions to consider seven advisory opinion requests in FY 2017.

7 The Commission obtained an extension to consider one advisory opinion request in FY 2018.

Objective 4: Foster a Culture of High Performance

The Commission understands that the success of its programs depends upon the skills and commitment of its staff. The Commission is focused on ensuring that staff training needs are assessed and met at every level of the agency and that agency leaders receive training necessary to help manage and maintain a fully engage and productive workforce. The FEC is also focused on decreasing the time to hire, improving the agency's performance management systems and developing a supervisory and managerial training program for senior leaders, mid-career managers and first time supervisors. During FY 2018, the FEC began a partnership with the Office of Personnel Management's HR Solutions to improve the FEC's staffing, classification and performance management processes.

In order to reduce costs and improve the efficiency and effectiveness of services, the FEC is also pursuing a multi-year IT modernization project. During FY 2018, the agency successfully migrated a campaign finance database and its website to a cloud environment and shut down one of its four physical data centers. Migrating these assets to a cloud environment significantly lowers the cost of maintaining these systems, even as the campaign finance database continues to grow each year. Planned improvements to the eFiling system, which was designed in the mid-1990s, will provide an opportunity to migrate the eFiling data center to a cloud environment as well, reducing our costs for the support and maintenance of the legacy eFiling physical data center.

Consistent with its commitment to fostering the talents and skills of its employees and providing excellent service to the public, the FEC will create a cross-functional group within the agency to develop and implement user-centered, evidence-based design solutions for achieving the agency's mission efficiently and effectively. The team will leverage technological advancements to improve the delivery of mission critical functions. This team will be tasked with harnessing the creativity and ideas of agency employees, and emerging technologies, to restructure systems, tools and processes, while building a 21^{st} century IT infrastructure to better serve the American public.

The FEC is also participating in and contributing to the government-wide Records Management initiative. In compliance with the *Federal Records Act*, the FEC is updating its records management program. The updated program will increase efficiency and improve performance by eliminating paper and using electronic recordkeeping to the fullest extent possible.

Performance Goal 4-1: Foster a workforce that delivers results.

Key Indicator: Commission-required quarterly updates meet targeted performance goals.								
FY 2013 Actual	**FY 2014 Actual**	**FY 2015 Actual**	**FY 2016 Actual**	**FY 2017 Actual**	**FY 2018 Target**	**FY 2018 Actual**	**FY 2019 Target**	**FY 2020 Target**
NA	73%	80%	76%	85%	65%	73%	65%	65%

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

The FEC's FY 2018 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 II of this report.

The following table summarizes the significant changes in the FEC's financial position during FY 2018:

Net Financial Condition	FY 2018	FY 2017	Increase (Decrease)	% Change
Assets	$37,958,046	$34,142,240	$3,815,806	11%
Liabilities	$ 15,288,642	$ 6,278,907	$9,009,735	143%
Net Position	$22,669,404	$27,863,333	($5,193,929)	-19%
Net Cost	$78,532,451	$69,133,455	$9,398,996	14%
Budgetary Resources	$80,846,191	$84,280,790	($3,434,599)	-4%
Custodial Revenue	$1,183,237	$ 1,910,206	($726,969)	-38%

The following is a brief description of the nature of each required financial statement and its relevance. The effects 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 decreased by approximately $3.2 million, or 14 percent, from the prior year.

Accounts Receivable primarily 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. Net accounts receivable decreased by approximately $181 thousand dollars from the prior year.

Property and equipment consists of software, general-purpose equipment used by the agency and software development. In FY 2018, the FEC moved office locations and capitalized fixed assets for leasehold improvements related to the new office. Total assets increased by $3 million from the prior year to $37 million, reflecting the additional property and equipment costs incurred by the FEC related to the agency's office relocation. Total liabilities also increased by approximately $9 million.

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 gross costs in administering the *FECA* experienced a 14% fluctuation from the prior year.

Statement of Changes in Net Position

The Statement of Changes in Net Position presents in greater detail the net position section of the Balance Sheet, including Cumulative Results of Operations and Unexpended Appropriations. This statement identifies the activity that caused the net position to change during the reporting period. Total Net Position decreased by 19 percent, or approximately $5 million. In FY 2017, the FEC received approximately $8 million in two-year appropriated funds, which will expired at the end of FY 2018.

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 $3 million, or four percent, from the prior year.

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 2018, the total custodial revenue and collections decreased by approximately $727 thousand from the prior year.

The chart below displays the assessment history for the past 20 years.[8]

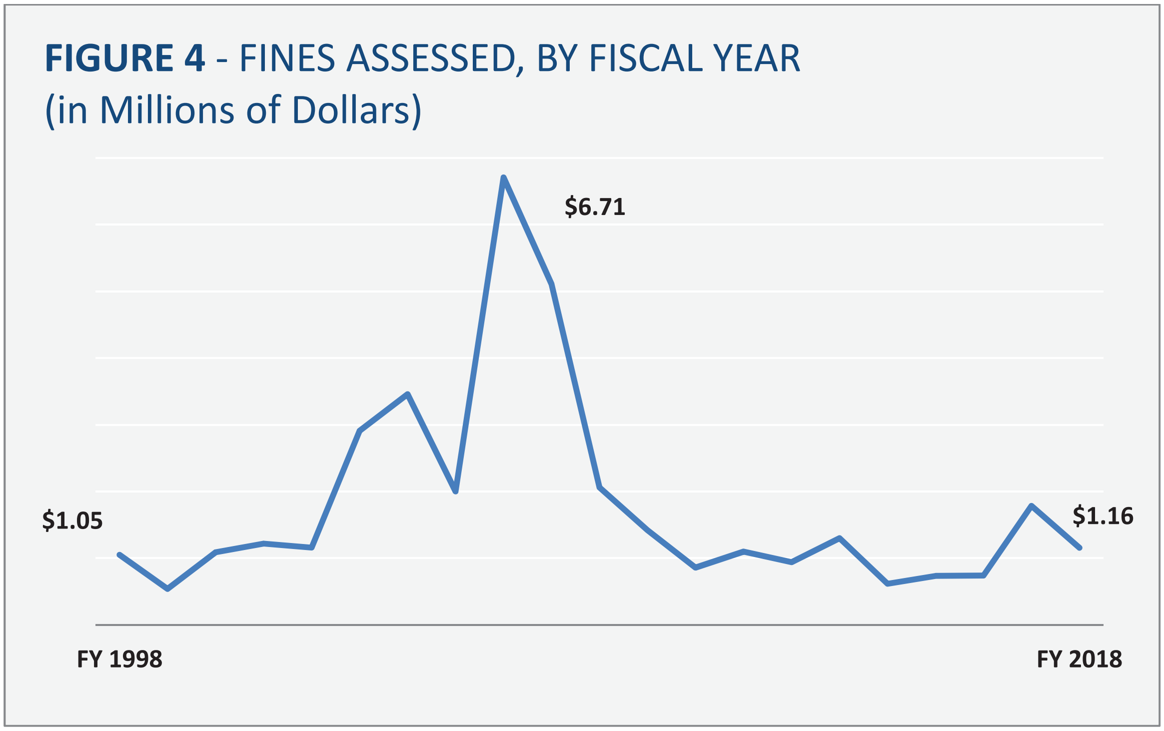


Figure 4: Fines Assessed, by Fiscal Year (in millions of dollars)

8 One MUR resolved during 2006 yielded the largest civil penalty in agency history, which was $3.8 million paid by Federal Home Loan Mortgage Corporation (Freddie Mac) for prohibited corporate activity. This 2006 penalty is the primary reason for the largest Fines Assessed (approximately $6.71 million) in Figure 4.

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

I.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. The FEC complies with the following laws and regulations:

Annual Appropriation Law – establishes the FEC's budget authority;

Inspector General Act of 1978, as amended;

Federal Managers' Financial Integrity Act of 1982;

Government Performance and Results Act of 1993, as amended;

Federal Financial Management Improvement Act of 1996;

Clinger-Cohen Act of 1996;

Federal Civil Penalties Inflation Adjustment Act of 1990;

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.

I.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*,* with applicable appendices. 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 2018 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*, OMB Circular A-123, as applicable, and reviewed the Statements on Standards for Attestation Engagements, Reporting on Controls at a Service Organization (SSAE 18) reports received from its shared service providers. The results of management reviews provided an unmodified opinion that the FEC's financial systems controls generally conform to the required principles and standards as per Section 4 of the *FMFIA*.

Enterprise Risk Management

In the current fiscal year, the FEC – led by the Senior Management Council (SMC) – successfully updated its Enterprise Risk Management Risk Profile of enterprise risks, as required by the revised OMB Circular A-123. The SMC identified a total of 11 enterprise risks in the areas of Strategic, Operational, and Compliance objectives rated as being a Medium or High inherent risk, and delivered the Initial Risk Profile to the Office of the Inspector General (OIG) and to OMB. The SMC looks forward to continuing to work closely with the Office of the Inspector General to remediate any weaknesses which the OIG may deem to be at the level of a material weakness.

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 2018 was nearly 100 percent, with less than .19 percent of all invoices paid after the date required by the *PPA*.

Improper Payments

The Improper Payment*s Information Act of 2002 (IPIA), the Improper Payments Elimination and Recovery Act of 2010 (IPERA), Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA)* 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 67 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 2018 non-personnel procurements, charge card, and payroll costs to verify their accuracy and completeness. Accordingly, the FEC is unaware of any improper payments. The FEC continues to monitor its payment and internal control process to ensure that the risk of improper payments remains low.

Civil Monetary Penalties Adjustment for Inflation

The FEC Civil Monetary Penalties Adjustment for Inflation is included in Section III.

Annual Assurance Statement on Internal Control

FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20463

October 22, 2018

Annual Assurance Statement on Internal Control

The Federal Election Commission (FEC) is responsible for managing risks and maintaining effective internal control to meet the objectives of Sections 2 and 4 of the *Federal Managers' Financial Integrity Act*. The FEC conducted its assessment of risk and internal control in accordance with OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. Based on the results of the assessment, the Agency can provide reasonable assurance that internal control over operations, reporting, and compliance were operating effectively as of September 30, 2018.

Caroline C. Hunter
Chair

I.D.iii – Management's Response to the Office of Inspector General's Statement on the Federal Election Commission's Management and Performance Challenges [9]

November 13, 2018

In its Statement on the FEC's Management and Performance Challenges ("Statement"), the Office of the Inspector General ("OIG") identified three overarching management and performance challenges for inclusion in the FEC's Agency Financial Report for Fiscal Year 2018. Management's response to the OIG statement is below.

Challenge 1: Governance Accountability

A. Low Employee Morale

Management is committed to investing time, resources, and effort to make a lasting impact and improvement to the morale of FEC employees. Management believes the efforts highlighted in the FY17 Response to the OIG Statement on Management and Performance Challenges have contributed to meaningful gains in employee morale.

The 2018 FEVS results were recently released and the FEC had an eight percentage point gain in employee satisfaction.[10] The FEC had the second largest gain of all small agencies with more than 100 employees. Additionally, the FEC went from having less than half of its employees responding in the survey in FY17 to 61% responding to the FEVS survey this fiscal year, fifteen percentage points above the government-wide average. Out of 71 items in the survey, 64 had positive gains when compared to FY17 results. Of particular note is that these gains came in the midst of significant changes at the FEC, primarily the move to a new location.

We recognize that there are multiple factors that contribute to morale at the agency, and there are no simple solutions. The Commission has an exceptional workforce filled with dedicated professionals whose hard work and commitment to excellence enables the agency to carry out its essential mission. For this reason, it is vital that we continue to foster a workplace that is positive and productive, where everyone feels valued. Some of the efforts that management has made since the release of the Morale Study and that have continued in FY18 are summarized below:

Management Performance Plans. The following items were included in all management performance plans for the 2017-18 review year, as well as the 2018-19 review year:

- Engage in efforts to improve morale and foster a culture of trust within the manager's area of responsibility, including implementing recommendations from the Morale Study.
- Engage in efforts to improve as a manager, including training, participation in a 360 Review, and development and implementation of a Leadership Development Plan.

[9] Management consists of the agency's senior managers, including the Staff Director, General Counsel and Chief Financial Officer.
[10] https://www.govexec.com/management/2018/10/agencies-biggest-gains-and-losses-employee-happiness/152417/?oref=govexec_today_pm_nl

- Provide training opportunities (both formal and informal) for all staff. Utilize in-house resources including Skillport and OCIO one-on-one trainings.
- Meet with each employee at least one time during the performance year in addition to the six-month and annual reviews to get the employee's input on how things are going and ideas for improvement.

Involving Staff in Preparation for the FEC's Office Space Move. Throughout the entire FEC move process, management was committed to engaging and informing staff. Bargaining Unit members served on the Lease Renewal Advisory Team and on each of its subcommittees. Management also regularly updated the internal portal, "FEC Move," on the agency's intranet page that provided LRAT meeting minutes, photos of construction progress, and news about the move.

Management Training. The agency has undertaken multiple training programs to target some of the areas where improved management performance is necessary to boost employee morale. Trainings have been held on areas including diversity and inclusion, conflict resolution, general management skills, and individual leadership training. Management is continuing this momentum by partnering with OPM to deliver on-site supervisory training to managers later this month. Management has also placed an emphasis on training, including it as a target in our annual performance and budget plans submitted to OMB and Congress. Since September 2016, over half of agency managers have undertaken 360 Reviews conducted by OPM and developed leadership plans to develop strengths and improve. Importantly, language has been added to all managers' performance plans requiring that the managers demonstrate a commitment to improving morale and documenting steps taken within his or her area of responsibility.

Staff Professional Development. Divisions throughout the agency continue to give staff opportunities for professional growth.

