

**FEDERAL ELECTION COMMISSION**

**OFFICE OF INSPECTOR GENERAL**



**FINAL REPORT**

**Audit of the Federal Election Commission's  
Fiscal Year 2008 Financial Statements**

**November 2008**

**ASSIGNMENT No. OIG-08-01**

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## FEDERAL ELECTION COMMISSION

WASHINGTON, D.C. 20463

Office of Inspector General

### MEMORANDUM

TO: The Commission

FROM: Inspector General

SUBJECT: Audit of the Federal Election Commission's Fiscal Year 2008 Financial Statements

DATE: November 12, 2008

Pursuant to the Chief Financial Officers Act of 1990, commonly referred to as the "CFO Act", as amended, this letter transmits the Independent Auditor's Report and accompanying Independent Auditor's Reports on Internal Control and Compliance and Other Matters issued by Clifton Gunderson (CG-LLP) for the fiscal year ending September 30, 2008. The audit was performed under a contract with and monitored by the Office of Inspector General (OIG) in accordance with the 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 (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

#### Opinion on the Financial Statements

The consolidated balance sheets of the Federal Election Commission (FEC) as of September 30, 2008 and 2007 and the related statements of net cost, changes in net cost, changes in net position, and combined statement of budgetary resources for the years then ended (hereinafter collectively referred to as the "financial statements") were audited. The audit included an examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements. The audit also included assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall principal statements' presentation.

The CG-LLP Independent Auditor's Report concluded that the FEC's financial statements present fairly, in all material respects, the financial position of the FEC as of September 30, 2008 and 2007, and its net cost, changes in net position, budgetary resources, and custodial activity for the years then ended in conformity with accounting principles generally accepted in the United States of America.

## Report on Internal Control

CG-LLP's planning and performance of the audit included consideration of the FEC's internal control over financial reporting as a basis for designing audit procedures for the purpose of expressing an opinion on the financial statements and to comply with OMB Bulletin 07-04, as amended, but not for the purpose of expressing an opinion on the effectiveness of FEC's internal control over financial reporting. The auditors did not test all internal controls relevant to operating effectiveness as broadly defined by the Federal Managers' Financial Integrity Act (FMFIA) (31 U.S.C. 3512), such as those controls relevant to ensuring efficient operations. Consequently CG-LLP did not express an opinion on the agency's internal control over financial reporting.

The American Institute of Certified Public Accountants (AICPA) established standards on communicating deficiencies related to internal control over financial reporting identified by the auditors. As defined by the AICPA, a control deficiency exists when the design or operation of a control does not allow the agency's management or its employees, in the normal course of performing their assigned duties, to prevent or detect misstatements on a timely basis.

Auditors determine whether an internal control deficiency is a significant deficiency or a material weakness based on the factors of likelihood and magnitude. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the agency's ability to initiate, authorize, record, process, or report financial data reliability in accordance with generally accepted accounting principles such that there is a more than a remote likelihood that a misstatement of the agency's financial statements that is more than inconsequential will not be prevented or detected by the agency's internal controls. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the agency's internal controls.

CG-LLP identified a significant deficiency in the area of:

- Information Technology (IT)

CG-LLP identified a material weakness in the area of:

- Financial Accounting and Reporting Controls

## Report on Compliance and Other Matters

FEC management is responsible for complying with laws and regulations applicable to the agency. To obtain reasonable assurance about whether FEC's financial statements are free of material misstatements, CG-LLP performed tests of compliance with certain provisions of laws and regulations, non-compliance which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin No. 07-04, as amended. Tests of

compliance were limited to these provisions and CG-LLP did not test compliance with all laws and regulations applicable to FEC.

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

CG-LLP identified a reportable noncompliance in the area of:

- The Federal Managers' Financial Integrity Act (FMFIA)

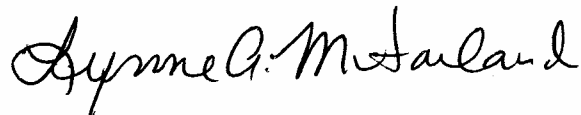
#### Audit Follow-up

The report on internal control contains recommendations to address weaknesses found by the auditors. Management was provided a draft copy of the audit report for comment and generally concurred with the findings and recommendations. In accordance with OMB Circular No. A-50, *Audit Follow-up*, revised, the FEC's corrective action plan is to set forth the specific action planned to implement the recommendations and the schedule for implementation. The Commission has designated the Chief Financial Officer to be the audit follow-up official for the financial statement audit.

#### OIG Evaluation of Clifton Gunderson LLP's Audit Performance

We reviewed CG-LLP's reports 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, provide conclusions about the effectiveness of internal control or conclusions on FEC's compliance with laws and regulations. However, the OIG review disclosed no instances where CG-LLP did not comply, in all material respects, with *Government Auditing Standards*.

