



SEMIANNUAL REPORT TO CONGRESS
OCTOBER 1, 2016 – MARCH 31, 2017

MAY 2017



FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20463

June 1, 2017

The Honorable Paul D. Ryan
Speaker of the House of Representatives
Washington, D.C. 20515

Dear Mr. Speaker:

Pursuant to the Inspector General Act of 1978, as amended, the Federal Election Commission submits the Office of Inspector General's *Semiannual Report to Congress*. The report summarizes the activity of the FEC Office of Inspector General ("OIG") from October 1, 2016 through March 31, 2017.

During this reporting period, the FEC's OIG completed, with the assistance of contract auditors, the annual audit of the FEC's financial statements. We are pleased to report that the Commission received an unqualified opinion on the required statements: the FEC's Balance Sheet as of September 30, 2016, and the related Statements of Net Costs, Changes in Net Position, Budgetary Resources, and Custodial Activity for the year then ended. This marks the eighth consecutive year with no material weaknesses identified. The auditors raised issues pertaining to Information Technology security that do not rise to the level of a material weakness, but nonetheless merit attention by the Commission. The response of FEC management to those issues appears in the report, which was issued on November 15, 2016.

During the semiannual period, the OIG also completed its *Review of Outstanding Recommendations as of February 2017*. The response of FEC management to those issues appears in those reports. The OIG concluded that a formal recommendation resolution was necessary for 13 recommendations from the Privacy Audit and Continuity of Operations Plan Inspection. Those recommendations were closed for a variety of reasons, including five that were closed based on the acceptance of the risk at the management level.

In addition, the OIG closed six investigations. The Commission is continuing its review of the OIG reports and recommendations on two of the investigations. No evidence of violations was found in three of the other investigations, and corrective action was taken in the sixth closed investigation.

The Commission appreciates and shares the Inspector General's commitment to sound financial and management practices, and looks forward to continuing its

Letter to the Hon. Paul D. Ryan

June 1, 2017

Page 2

cooperative working relationship as management takes appropriate measures to improve operations of the Commission. Copies of the *Semiannual Report to Congress* are being provided to the Chairmen and Ranking Members of the FEC's oversight committees.

On behalf of the Commission,

A handwritten signature in black ink, appearing to read "Steven T. Walther". The signature is written in a cursive style with a large initial "S".

Steven T. Walther

Chairman

MANAGEMENT REPORT ON
INSPECTOR GENERAL ISSUED REPORTS
WITH QUESTIONED COSTS
FOR THE SIX-MONTH PERIOD ENDING MARCH 31, 2017

| | <u>Number of Reports</u> | <u>Questioned Costs</u> | <u>Unsupported Costs</u> |
|---|------------------------------|-----------------------------|------------------------------|
| A. Reports for which no management decision has been made by commencement of the reporting period | 0 | 0 | [0] |
| B. Reports issued during the reporting period | 0 | 0 | [0] |
| Subtotals (A + B) | 0 | 0 | [0] |
| C. Reports for which a management decision was made during the reporting period | 0 | 0 | [0] |
| (i) Dollar value of disallowed costs | 0 | 0 | [0] |
| (ii) Dollar value of costs not disallowed | 0 | 0 | [0] |
| D. Reports for which no management decision has been made by the end of the reporting period | 0 | 0 | [0] |
| E. Reports for which no management decision was made within six months of issuance | 0 | 0 | [0] |

MANAGEMENT REPORT ON
INSPECTOR GENERAL ISSUED REPORTS WITH
RECOMMENDATIONS TO PUT FUNDS TO BETTER USE
FOR THE SIX-MONTH PERIOD ENDING MARCH 31, 2017

| | <u>Number of Reports</u> | <u>Funds to be Put To Better Use</u> |
|---|------------------------------|--|
| A. Reports for which no management decision has been made by the commencement of the reporting period | 0 | 0 |
| B. Reports issued during the reporting period | 0 | 0 |
| C. Reports for which a management decision was made during the reporting period | 0 | 0 |
| (i) Dollar value of recommendations that were agreed to by management | 0 | 0 |
| - Based on proposed management action | 0 | 0 |
| - Based on proposed legislative action | 0 | 0 |
| (ii) Dollar value of recommendations that were not agreed to by management | 0 | 0 |
| D. Reports for which no management decision has been made by the end of the reporting period | 0 | 0 |
| E. Reports for which no management decision was made within six months of issuance | 0 | 0 |



FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20463

OFFICE OF THE INSPECTOR GENERAL

A Message from the Deputy Inspector General

The Office of Inspector General (OIG) experienced a significant change in the midst of a productive six months. Lynne A. McFarland, the first and only permanent Inspector General (IG) of the Federal Election Commission (FEC), retired as of March 3, 2017. IG McFarland began her career at the FEC in 1976. On February 9, 1990, she was appointed the IG at the FEC, a position she held for 27 years while building the OIG from the ground up. IG McFarland served with distinction on the Council of the Inspectors General on Integrity and Efficiency as vice chair, as a member of the Professional Development Committee, and IG Candidate Recommendation Panel, among other leadership positions. IG McFarland also represented the interests of IGs from smaller Federal agencies. Not only did IG McFarland retire as the longest-serving Federal IG, but she served as a mentor to two future IGs, including the current IG at the Federal Maritime Commission.

This semiannual report incorporates changes mandated by the Inspector General Empowerment Act, which became law in December 2016. During this busy reporting cycle, the FEC OIG passed both its audit and investigative peer reviews, and conducted a peer review of the National Endowment for the Arts OIG.

As always, the OIG staff has remained diligent and hard-working, and I commend their professionalism during this reporting period. The OIG is fortunate to have employees of such a high caliber.

A handwritten signature in blue ink, appearing to read "J. Cameron Thurber".

J. Cameron Thurber
Deputy Inspector General
Federal Election Commission

April 28, 2017

TABLE OF CONTENTS

| | |
|---|----|
| Executive Summary | 1 |
| OIG Audit Activity | 3 |
| OIG Audit Follow-up Activity | 5 |
| OIG Special Review Activity | 6 |
| OIG Hotline Information | 7 |
| OIG Investigative Information | 8 |
| Additional OIG Activity | 10 |
| Council of the Inspectors General on Integrity and Efficiency (CIGIE) Activity | 11 |
| OIG Contacts | 12 |
| List of Training, Meetings and Conferences Attended by OIG Staff | 13 |
| Reporting Requirements | 15 |
| Table I – Questioned Costs | 17 |
| Table II – Funds Put To Better Use | 18 |
| Table III – Summary Of Audit And Inspection Reports With Corrective Actions Outstanding For More Than Six Months | 19 |
| Table IV – Summary of Investigative Reports | 20 |
| Appendix A: Peer Review Results | 21 |
| Appendix B: Review of Outstanding Recommendations as of February 2017 | 23 |
| Appendix C: The Federal Election Commission Office of the Inspector General | 43 |

EXECUTIVE SUMMARY

The *Inspector General Act of 1978, as amended (IG Act)*, states that the Inspector General (IG) is responsible for: conducting audits and investigations; recommending policies and procedures that promote economy, efficiency, and effectiveness of agency resources and programs; and preventing fraud, waste, abuse, and mismanagement. The *IG Act* also requires the IG to keep the Federal Election Commission (Commission or FEC) and Congress fully and currently informed about problems and deficiencies in the Commission's operations and the need for corrective action.

This semiannual report (SAR) includes the major accomplishments of the FEC Office of Inspector General (OIG), as well as relevant information regarding additional OIG activities. The executive summary highlights the most significant completed activities of the OIG. The Inspector General Empowerment Act, which became law in December 2016, added additional reporting requirements to the SAR; those changes are incorporated herein. Additional details pertaining to each activity (e.g., audits, hotline, and investigations) can be found in subsequent sections of this report. The honesty, integrity, and diligent work of our entire IG staff make the accomplishments of the OIG possible.

The ***Audit of the FEC's Fiscal Year (FY) 2016 Financial Statements*** was completed and released during this reporting period. Leon Snead & Company (LSC), the independent auditor contracted to perform the audit, reported one significant deficiency related to the FEC's Information Technology (IT) Security Program, on which progress was being made, and noted 14 individual recommendations for improvement. Overall, LSC issued an unmodified opinion on the agency's financial statements for FY 2016, finding them to be presented fairly in accordance with accounting principles. The OIG exercised the third year option on LSC's contract, and preliminary work

began on the FY 2017 Financial Statement Audit (see page 3).

A risk assessment was accomplished for the ***Audit of Contract Management and Oversight***. In an effort to streamline the workload of the auditors, a decision was made to merge the monitoring of the FEC's contract with The Elocen Group LLC, which is assisting with the logistics of the move of the FEC's headquarters, into the audit (see page 3).

The ***Review of Outstanding Recommendations as of February 2017*** was released this reporting period. We continued our review of recommendations from the previous six audits and inspections that were outstanding as of August 2016, and added the *Audit of the FEC's Telework Programs*. The OIG semiannually provides the Commission with the status of outstanding recommendations as of February and August of each year. For this reporting period, the OIG was able to collectively close 16 outstanding recommendations from 2 inspections and 1 audit. Additionally, 11 more outstanding recommendations were closed based on the Risk Acceptance Memorandum dated December 19, 2016. Noteworthy progress has also been made by the agency with outstanding recommendations in the area of the IT security program (see page 5).