- OGC detail program with the US Attorney's Office in the District of Columbia, which provides staff attorneys the opportunity to prosecute general misdemeanor cases and develop their investigative and litigation skills;
- OGC staff opportunities to serve details within different divisions in the Office;
- OCIO staff partnering one-on-one with staff from the General Services Administration's 18F to learn new information technology skills;
- Information Division conducted training sessions for agency staff that participate in outreach efforts to learn how to maximize webinar participation;
- RAD conducted branch-wide professional development months focused on skills training and one-on-one coaching sessions available to all staff;
- Brown-bag lunches and informational sessions where staff can learn about what other divisions do and ask questions of senior staff and Commissioners; and
- Expanded opportunities for eligible FEC staff to compete for detail positions and temporary promotions within the agency.

Diversity in Hiring and Promotion. Agency managers have undertaken a substantial effort to expand the diversity of the pool of applicants that apply for FEC positions, including OGC reaching out to local law schools, and having ongoing dialogs with Black Law Students

Associations and Hispanic Latino Law Student Associations. OGC also launched an ongoing externship opportunity with Howard Law School, as well as participated in a Latina/o Alumni Association of the Washington College of Law (American University) externship program offered for displaced law students from the University of Puerto Rico. Agency managers continue to ensure that hiring panels are diverse and inclusive, ensuring that multiple viewpoints are present.

Communication. Management has undertaken efforts to communicate more clearly and consistently across the agency as well as within divisions. Each division has been encouraged to hold regular division meetings, and senior leaders routinely attend those meetings to answer questions on any topic, as schedules have allowed. We have also attempted to be more proactive in getting information out. Some divisions are holding brown bag lunch and learn programs and are undertaking other, informal activities to give staff and managers a chance to interact. Most importantly, management continues to encourage an open door policy for employees to come with any questions or concerns at any time.

Management understands that improving morale is not a one-off, “check the box” project. Our efforts on this front will continue.

B. Enforcing Required Management Roles and Responsibilities

Management follows FEC Commission Directive 50, reporting semi-annually on the progress of all outstanding recommendations identified in OIG audits. As was highlighted in the May 2018 submission of Corrective Action Plans, progress was made to close some longstanding items in the COOP/Disaster Recovery Plan and Privacy and Data Protection CAPs. Management will be circulating Corrective Action Plans in November 2018, which will show significant progress to close remaining items in the Human Resources audit.

Pursuant to the Federal Managers Financial Integrity Act (FMFIA) and OMB Circular A-123, the FEC established guidance to describe a Senior Management Council (SMC) for oversight of internal control and enterprise risk management (ERM) activities throughout the agency. The SMC meets, at minimum, on a quarterly basis and includes senior agency officials from all divisions of the FEC. The SMC is chaired by the agency Chief Financial Officer (CFO), who – with the agency Staff Director and General Counsel – is responsible for discussing recommendations for action with the FEC Commissioners regarding internal control and ERM actions, required for the agency to remain compliant with the FMFIA and OMB Circular A-123.

The SMC helps ensure that the FEC implements and maintains a strong internal control framework including a positive internal control environment featuring top management commitment to the values of promoting the highest ethical standards and organizing all program and administrative processes to promote accuracy, efficiency, and compliance with all applicable laws and regulations, and to minimize, prevent, or promptly detect and correct any instances of fraud, waste, abuse, and mismanagement. The control environment will include promoting internal control knowledge and awareness among all staff.

While the entrenchment of strong internal controls requires the active involvement of all agency personnel, this council recognizes that the most effective means of maintaining a robust internal controls environment requires a definitive and united "tone at the top." This council involves the senior leaders and key managers who are all committed to this mission and the continual improvement of the internal controls environment of the FEC.

During FY18, the SMC formally met to review and assess the risk profile for the agency. The SMC adjusted the agency's risk profile after the departure of a Commissioner and after the move to the new building location. Management is committed to regularly assessing the agency's risk profile and ensuring that adequate measures are in place to mitigate any risks. The SMC also communicated regularly when reviewing the annual A-123 submissions from FEC divisions.

Challenge 2: Longstanding Vacancies in Senior Leadership Positions

Management acknowledges that there are vacancies throughout the agency. Management continues to work with the Personnel and Finance committees for approval to post and hire qualified individuals for all of the identified positions. As identified by the OIG, the positions of Chief Financial Officer, General Counsel, Deputy Staff Director for Management and Administration, and the Deputy Chief Information Officer for Operations are all currently filled by qualified full-time employees on an acting basis. By statute, only the Commission can select a permanent General Counsel and Inspector General; and by agency practice, the same is true of the Chief Financial Officer. The Commission has recently selected an Inspector General and is nearing the conclusion of the hiring process for a Chief Financial Officer. Additionally, the Personnel Committee has approved the following positions to be filled on a permanent basis: Deputy Staff Director for Management and Administration, Deputy Chief Information Officer for Operations, and Chief Information Security Officer. All of these positions are currently in the hiring process and we anticipate concluding the hiring process in the next couple of months. As the senior leadership vacancies are filled, the Personnel and Finance Committees will closely scrutinize any remaining vacancies. In light of recent budget guidance from the Office of Management and Budget, prudent management requires that close examination is paid to the potential impact of each vacancy that is approved to hire. The Personnel and Finance Committees are committed to analyzing the current FEC workforce and looking ahead to fiscal years in order to avoid having to implement a reduction in force.

Challenge 3: Organizational Structure

A. Information Security Program

OIG raises the concern that the FEC Information Security Program needs to be prioritized. Management shares this view and has committed considerable resources towards strengthening the FEC's information security program. OIG also highlights the need to elevate the seniority level of the Chief Information Security Officer. Management recently requested assistance from OPM's HR Solutions to review and reclassify the CISO position as a GS-2210-14/15, elevating the position to the same level as the two Deputy Chief Information Officers. Management is currently in the hiring process to recruit a new individual to fill this elevated role.

Consistent with advice from the Office of General Counsel and in accordance with the Commission's decision, the OCIO continues to implement a NIST-based Risk Management Framework (RMF) for the three most critical information systems-- the General Support System, E-Filing System, and Agency website. On September 15, 2017, in response to a request from the Deputy Inspector General, the Acting General Counsel and Chief Information Officer submitted a memorandum explaining the impact of the Commission's decision and the steps OCIO has taken to implement the RMF. OCIO will continue to brief the Commission and Senior Management on necessary changes to the IT Security Program and continuously identify and mitigate risks in consultation with the Senior Management Council.

B. Proper Leadership Structure

OIG raises the concern that having the positions of Staff Director and Chief Information Officer filled by the same individual concentrates oversight of a significant portion of the agency's operating budget under a single individual. It should be noted that prior to the current incumbent becoming Staff Director, the Chief Information Officer reported to the Staff Director. When the current incumbent became Staff Director, the Commission made the CIO position one that reported directly to the Commission. Assuming the Commission would return to prior practice if separate individuals were appointed to fill each position, the CIO would again report to the Staff Director and the portions of the budget identified by OIG would still be under the ultimate control of a single individual – that is, the Staff Director. Moreover, all agency IT projects are required to be approved by the Finance Committee prior to OCIO initiating the project, and approval of the full Commission is required before undertaking long-term projects of high magnitude, such as the redesign of the Commission's website. This reporting structure does not put the FEC at any greater risk for fraud, waste, or abuse. In reality, it allows for expedited decisions through the proper change control processes of the Finance, Personnel, and IT committees.

C. Senior Agency Officials for Privacy

The OIG states the "agency's Privacy Program is currently a shared role between the Office of General Counsel (OGC) and the OCIO, with the designated SAOP being a shared role assigned to the Deputy CIO of Operations and the Deputy General Counsel." However, this is incorrect. The FEC's Privacy Program is a shared role between the Office of General Counsel and the Office of the Staff Director, who in turn can designate officials to act in their capacity. The SAOP is a shared role between the Deputy General Counsel for Administration and the Deputy Staff Director for Management & Administration. The Privacy Team includes the Chief Information Security Officer, the Administrative Law Team, and other individuals as needed. The OIG highlights that the individual currently serving as Deputy Staff Director for Management and Administration in an acting capacity is an attorney. As a result, OIG questions whether having two attorneys overseeing the Privacy Program would not ensure coverage of information security. Management disagrees with this, since the individual serving as Deputy Staff Director is not serving as a practicing attorney in this role. The current arrangement ensures that privacy issues are adequately addressed throughout the agency and accounts for the collateral nature of the duties for the senior leaders performing the duties. Additionally, in FY18 the Administrative Law Team hired an attorney with significant experience in the Privacy Act to be able to assist management with resolving these longstanding issues. She will also be taking a rigorous information security training; upon completion she will be accredited as a Certified Information Systems Security Professional (CISSP), which will provide additional cross-pollination of knowledge between the legal and information security branches of the Privacy Team. Management is confident the current Privacy Team structure adequately addresses legal concerns and information security through having a dedicated administrative law attorney and the CISO.

As noted by OIG, a revised corrective action plan was put in place and two open recommendations were closed. There is currently an individual serving in an acting capacity for the CISO role who has the expertise regarding IT security to competently advise the privacy attorney of IT related issues.

Outstanding Recommendations

The OIG states that the current Privacy Audit has 25 outstanding recommendations and that the Co-SAOPs have not made any significant progress on the Privacy Audit's outstanding recommendations since June of 2013. Referring to these alleged outstanding recommendations, OIG claims that during the most recent review, "the SAOPs did not respond to any of the OIG's inquiries to discuss the current open recommendations." OIG helpfully shared with Management the 25 Privacy CAP recommendations considered to be outstanding earlier this year. Management respectfully disagrees with this assessment, concluding that there are only nine outstanding recommendations. Indeed OIG has re-opened multiple closed recommendations, including some recommendations closed more than six years ago. Moreover, OIG's claim that the Co-SAOPs have not made "any significant progress" since June 2013 ignores ten of these "outstanding recommendations" that have been completed since that date.[11] However, as a result of conversations with OIG, OGC's new FOIA/Privacy Act attorney has begun addressing these outstanding recommendations so as to find ways to reach agreement with OIG on what is needed to close specific recommendations. Most of the successes of this reinvigorated partnership with OIG will most likely be seen in the FY19 report, but it is our understanding that OIG has agreed that recommendation number 10b is now closed as of August 22, 2018.

The breakdown of OIG's 24 "outstanding recommendations" (now that recommendation 10b has been closed) is displayed below (recommendations Management considers completed and closed are highlighted):

[11] Additionally, in a January 23, 2017 memorandum to the Inspector General, the Co-SAOPs accepted the identified risks of not implementing OIG's recommendations for two outstanding recommendations (1a and 7b). In that memorandum, Management also noted that although two other recommendations (6c and 6e) had been implemented and Management had provided documentation that the recommended tasks were completed in May and June of 2015, Management would accept the identified risks "[t]o the extent OIG believes the identified tasks are insufficient to meet the recommendations." It appears that recommendation 6e remains open for OIG's purposes.

Outcomes of the 25 OIG "Outstanding Recommendations"

Recommendation Number	Management Response	Completion Date
2a	Completed	November 2011
2b	Completed	June 2011
2c	Completed	May 2015
3b	Completed	June 2011
4a	To be completed by Mgmt	N/A
4b	To Be Determined by Mgmt (Management is reconsidering strategy for meeting this recommendation)	N/A
4c	Completed	December 2012
4d	To Be Determined by Mgmt (Management is reconsidering strategy for meeting this recommendation)	N/A
5a	To Be Determined by Mgmt (Management is reconsidering strategy for meeting this recommendation)	N/A
5b	To Be Determined by Mgmt (Management is reconsidering strategy for meeting this recommendation)	N/A
6e	Completed	June 2015
7a	Completed	June 2015
7d	Completed	June 2015
7e	Completed	June 2015
7f	Completed	June 2015
8d	Completed	October 2012
10b	Completed	June 2015
11a	To Be Determined by Mgmt	N/A
11b	Completed	June 2015
11c	Completed	June 2015
12a	Completed	May 2012
12b	To be completed by Mgmt	N/A
12d	To be completed by Mgmt	N/A
12e	To be completed by Mgmt	N/A
13	Completed	June 2015

Management has signaled its continued willingness to work with OIG on closing many of the outstanding recommendations, and indeed, has mapped out a schedule that could represent closing most, if not all, of the outstanding recommendations by the close of calendar year 2019.

Section I.E: 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 United States 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 – Auditor's Report and Financial Statements

Message from the Acting Chief Financial Officer

November 15, 2018

I am pleased to present the Commission's financial statements for Fiscal Year (FY) 2018. The financial statements are an integral part of the Agency Financial Report. The Commission received an unmodified (clean) opinion on its financial statements from the independent auditors. This marks the ninth consecutive year with no material weaknesses identified. This is the sixth consecutive year with no significant deficiencies reported for the Office of the Chief Financial Officer (OCFO). I appreciate and applaud the good work of OCFO staff who strived diligently throughout the fiscal year to achieve these results, maintaining a commitment to excellence.

The agency understands that information technology (IT) security is a continuing process of detecting risks, process improvements and hardening defenses. For that reason, the agency is committed to the timely implementation of the FY 2017 Financial Statement Audit Corrective Action Plan (CAP). Over the past year, the FEC has taken significant actions to improve the agency's IT infrastructure generally and our IT security posture specifically. The agency has a robust plan and leadership support to continue IT enhancements in future years.

In FY 2018, the OCFO took a lead role in the FEC's Senior Management Council (SMC) to oversee activities relevant to agency-wide internal controls and Enterprise Risk Management (ERM), as described in the revised OMB Circular A-123. The SMC successfully updated the FEC's Risk Profile in FY 2018, identifying enterprise-wide risks and appropriate responses relevant to the FEC's strategic, operational, reporting and compliance objectives.