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



Lynne A. McFarland  
Inspector General

#### Attachments

Cc: Acting Staff Director  
General Counsel  
Acting Chief Financial Officer  
Chief Information Officer  
Accounting Officer

## Independent Auditor's Report

To the Inspector General of the  
Federal Election Commission

We have audited the balance sheets of the Federal Election Commission (FEC) as of September 30, 2008 and 2007, and the related statements of net cost, changes in net position, budgetary resources, and custodial activity for the years then ended (hereinafter collectively referred to as the "financial statements"). These financial statements are the responsibility of FEC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements' presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of FEC as of September 30, 2008 and 2007, and its net cost, changes in net position, budgetary resources, and custodial activity for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 7, 2008 on our consideration of FEC's internal control over financial reporting, and on our tests of FEC's compliance with certain provisions of laws and regulations and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of our audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The information in the Management's Discussion and Analysis section is not a required part of the financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods

of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The information in the Message from the Chairman, Performance Section, and Other Accompanying Information is presented for purposes of additional analysis and is not required as part of the financial statements. This information has not been subjected to auditing procedures and, accordingly, we express no opinion on it.

*Clifton Henderson LLP*

Calverton, Maryland  
November 7, 2008

## Independent Auditor's Report on Internal Control Over Financial Reporting

To the Inspector General of the  
Federal Election Commission

We have audited the financial statements of the Federal Election Commission (FEC) as of and for the year ended September 30, 2008 and have issued our report thereon dated November 7, 2008. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and, applicable provisions of Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

The management of FEC is responsible for establishing and maintaining internal control to achieve the objectives of effective and efficient operations, and reliable financial reporting. In planning and performing our audit, we considered FEC's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements and to comply with OMB Bulletin 07-04, as amended, but not for the purpose of expressing an opinion on the effectiveness of FEC's internal control over financial reporting. We did not test all internal controls relevant to operating effectiveness as broadly defined by the Federal Managers' Financial Integrity Act (FMFIA) (31 U.S.C. 3512), such as those controls relevant to ensuring efficient operations. Accordingly, we do not express an opinion on the effectiveness of FEC's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. As discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be a material weakness and a significant deficiency.

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

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal controls.



Our consideration of the internal control over financial reporting was for the limited purpose described in the second paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weakness. However, we believe that the significant deficiency in Financial Accounting and Reporting Controls described below is a material weakness.

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## **MATERIAL WEAKNESS**

### **I. Financial Accounting and Reporting Controls (Repeat Modified Finding)**

The Accountability of Tax Dollars Act of 2002 (ATDA) extends to FEC a requirement to submit to the Congress and the Director of the Office of Management and Budget (OMB) audited financial statements. OMB Circular A-136, *Financial Reporting Requirements*, defines the form and content of financial statements to be prepared by the agency. To accomplish the objective of complying with the ATDA, the agency is required to develop a system to prepare a complete set of financial statements on a timely basis in accordance with generally accepted accounting principles. The statements are to result from an accounting system that is an integral part of an integrated financial management system containing sufficient structure, effective internal control and reliable data. Financial reporting also consists of policies and procedures related to the processing and summarizing of accounting entries, and the preparation of financial statements.

Below are descriptions of the control deficiencies within FEC's financial reporting environment:

#### **A. Insufficient Resources and Personnel with Appropriate Federal Accounting and Reporting Skill Sets (New Finding)**

FEC did not have adequate resources and employees with appropriate skills sets to handle financial management accounting and reporting. There was turnover in key financial positions during the year and adequate resources were not always available to fill the vacancies. For example, the staff accountant position has been vacant since March 2008. This position is responsible for performing monthly reconciliations and calculating accrual and property, plant and equipment amounts reported on the financial statements. FEC has not developed a program to cross train other Office of Chief Financial Officer (OCFO) personnel in performing these tasks and contractors hired to perform some of these duties were done so intermittently throughout the year. As a result, the Accounting Officer had to take on some of these responsibilities leaving FEC with insufficient resources to effectively administer quality assurance procedures within their financial reporting environment.

This deficiency was aggravated by the migration of the agency's accounting and financial reporting operations to a service provider during FY 2008. FEC's understanding of key processes, controls and reports utilized by the service provider is on-going and was not obtained timely enough to adequately assess associated control risks and develop or redesign internal controls to mitigate those risks. These deficiencies are key factors in many of the weaknesses in financial reporting as described further in this report.

GAO Standards for Internal Control in the Federal Government states “People are what make internal control work. The responsibility for good internal controls rests with all managers. Management sets the objectives, puts the control mechanisms and activities in place, and monitors and evaluates the control. However, all personnel in the organization play important roles in making it happen”. Moreover, “All personnel need to possess and maintain a level of competence that allows them to accomplish their assigned duties, as well as understand the importance of developing and implementing good internal control. Management needs to identify appropriate knowledge and skills needed for various jobs and provide needed training, as well as candid and constructive counseling, and performance appraisals.”