The ***FEC's Digital Accountability and Transparency Act of 2014 (DATA Act) Readiness Review*** was published, and the OIG concluded that the agency appears to be on schedule to meet the first reporting deadline under the DATA Act in May 2017. The OIG is also participating in a Council of Inspectors General on Integrity and Efficiency (CIGIE) government purchase card data project, which is currently in the planning phase; testing should be completed during the next reporting period (see page 6).

Six investigations were closed this reporting period, including one in which a senior official was allowed to telework cross-country and use family medical leave in violation of policies at a cost to the agency of approximately \$68,000. Investigations of FEC staff communications with the Internal Revenue Service (IRS) and misuse of transit benefits were also closed (see *page 8*).

This reporting period was especially active in the areas of peer reviews. Both the FEC OIG's audit and investigative programs passed their respective peer reviews. The FEC OIG also conducted a peer review of the National Endowment for the Arts OIG. (see *page 21*).



OIG AUDIT ACTIVITY

Audit of the FEC's FY 2016 Financial Statement

Assignment Number: OIG-16-01

Status: Released November 2016

Report Location:

<http://www.fec.gov/fecig/documents/FY2016FinancialStatementAuditReport-Final.pdf>

Leon Snead & Company began final testing for the audit at the start of this semiannual reporting period. Once testing was completed, LSC provided the OIG with the final audit report containing all final audit results and findings. LSC reported 1 significant deficiency related to the FEC's IT Security Program, and noted 14 individual recommendations for improvement. LSC acknowledged the progress that the FEC's Office of the Chief Information Officer (OCIO) has made to address this internal control weakness.

OCIO management has taken on a large project to implement applicable National Institute of Standards and Technology's (NIST) IT security standards to improve the agency's security program. Many of the recommendations reported for improvement are dependent on the completion of the NIST implementation project.

Based on the audited information as a whole, LSC determined that the FEC's financial statements were presented fairly in accordance with accounting principles generally accepted in the United States, resulting in an unmodified opinion on the agency's financial statements for FY 2016.

Audit of Contract Management and Oversight

Assignment Number: OIG-16-02

Status: In Progress

During this semiannual reporting period, the OIG completed an audit risk assessment. The risk assessment focused directly on the scope and objective of the audit to ensure significant areas of concern and high risk were captured in the audit plan procedures for testing.

In addition, the OIG's Chief Investigator and Counsel to the IG identified three closed hotline cases involving agency contracts which did not warrant an investigation but were appropriate for audit follow-up. The case details were forwarded to the auditor-in-charge for potential inclusion in the audit. The auditor-in-charge reviewed the cases, and revised the audit plan and procedures to capture the areas from the hotline case files that could be reviewed from an audit perspective. Also, for purposes of efficiency and leveraging other OIG work, the OIG decided to merge the planned assignment for Monitoring the Elocen Contract with the *Audit of Contract Management and Oversight*, as the anticipated work for the monitoring assignment would also be conducted during the audit and merging the matters would avoid a duplication of effort.

The OIG's next steps for the audit will be to obtain system information from management listing all agency contracts for sampling and testing purposes.

Audit of the FEC's FY 2017 Financial Statements

Assignment Number: OIG-17-01

Status: In Progress

The OIG exercised the third option year of its contract with LSC to perform the agency's annual financial statement audit. The preliminary planning phase of the audit began during this reporting period. LSC provided the Audit Engagement Letters to management and the OIG on March 14, 2017, detailing the audit scope, objective, and the role of management throughout the audit process.

As in the past, LSC has requested a signed letter be provided from those charged with governance and the Acting Chief Financial Officer confirming their understanding of the audit engagement letter. Also, the OIG Contracting Officer's Representative (COR) scheduled the audit entrance conference for April 18, 2017, and planned and scheduled audit status meetings for all phases of the audit.

The audit timeline has been finalized by LSC, and the prepared by client (PBC) list that details all the required documentation that will need to be provided by management throughout the entire audit process has been finalized and distributed for management's review.

The OIG COR is in the process of gathering the necessary administrative documentation and clearances to approve LSC to begin work on site as scheduled on May 9, 2017.



OIG AUDIT FOLLOW-UP ACTIVITY

Review of Outstanding Recommendations as of February 2017

Assignment Number: OIG-16-04

Status: Released March 2017

Report Location:

<http://www.fec.gov/fecig/documents/OIGReviewofOutstandingRecommendationsasofFebruary2017-OIG-16-04.pdf>

The OIG semiannually provides to FEC a report on the status of outstanding recommendations as of February and August of each year.

For this reporting period, we continued our review of the previous six audits and inspections that were outstanding as of August 2016, and added the *Audit of the FEC's Telework Programs*, as its recommendations have been outstanding for more than six months since the release date of the report.

Based on the results of the audit follow-up review, the OIG was able to collectively close 16 outstanding recommendations from the following OIG reports:

- *Inspection of the FEC's Disaster Recovery Plan and Continuity of Operations Plans*
- *Inspection of the FEC's Compliance with FMFIA/OMB A-123*
- *Audit of the FEC's Telework Programs*

In addition to the normal audit follow-up process, the OIG provided management with a Risk Acceptance Memorandum that included 13 outstanding recommendations, collectively, from the *Follow-up Audit of Privacy and Data Protection* and the *Continuity of Operations Plan Inspection* (COOP Inspection) that management has not agreed to sufficiently implement since the release of both reports. The Risk Acceptance Memorandum, dated December 19, 2016, included an assessment of the 13 recommendations

and any potential risks to the agency if not sufficiently implemented. Based on management responses, the OIG closed 11 of the 13 recommendations, and 2 additional recommendations remain open as management subsequently agreed to implement both recommendations.

Based on the 2 separate reviews and various assessments, a total of 27 recommendations were closed, leaving 59 recommendations open as of February 2017.

A noteworthy accomplishment was identified by the OIG during this audit follow-up review. The OIG determined that progress is being made with the agency's IT security program in areas addressed by the OIG's report containing the highest number of outstanding recommendations, the COOP Inspection, since the agency's new Chief Information Security Officer (CISO) has been onboard. Information has been readily provided by the CISO to the OIG to support corrective actions being made, and the CISO has shown a willingness to work with the OIG in resolving outstanding issues. The OIG greatly appreciates this open collaboration and hopes for a continued cooperative working relationship in the future.

For a summary of each audit, inspection, and evaluation report issued prior to the commencement of this reporting period for which there are outstanding recommendations, please see Appendix B, OIG Review of Outstanding Recommendations as of February 2017. There are no audit, inspection, and evaluation reports for which a management decision has not been made or management has not returned a comment within 60 days after being provided with the report.

OIG SPECIAL REVIEW ACTIVITY

Results of the FEC's Digital Accountability and Transparency Act of 2014 Readiness Review

Assignment Number: OIG-17-02

Status: Completed

The FEC's DATA Act Readiness Review was completed during this reporting period. The primary objective of the readiness review was to determine the status of the FEC's preparedness efforts to report financial and payment information in accordance with the DATA Act and related guidance issued by the Office of Management and Budget (OMB) and the Department of the Treasury (The Treasury). The review included an assessment of the governance structure, the FEC's implementation plans submitted to OMB, and internal project management activities that have been planned and completed regarding the reporting of financial and payment information in accordance with the DATA Act. This review was generally conducted in accordance with the CIGIE Quality Standards for Inspections and Evaluations.

The scope of the review included an assessment of the FEC's DATA Act implementation activities and status as of October 31, 2016. Our assessment concentrated on Steps 1- 4 of the Treasury's Agency 8-Step Plan and Playbook, Version 2.0.¹ We also reviewed the status of FEC's efforts to address Steps 5-7 of the Playbook even though they were not scheduled to be fully addressed until a later time. Based on our review of the FEC's DATA Act Implementation project, we concluded that the FEC appears to be on schedule to meet the first established reporting deadline of May 2017.

The OIG notes that the FEC is dependent on its Federal Shared Services Provider, which is the United States Department of Agriculture (USDA), to capture

and provide standard data elements with the exception of award specific data elements.

The OIG issued a Management Letter summarizing the results on December 1, 2016. We did not make any formal recommendations and therefore, Management Responses were not requested nor received.

The Council of Inspectors General on Integrity and Efficiency (CIGIE) Purchase Card Project

Assignment Number: OIG-17-04

Status: In Progress

The CIGIE IT Committee's mission is to facilitate effective IT audits, evaluations, and investigations by OIGs, and to provide a vehicle to express the OIG community's perspective on Government-wide IT operations.

In October 2016, the CIGIE IT Committee initiated a Government-wide project to analyze and review government purchase card data to determine risks associated with purchase card transactions. The FEC OIG volunteered to participate in this Government-wide project, and planning meetings began in December 2016.

The CIGIE IT community has created standard algorithms to be used for data-analysis and to identify high-risk transactions. Each participating OIG will independently conduct a review of their respective agencies and departments' transactions using the standard algorithms and applicable methodologies to determine each agency's results. Each OIG will be required to certify its results through its internal quality control process to ensure that the information has been reviewed in accordance with required standards. The participating OIGs will then provide their certifications to the USDA OIG, which has agreed to compile the results and publish a consolidated report for the CIGIE IT Committee.