Across all agency functions, the FEC continues to seek opportunities to modernize and upgrade business systems to improve operational efficiency. We are confident that FEC employees' commitment to the agency's mission will provide an opportunity to build on the prior year's financial management successes. The OCFO looks forward to another successful year.

Sincerely,

Gilbert Ford

Gilbert Ford
Acting Chief Financial Officer

OIG Transmittal Letter

FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20463
Office of Inspector General

MEMORANDUM

TO: The Commission

FROM: Carla A. Smith
Counsel to the Inspector General/Chief Investigator Carla Smith Digitally signed by Carla Smith Date: 2018.11.15 09:33:53 -05'00'

Mia Forgy
Senior Auditor MIA M. FORGY Digitally signed by MIA M. FORGY Date: 2018.11.15 10:09:54 -05'00'

SUBJECT: Audit of the Federal Election Commission's Fiscal Year 2018 Financial Statements

DATE: November 15, 2018

Pursuant to the Chief Financial Officers Act of 1990, as amended, this memorandum transmits the Independent Auditor's Report issued by Leon Snead & Company (LSC), P.C. for the fiscal year ending September 30, 2018. 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. 19-01, *Audit Requirements for Federal Financial Statements*.

In addition, due to the agency's determination that they are legally exempt from the *Federal Information Systems Management Act* (FISMA), the OIG requires auditing of the agency's Information Technology (IT) security against government-wide best practices at a level sufficient to express an opinion on the FEC's financial statements, and report on internal controls and assess compliance with laws and regulations as they relate to the financial operations of the FEC.

LSC's report identifies a significant deficiency in internal controls related to IT security and contains recommendations to address the deficiencies noted. In addition to the report, LSC has issued a management letter to FEC related to control issues dealing with reconciling trading partner transactions. As the issue did not rise to the level of a reportable condition to be include in the audit report, LSC believes the issue still requires corrective action from management. Management was provided a draft copy of the audit report and the separate management letter for review and comment, and the official management comments to the report can be found in Attachment 2 of the report.

In LSC's professional 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, 2018, in conformity with accounting principles generally accepted in the United States of America.

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's review disclosed no instances where LSC did not comply, in all material respects, with *Government Auditing Standards*.

Due to the current vacancies in the Inspector General (IG) and Deputy IG positions, the attached final report is being distributed on behalf of the OIG by the Counsel to the IG and the OIG's Senior Auditor, as the IG's Counsel reviews all final OIG reports prior to distribution, and the OIG's Senior Auditor contractually has primary oversight of the FY 2018 financial statement audit as the OIG's Certified Contracting Officer Representative.

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 the OIG at (202) 694-1015.

Attachment

Cc: Gilbert A. Ford, Acting Chief Financial Officer
Alec Palmer, Staff Director/Chief Information Officer
Lisa Stevenson, Acting General Counsel

Independent Auditor's Report

Federal Election Commission

Audit of Financial Statements

As of and for the Years Ended September 30, 2018 and 2017

Submitted By

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

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LEON SNEAD
& COMPANY, P.C.

Certified Public Accountants
& Management Consultants

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Independent Auditor's Report

THE COMMISSION, FEDERAL ELECTION COMMISSION
INSPECTOR GENERAL, FEDERAL ELECTION COMMISSION

We have audited the accompanying financial statements of Federal Election Commission (FEC), which comprise the balance sheet as of September 30, 2018 and 2017, and the related statements of net cost, changes in net position, budgetary resources, and custodial activity 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, regulations, and significant provisions of contracts.

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, 2018 and 2017, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

Our consideration of internal control would not necessarily disclose all deficiencies in internal control over financial reporting that might be material weaknesses under standards issued by the American Institute of Certified Public Accountants. Our testing of internal control identified no material weakness in internal controls over financial reporting. We continue to report a significant deficiency related to FEC's Information Technology (IT) security program. FEC has made additional progress in addressing the findings during this fiscal year for several areas relating to its IT security program; while for other findings, we did not identify significant progress had been made. We have also reported a significant deficiency noting that FEC's corrective action plan does not meet Office of Management and Budget's (OMB) requirements.

We also identified one other control issue dealing with reconciling trading partner transactions that did not rise to the level of a reportable condition. We provide this issue to management in a separate letter dated November 15, 2018.

Our tests of compliance with certain provisions of laws, regulations, and significant provisions of contracts, disclosed no instance of noncompliance that is required to be reported under Government Auditing Standards and the OMB audit bulletin.

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of FEC, which comprise the balance sheets as of September 30, 2018 and 2017, and the related statements of net cost, statements of changes in net position, statements of budgetary resources, and custodial activity for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. Such responsibility includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to error or fraud.

Auditor's Responsibility

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; standards applicable to financial statement audits contained in Government Auditing Standards (GAS), issued by the Comptroller General of the United States; and OMB Bulletin 19-01, Audit Requirements for Federal Financial Statements (the OMB audit bulletin). Those standards and the OMB audit bulletin require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's professional judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments in a Federal agency, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing opinions on the effectiveness of the FEC's internal control or its compliance with laws, regulations, and significant provisions of contracts. An audit also includes evaluating the appropriateness of accounting policies used, and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of FEC as of September 30, 2018 and 2017, and the related net cost, changes in net position, budgetary resources, and custodial activity for the years then ended in accordance with accounting principles generally accepted in the United States of America.

OTHER MATTERS

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis (MDA) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board (FASAB), which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The performance measures and other accompanying information are presented for the purposes of additional analysis and are not required parts 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 do not express an opinion or provide any assurance on it.

OTHER AUDITOR REPORTING REQUIREMENTS

Report on Internal Control

In planning and performing our audit of the financial statements of FEC, as of and for the years ended September 30, 2018 and 2017, 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 audit procedures that are appropriate in the circumstances 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, material weaknesses or significant deficiencies may exist that were not identified. However, given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be a material weakness. As discussed below, we identified deficiencies in internal control that we consider to be significant deficiencies.

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 deficiency in internal control 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 and correct, misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Findings and Recommendations

1. FEC Needs to Formally Adopt NIST IT Security Best Practices and Other Government-wide IT Security Requirements (Repeat Finding)

In our FY 2017 financial statement audit, we reported that we had re-opened[1] a prior audit finding and recommendation that dealt with the need for the Commission to: (1) formally adopt the National Institute of Standards and Technology's (NIST) best practice IT security controls and all other applicable government-wide IT security requirements, and (2) conduct and document a fact-based risk assessment prior to declining to implement government-wide IT security requirements that are applicable to FEC's business operations. The recommendations were closed based on the response from management that the Commission had voted to implement the recommendations, an official management response to our audit report agreeing to implement the recommendation, and management subsequently hiring contracting services to assist with implementation.

We followed-up with Office of the Chief Information Officer (OICO) and the Office of General Counsel (OGC) personnel during our FY 2017 audit to determine the status of this finding and recommendation. In response to an OIG request for further clarification on this matter, the Acting General Counsel in a memorandum dated, September 15, 2017, advised that the Agency could voluntarily adopt NIST 800-37 as a whole or other FISMA requirements, "…but that we do not believe the Commission has done that to date."

We met with OGC and OCIO officials during our FY 2018 audit to follow up on this prior year open recommendation and we were advised that the Commission would need to issue a policy to implement the open audit recommendation. The prior Chief Information Security Officer along with OGC staff agreed to draft a policy for review and approval by the Chief Information Officer to address the audit recommendation. As part of our standard audit requirements, we requested meetings with Governance and discussed this matter with the Vice-Chair who advised us that it was her understanding that the Commission had voted to adopt NIST best practices and she was not clear on where the breakdown in this agreement

[1] Government Auditing Standards require that auditors evaluate whether the audited entity has taken appropriate corrective action to address findings and recommendations from previous engagements that are significant within the context of the audit objectives.

occurred. To date, no additional information has been provided by FEC, and the finding and recommendation remains open.

Recommendations

1. Adopt NIST IT security best practices and other government-wide information security requirements that are applicable to the agency's business and information systems operations and document this policy through the issuance of a Commission Directive or OCIO policy.
2. Conduct and document a fact-based risk assessment prior to declining to implement government-wide IT security requirements that are applicable to FEC's business operations.

Management's Response

The OCIO agrees with the recommendation in principle and will seek comment from the Commission on accepting any residual risk for the FEC which has recently and successfully adopted NIST as best practice and implemented NIST specific IT security controls into applicable systems. Over the years, the OCIO spent considerable effort implementing and executing the NIST Risk Management Framework (RMF) and applying them into FEC's critical systems. The OCIO does not believe a separate policy should be created to specifically "adopt NIST security best practices and other government-wide information security requirements" because these are indefinable requirements. The OCIO uses the following agency-wide policies to demonstrate use of NIST IT security best practices and other government-wide information security requirements: FEC Information System Security Program Policy 58A (updated April, 2017); Delegation of authority appointment of Authorizing Officials in accordance with NIST RMF (signed Feb, 2017); CISO appointment order in accordance with FISMA (signed Dec 12, 2016); and Risk Management Framework (NIST RMF) Standard Operating Procedure (signed and published March, 2017). Additionally, the OCIO has partnered with the FEC's Contracting Officer and has established a standard FEC-wide procurement and contracting process to ensure IT acquisition adheres to the policies stated above.

Auditor's Comments

While the response notes it "agrees with the recommendation in principle", it goes on to state that "the OCIO does not believe a separate policy should be created to specifically adopt NIST security best practices and other government-wide information security requirements because these are indefinable requirements."

During our audit, OGC advised us that it had determined that it was unclear that the Commission had, in fact, approved implementation of NIST best practices, and that a Commission directive would probably be needed to implement the recommendation.

As previously stated, without a policy based process to continue to strengthen weaknesses in FEC's IT security program, progress made to date can be stopped or regress to the point where implementation of IT security controls are not a priority if changes occur in key personnel. With the recent separation of the FEC's CISO[2], who was instrumental to the CIO in the recent significant progress made to IT security, we are concerned that progress in remediating outstanding issues will become static if a formal policy is not approved that clearly states the Commission will adhere to applicable NIST security standards and all other required government-wide IT security requirements.

In addition, we are uncertain of the OCIO's position that the NIST security best practices, and other government-wide information security requirements are an "indefinable requirements". NIST has been established as the standard setting entity for all IT security requirements[3].

We continue to believe that the Commission should formally adopt NIST best practices and all other government-wide security requirements by developing a policy that mandates adherence to all standards and requirements applicable to FEC business processes, otherwise compliance with applicable security requirements will continue to be "person based" and not policy based. Such a process does not ensure the agency is consistently following the security standards set for the federal government. When changes in key personnel occur, the upward trend in addressing long standing IT security weaknesses are negatively impacted.

2. Agency Corrective Action Plans Are Not Compliant With Government Requirements

FEC's corrective action plan (CAP) for the internal control deficiencies reported in prior financial statement audit reports does not meet the Office of Management and Budget (OMB) requirements. We attributed this condition to a need for additional oversight and monitoring to ensure the agency meets Commission Directive A-50, and related OMB regulations. Without an adequate CAP, the agency is unable to track the implementation of corrective actions for reported deficiencies, ensure that realistic milestones are established, and ensure that targeted resolution dates are consistently met to reduce the agency's risk exposure.

OMB Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Control, dated July 2016, requires each agency's CAP to address the following areas:

- Resources required to correct a control deficiency. The corrective action plan must indicate the types of resources needed (e.g., additional personnel, contract support, training, etc.), including non-financial resources, such as Senior Leadership support for correcting the control deficiency.

- Critical path milestones that affect the overall schedule for implementing the corrective actions needed to resolve the control deficiency. The milestones must lead to a date certain of the correction of the control deficiency.

[2] The FEC's CISO separated from the agency in September 2018.
[3] NIST is responsible for developing information security standards and guidelines, including minimum requirements for federal systems except for national security systems. The FISMA publications are consistent with the requirements of the Office of Management and Budget (OMB) Circular A-130.

- Require prompt resolution and internal control testing to validate the correction of the control deficiency.
- Procedures to ensure that accurate records of the status of the identified control deficiency are maintained and updated throughout the entire process.

To determine whether the agency met federal standards and their own internal requirements, we reviewed the June 2018 CAP. Our review identified the following areas where improvements were needed.

- The plan does not identify the resources required to correct a deficiency, including the types of resources needed to correct the deficiency.
- The plan does not have critical path milestones that affect the overall schedule, or the corrective actions needed to resolve the deficiency, including a "date certain" that the deficiency will be corrected.
- Concerning the requirement in OMB Circular A-123 and Commission Directive 50, that the agency must promptly resolve and perform internal control testing to validate the correction of the control deficiency, many of the deficiencies contained in this report and in the CAP have been outstanding for years, and some of the deficiencies have been reported outstanding since FY 2004.

We have reported problems with the agency's CAP and related areas in several prior audit reports, and appropriate corrective action has yet to be implemented. OMB Circular A-123, Section V, provides that agency managers are responsible for taking timely and effective action to correct deficiencies; correcting deficiencies is an integral part of management accountability and must be considered a priority by the agency; corrective action plans should be developed for all material weaknesses, and progress against plans should be periodically assessed and reported to agency management. Management should track progress to ensure timely and effective results.

Recommendation

3. Take actions to ensure that the agency's CAP includes all of the requirements of Commission Directive A-50 and OMB Circular A-123.

Agency's Response

The OCIO continues to work towards identifying a process to evaluate government-wide IT security best practices and mandates that aligns with the OGC's established policy review processes. Partnering with OGC will enable the OCIO to track and assess government issued information security policies, mandates, and directives for their applicability to FEC systems.