The need for employees with analytical and federal accounting and reporting competencies will only increase as FEC further integrates its financial management system. Without the adequate staffing levels and the proper skill sets, the FEC will continue to encounter challenges in the financial reporting process including preparing financial reports in a timely manner, and consistent with applicable laws and regulations.

**Recommendations:**

1. Fill vacant positions within the OCFO as soon as possible. Ensure that the individuals possess analytical, Federal accounting and financial reporting knowledge and experience to enhance the FEC’s ability to comply with accounting and financial reporting standards.
2. Evaluate the resources and appropriate skills needed throughout the agency to meet FEC’s financial management and reporting responsibilities and implement a plan on achieving the results and recommendations of the evaluation.
3. Ensure that appropriate and on-going training is provided to FEC employees on federal accounting and reporting and the accounting service provider’s financial system. Also, ensure OCFO personnel are properly cross-trained in department activities.

**Management Response:**

*Management generally concurs with the finding and recommendations. FEC management is committed to improving its internal control and accordingly, will develop a corrective action plan to address the issues identified.*

**B. Inadequate Financial Statement Preparation and Reporting (Modified Repeat Finding)**

OMB Circular A-136, *Financial Reporting Requirements*, “preparation of the annual financial statements is the responsibility of the agency’s management. In carrying out this responsibility, each agency chief financial officer should prepare a policy bulletin or guidance memorandum that guides the agency’s fiscal and management personnel in the preparation of the annual financial statements.” The existence of written procedures will provide structure and accountability for the financial

statements preparation and review processes. They also help ensure activities are carried out in accordance with management directives.

Our audit disclosed the following control deficiencies in FEC's financial statement preparation and reporting process. Many of these deficiencies were identified during the prior year audit. FEC's audit follow-up process was ineffective in resolving these deficiencies in a timely manner.

- FEC did not have a comprehensive policy bulletin or guidance memorandum as required by OMB Circular A-136. The lack of formalized policies and procedures is a contributing factor for the additional control deficiencies described below.
- Accounting entries recorded in the accounting system or posted to the financial statements as "on-top" adjustments were not reviewed timely by FEC or the review was not independently performed by someone other than the preparer. Other controls in place such as management's review of the financial statements were ineffective in detecting incorrect accounting entries made by the service provider. Further, an audit trail supporting the entry was not properly maintained. Lack or inadequate internal control increases the risk of financial statement misstatements. Our audit identified accounting posting errors related to the following transactions:
  - The June 30, 2008 financial statements improperly included:
    - \$1.5 million in accrued payroll costs;
    - \$769,314 in advanced payments to GSA;
    - \$41,530,546 in budget authority temporarily unavailable during the continuing resolution period; and
    - Accrued employer contributions and payroll taxes costs.
  - The Draft September 30, 2008 financial statements provided included:
    - Approximately \$2.6 million of collections from custodial activity in Fund Balance with Treasury and the Custodial Liability line items on the Balance Sheet improperly; and
    - Adjustments made by the service provider to the trial balance, after conversion, which impacted the Statement of Budgetary Resources for Expired Allotments were not sufficiently documented.
- FEC has not established a formalized timeline for completing key processes and controls related to the financial statement process. For example, we noted that the Finance Office Checklist detailing month end closing and financial statement preparation procedures was not prepared throughout the year. Furthermore, control activities, such as fluctuation analysis and relationship testing, were not finalized until after the financial statements were issued to the auditors for audit.
- A mechanism for tracking manual accounting entries sent to the service provider was not developed, which prevented FEC from being able to verify accounting entries were posted as intended or properly.

As a result of the control deficiencies noted above, the financial statements provided for audit contained many inconsistencies, errors and typos throughout the document. We also noted that the financial statements provided were inconsistent with the guidance issued by OMB Circular A-136. Although the FEC has corrected all the items identified through the audit process, adequate controls were not in place to sufficiently detect such mistakes in a timely manner.