¹ Treasury released versions 1.0 and 2.0 of the Playbook in June 2015 and June 2016, respectively.

OIG HOTLINE INFORMATION

The OIG Hotline exists to enable FEC employees, FEC contractors, and the public to have direct and confidential contact with the OIG. All allegations and referrals of fraud, waste, abuse, mismanagement, and misconduct involving FEC employees, contractors, programs, operations, property, or funds received through any means are termed “hotline complaints” per OIG policy. Once a hotline complaint has been received, a preliminary inquiry is conducted to determine whether the hotline complaint will have an investigation initiated, referred to management or another agency, or closed with no further action taken.

The OIG considers many factors when evaluating whether to open an investigation based on a hotline complaint, and acknowledges that every hotline complaint received by the OIG will not be investigated, and in many cases a complaint does not merit an investigation. OIG policy requires that hotline complaints be evaluated on certain criteria, including the merits of an allegation, the availability of evidence, and the existing priorities, commitments, and resources of the OIG. Under this policy, hotline complaints are classified as either high or low priority complaints. High priority complaints are investigated and low priority complaints are either closed with no action or referred to the appropriate FEC official for possible further review. Often, a hotline complaint will be closed because a preliminary inquiry found the allegations to be unsubstantiated, there is a lack of information to proceed, or the issue giving rise to the allegation has been otherwise resolved. Hotline evaluation decisions are made by the Chief Investigator, with concurrence from the IG.

The OIG frequently receives reports and allegations which are misdirected complaints that should have been routed to the Office of Complaints and Legal Administration within the Office of General Counsel (OGC), are outside the jurisdiction of the OIG or the FEC, or are facially unsubstantiated, meritless

or invalid. In cases of misdirected complaints, a response is sent to the individual referring him or her to the proper office or other agency. In some limited instances where a misdirected communication does not concern a campaign finance violation but falls under the purview of another FEC component or government agency the inquiry may be redirected and sent to the appropriate office or agency directly from the OIG. Reviewing and, where appropriate, responding to these reports and allegations when aggregated can entail a significant amount of staff time and effort, despite the fact that they are not valid hotline complaints. In order to capture and document these hotline contacts, the OIG created a category for “hotline inquiries” that do not meet the criteria for hotline complaints.

During this reporting period, 15 new hotline complaints were opened and 16 hotline complaints were closed; 12 hotline complaints remain open.

OIG INVESTIGATIVE INFORMATION

OIG investigations seek out facts related to allegations of wrongdoing. OIG investigations may address administrative, civil, and criminal violations of laws, regulations, and policies. The subject of an OIG investigation can be any agency employee, an FEC contractor, consultant, or a person or entity involved in alleged wrongdoing affecting FEC programs and operations.

As discussed in *OIG Hotline Information*, all hotline complaints are evaluated to determine if they warrant an investigation. If an investigation is opened, the hotline complaint is closed and merged into the investigative file. OIG investigations involve a detailed examination or inquiry into issues brought to our attention by various sources, and may include interviews of relevant witnesses and subjects, document reviews, and computer forensic examinations. At the conclusion of an OIG investigation, the OIG prepares a report that sets forth the allegations and an objective description of the facts developed during the investigation.

During this reporting period no new investigations were opened, six investigations were closed, and four investigations remain open. The closed investigations included:

Possible Theft by Employee

An FEC employee alleged that unauthorized withdrawals from a personal checking account were possibly made by another unknown FEC employee who had access to the account information in performance of official duties. The OIG found no evidence that an FEC employee was involved in the unauthorized withdrawals and the OIG closed the case. No reasonable grounds of a violation of Federal criminal law were established that would have warranted a referral to the United States Department of Justice (DOJ).

Misuse of Transit Subsidy

The transit subsidy investigation involved a review of the current and former employees' use of the FEC SmarTrip card transit subsidy. The OIG found that from January 2015 to June 2016, SmarTrip usage was not reviewed periodically as required by the FEC's Directive 54, and recommendations from the 2006 Audit of the Commission's Transit Benefits Program had not been implemented, contrary to statements by FEC management. Other findings included instances of separated employees not removed from the Program and some using benefits after their departure from the FEC, employees receiving a subsidy even though they were ineligible, employees whose transit subsidy documents were not amended to reflect telework or commuting schedules, and employees receiving a subsidy in excess of commuting costs. The report was provided to the Commission and FEC management for review. Due to potential criminal violations, the case was discussed with the DOJ on February 21, 2017, and a declination was issued on February 23, 2017, but no formal presentation of an individual for prosecution was made.

Senior Level Employee's Telework use and the Family Medical Leave Act (FMLA)

A Senior Level employee was allowed to telework from California for six months and then take FMLA leave for an additional six months until the employee was eligible for retirement. The employee requested, and was allowed, to be demoted from a Senior Level to a new grade 15 position created specifically for the former employee. The OIG found that by accommodating the employee's position change and telework allowance from California, the FEC's FMLA policy, telework policy, and OPM requirements were violated. As

a result of preferential treatment, the former employee stayed onboard the FEC payroll for an additional six months, at a cost to the agency of \$68,099 in salary and benefits, and retired with full benefits. The results were reported to the Commission and the case was closed. No reasonable grounds of a violation of Federal criminal law were established that would have warranted a referral to the DOJ.

Potential Contracting Violation

An FEC manager allegedly bypassed contracting policies and violated provisions of the Federal Acquisition Register (FAR). During the OIG's investigation, expert assistance was sought from the General Services Administration (GSA) OIG. No violation of the FAR or statute was found, and the case was closed. No reasonable grounds of a violation of Federal criminal law were established that would have warranted a referral to the DOJ.

Communications with the Internal Revenue Service (IRS)

FEC employees were alleged to have committed statutory and regulatory violations in communicating with the IRS on non-public enforcement matters, and to have coordinated with the IRS in order to target tax exempt political organizations for increased scrutiny for political purposes. Allegations focused on whether the communications with the IRS constituted unapproved investigative activity, as actions defined by statute and regulation as investigative activity must not be undertaken by FEC personnel without approval by the Commission. Additionally, the alleged purpose of the communications was to coordinate the targeting of certain political organizations. An extensive investigation was initiated. Several Congressional committees notified the FEC that they were concurrently looking into the allegations. The investigation determined that the FEC employees did not violate any statute or regulation in their communications with the IRS, specifically that the communications did not constitute unapproved investigative activity as defined by statute and regulation. Further, no evidence was found that FEC staff attempted to improperly target any tax exempt organization. A report

was provided to the Commission. No reasonable grounds of a violation of Federal criminal law were established that would have warranted a referral to the DOJ.

Improper Promotion

The OIG received information that an employee may have been pre-selected for a supervisory position and improperly promoted, which would constitute statutory violations concerning prohibited personnel practices. The allegation involved former managers, and no evidence was found that the promoted employee had knowledge of any violations. Expert assistance from the OPM was obtained in reviewing the matter. Based on the OPM review, it was determined that FEC management may have committed violations of prohibited personnel practices, and the matter was referred to the Office of Special Counsel (OSC) for further investigation. The OSC found technical FEC policy violations concerning promotions, but no evidence of a statutory violation involving preselection or the granting of an illegal preference. The OSC informed the OIG that FEC management had agreed to institute corrective action, and the case was closed. No reasonable grounds of a violation of Federal criminal law were established that would have warranted a referral to the DOJ.

ADDITIONAL OIG ACTIVITY

In addition to audit, inspection, hotline, and investigative work, the OIG performs an array of additional projects and activities. The IG also reviews and provides comments, when appropriate, on legislation provided by the CIGIE Legislative Committee.

Listed below are examples of the OIG's additional activities during this reporting period:

- The OIG conducted an annual risk assessment of the FEC's government purchase card program during this reporting period. The assessment resulted in no outstanding recommendations, and all recommendations pertaining to our February 2015 travel card audit have been closed.
 - An OIG senior auditor continues to serve as planning coordinator for the DATA Act working sub-group. The working sub-group, composed of select CIGIE and Government Accountability Office members, meets on a bi-weekly or monthly basis.
 - Occasionally the OIG receives correspondence requesting specific information pertaining to the OIG. During this reporting period the OIG received three separate inquiries. Senators Grassley and Johnson requested information concerning outstanding recommendations, and the OIG provided the requested information.
 - The Department of Veterans Affairs contacted the OIG to obtain information on what OIG positions are considered Capstone officials, and the OIG replied. The GSA OIG requested information concerning what other OIGs are doing with regards to workplace flexibility options such as telework and alternative schedules, and copies of our various workplace policies were provided.
- The Inspector General Empowerment Act of 2016 was reviewed, and reporting changes were incorporated into the semiannual report.

COUNCIL OF THE INSPECTORS GENERAL ON INTEGRITY AND EFFICIENCY

Prior to Inspector General Lynne McFarland's retirement on March 4, 2017, she was an active member of the Executive Council, which is composed of the Chair, Vice Chair, the immediate past Chair and Vice Chair, an at-large member, and all CIGIE Committee Chairs. The Executive Council provides guidance on CIGIE initiated projects, the operating plans for each fiscal year, and the general business of CIGIE.