Auditor's Comments

OCIO indicated that it is continuing to work on a process to review government-wide IT security requirements; however, this response does not address the recommendation in totality. As OGC may be involved in the legality portion of the assessment, they are not responsible, nor have the expertise in information security to formally conduct a fact-based risk assessment for implementing security controls, assessing proper risk appetite, or proposing alternative security controls/approaches to addressing new security requirements.

3. Security Weaknesses in Information Technology Controls

FEC has made further progress in addressing long outstanding security control weaknesses; however, there are still areas requiring improvement and more emphasis on remediation from management. As required by Government Auditing Standards, we reviewed the actions taken and proposed by the FEC to address the recommendations that remained open from prior audits. During our current audit, we were able to close three of the audit recommendations that remained open from prior years' reports. Completion dates for the remaining open recommendations continue to be extended, even though the issues have been reported for several years and, in some cases, since FY 2004. The following paragraphs discuss the findings and recommendations that remain open.

a. Review of User Access Authorities *(Open since FY 2004)*

FEC has not yet established a process that will provide supervisors with the necessary information to recertify user access authorities for their staff. While FEC officials agreed after our first report that such a control process was needed (and required by its own policies), limited progress has been made to implement this control process. Until this control is implemented, FEC officials have reduced assurance that users only have access to information and information systems that are necessary to accomplish their specific job responsibilities. We found no corrective actions taken on this problem area during FY 2018.

Best practices (NIST Special Publication (SP) 800-53 and related publications) provide that an organization should review user accounts on a periodic basis. The currently approved FEC Policy 58-2.2 provides that, "All user account access rights and privileges will be periodically reviewed and validated in accordance with General Support System...system security plans…."

<u>Recommendation</u>

4. Complete the project relating to review of user access authorities and ensure necessary budgetary and personnel resources are provided to complete this project in a timely manner.

<u>Agency's Response</u>

The OCIO agrees with the recommendation but notes that this finding has no impact on the actual security of FEC systems. In 2017, the OCIO implemented strict account management procedures that included detailed steps for users to gain and maintain access to FEC systems. However, the OCIO is in the process of researching effective ways and if an effective procedure is found for a reasonable cost it will be implemented enabling supervisors to review user access authorities annually.

Auditor's Comments

The OCIO agrees with the recommendation but added that the finding had no impact to the actual security of the FEC systems. We disagree with the FEC's comment that this issue would have no actual impact to security, as securing agency information to only those who are properly authorized is a critical function of an agency's security program. This control would identify users who have moved positions within FEC or have separated from the agency and continue to have unauthorized access to FEC information. Such a condition would have a significant impact on IT security processes.

We have reported this IT security weakness to FEC since 2009. As noted in each audit report, FEC policies, as well as NIST IT security best practices provide for an annual review of actual user access.

b. USGCB Requirements Need to be Implemented Agency-wide *(Open since FY 2009)*

In March 2007, OMB Memorandum M-07-11 announced the "Implementation of Commonly Accepted Security Configurations for Windows Operating Systems," directing agencies...to adopt the Federal Desktop Core Configuration (FDCC) security configurations developed by the National Institute of Standards and Technology (NIST), the Department of Defense and the Department of Homeland Security. The United States Government Configuration Baseline (USGCB)[4] is the security configuration and policy developed for use on Federal computer equipment, and as stated by the CIO Council, 'the USGCB initiative falls within FDCC and comprises the configuration settings component of FDCC.'

In prior audits, we reported that the FEC needed to implement the USGCB. During our FY 2018 audit, we were advised that the FEC had completed its implementation of this government-wide requirement. However, when we reviewed FEC IT security scanning reports, we identified a significant number of desktops that were not, in fact, compliant with all applicable USGCB security requirements. We discussed this issue with OCIO officials who agreed that additional actions were needed in this area.

It has been over ten years since OMB first issued minimum security requirements for windows operating systems. Until this project is completed, the agency's systems and information remain at risk.

Recommendation

5. Implement USGCB baseline configuration standards for all workstations regardless of the current hardware in use.

[4] 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 mandate. The USGCB is a Federal Government-wide initiative that provides guidance to agencies on what should be done to improve and maintain an effective configuration settings focusing primarily on security

Agency's Response

Management concurs with the OIG regarding the implementation of the USGCB. In 2017, the OCIO has pushed USGCB configuration settings on all Windows 7 laptops. However, recent scans indicated that USGCB is not consistently applied within the FEC environment. The OCIO will accelerate the review and testing of USGCB to analyze and determine the best approaches regarding functionality in meeting the FEC's infrastructure needs. Required USGCB settings will be applied to all workstations FEC-wide as soon as it is ready. The estimated completion date for USGCB implementation is 4th quarter FY19.

Auditor's Comments

OCIO concurs with the finding and recommendation, and provides a completion date of fourth quarter FY 2019, and we have no additional comments.

c. FEC Has Not Fully Implemented and Tested Their Agency Continuity of Operations Plan or Contingency Plans for IT Systems (*Open since FY 2004*)

We reviewed the actions taken by FEC to address findings and recommendations relating to the development and testing of the FEC's Continuity of Operations Plan (COOP). Our review of FEC's FY 2018 CAP, and discussions with OCIO officials showed that the agency is still working to complete the COOP. The current estimated completion date for this long-delayed project is now the end of calendar year 2018.

The FEC has operated for 14 years without an approved and tested COOP to ensure that in the event of a disaster, the Commission would have the ability to continue normal business operations within a reasonable timeframe. Without an up-to-date COOP document that has been validated through testing and exercises, any deficiencies in the plan cannot be determined, and the agency remains at high risk with the inability to carry out the mission of the agency in the event of local disaster.

In addition, the absence of contingency plans for the agency's general support system, and its other major applications pose a separate and material threat to the agency's mission, particularly during election cycles.

FEC provided, at our request, a COOP specific CAP related to the OIG's, *Inspection of the FEC's Disaster Recovery Plan and Continuity of Operations Plans*, released in January 2013. We reviewed this document and noted the following:

- The plan lists seven remaining OIG recommendations from 2013,
- The original completion dates were from June to December 2013, and
- The current estimated completion date for this important project has been extended repeatedly and is now estimated to be completed by the end of December 2018.

Based on the level of effort, time and resources required to complete this significant agency requirement, we note that the December 2018 due date provided from management is not reasonable, which will require another date extension.

Government-wide best practices, NIST SP 800-34, *Contingency Planning Guides for the Federal Government,* states the following:

"Information systems are vital elements in most mission/business processes. Because information system resources are so essential to an organization's success, it is critical that identified services provided by these systems are able to operate effectively without excessive interruption. Contingency planning supports this requirement by establishing thorough plans, procedures, and technical measures that can enable a system to be recovered as quickly and effectively as possible following a service disruption. Contingency planning is unique to each system, providing preventive measures, recovery strategies, and technical considerations appropriate to the system's information confidentiality, integrity, and availability requirements and the system impact level."

Recommendations

6. Ensure that sufficient resources are assigned to the task of testing the COOP, a critical IT control process, in order to reduce risk to the FEC, and complete all required tests in a timely manner.

   Agency's Response

   Estimated completion for a table top exercise is March 2019. Management acknowledges the COOP requires updating and resources are being sought to assist in this process. Information gathered from the table top exercise will also be used to update the COOP. Estimated completion for updating is third quarter FY19.

7. Develop system specific contingency plans, as required by the NIST RMF.

   Agency's Response

   Management concurs use of NIST SP 800-34 for each system identified as a critical system. FEC will establish information system contingency plans for systems under the General Support System (GSS) boundary: Law Manager Pro, Comprizon Suite, Disclosure, Data Entry, Informatica, Kofax, ECM suite, and Presidential Matching Fund system.

   Management is currently conducting research and has been provided ISCP templates to assist in the process and working in coordination with each application owner to create each plan. Estimate completion for analysis is six months (May 2019).

   Auditor's Comments

   Management concurred with the recommendations and advised that it would have these actions completed by May 2019. We have no additional comments.

d. Further Improvements Needed in the Remediation of Vulnerabilities ***(Open since FY 2004)***

In prior audits, we reported FEC's vulnerability scanning and remediation program did not meet best practices and was a significant internal control deficiency. In FY 2017, we reported that FEC had made improvements in its scanning program, including remediation of the vulnerabilities identified by these scans, and monitoring related corrective actions.

During our FY 2018 audit, we followed up on the actions taken by FEC to determine whether the agency had fully remediated this problem area. We identified that FEC had made additional significant progress, corrected a number of long outstanding critical vulnerabilities, making further progress on others, and had established a monitoring system that met weekly to discuss progress and issues impacting the vulnerabilities. However, our review concluded that FEC had not yet established a process to allow the agency to address these areas at a "managed and measured" level – the level OMB has determined is needed to assure that an agency is meeting IT security requirements.

Our audit also determined that while tracking of identified vulnerabilities has progressed and overall are reported on POA&Ms, key required elements of effective monitoring efforts had not yet been fully addressed. The POA&Ms for several longstanding critical areas did not have key tasks identified, anticipated completion dates and other required elements of a POA&M. The prior CISO stressed the need for improvement in this area and had established a weekly meeting of all key personnel to address the issues noted in the scans and POA&Ms. We believe that this is a critical process and if continued, will enable FEC to more effectively identify needed tasks to remediate the issues, and track progress being made.

OMB Circular A-130 states that agencies "should assure that each system appropriately uses effective security products and techniques, consistent with standards and guidance from NIST." NIST SP 800-53 addresses vulnerability scanning as one of the recommended security controls and part of the risk assessment process. NIST SP-800-115 states that as part of technical security assessments and to ensure that technical security testing and examinations provide maximum value, NIST recommends that organizations: "Analyze findings, and develop risk mitigation techniques to address weaknesses. To ensure that security assessments provide their ultimate value, organizations should conduct root cause analysis upon completion of an assessment to enable the translation of findings into actionable mitigation techniques. These results may indicate that organizations should address not only technical weaknesses, but weaknesses in organizational processes and procedures as well."

Recommendations

8. Strengthen controls around the remediation program to ensure that critical and high vulnerabilities identified through the vulnerability scanning and other processes are completed within 60 days of identification or document an analysis and acceptance of risks for longer term remediation. *(Revised)*

   Agency's Response

   OCIO agrees with the OIG's assessment of a need to strengthen controls around the remediation program. We remain committed to following the most effective way to mitigate software flaw vulnerabilities and effective solutions to patch management. The OCIO followed recommendations from the Department of Homeland Security (DHS) Federal Incident Response Evaluation (FIRE) program and the NIST Special Publication

800-40 Rev 3 in strengthening its patch management program. Since a number of these actions did not appear in the OIG's report, several of the more significant actions, are listed here as supplemental information.

Over the past two years, the OCIO has executed some sweeping changes to its patch management program and practices that provided more transparency and clarity to OCIO administrators responsible for the timing, prioritization, and testing of patches. In March 2018, the OCIO formalized a System Security Plan (SSP) that directed developers to mitigate high-risk vulnerabilities within thirty days (30) and moderate-risk vulnerabilities within ninety days (90). Any request for extensions must be approved of in writing by an Authorizing Official (AO). Currently, both the Deputy CIO for Enterprise Architecture and the Deputy CIO for Operations are formally appointed by the CIO as AOs for FEC's systems. Additionally, in 2018, the OCIO formed a Security and Operations (SECOPS) team to track and discuss the status of outstanding vulnerabilities and remediation plans on a weekly basis. In all cases, all vulnerabilities are documented in an FEC owned GitHub repository and POAM. All vulnerability remediation plans of actions and milestones are tracked on a weekly basis by the FEC's Information System Security Officer (ISSO). The OCIO will continue to strengthen oversight and execution control of changes already implemented above.

<u>**Auditor's Comments**</u>

As the OCIO agrees with the audit recommendations, we have no further comments.

9. Establish Office of Chief Information Officer (OCIO) policies that require the development of POA&Ms to comply with best practices, to include key reporting areas such as: resources required; overall remediation plan; scheduled completion date; and key milestones with completion dates.

<u>**Agency's Response**</u>

OCIO agrees with the OIG's assessment and aims to implement corrective actions. The CISO is in the process of finalizing the policies and procedures to address and strengthen the vulnerability management. Estimated completion of a POA&M policy is May 2019.

<u>**Auditor's Comments**</u>

The OCIO agrees with the audit recommendations. However, we do not believe that a completion date of May 2019 is appropriate to develop a POA&M policy for these critical areas. We believe this action should be better prioritized to have this recommendation implemented immediately.

We noted another control issue that did not rise to a level of a reportable condition, and reported this in a management letter dated November 15, 2018.

A summary of the status of prior year recommendations is included as Attachment 1.

REPORT ON COMPLIANCE

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. 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.

In connection with our audit, we noted no instance of noncompliance that is required to be reported according to Government Auditing Standards and the OMB audit bulletin guidelines. No other matters came to our attention that caused us to believe that FEC failed to comply with applicable laws, regulations, or significant provisions of laws, regulations, and contracts that have a material effect on the financial statements insofar as they relate to accounting matters. Our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the FEC's noncompliance with applicable laws, regulations, or significant provisions of laws, regulations, and contracts insofar as they relate to accounting matters.

Restricted Use Relating to Reports on Internal Control and Compliance

The purpose of the communication included in the sections identified as "Report on Internal Control" and "Report on Compliance" is solely to describe the scope of our testing of internal control over financial reporting and compliance, and to describe any material weaknesses, significant deficiencies, or instances of noncompliance we noted as a result of that testing. Our objective was not to provide an opinion on the design or effectiveness of the FEC's internal control over financial reporting or its compliance with laws, regulations, or provisions of contracts. The two sections of the report referred to above are integral parts of an audit performed in accordance with Government Auditing Standards in considering the FEC's internal control over financial reporting and compliance. Accordingly, those sections of the report are not suitable for any other purpose.