***Recommendations:***

4. Formalize and periodically update policies and procedures to a) ensure segregation of duties, b) provide guidance to management and staff in recording both recurring and unique transactions, including budgetary accounts, and c) provide guidance to management and staff in executing the financial statement preparation process in a manner that enhances the timeliness of financial statement preparation and minimizes the risk of preparing inaccurate financials.
5. Implement control activities to help ensure accounting transactions are recorded correctly, timely and are properly reviewed and adequate support documentation is maintained. Some of these control activities should include, but not be limited to:
  - Improving analytical and quality control review of journal vouchers, reconciliations and the financial statements, including interim financial statements. Procedures should include independent supervisory review of controls performed by someone other than the preparer.
  - Developing management's expectations for fluctuation analysis, which includes setting the criteria for variances considered significant. Each expectation that is not met should be researched and results collaborated by data. Analytical tools that could be used are ratio analysis and trend analysis, as well as predictive techniques such as calculation of an expected balance. Results should be documented and maintained for management review and audit purposes.
  - Implementing proper and timely cut-off controls from processing transactions and in preparing the financial statements to allow for management's timely analysis of financial data and for audit purposes.
  - Researching the accounting treatment of unique and non-reoccurring transactions and seeking specific guidance from accounting standard-setters from the beginning to ensure the recording of such events are properly included in the financial statement account balances and to ensure accuracy and transparency of financial accountable events.
6. Establish formalized policies and procedures for performing continuous assessment of risk factors associated with financial reporting, evaluating relevant controls and developing or redesigning controls to mitigate risks. These policies should include a well-defined documentation process that contains an audit trail, verifiable results, and specify retention periods so that someone not connected with the procedures can understand the assessment process.
7. Enforce the use of the Finance Office Check List throughout the entire fiscal year.

8. Establish a mechanism for tracking manual journal entries sent to the service provider and maintaining associated support documents.
9. Develop or redesign controls that strengthen the accountability structure related to the process for resolving audit findings

***Management Response:***

*Management generally concurs with the finding and recommendations. FEC management is committed to improving its internal control and accordingly, will develop a corrective action plan to address the issues identified.*

**C. Integrate Financial Management System (Modified Repeat Finding)**

FEC utilizes the general ledger and core financial management system (general ledger system) of its accounting service provider. The general ledger system is not capable of generating most user reports for data analysis on a real time basis. Users have to request from the accounting service provider some basic reports, which are generated by another software application.

Other financial management systems used at FEC include excel spreadsheets, database applications, and PeopleSoft (PS). These systems are used to accumulate and summarize data for the following financial transactions, all of which are material to FEC's financial statements:

- Collections, Accounts Receivable, and Custodial Liability specific to Fines and Penalties;
- Property and equipment, accumulated depreciation, and depreciation expense;
- Obligations; and
- Payroll and time attendance reporting.

None of these FEC financial management systems are interfaced with the general ledger system. OMB Circular No. A-127, *Financial Management Systems*, requires that each agency establish and maintain a single integrated financial management system. Without a single integrated financial management system to ensure timely and accurate financial data, poor policy decisions may occur due to inaccurate or untimely information. Managers are less likely to be able to report accurately to the President, Congress, and the public on Government operations in a timely manner. And, scarce resources are more likely to be directed toward the collection of information rather than to delivery of the intended programs.

As a result of these systems not being integrated, significant time is required to compile the information. In addition to gathering the data from the offices, the OCFO manually incorporates the information into each stand alone system in order to generate the necessary documentation to support the balances reported on the financial statements. For example, the OCFO must request accounts receivable information from three divisions since there is no mechanism in place to automatically notify the OCFO that a fine or penalty was assessed. After the OCFO obtains the relevant information, which may not always be received in a timely

manner, the data is keystroked into a database. A journal entry is prepared for submission to the service provider to record the details into the accounting system. Given the number of times the information is separately recorded into different systems, there is an increased risk for input error. A monthly reconciliation is performed of the accounts receivable, however, without the staff accountant, as mentioned above, the recording of transactions may not always occur timely or accurately.

Another example where the lack of an integrated financial system impacts efficiency pertains to the recording of obligations. The FEC has improved its procurement operations from the prior year by converting to a web-based procurement system that requires all purchase requests to be processed electronically, which alleviates the duplication of entry in preparing the obligating document. However, the procurement system is not integrated to the financial management system. Therefore, several areas for error still exist. Specifically, the obligating document is provided via e-mail to the Finance Office for review and submission to the service provider. Should the Procurement Office forget to send the obligating document to the Finance Office, there is an increased risk that the obligation does not get recorded in a timely manner or at all. Once the Finance Office receives the obligating document, they then print the document to submit the hard copy document to the service provider. At this time, the FEC does not send the document to the service provider electronically. Therefore, this process further increases the risk that the obligation may not be recorded timely or at all. Finally, once the service provider receives the obligating document, they keystroke in the relevant financial information into the accounting system, providing for the opportunity for an input error.

Having a single, integrated financial management system does not necessarily mean having only one software application within each agency covering all financial management system needs. Also, it does not mean that all information is physically located in the same database. Rather, a single, integrated financial management system is a unified set of financial systems linked together electronically in an efficient and effective manner to provide agency-wide financial system support. Integration means that the user is able to have one view into systems such that, at whatever level the individual is using the system, he or she can obtain needed information efficiently and effectively through electronic means. Interfaces are acceptable as long as the supporting detail is maintained and accessible to managers. Interface linkages must be electronic unless the number of transactions is so small that it is not cost beneficial to automate the interface. Easy reconciliations between systems, where interface linkages are appropriate, must be maintained to ensure data accuracy.