As a member of the Executive Council, the IG reviewed and rated nominees proposed to receive specific CIGIE awards. The IG served as a panel member for the 2016 Leadership Development program, and attended a program on "Improving your OIG and Employee Engagement." In addition, the IG was a member of the Professional Development Committee and Vice Chair of the Budget Committee.

As part of the CIGIE Training Institute's New Leaders program, the IG participated in "Lunch with the IG" sessions. The IG covered various subjects pertaining to leadership, CIGIE and issues that could impact the IG community.

OIG CONTACTS

OIG contacts run the gamut, from citizens expressing their views or trying to reach the right FEC component to graduate students doing research. Contacts requesting information concerning where to submit a complaint or concern are directed to the appropriate FEC component or other agency. Other citizen contacts are handled and responded to as appropriate for the circumstances.

The table below is a reflection of the total contacts received by the OIG for the reporting period. These contacts were made through various sources such as telephone calls, emails, faxes, U.S. mail, and personal visits to the OIG. Those forwarded for action were referred to another FEC component and/or appropriate outside source

| Total Contacts | OIG Action | No Action Necessary | Forwarded for Action |
|----------------|------------|---------------------|----------------------|
| 2,992 | 140 | 2,814 | 38 |

LIST OF TRAINING, MEETINGS AND CONFERENCES

The chart listed below depicts training, meetings, programs, seminars, and/or conferences attended by the Inspector General and/or the OIG staff for the period October 1, 2016 – March 31, 2017:

MEETINGS:

| Host / Sponsor | Topic / Subject |
|--|--|
| <p align="center">Council of Inspectors General on Integrity and Efficiency (CIGIE)</p> | <p>Monthly Meetings Executive Council Meetings Budget Committee Meetings Professional Development Committee Meetings Leadership Development Subcommittee Meetings Quarterly Small / Unique IG Quarterly Meetings 2017 GAO Coordination Meeting</p> |
| <p align="center">Council of Counsels to the Inspectors General</p> | <p>Monthly Meetings Small OIG Working Group Meeting</p> |
| <p align="center">Government Accountability Office</p> | <p>DATA Act Working Group Joint Meetings</p> |
| <p align="center">Federal Election Commission</p> | <p>Bi-weekly Directors' Meetings with IG, Acting GC, SD & Acting CFO Finance Committee Meetings Lease Renewal Team Meetings New Employee Orientations Administrative Liaison Groups Meetings</p> |

TRAINING/CONFERENCES/PRESENTATIONS:

| HOST / SPONSOR | TOPIC / SUBJECT |
|---|--|
| <p>Council of the Inspectors General on Integrity and Efficiency</p> | <p>2016 Leadership Forum Culture Risk: How to Mitigate it in your Office and Agency Introductory Auditor FAEC – DATA Act Required Review Workshop</p> |
| <p>Association of Inspectors General</p> | <p>AIG Annual Conference</p> |
| <p>Association of Certified Fraud Examiners</p> | <p>2016 ACFE Law Enforcement and Government Anti-Fraud Summit Principles of Fraud Examination</p> |
| <p>Human Resources Institute</p> | <p>Federal Human Resources: An Overview Federal Employee Relations: An Introduction</p> |
| <p>Institute of Internal Auditors</p> | <p>Conducting a Contract Fraud and Abuse Risk Examination</p> |
| <p>Office of Special Counsel</p> | <p>Prohibited Personnel Practices</p> |
| <p>i-Sight</p> | <p>Investigation Report Writing: A Nuts and Bolts Approach</p> |
| <p>Wolters Kluwer</p> | <p>2016 TeamMate Conference</p> |
| <p>Financial Research Associates</p> | <p>Fraud Risk Management for Government</p> |
| <p>Gov-Loop</p> | <p>How to Define and Build your Personal Brand</p> |
| <p>Federal Election Commission</p> | <p>Supervisory Training: Whistleblower Protection Mandatory Ethics Training Pre-Retirement Workshop</p> |

REPORTING REQUIREMENTS

Reporting requirements required by the *Inspector General Act of 1978*, as amended by the *Inspector General Act Amendments of 1988* are listed below:

| IG ACT | DESCRIPTION | PAGE |
|---------------------|--|------------|
| Section 4(a)(2) | Review of Legislation | 10 |
| Section 5(a)(1) | Significant Problems, Abuses, and Deficiencies | None |
| Section 5(a)(2) | Recommendations with Respect to Significant Problems, Abuses, and Deficiencies | None |
| Section 5(a)(3) | Recommendations Included in Previous Reports on Which Corrective Action Has Not Been Completed (Table III) | 19 |
| Section 5(a)(4) | Matters Referred to Prosecuting Authorities | None |
| Section 5(a)(5) | Summary of Instances Where Information was Refused | None |
| Section 5(a)(7) | Summary of Significant Reports | 3 |
| Section 5(a)(8) | Questioned and Unsupported Costs (Table I) | 17 |
| Section 5(a)(9) | Recommendations that Funds be put to Better Use (Table II) | 18 |
| Section 5(a)(10)(A) | Summary of Audit Reports issued before the start of the Reporting Period for which no Management Decision has been made | N/A |
| Section 5(a)(10)(B) | Summary of Audit Reports Issued Before the start of the Reporting Period for which No Management Comment was Returned Within 60 Days | N/A |
| Section 5(a)(10)(C) | Summary of Audit Reports Issued Before the Start of the Reporting Period for which There Are Outstanding Unimplemented Recommendations | 23; App. B |
| Section 5(a)(11) | Significant Revised Management Decisions | None |
| Section 5(a)(12) | Management Decisions with which the Inspector General is in Disagreement | None |
| Section 5(a)(14) | Peer Review Recommendations | 21; App. A |

| IG ACT | DESCRIPTION | PAGE |
|------------------------|---|------|
| Section 5(a)(17), (18) | Investigative Reports Table and Metrics (Table IV) | 20 |
| Section 5(a)(19) | Investigations Involving a Senior Government Employee with Substantiated Misconduct | 8 |
| Section 5(a)(20) | Instances of Whistleblower Retaliation | None |
| Section 5(a)(21) | Attempts by the Agency to Interfere with OIG Independence | None |
| Section 5(a)(22) | Undisclosed Inspections, Evaluations, Audits, and Investigations | None |

TABLE I

Inspector General issued reports with questioned costs (dollar value in thousands)

| | NUMBER | QUESTIONED COSTS | UNSUPPORTED COSTS |
|---|--------|------------------|-------------------|
| A. For which no management decision has been made by commencement of the reporting period | 0 | 0 | 0 |
| B. Which were issued during the reporting period | 0 | 0 | 0 |
| Sub-Totals (A&B) | 0 | 0 | 0 |
| C. For which a management decision was made during the reporting period | 0 | 0 | 0 |
| (i) Dollar value of disallowed costs | 0 | 0 | 0 |
| (ii) Dollar value of costs not disallowed | 0 | 0 | 0 |
| D. For which no management decision has been made by the end of the reporting period | 0 | 0 | 0 |
| E. Reports for which no management decision was made within six months of issuance | 0 | 0 | 0 |

TABLE II

Inspector general issued reports with recommendations that funds be put to better use

| | Number | Dollar Value (In Thousands) |
|---|--------|--------------------------------|
| A. For which no management decision has been made by the commencement of the reporting period | 0 | 0 |
| B. Which were issued during the reporting period | 0 | 0 |
| C. For which a management decision was made during the reporting period | 0 | 0 |
| (i) dollar value of recommendations were agreed to by management | 0 | 0 |
| based on proposed management action | 0 | 0 |
| based on proposed legislative action | 0 | 0 |
| (ii) dollar value of recommendations that were not agreed to by management | 0 | 0 |
| D. For which no management decision has been made by the end of the reporting period | 0 | 0 |
| E. Reports for which no management decision was made within six months of issuance | 0 | 0 |

TABLE III

Summary of audit and inspection reports with corrective actions outstanding for more than six months

| Report Title | Report Number | RECOMMENDATIONS | | | | Dollar Value of Aggregate Potential Cost Savings |
|---|---------------|-----------------|--------|-----------------|------|--|
| | | Issue Date | Number | Closed | Open | |
| Audit of the Commission's Property Management Controls | OIG-09-02 | 03/10 | 36 | 35 | 1 | 0 |
| 2010 Follow-up Audit of Procurement and Contract Management | OIG-10-02 | 06/11 | 29 | 28 | 1 | 0 |
| 2010 Follow-up Audit of Privacy and Data Protection | OIG-10-03 | 03/11 | 45 | 20 ² | 25 | 0 |
| Inspection of the Federal Election Commission's Disaster Recovery Plan and Continuity of Operations Plans | OIG-12-06 | 01/13 | 30 | 19 ³ | 10 | 0 |
| Audit of the Federal Election Commission's Office of Human Resources | OIG-12-05 | 07/13 | 26 | 18 | 8 | 0 |
| Inspection of FEC's Compliance with FMFIA/ OMB Circular A-123 | OIG-14-01 | 06/14 | 8 | 3 | 5 | 0 |
| Audit of the FEC's Telework Programs | OIG-15-03 | 06/16 | 11 | 2 | 9 | 0 |

Cumulative Total Of Outstanding Recommendations 59

² Three recommendations closed due to management's acceptance of risk.