AGENCY'S RESPONSE

The FEC's response to the audit report, which has been summarized in the body of this report, is included in its entirety as Attachment 2. The FEC's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Leon Snead & Company, P.C.

Leon Snead & Company, P.C.
November 15, 2018

Status of Prior Years' Audit Recommendations

Rec	Open Recommendations	Status
1.	Adopt NIST IT security best practices and other government-wide information security requirements that are applicable to the agency's business and information systems operations and document this policy through the issuance of a Commission Directive. Conduct and document a fact-based risk assessment prior to declining to implement government-wide IT security requirements that are applicable to FEC's business operations.	Open[5]
2.	Take actions to ensure that the agency's CAP includes all of the requirements of Commission Directive A-50 and OMB Circular A-123.	Open
3.	Complete the project relating to review of user access authorities and ensure necessary budgetary and personnel resources are provided to complete this project in a timely manner.	Open
4.	Finalize the draft FEC policies that require annual recertification of users' access authorities. Ensure that the policies address privileged accounts, and require validation to actual system access records, by supervisory personnel who would have knowledge of the users' requirements for accessing FEC information and information systems.	Open
5.	Implement USGCB baseline configuration standards for all workstations regardless of the current hardware in use.	Open
6.	Ensure that sufficient resources are assigned to the task of testing the COOP, a critical IT control process, in order to reduce risk to the FEC, and complete all required tests in a timely manner.	Open
7.	Develop system specific contingency plans, as required by the NIST RMF.	Open
8.	Strengthen controls around the remediation program to ensure that critical and high vulnerabilities identified through the vulnerability scanning and other processes are completed within 60 days of identification or document an analysis and acceptance of risks for longer term remediation.	Open
9.	Establish Office of Chief Information Officer (OCIO) policies that require the development of POA&Ms to comply with best practices, to include key reporting areas such as: resources required; overall remediation plan; scheduled completion date; and key milestones with completion dates.	Closed
10.	Develop an Office of Chief Information Officer (OCIO) policy that requires project managers to develop a detailed project plan for all OCIO projects that require multiple resources, extended timeframes and/or have a total cost of $200,000 or more.	Closed
11.	Develop an OCIO policy that details the necessary information required for the development of a project plan such as: a. identification of key tasks and/or steps; b. personnel responsible for completing the task and/or step; c. the timeframe for beginning and completing the task and/or step; d. any associated cost; e. resources required; and f. documentation to be maintained as part of the project plan to support the accomplishment of key plan tasks, issues that impacted the project, and the completion of the overall project.	Closed

[5] The FY 2018 report separates the Commission policy and the fact-based risk assessment into two separate open recommendations.

Attachment 2

FEDERAL ELECTION COMMISSION
Washington, DC 20463

The FEC continues on the path to remediate all findings. The OIG incorporated our detailed responses to each of the findings and recommendations into the body of the audit report. Our responses provide an overview of how we plan to remediate each of the findings.

Findings and Recommendations

Recommendations

1. Adopt NIST IT security best practices and other government-wide information security requirements that are applicable to the agency's business and information systems operations and document this policy through the issuance of a Commission Directive or OCIO policy.
2. Conduct and document a fact-based risk assessment prior to declining to implement government-wide IT security requirements that are applicable to FEC's business operations.

   Agency's Response
   The OCIO agrees with the recommendation in principle and will seek comment from the Commission on accepting any residual risk for the FEC, which has recently and successfully adopted NIST as a best practice and implemented NIST specific IT security controls into applicable systems. Since 2015, the OCIO has spent considerable effort implementing and executing the NIST Risk Management Framework (RMF) and applying them to the FEC's most critical systems. The OCIO does not believe a separate policy should be created to specifically "adopt NIST security best practices and other government-wide information security requirements" because these are indefinable requirements. The OCIO uses the following agency-wide policies to demonstrate use of NIST IT security best practices and other government-wide information security requirements: FEC Information System Security Program Policy 58A (updated April 2017); Delegation of authority appointment of Authorizing Officials in accordance with NIST RMF (signed February 2017); CISO appointment order in accordance with FISMA (signed December 12, 2016); and Risk Management Framework (NIST RMF) Standard Operating Procedure (signed and published March 2017). Additionally, the OCIO has partnered with the FEC's Contracting Officer and has established a standard FEC-wide procurement and contracting process to ensure IT acquisitions adhere to the policies stated above.

3. Take actions to ensure that the agency's CAP includes all of the requirements of Commission Directive A-50 and OMB Circular A-123.

Agency's Response

The OCIO continues to work towards identifying a process to evaluate government-wide IT security best practices and mandates that aligns with the OGC's established policy review processes. Partnering with OGC will enable the OCIO to track and assess government issued information security policies, mandates, and directives for their applicability to FEC systems.

4. Complete the project relating to review of user access authorities and ensure necessary budgetary and personnel resources are provided to complete this project in a timely manner.

Agency's Response

The OCIO agrees with the recommendation, but notes that this finding has no impact on the actual security of FEC systems. In 2017, the OCIO implemented strict account management procedures that included detailed steps for users to gain and maintain access to FEC systems. However, the OCIO is in the process of researching effective ways to periodically review and recertify user access; and if an effective procedure is found for a reasonable cost, it will be implemented enabling supervisors to review user access authorities annually.

5. Implement USGCB baseline configuration standards for all workstations regardless of the current hardware in use.

Agency's Response

Management concurs with the OIG regarding the implementation of the USGCB. In 2017, the OCIO pushed USGCB configuration settings on all Windows 7 laptops. However, recent scans indicated that USGCB is not consistently applied within the FEC environment. The OCIO will accelerate the review and testing of USGCB to analyze and determine the best approaches regarding functionality in meeting the FEC's infrastructure needs. Required USGCB settings will be applied to all workstations FEC-wide as soon as it is ready. The estimated completion date for USGCB implementation is fourth quarter FY19.

6. Ensure that sufficient resources are assigned to the task of testing the COOP, a critical IT control process, in order to reduce risk to the FEC, and complete all required tests in a timely manner.

Agency's Response

The estimated completion date for a table top exercise is March 2019. Management acknowledges the COOP requires updating and resources are being sought to assist in this process. Information gathered from the table top exercise will also be used to update the COOP. The estimated completion date for updating the COOP is third quarter FY19.

7. Develop system specific contingency plans, as required by the NIST RMF.

Agency's Response

Management concurs use of NIST SP 800-34 for each system identified as a critical system. FEC will establish information system contingency plans for systems under the General Support System (GSS) boundary: Law Manager Pro, Comprizon Suite, Disclosure, Data Entry, Informatica, Kofax, ECM suite, and Presidential Matching Fund system.

Management is currently conducting research and has been provided ISCP templates to assist in the process and working in coordination with each application owner to create each plan. The estimated completion date for the analysis is May 2019.

8. Strengthen controls around the remediation program to ensure that critical and high vulnerabilities identified through the vulnerability scanning and other processes are completed within 60 days of identification or document an analysis and acceptance of risks for longer term remediation. *(Revised)*

Agency's Response

OCIO agrees with the OIG's assessment of a need to strengthen controls around the remediation program. We remain committed to following the most effective way to mitigate software flaw vulnerabilities and effective solutions to patch management. The OCIO followed recommendations from the Department of Homeland Security (DHS) Federal Incident Response Evaluation (FIRE) program and the NIST Special Publication 800-40 Rev 3 in strengthening its patch management program. Since a number of these actions did not appear in the OIG's report, several of the more significant actions, are listed here as supplemental information.

Over the past two years, the OCIO has executed some sweeping changes to its patch management program and practices that provided more transparency and clarity to OCIO administrators responsible for the timing, prioritization, and testing of patches. In March 2018, the OCIO formalized a System Security Plan (SSP) that directed developers to mitigate high-risk vulnerabilities within thirty days (30) and moderate-risk vulnerabilities within ninety days (90). Any request for extensions must be approved of in writing by an Authorizing Official (AO). Currently, both the Deputy CIO for Enterprise Architecture and the Deputy CIO for Operations are formally appointed by the CIO as AOs for FEC's systems. Additionally, in 2018, the OCIO formed a Security and Operations (SECOPS) team to track and discuss the status of outstanding vulnerabilities and remediation plans on a weekly basis. In all cases, all vulnerabilities are documented in an FEC owned GitHub repository and POAM. All vulnerability remediation plans of actions and milestones are tracked on a weekly basis by the FEC's Information System Security Officer (ISSO). The OCIO will continue to strengthen oversight and execution control of changes already implemented above.

9. Establish Office of Chief Information Officer (OCIO) policies that require the development of POA&Ms to comply with best practices, to include key reporting areas such as: resources required; overall remediation plan; scheduled completion date; and key milestones with completion dates.

Agency's Response

OCIO agrees with the OIG's assessment and aims to implement corrective actions. The Acting CISO is in the process of finalizing the policies and procedures to address and strengthen the vulnerability management. The estimated completion date of a POA&M policy is May 2019.

Thank you for the opportunity to once again work with the OIG and the financial statement audit team during the audit process. We look forward to continue our work with the OIG for the Fiscal Year 2019 financial statement audit.

Gilbert Ford

Gilbert Ford
Acting Chief Financial Officer

This page marks the end of the Independent Auditor's Report

Financial Statements

BALANCE SHEET
As of September 30, 2018 and 2017 (in dollars)

	2018	2017
Assets:		
Intragovernmental:		
Fund Balance With Treasury	20,287,566	23,494,651
Total Intragovernmental	20,287,566	23,494,651
Accounts Receivable, net	447,136	628,528
General Property, Plant and Equipment, Net	17,223,344	10,019,061
Total Assets	**37,958,046**	**34,142,240**
Liabilities:		
Intragovernmental:		
Accounts Payable	206,652	120,434
Other:		
Employer Contributions and Payroll Taxes Payable	369,966	374,495
Other Post Employment Benefits Due and Payable	3,500	3,500
Unfunded FECA Liability	6,052	5,810
Custodial Liability	447,136	628,528
Deferred Rent	8,446,642	0
Total Intragovernmental	9,479,949	1,132,767
Accounts Payable	1,876,045	574,113
Federal Employees and Veterans Benefits	8,122	7,426
Other:		
Accrued Funded Payroll and Leave	1,352,064	1,354,304
Employer Contributions and Payroll Taxes Payable	57,390	55,786
Unfunded Leave	2,515,072	3,154,512
Total Liabilities	**15,288,642**	**6,278,907**
Net Position:		
Unexpended Appropriations - All Other	16,421,949	21,012,019
Cumulative Results of Operations - All Other Funds	6,247,456	6,851,313
Total Net Position - All Other Funds (Consolidated	22,669,404	27,863,333
Total Net Position	**22,669,404**	**27,863,333**
Total Liabilities and Net Position	**37,958,046**	**34,142,240**

STATEMENT OF NET COST

For The Years Ended September 30, 2018 and 2017 (in dollars)

	2018	2017
Program Costs:		
Administering and Enforcing the *FECA*		
Gross Costs	78,532,995	69,135,721
Less: Earned Revenue	544	2,266
Net Program Costs	78,532,451	69,133,455
Net Cost of Operations	**78,532,451**	**69,133,455**

STATEMENT OF CHANGES IN NET POSITION
For The Years Ended September 30, 2018 and 2017 (in dollars)

	All Other Funds (Consolidated Totals)	Consolidated Total
Unexpended Appropriations:		
Beginning Balance	21,012,019	21,012,019
Budgetary Financing Sources:		
Appropriations received	71,250,000	71,250,000
Other adjustments	(312,874)	(312,874)
Appropriations used	(75,527,196)	(75,527,196)
Total Budgetary Financing Sources	**(4,590,071)**	**(4,590,071)**
Total Unexpended Appropriations	**16,421,949**	**16,421,949**
Cumulative Results from Operations:		
Beginning Balances	6,851,313	6,851,313
Beginning balance, as adjusted	6,851,313	6,851,313
Budgetary Financing Sources:		
Appropriations used	75,527,196	75,527,196
Other Financing Sources (Non-Exchange):		
Imputed financing	2,401,397	2,401,397
Total Financing Sources	77,928,593	77,928,593
Net Cost of Operations	78,532,451	78,532,451
Net Change	(603,858)	(603,858)
Cumulative Results of Operations	**6,247,456**	**6,247,456**
Net Position	**22,669,404**	**22,669,404**

STATEMENT OF CHANGES IN NET POSITION
For The Years Ended September 30, 2018 and 2017 (in dollars)

	All Other Funds (Consolidated Totals)	Consolidated Total
Unexpended Appropriations:		
Beginning Balance	13,198,773	13,198,773
Budgetary Financing Sources:		
Appropriations received	79,119,000	79,119,000
Other adjustments	(689,422)	(689,422)
Appropriations used	(70,616,331)	(70,616,331)
Total Budgetary Financing Sources	**7,813,246**	**7,813,246**
Total Unexpended Appropriations	**21,012,019**	**21,012,019**
Cumulative Results from Operations:		
Beginning Balances	3,452,424	3,452,424
Beginning balance, as adjusted	3,452,424	3,452,424
Budgetary Financing Sources:		
Appropriations used	70,616,331	70,616,331
Other Financing Sources (Non-Exchange):		
Imputed financing	1,916,013	1,916,013
Total Financing Sources	72,532,344	72,532,344
Net Cost of Operations	69,133,455	69,133,455
Net Change	3,398,890	3,398,890
Cumulative Results of Operations	**6,851,313**	**6,851,313**
Net Position	**27,863,333**	**27,863,333**