Without these systems being integrated, controls surrounding the processing, recording and review of financial transactions become much more critical and require greater resources to ensure completeness and accuracy. FEC management continues to place its emphasis on the compilation of the financial and performance data, but due to the lack of resources it is not capable of sufficiently performing the reviews needed to alleviate the control risk associated with the lack of an integrated financial management system.

**Recommendation:**

10. Re-evaluate if interfacing its standalone financial management systems with the service provider's system is feasible and/or cost effective. If not feasible and/or cost effective, consider the subsystems used by the service provider's financial management systems.

**Management Response:**

*Management generally concurs with the finding and recommendations. As of February 2008, the FEC transitioned the processing of its accounting transactions to an OMB-certified line of business provider. FEC management will evaluate its stand-alone financial management systems and develop a corrective action plan to address the issues identified.*

These deficiencies in internal control may adversely affect any decision by management that is based, in whole or in part, on information that is inaccurate because of these deficiencies. Unaudited financial information reported by FEC, including budget information, also may contain misstatements not prevented or detected because of these deficiencies.

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**SIGNIFICANT DEFICIENCY**

**II. Information Technology (IT) (Modified Repeat Finding)**

**A. Commission-Wide Security Administration Needs To Be Enhanced (Repeat Finding)**

An entity-wide security management program should be in place to establish a framework and continuing cycle of activity to manage security risks, develop security policies, assign responsibilities, and monitor the adequacy of computer security related controls. It should also represent the foundation for an entity's security control structure and a reflection of senior management's commitment to addressing security risks.

During our Fiscal Year 2008 review of FEC's security program, we noted that FEC made progress in addressing prior years' findings, notably a contract was awarded on September 16, 2008 to certify and accredit its major applications and general support systems. Also, FEC had developed its Disaster Recovery Plan. However, continued efforts are required especially in the areas of security administration and oversight. Specifically, we noted that FEC had not fully implemented all security procedures and standards; had not finalized and implemented an information classification policy; had not finalized and implemented its certification and accreditation policy. Furthermore, FEC is currently in the process of developing a security plan for its Local Area Network (LAN) that incorporates the results of the LAN Risk Assessment

Office of Management and Budget (OMB) Circular No. A-130, Appendix III *Security of Federal Automated Information Resources*, requires agencies to implement and maintain a program to assure that adequate security is provided for all agency information collected, processed, transmitted, stored, or disseminated in general support systems and major applications.

Without an effective entity-wide security program plan, FEC has an increased risk that security controls are inadequate and inconsistently applied. Such conditions may lead to insufficient protection of sensitive data and high expenditures for controls over low risk resources.

At the time of this review, FEC's existing security program revealed weaknesses in controls that expose the FEC's financial management systems and data to unauthorized access and/or modification. Security weaknesses noted included:

- FEC has not fully implemented a framework of policies and standards to mitigate risks associated with the management of its information resources. Although FEC has implemented the majority of its information security policies, it has not fully implemented all of the related procedures and standards. FEC has not finalized and implemented an information classification policy, as well as its certification and accreditation policy. **(Repeat Finding)**
- FEC is currently in the process of developing a security plan for its LAN that incorporates the results of the LAN Risk Assessment. However, the security plan is still in the development phase and has not been finalized and approved. **(Repeat Finding)**
- There are weaknesses in FEC's program for the continuous monitoring and evaluation of the computer security policy and control effectiveness. FEC does not utilize corrective action plans for all internal reviews of security controls. **(Repeat Finding)**
- Major applications and mission critical general support systems have not been certified and accredited to ensure that they are operating according to FEC's security requirements. **(Repeat Finding)**.
- There is currently no process in place to ensure that contractors undergo background investigations before obtaining access to FEC systems or data. **(Repeat Finding)**
- The PeopleSoft application is currently running on an Oracle Release 8i Relational Database Management System that is no longer supported by the vendor. **(Repeat Finding)**

***Recommendations:***

11. Finalize and implement FEC's information classification policy and certification and accreditation policy along with any accompanying standards.
12. Incorporate the results of risk assessments into FEC security plans.
13. Utilize corrective action plans for all reviews of security controls whether performed internally or by a third-party.



14. Certify and accredit all major applications and mission critical general support systems.
15. Implement a process to ensure that background investigations are performed on all contractors prior to granting them access to FEC system resources.
16. FEC should move all of its PeopleSoft financial processing capabilities to GSA or update its existing platform to vendor-supported versions/releases.