³ Eight recommendations closed due to management's acceptance of risk.

TABLE IV

Summary of Investigative Reports

| | Number |
|---|--------|
| Total Number of Investigative Reports Issued | 6 |
| Total Number of Persons Referred to DOJ for Criminal Prosecution | 0 |
| Total Number of Persons Referred to State and Local Prosecuting Authorities for Criminal Prosecution | 0 |
| Total Number of Indictments and Criminal Information Resulting from Any Prior Referral to Prosecuting Authorities | 0 |

Metrics Used for Developing Data for Table IV:

The Total Number of Investigative Reports Issued reflects the number of all Reports of Investigation (ROI) issued to FEC management, the Department of Justice, or State and local prosecuting authorities during the reporting period;

The Total Number of Persons Referred to DOJ for Criminal Prosecution and Total Number of Persons Referred to State and Local Prosecuting Authorities for Criminal Prosecution reflects the total number of presentations of individuals for criminal prosecution made by the FEC OIG to the respective criminal prosecuting authorities during the reporting period;

The Total Number of Indictments and Criminal Informations Resulting from Any Prior Referral to Prosecuting Authorities includes all indictments and informations issued during the reporting period by Federal, State, or local criminal prosecuting authorities based upon any referral by the FEC OIG, whether the referral was made during this reporting period or a prior reporting period.

APPENDIX A

PEER REVIEW RESULTS

In accordance with the *Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010* (Section 989C of P.L. 111-203), which amended Section 5 of the *Inspector General Act of 1978*, OIGs are required to include in their semiannual reports to Congress the results of peer reviews of their offices, as well as outstanding and not fully implemented recommendations from peer reviews the OIG received from another OIG, and outstanding and not fully implemented recommendations the OIG made in any peer review it performed for another OIG.

OIG PEER REVIEW ACTIVITY

Peer Review of the FEC OIG's Audit Program

Assignment Number: N/A

Status: Completed

In accordance with the Council of Inspectors General on Integrity and Efficiency Audit Peer Review schedule, the Farm Credit Administration (FCA) OIG conducted an audit peer review of the FEC OIG for 2016. The entrance conference and FCA OIG fieldwork was conducted at the FEC on January 24, 2017.

During fieldwork, the FCA OIG selected and reviewed the FEC OIG's *Audit of the Federal Election Commission's Telework Programs* and the OIG's monitoring documentation of the *2015 Federal Election Commission Financial Statement Audit*. A final system review report was issued to the FEC OIG on February 11, 2014 and we received a pass rating. There were no weaknesses identified in the system review report.

Peer Review of the National Endowment for the Arts (NEA) OIG's Audit Program

Assignment Number: OIG-17-02

Status: Completed January, 2017

The FEC OIG conducted a peer review of the NEA OIG during this reporting period. The peer review entrance conference was held on December 6, 2016, and fieldwork was completed in December 2016. Following the completion of the fieldwork, the FEC peer review team held an exit conference with the NEA IG and staff on January 5, 2017, to discuss the results of the peer review and findings to be included in the draft report and letter of comment. The FEC OIG prepared the draft report and comment letter based on the documentation and evidence reviewed, and information discussed during the exit conference.

The draft report was provided to NEA OIG on January 13, 2017, and the letter of comment was provided on January 23, 2017. The NEA OIG provided official written response to the FEC OIG on January 23, 2017. The NEA OIG did not have any suggested changes to the report and agreed with the peer review results. The FEC OIG completed and provided the final peer review report and comment letter to NEA OIG on January 27, 2017. The final peer review report contained one recommendation for the NEA to rescind its designation of the NEA chairman "as the point-of-contact for day-to-day supervision and reporting purposes," which is in conflict with the IG Act.

Quality Assessment of the Federal Election Commission’s Investigative Program

Assignment Number: N/A

Status: Completed November, 2016

The OIG recently passed its quality assessment review, or peer review, of its investigative program and operations. The peer review was conducted by the Securities and Exchange Commission (SEC) OIG. Unlike mandatory audit peer reviews, investigative peer reviews for OIGs that do not have statutory law enforcement authority, such as the FEC OIG, are strictly voluntary. The FEC OIG has been involved in the voluntary investigative peer review program since its inception, as the OIG believes it is important to ensure its investigative operations meet the quality standards for internal controls and management procedures established by CIGIE.

On January 11, 2016, SEC IG Carl Hoecker issued the investigative peer review report on the FEC OIG’s investigative operations. The report included a determination that the FEC OIG’s investigative operations are “in compliance with the quality standards established by the CIGIE.” The report included no recommendations for improvement.



APPENDIX B



Federal Election Commission
Office of Inspector General

**Review of Outstanding Recommendations
as of February 2017**

March 2017

Assignment No. OIG-16-04

Office of Inspector General's Review of Outstanding Recommendations as of February 2017

The Office of Inspector General (OIG) semiannually provides to the Federal Election Commission (FEC) a report on the status of outstanding recommendations. The OIG provides these status reports as of February and August of each year. For this reporting period, we continued our review of the previous six audits and inspections that were outstanding as of August 2016, and added the *Audit of the FEC's Telework Programs*, as its recommendations have been outstanding for more than six months since the release date of the report. Based on the results of the audit follow-up review, the OIG was able to close 16 outstanding recommendations from three separate OIG reports.

As part of the OIG's follow-up review, a formal recommendation resolution process can be initiated at the discretion of the OIG if there are outstanding recommendations that management has not agreed to implement over a period of time. The resolution process can include:

- a) management signing a *Risk Acceptance Memorandum*, or
- b) the OIG presenting the issue(s) to the Commission to determine if management must comply with the OIG's recommendation, or corrective action is not required.

During this review period, the OIG concluded that a formal recommendation resolution was necessary for 13 recommendations collectively from the *Follow-up Audit of Privacy and Data Protection* (Privacy Audit) and the *Continuity of Operations Plan Inspection* (COOP Inspection) that management has not agreed to sufficiently implement since the release of both reports. The OIG provided a *Management Risk Acceptance Memorandum* dated December 19, 2016 to the Co-Senior Agency Officials for Privacy (Co-SAOP) and the Chief Information Officer (CIO) that included an assessment of the 13 recommendations and any potential risks to the agency if not sufficiently implemented. The OIG requested within the memorandum that management provide the OIG with:

- 1) an official signed memorandum accepting the identified risks if there were no planned corrective actions from management to address the recommendation;
- 2) an updated corrective action plan (CAP) if management has decided to implement any of the recommendations, or
- 3) supporting documentation if management believes corrective action has already been implemented to address the recommendation(s).

In response to the OIG's *Management Risk Acceptance Memorandum*, a signed memorandum was provided from the Co-SAOP on January 23, 2017, and a signed memorandum from the CIO on January 25, 2017. The OIG responded to the Co-SAOP and CIO in a memorandum dated March 21, 2017 confirming the resolution of the 13 recommendations based on the signed

memorandums and follow-up discussions with management. (*See attachment*). In summary, the recommendation resolution process via the *Management Risk Acceptance Memorandum* closed 11 of the 13 assessed recommendations, as management agreed to implement 2 of the 13.

Therefore, the OIG's normal recommendation follow-up process for the seven OIG reports and the recommendations included in the *Management Risk Acceptance Memorandum* collectively had a total of 86 outstanding recommendations. Based on the two separate reviews and various assessments, a total of 27 recommendations were closed, leaving 59 recommendations open as of February 2017. (See table on page 3).

Noteworthy Accomplishments

In the short time the agency's new Chief Information Security Officer (CISO) has been onboard, the OIG has noted that progress is being made with the agency's information technology security program in areas that address the OIG's report containing the highest number of outstanding recommendations, the *COOP Inspection*. In the past, management has made very little progress in addressing these findings since the release date of the report. However, during this current review period, information has been readily provided by the CISO to the OIG to support corrective actions being made, and the CISO has shown a willingness to work with the OIG in resolving outstanding issues. The OIG greatly appreciates this open collaboration and hopes for a continued cooperative working relationship as the responsibilities of the agency's COOP is being transitioned to the Acting Chief Information Officer for Operations.

OIG Concerns

The overarching concern of the OIG is the lack of governance accountability for ensuring that outstanding recommendations that are intended to improve agency programs and prevent fraud, waste, and abuse are timely and sufficiently implemented by management. Many recommendations have been outstanding for five or more years, with no consistent progress or dedicated effort from management to implement corrective actions.

Based on past practices, the OIG is concerned that management does not use its resources efficiently by often addressing risks only after the agency's weaknesses have been exposed. The OIG believes management should have more preventive measures established within their business processes, as applicable, to adequately address the potential risk exposures to the agency. Governance must make management accountable for promptly addressing these outstanding recommendations to decrease the risk exposure, effectively manage resources, and control cost.