STATEMENT OF BUDGETARY RESOURCES

For The Years Ended September 30, 2018 and 2017 (in dollars)

	2018 Budgetary	2017 Budgetary
BUDGETARY RESOURCES		
Unobligated balance from prior year budget authority, net (discretionary and mandatory)	9,595,647	5,159,524
Appropriations (discrectionary and mandatory)	71,250,000	79,119,000
Spending authority from offsetting collections (discretionary and mandatory)	544	2,266
Total budgetary resources	**80,846,191**	**84,280,790**
STATUS OF BUDGETARY RESOURCES		
New obligations and upward adjustments (total)	77,411,365	74,465,666
Unobligated balance, end of year:		
Apportioned, unexpired account	1,810,910	8,521,878
Unexpired unobligated balance, end of year	1,810,910	8,521,878
Expired unobligated balance, end of year	1,623,916	1,293,245
Unobligated balance, end of year (total)	3,434,826	9,815,124
Total budgetary resources	**80,846,191**	**84,280,790**
OUTLAYS, NET		
Outlays, net (discretionary and mandatory)	74,144,210	72,549,169
Agency outlays, net (discretionary and mandatory)	**74,144,210**	**72,549,169**

STATEMENT OF CUSTODIAL ACTIVITY
For The Years Ended September 30, 2018 and 2017

		2018		2017
Revenue Activity				
Sources of cash collections				
Civil penalties	$	1,100,416	$	829,355
Administrative fines	$	148,770	$	222,566
Miscellaneous receipts	$	115,443	$	341,657
Total cash collections	$	1,364,629	$	1,393,578
Accrual adjustments	$	(181,392)	$	516,628
Total custodial revenue (Note 10)	**$**	**1,183,237**	**$**	**1,910,206**
Disposition of Collections				
Transferred to Treasury	$	1,364,629	$	1,393,578
Amount yet to be transferred	$	(181,392)	$	516,628
Total disposition of collections	**$**	**1,183,237**	**$**	**1,910,206**
Net custodial activity	**$**	**-**	**$**	**-**

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, 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's 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). The accounts of the Presidential Election Campaign Fund are therefore 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 resulting from transactions with 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, whereas 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 for use in carrying 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 mainly represents 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 estimated loss on accounts receivable from the public that are deemed uncollectible accounts. This allowance 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, and 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 zero salvage value. Depreciation or amortization of an asset begins the day it 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*), or those resulting from the agency's custodial activities. The FEC has an intragovernmental liability to Treasury for fines, penalties and miscellaneous receipts which are due from the public but have 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 and services received that have not yet been paid at the end of the fiscal year. Accounts Payable also consists of disbursements in-transit, which are payables that have been recorded by the FEC and are pending payment by Treasury. In addition to accounts payables recorded through normal business activities, unbilled payables are estimated based on historical data.

Accrued Payroll and Employer Contribution

Accrued payroll and benefits represent salaries, wages and benefits earned by employees, but not yet disbursed as of the statement date. Accrued payroll and Thrift Savings Plan contributions are not classified as intragovernmental. Employer contributions and payroll taxes payable are classified as intragovernmental.

Annual, Sick and Other Leave

Annual leave is recorded as a liability when it is earned by FEC employees; the liability is reduced as leave is taken. On a quarterly basis, 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 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 is generated by DOL through 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 estimate the total payments related to that period. These projected annual benefits payments are discounted to present value.

Employee Retirement Plans

Each fiscal year, the Office of Personnel Management (OPM) estimates the Federal Government service cost for all covered employees. This estimate represents an annuity dollar amount which, if accumulated and invested each year of an employee's career, would provide sufficient funding to pay for that employee's future benefits. As the Federal Government's estimated service cost exceeds the amount of contributions made by employer agencies and covered employees, this plan is not fully funded by the FEC and its employees. As of September 30, 2018, the FEC recognized approximately $ 2,808,853 as an imputed cost and related financing source, for the difference between the estimated service cost and the contributions made by the FEC and its employees. This represents a 47% increase when compared to the $ 1,916,013 of imputed cost and related financing source recognized in Fiscal Year 2017.

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. For employees participating in CSRS, the FEC withheld 7% of base pay earnings and provided a matching contribution equal to the sum of the withholding. For employees covered by FERS, the FEC withheld .8% of base pay earnings and provided the agency contribution. The majority of FEC employees hired after December 31, 1983, are automatically covered by FERS.

Effective January 1, 2013, the *Middle Class Tax Relief and Job Creation Act of 2012* created a new FERS retirement category, Revised Annuity Employees (RAE) for new federal employees hired in calendar year (CY) 2013 or thereafter. In FY 2018, the FERS-RAE employee contribution rate was 3.1%.

Effective January 1, 2014, the *Bipartisan Budget Act of 2013* introduced a new FERS retirement category, Further Revised Annuity Employees (FRAE) for new federal employees hired in CY 2014 and thereafter. In FY 2018, the FERS-FRAE employee contribution rate was 4.4%.

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 13.7% of basic pay for FY 2018. For both FERS-RAE and FERS-FRAE covered employees, the FEC made contributions of 11.9% of basic pay for FY 2018.

Employees participating in FERS are covered under the *Federal Insurance Contribution Act (FICA)*, for which the FEC contributed 6.2% to the Social Security Administration in FY 2018. Effective in FY 2012 FERS and CSRS – Offset employees were granted a 2% decrease in Social Security for tax year (CY) 2012 under the *Temporary Payroll Tax Cut Continuation Act of 2011*; and *H.R. 3630, the Middle Class Tax Relief and Job Creation Act of 2012*. During FY 2013, employees contributed 4.2% to Social Security through December 31, 2012. Effective January 1, 2013 the employee contribution rate is 6.2%.

Thrift Savings Plan

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% of base pay to their account and matches contributions up to an additional 4%. 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. Additionally, the FEC received funding through reimbursement for services provided to other Federal agencies. Services performed for other Federal agencies under reimbursable agreements are financed through the account providing the service and reimbursements are recognized as revenue when earned.

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, 2018 and September 30, 2017:

	2018	2017
With the Public		
Accounts Receivable - Custodial	$ 447,136	$ 628,528
Total non-entity assets	$ 447,136	$ 628,528
Total entity assets	$ 37,510,910	$ 33,513,712
Total Assets	$ 37,958,046	$ 34,142,240

Note 3 Fund Balance with Treasury

Fund Balance with Treasury consisted of the following as of September 30, 2018 and September 30, 2017:

	2018	2017
Fund Balances		
Appropriated Funds	$20,287,566	$23,494,651
Total	$20,287,566	$23,494,651

	2018	2017
Status of Fund Balance with Treasury		
Unobligated Balance		
Available	$ 1,810,910	$ 8,521,878
Unavailable	$ 1,623,916	$ 1,293,245
Obligated Balance not yet Disbursed	$ 16,852,740	$ 13,679,527
Total	$ 20,287,566	$ 23,494,651

Available unobligated balances represent amounts that are apportioned for obligation in the current fiscal year. Unavailable unobligated balances represent amounts that are not apportioned for obligation during the current fiscal year and expired appropriations that are no longer available to incur new obligations. Obligated balances not yet disbursed include amounts designated for payment of goods and services ordered but not received, or goods and services received but for which payment has not yet been made.

Note 4 - Accounts Receivables, Net

All accounts receivable are with the public and consisted of the following as of September 30, 2018 and September 30, 2017:

	2018		
	Gross Accounts Receivable	Allowance	Net Accounts Receivable
Intragovernmental			
Intragovernmental	$ -	$ -	$ -
Total Intragovernmental	$ -	$ -	$ -
With the Public			
Fines and Penalties	$ 619,091	$ 171,955	$ 447,136
Total Non-Entity	$ 619,091	$ 171,955	$ 447,136
Total	$ 619,091	$ 171,955	$ 447,136

	2017		
	Gross Accounts Receivable	Allowance	Net Accounts Receivable
Intragovernmental			
Intragovernmental	$ -	$ -	$ -
Total Intragovernmental	$ -	$ -	$ -
With the Public			
Fines and Penalties	$ 786,706	$ 158,179	$ 628,528
Total Non-Entity	$ 786,706	$ 158,179	$ 628,528
Total	$ 786,706	$ 158,179	$ 628,528

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. The "intragovernmental accounts receivable" is primarily attributed to the Deputy Inspector General servicing a Federal agency on a reimbursable basis pursuant to the Inspector General Act.

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, 2018 and September 30, 2017, respectively:

			2018	
Asset Class	**Service Life (years)**	**Acquisition Value**	**Accumulated Depreciation/Amortization**	**Net Book Value**
Software	3	$18,703,643.48	$ 11,297,633.10	$ 7,406,010.38
Computers and peripherals	3	$ 3,067,115.95	$ 3,063,507.77	$ 3,608.18
Furniture	5	$ 852,753.70	$ 852,753.70	$ -
Leasehold Improvements	5	$ 8,577,985.98	$ 744,712.01	$ 7,833,273.97
Software-in-Development	n/a	$ 1,980,450.97	$ -	$ 1,980,450.97
Total		$33,181,950.08	$ 15,958,606.58	$17,223,343.50

			2017	
Asset Class	**Service Life (years)**	**Acquisition Value**	**Accumulated Depreciation/Amortization**	**Net Book Value**
Software	3	$ 9,903,521.06	$ 9,586,978.32	$ 316,542.74
Computers and peripherals	3	$ 3,067,115.95	$ 2,962,201.29	$ 104,914.66
Furniture	5	$ 852,753.70	$ 852,753.70	$ -
Leasehold Improvements	5	$ 925,095.51	$ -	$ 925,095.51
Software-in-Development	n/a	$ 8,672,508.02	$ -	$ 8,672,508.02
Total		$23,420,994.24	$ 13,401,933.31	$10,019,060.93

Note 6 Liabilities Not Covered by Budgetary Resources

Liabilities Not Covered by Budgetary Resources consisted of the following as of September 30, 2018 and September 30, 2017:

	2018	2017
Intragovernmental:		
Custodial Fines and Civil Penalties	$ 447,136	$ 628,528
Deferred Rent	8,446,642	-
Unfunded *FECA* Liability	6,052	5,810
Total Intragovernmental	8,899,830	634,338
With The Public:		
Unfunded Annual Leave	2,515,072	3,154,512
Actuarial *FECA* Liability	8,122	7,426
Total Liabilities Not Covered by Budgetary Resources	$ 11,423,024	$ 3,796,276
Total Liabilities Covered by Budgetary Resources	$ 3,865,618	$ 2,482,632
Total Liabilities Not Requiring Budgetary Resources	$ -	$ -
Total Liabilities	$ 15,288,642	$ 6,278,907

Note 7 Commitments and Contingencies

As of September 30, 2018, in the opinion of FEC management and legal counsel, the FEC was not a party to any legal action which were likely to result in a material liability. Accordingly, no provision for loss was included in the financial statements.

Note 8 Leases

The FEC did not have any capital leases as of September 30, 2018 and September 30, 2017. The FEC has a non-cancellable operating lease for its office space through November 30, 2032.

Future payments under the operating lease are as follows:

Future Operating Lease Payments
2018

Fiscal Year	Lease Payment
2019	100,769
2020	4,303,737
2021	5,223,565
2022	5,277,789
2023	5,333,639
2024	5,391,165
2025	5,450,416
2026	5,511,445
2027	5,574,305
2028	5,772,369
2029	5,865,720
2030	5,934,409
2031	6,005,158
2032	6,078,030
2033	944,644
Total	**71,822,517**

As per the terms of the Lease agreement, the FEC was granted a total of $8,943,504, or 22 months, in free rent from the lessor. Per the FEC's policy, the total free rent will be amortized as Deferred Rent over the life of the lease.

The table above represents the actual cash outlays for rent payments as contained in the FEC's Occupancy Agreement with GSA, and does not include the amortized Deferred Rent referenced above.

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, 2018 and September 30, 2017, respectively:

		2018		2017
Intragovernmental:				
Intragovernmental gross costs	$	27,336,005	$	19,339,655
Less: Intragovernmental earned revenue	$	(544)	$	(2,266)
Intragovernmental net costs	$	27,335,461	$	19,337,389
Public:				
Gross costs with the public	$	51,196,990	$	49,796,066
Net costs with the public	$	51,196,990	$	49,796,066
Net cost of operations	$	78,532,451	$	69,133,455

Costs incurred for goods and services provided by other Federal entities are reported in the full costs of the FEC's program and are identified as "intragovernmental." The "intragovernmental earned revenue" is primarily attributed to the Deputy Inspector General servicing a Federal agency on a reimbursable basis pursuant to the Inspector General Act. All other costs are identified as "with the public."

Note 10 Explanation of Differences between the Statement of Budgetary Resources and the Budget of the U.S. Government

The Statement of Budgetary Resources (SBR) compares budgetary resources with the status of those resources. For the year ended September 30, 2018, budgetary resources were $80,846,191.12 and net outlays were $74,148,210.07. For the year ended September 30, 2017, budgetary resources were $84,280,789.80 and net outlays were $72,562,090.15.