**Management Response:**

*FEC agrees with the majority of elements within this finding. The FEC awarded a contract to certify and accredit its major applications and general support systems on September 16, 2008. On September 23, 2008 a formal Kick-Off meeting was held to formally begin work on the contract. Since that time the vendor has provided the Contracting Officer Technical Representative (COTR) with an updated project plan that describes how and when certification and accreditation objectives are to be achieved. The vendor is currently updating system characterizations and performing a system classification for each major application and general support system. The Certification and Accreditation contract specifies line items to address the following issues identified within this finding:*

- *Finalizing and implementing a modified certification and accreditation and information classification policies.*
- *Updating current security plans by incorporating the results of the recently completed risk assessment.*
- *Developing a Program of Actions and Milestones to monitor and evaluate the internal review of security controls.*
- *Certify and Accredit FEC major applications and general support systems.*

*On September 29, 2008 the Director of Human Resources addressed the issue of contractor background investigations by issuing the following policy "that all contracting personnel from this date forward (September 29, 2008) must obtain a background investigation prior to obtaining access to FEC systems."*

*With respect to Oracle 8i, due to legacy issues associated with some FEC applications the current version of Oracle 8i is required. Although the vendor no longer provides support for this version of Oracle it does provide limited support which includes assisting customers with work-arounds to issues that may arise. In addition the FEC has built a considerable amount of experience and internal expertise over the years this product has been in its inventory. In addition to its considerable experience, the FEC has tested and maintains Oracle 8i application and data backups allowing it to restore any databases to a usable state in the event of any mishap.*

*The FEC recognizes the risk associated with maintaining a product with limited support. Accordingly the FEC is relying upon its considerable internal expertise, restricted access to only a few persons, backup and restoral capabilities and Oracle's limited support as compensating factors until the application can be removed from its inventory.*

## **B. Disaster Recovery and Continuity of Operations Plan Need to be Developed (Repeat Finding)**

Losing the capability to process and protect information maintained on FEC's computer systems can significantly impact FEC's ability to accomplish its mission. The purpose of disaster recovery and continuity of operations controls is to ensure that, when unexpected events occur, critical operations continue without interruption or critical operations are promptly resumed. To achieve this objective, FEC should have procedures in place to protect information resources and minimize the risk of unplanned interruptions and a plan to recover critical operations should interruptions occur. These plans should consider activities performed at FEC's general support facilities (e.g. FEC's local area network, wide area network, and telecommunications facilities), as well as the activities performed by users of specific applications. To determine whether the disaster recovery plans will work as intended, FEC should establish and periodically test the capability to perform its functions in disaster simulation exercises.

Our review of the service continuity controls identified that FEC has not developed a Continuity of Operations Plan (COOP) to support the continuation of its core mission in the event of a disaster or other interruption that renders the FEC's facilities unusable. **(Repeat Finding)**

### **Recommendation:**

17. Develop and implement a Disaster Recovery Continuity of Operations Plan (COOP).

### **Management Response:**

*Management agrees with the issue presented in this finding, and in fiscal year 2008 implemented a multiple year three phase project plan to develop and implement a FEC-Wide Continuity of Operations Plan (COOP). Phase One consisted of developing an Office of Information Technology (OIT) Disaster Recovery Plan (DRP), Phase Two (Kick Off Meeting September 29, 2008) consists of preparing for the migration of the OIT DRP into a COOP, and Phase Three consists of implementing a Commission wide COOP. Bear in mind that, Phase Three is contingent upon receiving adequate funding and senior management support.*

## **C. Logical Access Control Needs to be Strengthened (Modified Repeat Finding)**

Achieving an adequate level of information protection is highly dependent upon consistently maintaining effective access controls, system software and configuration management controls. Access controls limit and monitor access to computer resources (i.e., data files, application programs, and computer-related facilities and equipment) to the extent necessary to provide reasonable assurance that these resources are protected against waste, loss, unauthorized modification, disclosure, or misappropriation. Access controls include logical controls, such as security software programs designed to prevent or detect unauthorized access to sensitive files. Without proper controls, there is a risk that security features could be inadvertently or deliberately omitted or "turned off" or that processing irregularities or malicious code could be introduced.

Our testing of internal controls identified a weakness related to the information protection in FEC's information systems environment. These include FEC's midrange computer systems (e.g. servers) and applications. Weaknesses noted include the following:

We noted the following control weaknesses over monitoring access to FEC's networks, systems and physical facility:

- 4 out of 10 separated employees still have active network accounts; and
- There is currently no exit clearance process in place for contractors to ensure that all FEC property is returned and all access permissions are removed.

**Recommendations:**

18. FEC should promptly terminate access to FEC resources for separated employees. Procedures should be documented and implemented to coordinate separations between Human Resources and IT management to ensure user accounts are immediately disabled upon termination.
19. Implement an exit clearance process to track separated FEC contractors and ensure that their access permissions are removed and all FEC property has been returned.