Table Summary of Results

The table below summarizes the progress made by FEC management since the OIG's last reporting period and the total outstanding recommendations as of February 2017.

| <i>Title & Report Date of OIG Audits/Inspection</i> | <i>Total Outstanding Recommendations as of August 2016</i> | <i>Total Closed</i> | <i>Total Open as of February 2017¹</i> |
|--|--|---------------------|---|
| Audit of the Commission's Property Management Controls (3/2010) | 1 | 0 | 1 |
| 2010 Follow-up Audit of Privacy and Data Protection (3/2011) | 28 | 3 ² | 25 |
| 2010 Follow-up Audit of Procurement and Contract Management (6/2011) | 1 | 0 | 1 |
| Inspection of the FEC's Disaster Recovery Plan and Continuity of Operations Plans (1/2013) | 29 | 19 ³ | 10 |
| Audit of the FEC's Office of Human Resources (7/2013) | 8 | 0 | 8 |
| Inspection of FEC's Compliance with FMFIA/OMB A-123 (6/2014) | 8 | 3 | 5 |
| Audit of the FEC Telework Programs (6/2016) | 11 | 2 | 9 |
| Total Outstanding Recommendations | | | 59 |

¹ Column numbers may include recommendations that management has disagreed with or has not adequately implemented, and the OIG concludes that these recommendations are still open.

² All three recommendations were closed due to management's acceptance of risk and included in the *Management Risk Acceptance Memorandum*.

³ The 19 recommendations reflect those closed from the audit follow-up review (11) and the *Management Risk Acceptance Memorandum* (8). The 19 closed recommendations include:

- 4 verified as sufficiently implemented by the OIG;
- 7 no longer applicable due to changes in business processes;
- 6 repeat findings from the annual financial statement audit where follow-up will be conducted, and
- 2 closed due to management's acceptance of risk.

Audit Follow-up Meetings/Communications

Closed Audits/Inspections⁴

The OIG did not close any audits or inspections this review period.

Open Audits/Inspections

A. Audit of the Commission's Property Management Controls

The remaining outstanding recommendation for the *Audit of the Commission's Property Management Controls* is related to the Office of the Chief Information Officer's (OCIO) inventory records for cellular devices. For the past two review periods, the OIG deferred follow-up on this open item since management was in the process of providing staff with new devices. As OCIO completed the distribution of the new iPhone 6 devices to all appropriate employees prior to the start of this review period, the OIG commenced with a review of the OCIO's inventory records.

According to the Acting Deputy CIO of Operations, the agency is currently being enrolled in a new Apple program which requires AT&T to make changes to the agency's account. Therefore, the OIG planned to assess OCIO's records based on internal Office of Human Resources (OHR) records and physical verifications. The OIG reviewed agency records to ensure that no separated employees were still listed on the inventory list as having a device, and that the physical device was placed in storage or issued to another employee. This review noted two instances that separated employees were still listed on the inventory list. The OIG attempted to continue this review by conducting a physical test to verify that all devices listed as storage (devices on-hand), to include the devices listed to the separated employees, could be accounted for; however, the OIG was not able to complete this review due to the unavailability of the OCIO staff to produce the devices. Therefore, this recommendation remains open.

B. 2010 Follow-up Audit of Privacy and Data Protection

For the *2010 Follow-up Audit of Privacy and Data Protection*, the OIG's *Review of Outstanding Recommendations as of August 2016* report identified 28 open recommendations. The OIG followed up with the Privacy Team regarding 24 of the 28

⁴ An audit or inspection is closed when the OIG determines that all applicable recommendations have been adequately addressed by management.

outstanding recommendations that management agreed to implement.⁵ The Privacy Team responded to the OIG, noting that in accordance with their records, they "...have completed, and therefore consider no longer applicable, 15 of the 24 cited recommendations..." and at the discretion of the Co-Chief Privacy Officers, "...the Privacy Team does not intend to perform any additional work on the 15 recommendations..." In addition, the Privacy Team stated that they would assume the risk of not implementing five of the recommendations, but will implement the remaining four recommendations by May 2017.

The OIG responded to the Privacy Team, explaining that the 15 recommendations they consider closed will remain open, as management has not provided the OIG with sufficient evidence during our follow-up reviews that these recommendations have been implemented. The OIG clarified that the official resolution of recommendations (open/closed) is determined by the OIG. In addition, we clarified that the type of resolution for outstanding recommendations is also determined by the OIG. Therefore, management's notation of their risk acceptance for five of the outstanding recommendations is not applicable to this follow-up review process, and they will also remain open. For the four recommendations that management intends to implement by May 2017, the OIG will defer any follow-up until the next review period when these recommendations are anticipated to be closed. Thus, the 24 recommendations for review during this follow-up period remain open.

As additional information, the OIG suggested that a meeting be scheduled with the OIG, Co-Chief Privacy Officers, and the Privacy Team to address the current status of the Privacy Audit's recommendations and to ensure that all parties are clear on the OIG's follow-up process. Management has agreed to this meeting suggestion and the meeting is tentatively scheduled for March 2017.

C. 2010 Follow-up Audit of Procurement and Contract Management

The *2010 Follow-up Audit of Procurement and Contract Management* was issued in June 2011. The OIG's *Review of Outstanding Recommendations as of August 2016* report identified only one open recommendation related to the updated Directive 66, which is the overarching agency-wide policy for procurement and acquisitions. This one recommendation is still open for this follow-up review period.

⁵ The remaining four recommendations were included in the OIG's *Management Acceptance Risk Memorandum* as recommendations that management has not agreed to implement. The detailed assessment of those four recommendations are included in the memorandum attached with this report, and the numbers in the *Table Summary of Results* on page 3 of this report are reflective of this assessment.

D. Inspection of the FEC's Disaster Recovery Plan and Continuity of Operations Plans

The *Inspection of the FEC's Disaster Recovery Plan and Continuity of Operations Plans* (COOP) report was released in January 2013. The OIG's *Review of Outstanding Recommendations as of August 2016* report identified 29 outstanding recommendations, and for this review period, the OIG conducted follow-up on 20 of the 29 recommendations.⁶

The OIG and OCIO staff held a meeting on February 9, 2017, to discuss the status of the open COOP Inspection recommendations. During this meeting, the CISO provided the OIG with documents in support of actions that have been completed by management and noted instances where progress is being made to sufficiently close the open recommendations related to the IT security portions of the COOP. In addition, the Acting Deputy CIO of Operations noted tasks and plans of actions to address recommendations related directly to the agency's COOP process. Management also provided an updated CAP to the OIG with updates and revised implementation dates. Based on this meeting, the documentation provided, and the updated CAP, the OIG was able to close 11 outstanding recommendations:

- 4 recommendations were closed based on evidence reviewed that corrective actions had been successfully implemented;
- 3 recommendations management previously agreed to implement are no longer applicable due to process changes; and
- 4 recommendations were closed and forwarded to be included in the annual financial statement audit, where similar recommendations are reported.

The remaining nine recommendations are still open. However, management has noted in their CAP an intended plan of action to implement these recommendations with many completion dates estimated for the 3rd quarter of 2017.

E. Audit of the FEC's Office of Human Resources

The *Audit of the Federal Election Commission's Office of Human Resources* report was issued in July 2013. The OIG's *Review of Outstanding Recommendations as of August 2016* report identified eight open recommendations for the OHR audit report.

In February 2017, the OIG met with the Director of OHR to discuss the status of the eight outstanding audit recommendations as well as review corrective actions since the last

⁶ The remaining nine recommendations were included in the OIG's *Management Acceptance Risk Memorandum* as recommendations that management has not agreed to implement. The detailed assessment of those nine recommendations are included in the memorandum attached with this report, and the numbers in the *Table Summary of Results* on page 3 of this report are reflective of this assessment.

follow-up review was conducted in August 2016. Based on follow-up work performed, no open recommendations can be closed at this time. However, OIG notes that progress was made on Recommendation 16 related to the electronic fingerprinting scheduling process. The OHR informed the OIG that it has completed a pilot of an on-line electronic scheduling system (Timetrade). OHR is currently working with the procurement office to purchase the Timetrade web-based software, which will be used to electronically schedule both fingerprinting and badging appointments. Also, the OIG was informed that OCIO is looking into an on-line correspondence tracking system called Service Now which could potentially replace HR On Demand, which is currently used to track and monitor HR inquiries.

Once these systems have been fully implemented, the OIG will confirm if they are operating effectively before the related recommendations can be closed. As a result, the OHR audit still has eight open audit recommendations for this follow-up review period.

F. Inspection of FEC's Compliance with FMFIA/OMB Circular A-123

The *Inspection of FEC's Compliance with FMFIA/OMB Circular A-123* (A-123 Inspection) was released in June 2014. The OIG's *Review of Outstanding Recommendations as of August 2016* report identified eight open recommendations for the A-123 Inspection report. Since the August 2016 follow-up review period, the Office of the Chief Financial Officer (OCFO) in cooperation with the FEC A-123, Task Force finalized and rolled out the new annual internal control review (ICR) procedures and template to comply with the new OMB A-123 guidance. All of the designated program managers for FY 2016 have been trained, and all program offices completed the new ICR documentation.