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, 2018 and September 30, 2017, direct obligations incurred amounted to $77,410,821.11 and $74,463,399.81, respectively. For the years ended September 30, 2018 and September 30, 2017, reimbursable obligations incurred amounted to $544.13 and $2,266.22, 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 2018 actual budgetary execution information is scheduled for publication in February 2019, 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 2017 SBR and the related President's Budget reflected the following:

FY 2017	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Statement of Budgetary Resources	$84,280,789.80	$74,463,399.81	-	$72,562,090.15
Budget of the U.S. Government	83,000,000	74,000,000	-	73,000,000
Difference	$ 1,280,789.80	$ 463,399.81	$ -	$ (437,909.85)

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 Liabilities

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	**2018**	**2017**
Fines, Penalties, and Other Miscellaneous Revenue	$ 1,183,237	$ 1,910,206
Custodial Liability		
Receivable for Fines and Penalties	$ 619,091	$ 786,706
Less: Allowance for Doubtful Accounts	$ (171,955)	$ (158,179)
Total Custodial Liability	$ 447,136	$ 628,528

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 decrease of approximately $186,000 for FY 2018 and a net increase of approximately $451,000 for FY 2017, respectively. The accrual adjustment for administrative fines is composed of a net decrease of approximately $58,000 in FY 2018 and a net increase of approximately $74,000 in FY 2017, respectively.

Note 12 Undelivered Orders at the End of the Period

For Fiscal Year 2018, Unpaid Undelivered orders were $12,059,857, of which $1,763,481 were Federal and $ 10,296,376 were non Federal. As of September 30, 2018 there were no Fiscal Year 2018 Paid Delivered Orders.

For Fiscal Year 2017 Undelivered Orders totaled $11,196,896.

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.

		2018		2017
Resources used to finance activities				
Budgetary resources obligated				
Obligations incurred	$	77,411,365	$	74,465,666
Less: Recoveries and offsetting collections	$	(93,942)	$	(13,201)
Net obligations	$	77,317,423	$	74,452,465
Other resources				
Imputed financing from costs absorbed by others	$	2,401,397	$	1,916,013
Total resources used to finance activities	$	79,718,820	$	76,368,478
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	$	1,790,227	$	3,836,134
Resources that fund expenses recognized in prior periods	$	-	$	87,060
Resources that finance the acquisition of assets that do not affect net cost of operations	$	9,760,956	$	5,377,478
Total resources used to finance items not part of the net cost of operations	$	11,551,183	$	9,300,671
Total resources used to finance the net cost of operations	$	68,167,637	$	67,067,807
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	$	(639,440)	$	654,505
Other	$	8,447,581	$	13,236
Total	$	7,808,140	$	667,741
Components not requiring or generating resources				
Depreciation and amortization	$	2,556,673	$	1,397,907
Total	$	2,556,673	$	1,397,907
Total components of the net cost of operations that will not require or generate resources in the current period	$	10,364,813	$	2,065,648
Net cost of operations	$	78,532,451	$	69,133,455

SECTION III – Other Information

Inspector General's Statement on FEC Management and Performance Challenges

FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20463
Office of Inspector General

MEMORANDUM

TO: The Commission

FROM: J. Cameron Thurber
Deputy Inspector General

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

DATE: October 24, 2018

Each year, the Inspector General (IG) 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 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 Agency Financial Report (AFR) Fiscal Year (FY) 2018.*

For FY 2018, the Office of Inspector General (OIG) still believes, as reported in FY 2017, that the overarching management and performance challenge at the FEC is the agency's Governance and Management Framework. This overall agency challenge creates critical management and performance issues within the agency's environment, programs, and negatively impacts the effectiveness and efficiency of achieving the agency's mission. The OIG believes that the ability to effectively achieve the mission of the agency is reliant on the need for Governance and the Senior Leadership to address the deficiencies within the governance framework, which sets the tone and structure of the organization.

The OIG's annual assessment of management and performance challenges is based on information derived from a combination of several sources, including OIG audit and inspection work, Commission reports, management meetings, government-wide risk factors, and a general knowledge of the Commission's programs and activities. The management and performance challenges are detailed in the attached report. The *Reports Consolidation Act of 2000* permits agency comment on the IG's statements. Agency comments, if any, are due November 15, 2018.

Attachment

cc: Alec Palmer, Staff Director and Chief Information Officer/Staff Director
Gilbert Ford, Acting Chief Financial Officer
Lisa Stevenson, Acting General Counsel

Inspector General Statement on the Federal Election Commission's Management and Performance Challenges for Fiscal Year 2018

Overall Challenge: Governance and Management Framework

The FEC's overall governance framework needs improvement to contribute to the success of the agency. The lack of accountability from Governance regarding critical management issues and the inadequate leadership structure of management has a negative impact on the agency achieving its mission efficiently and effectively. This challenge creates several critical management and performance challenges within the agency.

Challenge 1: Governance Accountability

A. Low Employee Morale

Due to the consistent low ranking of the FEC in the results of the annual Federal Employee Viewpoint Survey (FEVS), the OIG contracted with a consultant company to conduct a study to determine the root causes of the low employee morale at the agency. The study revealed that the following factors are the root causes of low employee morale:

- Commissioners;
- Accountability;
- Management;
- Communication; and
- Other (diversity, career development)

The FY 2017 FEVS results places the FEC at 27 of 28 best places to work amongst small agencies. Additional survey data identified that less than half of the agency staff participated in the survey. The continued low agency ranking and minimal participation of FEC staff in the survey demonstrates the impact of the low employee morale at the FEC.

Since the employee morale study has been released, we acknowledge management's improvements in the area of communication regarding critical agency-wide projects, specifically, the recent relocation of the agency's headquarters. However, as low employee morale has a direct effect on accomplishing the agency's mission, we believe that an action plan from top level management to address all the root causes of low employee morale is still critical. The most important part of a solid control environment is the "Tone at the Top,"[1] which permeates down to create the philosophy and operational style that sets the culture of the agency. The OIG believes that without a continued, sincere effort by Governance to address morale issues, the objectives of the agency's offices and divisions will continue to be negatively impacted, increasing the risk of the agency not efficiently and effectively meeting its mission.

B. Enforcing Required Management Roles and Responsibilities

It is imperative to the success of the agency that Governance holds management accountable for adequately fulfilling their roles and responsibilities in addressing

[1] The term "Tone at the Top" is used to define the commitment of top level management to honesty, integrity, openness, and ethical behavior in achieving an organization's mission and objectives.

identified risks of fraud, waste, abuse, and program deficiencies. The OIG and external entities have reported risks and deficiencies in agency programs that management has not addressed or have made a low priority for several years. According to the Office of Management and Budget Circular A-123 (OMB A-123), *Management's Responsibility for Internal Control*, deficiencies reported "…through internal review or by external audit, should be evaluated and corrected." Further, FEC Commission Directive 50 states, "All management officials are responsible for receiving and analyzing audit reports, providing timely responses, and take corrective action, if needed." However, the agency has 61[2]outstanding recommendations that have been reported by the OIG, in which many have been reported since FY 2004.

Management's prior year response to this challenge stated they are following FEC Commission Directive 50, reporting semiannual progress of outstanding recommendations to the Commission. However, the updates provided show little to no progress, and in many cases the corrective action due dates are continuously extended with no management corrective action taken. In addition, the recently developed FEC Senior Management Council (SMC) to address OMB Circular A-123 requirements for oversight of internal controls and enterprise risk management, developed their initial risk profile and identified many control issues related to long outstanding recommendations such as *Privacy and Data Protection* and *Disaster Recovery Plan and Continuity of Operations Plans* as only a "medium" risk to the agency. However, the OIG has issued reports on these specific areas that contain critical weaknesses that expose a high risk to the agency, and these reports have recommendations that have been outstanding for five years or more.

Collectively, these long outstanding issues that have been reported to management address risks to the agency's mission, assets, government funding, and compliance with laws and regulations. The remediation of these issues is essential to reducing the high likelihood of the risk exposure to the agency, warranting Commission attention and for management to institute corrective action.

Challenge 2: Longstanding Vacancies in Senior Leadership Positions

The FEC lacks continued stability in key senior leadership positions that are accountable for the mission and objectives of the agency. The FEC's SMC initial risk profile for the agency rated multiple agency vacancies as a "very high" risk for the agency, and the OIG agrees with this management risk assessment.

Operating the agency with several vacant permanent senior leader positions, some staffed with personnel in acting roles, creates an unstable environment that runs the risk of noncompliance with applicable federal laws and regulations. This ultimately puts the agency at risk of not efficiently and effectively meeting the agency's mission. The following critical FEC senior leadership positions are currently vacant or filled only by staff in an acting capacity:

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[2] The total recommendation count includes the 11 repeat recommendations from the *FEC's FY 2017 Financial Statement Audit* and the 50 recommendations included in the *OIG's Review of Outstanding Recommendations as of August 2018*.

- Chief Financial Officer – vacant since October 2012
- General Counsel- vacant since July 2013
- Deputy Staff Director - vacant since August 2014
- Inspector General - vacant since March 2017

Failure to fill these senior leadership positions in a timely manner with permanent full-time employees also creates resource gaps. When senior leader positions are vacant or filled with those in acting positions on a long-term basis, voids are often created in management positions that are responsible for the adequate oversight of daily operations. Thus, the following management level positions are currently vacant with only some having an acting personnel assigned:

- Chief Information Security Officer
- Director of Human Resources
- Accounting Director
- Budget Director
- Deputy General Counsel for Law
- Deputy Chief Information Officer of Operations

As many of these positions require specialized knowledge and skills to ensure office operations are effectively and efficiently supporting the overall mission of the agency, assigning acting personnel to many of these vacant positions on a long term basis is not an efficient solution. It is imperative that the Personnel Committee elevate the importance of filling these vacant senior leader and management positions as a priority to ensure consistency and clear direction in the leadership of the agency.

Challenge 3: Organizational Structure

Per OMB Circular A-123, management is responsible for complying with the Control Environment standard. Specifically, "Within the organizational structure, management must clearly: define areas of authority and responsibility, appropriately delegate the authority and responsibility throughout the agency; establish a suitable hierarchy for reporting." Based on deficiencies noted within the agency's programs and business processes via OIG reports and reviews by external entities, management is not in compliance with the required Control Environment standard.

A. Information Security Program

Since 2004, the OIG has reported the need for the FEC to make improvements to its information security controls. Through audits and assessments conducted by the OIG and external entities, remediating weaknesses within the agency's information security program has been identified as a low priority. As examples, currently the FEC's annual financial statement audit includes several long outstanding audit findings related to the security of FEC information, some initially reported in FY 2004. In addition, an OIG report, *Inspection of the FEC's Disaster Recovery Plan and Continuity of Operations Plan*, released in January 2013 still has outstanding audit recommendations that identify areas of high risk to agency information and have yet to be addressed by management.

Inspector General Statement on the Federal Election Commission's Management and Performance Challenges for Fiscal Year 2018

This issue has also been identified by external entities who have worked with FEC management to conduct evaluations and assessments of the agency's security measures. For instance, in June 2017, the agency was provided an analysis from Cyber.gov Systems Analysis Team who stated that there is a "lack of prioritization of cyber security" within the FEC, and recommended that the agency "prioritize cyber security alongside IT operations in strategic and operational planning." Following in July 2017, the Department of Homeland Security (DHS) provided a report to the FEC stating that cyber security at the agency "competes with and is often secondary to IT operations."

In addition to the need for prioritization, the agency's Information Security Office requires restructuring to ensure the agency meets its mission requirements efficiently and effectively over the next several years, with a high level of accountability, per the requirements of the agency Reform Plan outlined in OMB Memoranda M-17-22. As noted above in Challenge 2, one of the critical management positions that is currently vacant is the FEC Chief Information Security Officer (CISO). As the position has only been vacant for a short amount of time, due to the increasing security requirements and the agency's current need for improvements to its information security program, it is critical that the agency not only fill this position with a qualified security professional, but also elevate this position to provide proper management authority. Through the OIG's management exit conference meetings held with the two prior FEC CISOs, it was noted that both persons separated from the agency due to the need of the position to be elevated[3] to achieve proper authority and effective operations. In addition, both prior CISOs also noted a need for additional support staff within the Information Security Office to ensure progressive maturity of the agency's information security program.

Not only do the long outstanding information security control weaknesses reported by the OIG support the need for this restructuring, but the external assessments noted above also support the concerns of the prior CISOs. The Cyber.gov analysis specifically notes that the "CISO position at management level reduces effectiveness" and recommends that the FEC "elevate seniority level of [the] CISO". The analysis also recommends that the FEC "develop a cybersecurity team" as the office is currently staffed with only one full-time employee with the CISO vacancy. This point is further stressed in the subsequent report from DHS which states the need for FEC to "increase FEC cybersecurity staffing."

Further, the FEC is also in need of an applicable government-wide framework to support the agency's information security program. As the FEC's Office of General Counsel has determined that the agency is legally exempt from the *Federal Information Systems Management Act*, an applicable framework for information security has not been formally adopted or adequately implemented. The OIG has recommended that the FEC formally adopt the applicable standards of the National Institute of Standards and Technology (NIST) as its framework since FY 2009, but the agency has not sufficiently implemented this recommendation. The June 2017 DHS report states, "FEC elects to integrate the NIST SP 800-37r1 into their security architecture, but does not implement or follow the guidelines of NIST 800-53Ar1…"

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[3] CISO position is currently staffed at a GS 14, which is lower than those who the CISO must provide instruction and direction to, such as Deputy Chief Information Officers, to ensure proper security measures are carried out.

Inspector General Statement on the Federal Election Commission's Management and Performance Challenges for Fiscal Year 2018

We do note that the agency has made significant improvements by updating many policies and procedures to address identified control weaknesses, reducing the number of outstanding vulnerabilities, and most notably, assessing and authorizing the operations of major agency systems. In order to continue addressing outstanding security control issues, ensure the agency is compliant with applicable security requirements, develop a plan to fully implement an acceptable government-wide security framework, and ultimately work to develop a sufficiently mature FEC security program, the information security program and office at the FEC must be revamped to address these major challenges.