**Management Response:**

*Although the FEC has a documented process in place to terminate FEC resources and collect property from separated employees and contractors, it concurs that this process can be improved. To this end, the FEC has established a working group to implement more stringent procedures to ensure that network access is appropriately curtailed. In addition OIT will soon be implementing an automated information system to better deal with the issues identified in this finding. The New FEC Access System (FAS) includes processes for full time employees, interns, and contractors and will eliminate the discrepancies described in this finding. FAS will track staff and contractors from the start of their employment or contract at the Commission to exit and allow managers to request and document changes in network and application access. FAS will enable a higher degree of coordination among offices to ensure that user accounts are disabled and equipment is properly returned per FEC policy. FAS will retain all historical information regarding; account creation, changes to access rights, system resources, and termination information regarding a particular staff or contractor. FAS is now in the final testing stages and is tentatively scheduled for full implementation by December 1, 2008.*

**III. Other Matter**

As required by OMB Bulletin No. 07-04, as amended, we compared the material weaknesses disclosed during the audit with those material weaknesses reported in the FEC's FMFIA report that relate to control over financial reporting. Our audit identified a material weakness related to the financial statement preparation and reporting as reported above that was not included in the FEC's FMFIA report.

#### IV. Status of Prior Year Conditions

We have reviewed the status of the FEC's corrective actions with respect to the findings and recommendations from the prior year's report on internal controls. We have attached Appendix A to our report that presents the status of prior year findings and recommendations.

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FEC's response to the material weakness and significant deficiency identified in our audit is presented within the body of our report. We did not audit the FEC's response and, accordingly, we express no opinion on it.

In addition to the material weakness and significant deficiency described above, we noted certain matters involving internal control and its operation that we reported to the management of the FEC in a separate letter dated November 7, 2008.

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

*Clifton Henderson LLP*

Calverton, Maryland  
November 7, 2008

**APPENDIX A  
FEDERAL ELECTION COMMISSION  
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS  
September 30, 2008**

PY Rec. No.	Condition/Audit Area	Recommendation	Current Status
<b>Material Weakness</b>			
<b>I. Integrated Financial Management System</b>			
1.	Integrated Financial Management System	Assess the extent of financial management system integration needed for existing systems while outsourcing the accounting operations to a third party service provider.	Recommendation closed.
2.	Integrated Financial Management System	Implement control activities to compensate for the lack of an integrated financial management system and to ensure that accounting transactions are recorded correctly, timely reviewed and with adequate supporting documentation. Some of these controls activities should include, but not limited to: <ul style="list-style-type: none"> <li>• Improving preparation and review of procurement documents, including purchase requests, purchase orders/contracts, and related supporting documentation;</li> <li>• Improving analytical and quality control review of journal vouchers, reconciliations and the financial statements, including interim financial statements;</li> <li>• Implementing proper and timely cut-off controls for processing transactions and in preparing the financial statements to allow for management's timely analysis of financial data and for audit purposes; and</li> <li>• Establish a timeline for timely receipt of completed accounts receivable schedules by the finance office from the program offices.</li> </ul>	Recommendation open: reported in FY 2008 as a material weakness.
3.	Integrated Financial Management System	Ensure that the general ledger setup and posting model definitions are in compliance with the latest transaction posting consistent with USSGL guidance and policies for	Recommendation closed.

**APPENDIX A  
FEDERAL ELECTION COMMISSION  
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS  
September 30, 2008**

<b>PY Rec. No.</b>	<b>Condition/Audit Area</b>	<b>Recommendation</b>	<b>Current Status</b>
		recording and classifying transactions.	
4.	Integrated Financial Management System	Provide employee training on procurement, appropriation law, budget execution, and financial reporting, as applicable to ensure financial reporting and fund control policies are consistently and accurately executed.	Recommendation open: reported in FY 2008 as a material weakness.
5.	Integrated Financial Management System	Ensure that FEC complies with regulatory agencies' reporting requirements.	Recommendation updated: reported in FY 2008 management letter
<b>Significant Deficiencies</b>			
<b>II. Information Technology</b>			
6.	Security Administration	Perform risk assessments, as part of FEC's overall strategy to mitigate risks associated with its IT environment.	Recommendation closed
7.	Security Administration	Finalize and implement FEC's information classification policy and certification and accreditation policy along with any accompanying standards.	Recommendation open: reported in FY 2008 as a significant deficiency.
8.	Security Administration	Incorporate the results of risk assessments into FEC security plans.	Recommendation open: reported in FY 2008 as a significant deficiency.
9.	Security Administration	Certify and accredit all major applications and mission critical general support systems.	Recommendation open: reported in FY 2008 as a significant deficiency.
10.	Security Administration	Refine procedures to ensure that all newly hired employees undergo the appropriate background investigations commensurate with the risk level of their position. FEC should also ensure these investigations are initiated within a reasonable time of employment start date.	Recommendation closed. Re-opened in FY 2008 for New Contractors
11.	Disaster recovery & Continuity of Operations	Perform a BIA to formally identify and prioritize all critical data and operations on FEC's networks and the resources needed to recover them if there is a major interruption	Recommendation closed

**APPENDIX A  
FEDERAL ELECTION COMMISSION  
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS  
September 30, 2008**