The OIG reviewed the FY 2016 ICR documentation submitted to the OCFO and concludes that the control assessment template was completed for all program offices. However, the OIG notes that several program offices' ICR documentation did not contain adequate information to comply with the new A-123 requirements, specifically as it relates to risk associated with potential and/or known control issues. The OIG acknowledges that this is a new process and believes that additional training may be needed especially since there are additional A-123 requirements that go into effect in FY 2017, which are discussed in more detail below.

The final A-123 guidance (*Management's Responsibility for Enterprise Risk Management and Internal Control*), which was released on July 15, 2016, requires all executive branch agencies to adopt an Enterprise Risk Management (ERM) approach as well as a plan for complying with the *Fraud Reduction and Data Analytics Act of 2015* (the Fraud Reduction Act of 2015).

According to the final A-123 guidance, all executive branch agencies are required to:

- develop ERM and Fraud Reduction implementation plans by June 4, 2017;
- create a formal risk profile; and
- perform periodic risk assessments in order to properly manage risk.

Per discussion with OCFO, Management plans to implement and leverage the work done by the A-123 Task Force which includes finalizing and formally adopting the Senior Management Council charter which will be the designated oversight body responsible for the FEC's internal control and ERM programs.

Although major progress was made during this review period, the OIG was only able to close three of the eight recommendations. In light of the additional A-123 requirements that go into effect in FY 2017, the OIG cannot close the remaining five recommendations until the FEC incorporates ERM and fraud risk assessments into the ICR process and the OIG can verify that the new processes are operating effectively. Therefore, five recommendations remain open for this follow-up review period.

G. Audit of the FEC's Telework Programs

The *Audit of the FEC's Telework Programs* (Telework Audit) was released in June 2016. The Telework Audit report identified eleven recommendations. This is the first follow-up for the Telework Audit. In February 2017, the OIG met with the Telework Management Official (TMO) to discuss the updated CAP and the OIG's request for supporting documentation needed to close some of the recommendations. Based on our follow-up work and review of documentation submitted, the OIG closed two recommendations. The other nine outstanding recommendations will remain open until the annual telework monitoring procedures have been fully implemented, related policies and procedures have been revised/created, and the requirements of the telework programs have been reinforced. Therefore, nine recommendations remain open for this follow-up review period.

Background

As required by the Inspector General Act of 1978, as amended, the OIG is responsible for conducting audits of the FEC's programs and operations. In addition to conducting and supervising audits, the OIG also has the responsibility to conduct audit follow-ups to ensure that management has effectively implemented OIG recommendations. Audit follow-up, including the timely implementation of audit recommendations by FEC management, is required by Office of Management and Budget Circular A-50, *Audit Follow-up*, as revised, and FEC Directive 50: *Audit Follow-up*.

At the conclusion of each OIG audit and inspection, it is management's responsibility to develop a corrective action plan (CAP). The CAP identifies the plan management has developed to address the OIG's findings and recommendations. The CAP should detail the following:

1. assignment of Audit Follow-up Official, who is responsible for overseeing the corrective action;
2. OIG finding(s);
3. OIG recommendation(s);
4. detailed corrective action to implement the OIG's recommendation(s);
5. FEC staff person with responsibility to implement each task; and
6. expected completion dates.

Once management drafts the CAP, the OIG then reviews the CAP and provides comments to management regarding the sufficiency of their planned corrective actions to address the OIG's findings. Management reviews the OIG's comments, finalizes the CAP, and then provides the final CAP to the Commission with a courtesy copy to the OIG.

FEC Directive 50 requires management to:

(3) Conduct regular meetings with the Inspector General throughout the year to follow-up on outstanding findings and recommendations, and include reports of these meetings in the written corrective action plan and semi-annual reports required to be presented to the Commission...;

In order to work effectively with FEC management in adhering to FEC Directive 50, and to ensure continuous monitoring and adequate and timely audit resolution, the OIG communicates with management at least semiannually to discuss the status of outstanding OIG recommendations. If management has implemented any corrective action(s), the OIG schedules a meeting with management to discuss the implementation of the corrective action(s), and the OIG then reviews evidence of the corrective action (i.e., new/updated policies, procedures, and processes to improve internal controls).

To provide management with timely feedback and the results of our review prior to management's reporting deadlines to the Commission in May and November, the OIG reports on our review of outstanding recommendations as of February and August of each year. The semiannual meetings are also intended to assist the audit follow-up official in following provisions 4 through 6 of Directive 50, which are listed as follows:

- (4) Respond in a timely manner to all audit reports;*
- (5) Engage in a good faith effort to resolve all disagreements; and*
- (6) Produce semi-annual reports that are submitted to the agency head.*

The official status (open/closed) of OIG recommendations is determined by the OIG once the OIG has verified that management has adequately implemented the corrective actions. The Inspector General can also make a decision to close recommendations or seek resolution from the Commission for recommendations where the OIG and management disagree. Lastly, the number of outstanding recommendations is also reported to the Commission and Congress in the OIG's Semiannual Reports to Congress.

ATTACHMENT





FEDERAL ELECTION COMMISSION

WASHINGTON, D.C. 20463

Office of Inspector General

MEMORANDUM

TO: Alec Palmer
Staff Director\Chief Information Officer

Gregory Baker
Deputy General Counsel\Co-Chief Privacy Officer

Edward Holder
Deputy Staff Director Office for Management and
Administration\Co-Chief Privacy Officer

FROM: J. Cameron Thurber
Deputy Inspector General 

SUBJECT: Management Risk Acceptance and Recommendations Resolution

DATE: March 21, 2017

In a memorandum dated December 19, 2016, the Office of Inspector General (OIG) identified 13 open recommendations collectively from the *2010 Follow-up Audit of Privacy and Data Protection* (Privacy Audit) and the *Inspection of the Federal Election Commission's Disaster Recovery Plan and Continuity of Operations Plans* (COOP Inspection) that management has neither concurred with nor agreed to implement. The memorandum also noted that:

- (a) 4 of the 13 recommendations were no longer applicable due to a change in agency processes and
- (b) 2 of the 13 recommendations are repeat recommendations from the agency's annual financial statement audit.

These six recommendations were all from the COOP Inspection and were closed by the OIG in accordance with the December 19th memorandum. The seven remaining recommendations required confirmation of risk acceptance from management.

The OIG requested that management provide a memorandum signed by the Co-Chief Privacy Officers for the four Privacy Audit recommendations and a memorandum from the Chief Information Officer (CIO) for the (3) COOP Inspection recommendations accepting the risk of not implementing the unresolved IG recommendations. Upon receipt of the signed memorandums, the OIG agreed to close the recommendations, noting that management has accepted the potential risks.

OFFICE OF INSPECTOR GENERAL
MANAGEMENT RISK ACCEPTANCE AND RECOMMENDATIONS RESOLUTION

In addition, the OIG also noted that if management decided to implement any or all of the seven recommendations after review, or management believes actions have already been implemented to address a recommendation, to provide the OIG with an updated corrective action plan (CAP) containing the intended or implemented plan of action for the OIG's review.

Based on the signed memorandums and follow-up discussions with management, the OIG has resolved the seven audit recommendations as detailed below:

Privacy Audit Recommendations

1. Record all mobile computing devices in inventory when received.
 - **Risk:** *Fraud- Theft of agency IT equipment*
 - If devices are not logged into inventory until distributed, rather than when received, there is a high likelihood that theft could occur without detection from management because there is no official system record of the purchased inventory until the equipment has been distributed to staff. Management's process to hand-count the equipment when received would not prevent this risk of fraud from occurring.
 - **OIG Resolution** (Closed – *Management accepts risk*)
 - The Acting Deputy CIO of Operations noted that the Office of the Chief Information Officer's (OCIO) process for recording inventory when received is to keep a scanned copy of the packing slip on the server that includes the detailed information of each computer device purchased and shipped after the OCIO staff member completes a physical inventory count of the shipment. The OIG verified that packing slips were maintained by the OCIO; however, there were no signatures or sign-off indications from the person who conducted the physical inventory count to affirm all devices purchased were received. Although we acknowledge that a process is in place, the OIG does not feel the OCIO's process is the most efficient. In an effort to enhance the OCIO's process for internal control purposes, the OIG suggested that the OCIO require its staff member conducting the physical inventory count to sign the packing slip they are maintaining as their official record of devices received to strengthen this verification process. OCIO management did not concur with the suggested added control procedure. Based on the OIG's assessment of OCIO's overall

OFFICE OF INSPECTOR GENERAL
MANAGEMENT RISK ACCEPTANCE AND RECOMMENDATIONS RESOLUTION

process for recording inventory, the OIG will defer to management's response in the CIO's memo and close this item based on management accepting the stated risks.