B. Proper Leadership Structure

Currently, the senior leadership roles of the Staff Director and Chief Information Officer (CIO) are filled by the same individual. As both senior leader positions are critical to the agency, we strongly believe these two positions should have separate full time personnel solely dedicated to each position. The current structure does not with OMB's control environment standard to "appropriately delegate the authority and responsibility throughout the agency," and "establish a suitable hierarchy for reporting." Specifically, FEC employees and supervisors have expressed concerns of inhibition with reporting significant personnel concerns or technology issues as the oversight of these issues are reported to the same individual. Further, this dual position presents at minimum an appearance of bias, as there is only one person with oversight over more than half of the agency's programs, and a large portion of the agency's operating budget.

The Office of the Chief Information Officer's (OCIO) processes and controls are also impacted by not having a fully devoted CIO. There are several reported control weaknesses within the FEC's information security program that have been reported in more than one OIG report, with some recommendations being outstanding as long as 14 years. In response to this challenge in the prior year's report, management provided examples of processes and policies that have been implemented to address these OIG reported control weaknesses. However, these management actions have been reviewed by the OIG and external auditors each year and found to be insufficient to fully address the reported issues, and they continue to be reported in the annual financial statement audit and the OIG's annual *Review of Outstanding Recommendations* report. Without a fully dedicated CIO to focus on these issues to ensure resources are properly allocated, and adequate processes are in place for the protection and safety of the agency, the agency will remain at high risk for fraud, waste, and abuse.

C. Senior Agency Officials for Privacy

Per OMB Memorandum 16-24, *Role and Designation of Senior Agency Officials for Privacy*, the designated SAOP [Senior Agency Official for Privacy] should serve in a "central leadership position at the agency," and have "agency-wide responsibility and accountability for the agency's privacy program." The agency's Privacy Program is currently a shared role between the Office of General Counsel (OGC) and the OCIO, with the designated SAOP being a shared role assigned to the Deputy CIO of Operations and the Deputy General Counsel. This current agency structure has not shown to be effective or efficient, supporting the OIG's recommendation to have one person solely dedicated and knowledgeable of privacy issues to oversee the agency's Privacy Program.

As of August 2018, the Deputy CIO of Operations retired from the agency, and this portion of the SAOP role has been assigned to an OGC attorney, serving as the Acting Deputy Staff Director. Management noted in their prior year response to this challenge, that "the official in each of those positions has significant oversight over a discrete portion of the agency's Privacy Program;" however, the current structure of having two attorneys with oversight of the agency's Privacy Program does not ensure coverage of the privacy regulations over information security which has been heavily enhanced through the recent revisions of OMB Circular A-123, and the applicable privacy requirements included in guidance such as OMB Memoranda M-17-*2 Preparing for and Responding to a Breach of Personally Identifiable Information* and M-18-02, *Guidance on Federal Information Security and Privacy Management Requirements.* The lack of proper oversight for the information technology and security portions of the Privacy Program places the agency at greater risk of being susceptible to privacy breach issues.

An example of the inefficiencies to the Privacy Program is demonstrated in the lack of progress made in implementing the recommendations in the *2010 Follow-up Audit of Privacy and Data* that was released in March of 2011. Management included in their prior year response to this management challenge a table noting several recommendations that have been completed by management, resulting in only nine remaining open recommendations, and stated that "the OIG sought to re-open multiple recommendations…management has not been able to discern the rationale for such re-openings nor convince OIG that these recommendations had been completed."

The OIG notes that this narrative from management is inaccurate. Currently, there are 23 outstanding recommendations related to privacy issues, including issues that haven't been resolved since 2009.[4] In addition, the OIG contacts management twice a year for status updates regarding open recommendations. Specifically for the past eight follow-up reviews (2015 – present)[5] the OIG has requested adequate documentation from management to support any corrective actions taken, and has provided feedback to management regarding our review and any deficiencies noted that impacted the closure of an open recommendation. Also during the noted review period above, management specifically stated on several occasions that they had made no corrective actions. These review details are captured and publicly posted in each of the OIG's Review of Outstanding Recommendations reports. Further, as noted in our February and August 2017 review reports, the OIG agreed to schedule a separate meeting to discuss each open recommendation; however, on the meeting day, management provided no feedback or documentation to support stated corrective actions. During subsequent follow-ups management did not provide feedback or respond to meeting requests.

[4] An inventory of FEC systems containing Personally Identifiable Information (PII) was conducted by Solution Technology Systems Inc. who provided recommendations to enhance the protection of PII. The report was dated May 20, 2009, and no further action has been taken by management.
[5] Review details are documented in the OIG's Review of Outstanding Recommendations reports posted on the OIG's external website.

Inspector General Statement on the Federal Election Commission's Management and Performance Challenges for Fiscal Year 2018

OGC recently hired an attorney with responsibilities specifically focused on administering the FEC's Privacy Act Program. The OIG has worked with the new privacy attorney regarding the outstanding privacy issues and was able to receive an updated management Corrective Action Plan report containing revised due dates, some updated corrective action plans, and closed two of the open recommendations. Although adding additional resources in support of the Privacy Program is a great asset to the agency, it should be noted that the new privacy attorney does not have expertise in privacy issues related to information technology. As the current FEC SAOP structure requires two management positions covering Privacy Law and IT security, the FEC's Chief Information Security Officer position is currently vacant,[6] and the assigned acting SAOP for IT coverage also does not have IT security expertise to advise the privacy attorney in this specific area.

[6] The Chief Information Security Officer was placed on the Privacy Program team in support of the SAOP IT role.

Improper Payments Information Act Reporting Details

The *Improper Payments Information Act of 2002*, as amended by the *Improper Payments Elimination and Recovery Act of 2010*, and *Improper Payments Elimination and Recovery Improvement Act of 2012* requires agencies to review all programs and activities they administer and identify those which may be susceptible to significant erroneous payments. In FY 2018, 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 1.5 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 2018, the FEC considered risk factors as outlined in OMB Memorandum M-18-20, Transmittal of Appendix C to OMB Circular A-123, Requirements for Payment Integrity Improvement 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.	

Civil Monetary Penalties Adjustment for Inflation

The following is the FEC’s table of Civil Monetary Penalties Adjustment for Inflation for FY 2018.

US Code	Statutory Authority; Public Law	Year of Enactment/Adjustment Other Than Pursuant to IAA	Name/Description of Penalty	Latest Annual Inflation of Adjustment	Section in Title 11 of CFR for Penalty Update Detail	Current Penalty or Penalty Formula
52 U.S.C. 30109(a)(5)(A), (6)	Federal Election Campaign Act Amendments of 1976, PL 94-283 sec. 109	1976	Violations of FECA or chapters 95 or 96 of title 26 of U S Code	Civil Monetary Penalties Annual Inflation Adjustments, 82 Fed. Reg. 8986 (Feb. 2, 2017) http://sers.fec.gov/fosers/showpdf.htm?docid=355019	111.24(a)(1)	19,446
52 U.S.C. 30109(a)(5)(B)	Federal Election Campaign Act Amendments of 1976, PL 94-283 sec. 109	1976	Knowing and willful violations of FECA or chapters 95 or 96 of title 26 of U S Code	Civil Monetary Penalties Annual Inflation Adjustments, 82 Fed. Reg. 8986 (Feb. 2, 2017) http://sers.fec.gov/fosers/showpdf.htm?docid=355019	111.24(a)(2)(i)	41,484
52 U.S.C. 30109(a)(5)(B)	Bipartisan Campaign Reform Act of 2002, PL 107-155 sec. 312(a)	2002	Knowing and willful contributions in the name of another	Civil Monetary Penalties Annual Inflation Adjustments, 82 Fed. Reg. 8986 (Feb. 2, 2017) http://sers.fec.gov/fosers/showpdf.htm?docid=355019	111.24(a)(2)(ii)	68,027
52 U.S.C. 30109(a)(12)	Federal Election Campaign Act Amendments of 1976, PL 94-283 sec. 109	1980	Making public an investigation without consent	Civil Monetary Penalties Annual Inflation Adjustments, 82 Fed. Reg. 8986 (Feb. 2, 2017) http://sers.fec.gov/fosers/showpdf.htm?docid=355019	111.24(b)	5,817
52 U.S.C. 30109(a)(12)	94-283 sec. 109	1980	Knowingly and willfully making public an investigation without consent	Civil Monetary Penalties Annual Inflation Adjustments, 82 Fed. Reg. 8986 (Feb. 2, 2017) http://sers.fec.gov/fosers/showpdf.htm?docid=355019	111.24(b)	14,543
52 U.S.C. 30109(a)(4)(C)	Treasury and General Government Appropriations Act, 2000, PL 106-58 sec. 640	2003	Late and Non- Filed Reports	Civil Monetary Penalties Annual Inflation Adjustments, 82 Fed. Reg. 8986 (Feb. 2, 2017) http://sers.fec.gov/fosers/showpdf.htm?docid=355019	111.43(a)	Penalty formula that accounts for (a) level of activity in late or non-filed report; and (b) if report was filed late, (i) the number of days late and (ii) the number of previous violations; or (c) if the report was not filed, the number of previous violations)
52 U.S.C. 30109(a)(4)(C)	Treasury and General Government Appropriations Act, 2000, PL 106-58 sec. 640	2003	Election Sensitive Late and Non-Filed Reports	Civil Monetary Penalties Annual Inflation Adjustments, 82 Fed. Reg. 8986 (Feb. 2, 2017) http://sers.fec.gov/fosers/showpdf.htm?docid=355019	111.43(b)	Penalty formula that accounts for (a) level of activity in late or non-filed report; and (b) if report was filed late, (i) the number of days late and number of previous violations; or (c) if the report was not filed, the number of previous violations)
52 U.S.C. 30109(a)(4)(C)	Treasury and General Government Appropriations Act, 2000, PL 106-58 sec. 640	2000	Late or Non-Filed Reports where Commission cannot calculate amount of activity	Civil Monetary Penalties Annual Inflation Adjustments, 82 Fed. Reg. 8986 (Feb. 2, 2017) http://sers.fec.gov/fosers/showpdf.htm?docid=355019	111.43(c)	7,797
52 U.S.C. 30109(a)(4)(C)	Treasury and General Government Appropriations Act, 2000, PL 106-58 sec. 640	2000	Late or Non-Filed 48 hour notices	Civil Monetary Penalties Annual Inflation Adjustments, 82 Fed. Reg. 8986 (Feb. 2, 2017) http://sers.fec.gov/fosers/showpdf.htm?docid=355019	111.44	Penalty formula is 142+ (.10 x amount of contribution(s) not timely reported), subject to a 25% increase for each prior violation

Reporting on Internal Controls Assurances

The 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 in accordance with OMB Circular A-123. Based on the results of the Fiscal Year 2017 internal control review, the FEC reported no material weaknesses 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 the FMFIA.

The Annual Assurance Statement on Internal Control which was signed by the FEC Chair in accordance with OMB Circular A-123 and provided in "Section I.D: Analysis of FEC's Systems, Controls and Legal Compliance" is supported by detailed assurances from each of the FEC's assessable units.

The assessable units that participated in the internal controls review process and provided assurances were as follows:

- Office of the Chief Financial Officer
- Office of the Chief Information Officer
- Office of Communications
- Office of Compliance
- Office of the General Counsel
- Office of the Inspector General
- Management and Administration

Detailed assurances for each of these assessable units were provided to the FEC's OIG and independent auditor to support the single assurance statement signed by the FEC Chair.

Fraud Risk Reporting in FY 2018

The FEC's Senior Management Council (SMC) anticipates developing a response to the new requirement for fraud risk reporting as directed in OMB Circular A-136 revised on July 30, 2018. It is anticipated that preliminary discussions to determine the necessity of any additional financial and administrative controls, as well as updates to the agency's internal controls environment, related to assessing and managing fraud risk could be discussed at the next quarterly SMC meeting in FY 2019.

APPENDIX

List of Acronyms

AFR	Agency Financial Report
AO	Advisory Opinion
APR	Annual Performance Report
ASD	Administrative Services Division
CFR	Code of Federal Regulations
CSRS	Civil Service Retirement System
CY	Calendar Year
DCIA	Debt Collection Improvement Act of 1996
DOL	Department of Labor
EEO	Equal Employment Opportunity
ERM	Enterprise Risk Management
FAR	Financial Audit Report
FASAB	Federal Accounting Standards Advisory Board
FBWT	Fund Balance With Treasury
FEC	Federal Election Commission
FECA	Federal Election Campaign Act
FERS	Federal Employees' Retirement System
FMFIA	Federal Managers' Financial Integrity Act
FRAE	Further Revised Annuity Employees
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GSA	General Services Administration
IG	Inspector General
IPERA	Improper Payments Elimination and Recovery Act
IPERIA	Improper Payments Elimination and Recovery Improvement Act
IPIA	Improper Payments Information Act
MD&A	Management's Discussion and Analysis
NPRM	Notices of Proposed Rulemaking
NTEU	National Treasury Employee Union
OAR	Office of Administrative Review
OCFO	Office of the Chief Financial Officer
OCIO	Office of the Chief Information Officer
OGC	Office of General Counsel
OHR	Office of Human Resources
OMB	Office of Management and Budget
OPM	Office of Personnel Management

OSD	Office of the Staff Director
P&E	Property and Equipment
PPA	Prompt Payment Act
RAD	Reports Analysis Division
RAE	Revised Annuity Employees
SBR	Statement of Budgetary Resources
SCA	Statement of Custodial Activity
SFFAS	Statement of Federal Financial Accounting Standards
SMC	Senior Management Council
SNC	Statement of Net Cost
SSAE	Statements on Standards for Attestation Engagements
TSP	Thrift Savings Plan