<b>PY Rec. No.</b>	<b>Condition/Audit Area</b>	<b>Recommendation</b>	<b>Current Status</b>
		or disaster.	
12.	Disaster recovery & Continuity of Operations	Establish an alternate processing site and incorporate the results of the BIA into the contingency plan.	Recommendation closed
13.	Disaster recovery & Continuity of Operations	Develop a comprehensive contingency plan that incorporates the results of the BIA and includes the procedures and resources necessary to restore FEC systems in the event of a disaster. Ensure emergency processing priorities are established to assist in managing disaster situations, and ensure once developed, the plan is tested annually and updated based on the results of these tests.	Recommendation closed
14.	Disaster recovery & Continuity of Operations	Develop a COOP that addresses measures and procedures to follow in the event of a long-term interruption.	Recommendation open: reported in FY 2008 as a significant deficiency.
15.	Logical Access, System Software and Change Management Controls	Transfer processing to a service provider or update existing platform to vendor-supported versions/releases.	Recommendation open: reported in FY 2008 as a significant deficiency.
16.	Logical Access, System Software and Change Management Controls	Write audit trails related to DBA activity to Operating Systems logs and limit DBA's access to these logs.	Recommendation closed
17.	Logical Access, System Software and Change Management Controls	Maintain documentation to support the testing and approval of system software changes.	Recommendation closed
18.	Logical Access, System Software and Change Management Controls	Develop additional mitigating controls to ensure that PeopleSoft passwords are in agreement with FEC policy or ensure that if PeopleSoft processing is outsourced, the third party maintains password controls that comply with FEC password policies.	Recommendation closed
19.	Logical Access, System Software	Promptly terminate access to FEC resources for separated employees.	Recommendation open: reported in FY

**APPENDIX A  
 FEDERAL ELECTION COMMISSION  
 STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS  
 September 30, 2008**

<b>PY Rec. No.</b>	<b>Condition/Audit Area</b>	<b>Recommendation</b>	<b>Current Status</b>
	and Change Management Controls	Procedures should be documented and implemented to coordinate separations between Human Resources and IT management to ensure user accounts are immediately disabled upon termination.	2008 as a significant deficiency.
20.	Logical Access, System Software and Change Management Controls	Utilize access request forms that identify the user's access level to document user access rights to all FEC systems and facilities. Additionally, FEC should periodically review and recertify user access to ensure current access is commensurate with job responsibilities.	Recommendation closed



## Independent Auditor's Report on Compliance and Other Matters

To the Inspector General of the  
Federal Election Commission

We have audited the financial statements of the Federal Election Commission (FEC) as of, and for the year ended September 30, 2008, and have issued our report thereon dated November 7, 2008. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

The management of FEC is responsible for complying with laws and regulations, and government-wide policies applicable to FEC. As part of obtaining reasonable assurance about whether FEC's financial statements are free of material misstatements, we performed tests of FEC's compliance with certain provisions of laws and regulations, and government-wide policies, non-compliance with which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin 07-04, as amended. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to FEC. Providing an opinion on compliance with certain provisions of laws and regulations, and government-wide policies was not an objective of our audit, and, accordingly, we do not express such an opinion.

The results of our tests of compliance with applicable laws and regulations, and government-wide policies described in the preceding paragraph disclosed an instance of reportable noncompliance that is required to be reported under U.S. generally accepted government auditing standards or OMB guidance and is described in the following paragraphs.

### The Federal Managers' Financial Integrity Act (FMFIA)

The FMFIA requires agencies to establish management controls over their programs and financial systems as stated in the following sections of the Act:

- Section 2 seeks to assess internal controls necessary to ensure obligations and costs are in compliance with applicable law; funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and revenues and expenditures are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports.
- Section 4 seeks to assess nonconformance with government-wide financial systems requirements.

OMB Circular A-123, *Management's Responsibility for Internal Control*, is issued under the authority of the FMFIA (section 2). OMB Circular A-123 states that management is responsible for establishing and maintaining internal control to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations. Management shall consistently apply the internal control standards to meet each of the internal control objectives and to assess the internal control effectiveness.

OMB Circular A-127, *Financial Management Systems*, offers guidance in implementing FMFIA (section 4). OMB Circular A-127 requires that "Financial management systems shall be designed to provide for effective and efficient interrelationships between software, hardware, personnel, procedures, controls, and data contained within the systems".

The FEC has not fully complied with certain requirements of the FMFIA. See details in our Independent Auditor's Report on Internal Control, Sections I and II. The key items we identified include:

- Insufficient resources and personnel with appropriate Federal accounting and reporting skill sets;
- Inadequate financial statement preparation and reporting controls;
- Financial management systems not fully integrated; and
- Weaknesses in information technology.

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

*Clifton Henderson LLP*

Calverton, Maryland  
November 7, 2008