2. Include a record in the inventory listing of whether the device is encrypted or not.

- **Risk:** *Unauthorized access to PII and/or agency confidential information*
 - If management has no physical system record of what devices are encrypted, there is a high likelihood that employees could have laptops/tablets that are exposed to hackers when connected to networks outside of the agency via Wi-Fi connections used for business travel and/or home networks used for Telework purposes. In addition, if a device is lost or stolen, agency information would be easily accessible to the public. During deployment of new laptops, OCIO consistently experienced instances where the encryption may not work/install properly on a device while in use by the employee, leaving the device vulnerable while still in the employee's possession.
 - In past audit follow-up reviews, management has attempted to use their written policy that all devices must be encrypted to satisfy this recommendation; however, a written policy alone cannot provide management with confirmation that all devices distributed to staff have been properly encrypted, or ensure that instances of encryption failure have been properly and timely resolved.
- **OIG Resolution:** *(Open – pending further documentation)*
 - The OIG verified that OCIO now has the capability to capture the data to verify that computer devices are encrypted, and the OIG reviewed the SQL database report for encrypted computer devices. The OIG noted that all computer devices distributed to FEC staff are not included in the report, as many of the FEC staff have not been issued new computers with the new encryption software. The CIO initially disagreed with the portion of the recommendation which recommends that the verification of encryption should be included on the inventory list. Although the OCIO disagrees with keeping the encryption data in the inventory list, the fact that OCIO now has the capability to capture this pertinent information, even as a separate report, is sufficient to resolve the OIG's audit finding. The OCIO anticipates all staff will be provided with new laptops by the next OIG follow-up review; therefore, the OIG will defer

OFFICE OF INSPECTOR GENERAL
MANAGEMENT RISK ACCEPTANCE AND RECOMMENDATIONS RESOLUTION

closing this recommendation until a full encryption report can be produced for verification that all laptops are properly encrypted.

3. Assign privacy roles and responsibilities to one individual Chief Privacy Officer (CPO) with high level sponsorship in the Commission. If the Commission decides to continue with two CPOs and SAOPs [Senior Agency Officials for Privacy], roles and responsibilities under these titles should be clearly delineated between individuals sharing the positions.
 - **Risk:** *Non-compliance with the Privacy Act of 1974*
 - The agency lacks sufficient accountability over the Privacy Program to ensure that the agency is continuously in compliance with federal requirements regarding privacy laws. The established oversight structure of the program is ineffective as privacy issues and weaknesses identified approximately nine years ago are still outstanding.¹ Without one person being solely responsible for the overall compliance of the Privacy Program, the shared responsibilities of oversight and execution of privacy tasks will continue to cause the agency to be delayed in meeting federal requirements, deadlines, and keeping up to date with the changes to privacy laws.
 - **OIG Resolution:** *(Closed – Management accepts risk)*
4. Should emphasize document labeling requirements with all staff and standard document templates with labels be created and the use monitored.
 - **Risk:** *Unauthorized access to confidential information*
 - Detailed procedures for classifying and labeling sensitive information (paper and electronic formats) has not been formally established at the agency. Without a clear established policy, the agency's and employees' confidential information has the potential to be mishandled within and outside the agency.
 - In addition, according to management's current status for the Privacy Audit CAP, management has yet to complete all phases of

¹ The OIG's 2007 Performance Audit of Privacy and Data Protection was released December 2007 and all open recommendations were reported again in the OIG's follow-up audit (Privacy Audit) in 2010.

OFFICE OF INSPECTOR GENERAL
MANAGEMENT RISK ACCEPTANCE AND RECOMMENDATIONS RESOLUTION

an assessment resulting from a May 2009 contract² to comply with OMB Memorandum M-07-16, *Safeguarding Against and Responding to the Breach of Personally Identifiable Information*.

Thus, the agency has not been fully compliant with this requirement for approximately seven years.

- OIG has noted instances where Office of Human Resources documents have been provided to our office during the hiring process with applicants Social Security Numbers visible although not needed for the evaluation and interview process.

- **OIG Resolution:** (Closed – *Management accepts risk*)

COOP Inspection Recommendations

5. We recommend that COOP/DRP training is provided at least annually. Personnel newly appointed to COOP roles should receive training shortly thereafter joining the FEC if training has already been conducted for the year.

- **Risk:** *Non-compliance with Department of Homeland Security, Federal Continuity Directive 1, Federal Executive Branch National Continuity Program and Requirements*

- The OIG notes that the agency's COOP process has changed since the release of the report; however, adequate agency training still must be conducted on an annual basis regardless of the agency's process. Since management has decided to use Telework for their COOP program, the Telework policy can be executed differently within the different offices and divisions, and noting that all mission essential personnel may not be participating in a regular telework schedule, the COOP Coordinator should conduct annual mandatory training for all designated mission essential personnel to ensure they are able to carry-out their mission duties in the event of a local disaster. Annual training would ensure that the correct

² OCIO contracted with Solutions Technology Systems, Inc., to conduct an inventory of FEC systems that contain personally identifiable information and provide a report with recommendations to enhance the protection of PII in both paper and electronic form.

OFFICE OF INSPECTOR GENERAL
MANAGEMENT RISK ACCEPTANCE AND RECOMMENDATIONS RESOLUTION

mission essential personnel are identified; they are aware of their responsibilities; computer equipment is working properly; and the necessary software, applications, etc., to conduct agency business has been provided.

- Thus far, management has only conducted COOP testing which was initiated in September 2015. Upon review, the testing was found inadequate to comply with federal requirements. The COOP testing conducted was voluntary rather than mandatory, and all mission essential personnel were not equipped with the proper computer equipment to validate they were able to conduct normal business functions as designed. In addition, this testing did not include the transition from the production servers to the disaster recovery servers to ensure the recovery of server data in the event of a disaster. In order to conduct annual COOP training for mission essential personnel, the COOP must first be sufficiently tested to ensure it's working as intended prior to training.
- **OIG Resolution:** (Open – *Management has concurred with the recommendation*)
 - Per management's signed memorandum: *Management concurs and will provide online Skillport training to staff designated as COOP personnel to identify expectations and procedures. Current COOP personnel will be required to complete said training course by 3rd quarter 2017 and annually thereafter.*
 - OIG will follow-up on this recommendation after the anticipated completion date of training.
- 6. Develop and implement a COOP exercise plan. The functional exercise should include all COOP points of contact and be facilitated by the system owner or responsible authority. Exercise procedures should be developed to include an element of system recovery from backup media.
 - **Risk:** *Non-compliance with Department of Homeland Security, Federal Continuity Directive 1, Federal Executive Branch National Continuity Program and Requirements*
 - The OIG notes that the agency's COOP process has changed since the release of the report; however, the requirement of an exercise plan to be performed is still applicable to the FEC's process. If an exercise plan is not executed at least annually to test the continued

OFFICE OF INSPECTOR GENERAL
MANAGEMENT RISK ACCEPTANCE AND RECOMMENDATIONS RESOLUTION

capability of system recovery, the agency is at risk of not being able to recover the necessary data from the primary site to the alternate work site in the event of a local disaster. In addition, as personnel and responsibilities often change, the COOP coordinator should conduct testing to ensure that all responsible parties are aware of their duties and responsibilities during such an event.

▪ **OIG Resolution:** (Closed – *Management accepts risk*)

- After receipt of management’s signed memo that concurred with this recommendation, the OIG met with the OCIO staff on February 9, 2017, to discuss outstanding recommendations for the

COOP Inspection follow-up. During this meeting, management noted that they disagreed with this recommendation, and the Deputy CIO for Operations followed up with the OIG in an email stating, “Management does not believe a yearly test of the COOP is required.”

- The OIG believes a COOP exercise plan is still relevant as everyone who is a point of contact for COOP is not necessarily a participant in the telework program (which is used as the agency’s COOP process), or has a normal telework schedule based on different office or division implementation of the program. In addition, not everyone who participates in the telework program uses their tablet (which was purchased for COOP purposes) when working from home, which means their laptop is not always at their telework location for immediate use in the event of a COOP situation. An annual test exercise for COOP participants would ensure that all participants can access the necessary software, applications, etc. needed for regular business operations (as these change, update, or increase over time) and ensure all tablets are working properly for those who don’t use them on a regular basis in the event of an emergency where we would need to follow the COOP process. Based on this assessment, the OIG will close this recommendation based on management’s acceptance of the risk.

7. Review and obtain another alternative for the disaster recovery site or primary data site to ensure that the new facility is located in a geographic area that is unlikely to be negatively affected by the same disaster event (e.g., weather-related impacts or power grid failure).

OFFICE OF INSPECTOR GENERAL
MANAGEMENT RISK ACCEPTANCE AND RECOMMENDATIONS RESOLUTION

- **Risk:** Non-compliance with Department of Homeland Security, Federal Continuity Directive 1, Federal Executive Branch National Continuity Program and Requirements
 - Federal requirements applicable to the FEC state: “*Alternate operating facilities must be located in an area where disruption to the agency’s ability to initiate, maintain, and terminate operations is minimized.*” However, the agency is not in full compliance with this requirement, as the primary data site (production site) and the alternate disaster recovery site that houses the backup servers are in the same geographical location.
 - In the event of a disaster (power outages, flooding etc.) effecting the agency’s primary data site, there is a high likelihood that the agency’s alternate disaster recovery site will be effected as well.

This risk would prevent the agency from utilizing the alternate data site for its intended purpose; to avoid an interruption in executing the agency’s day to day operations when there has been a disruption to the primary data site.
- **OIG Resolution:** (Closed – *Management accepts risk*)

If you should have any questions regarding this memorandum, please feel free to contact Mia Forgy at extension 1317. Thank you.

cc: The Commission

APPENDIX C

The Federal Election Commission

In 1975, Congress created the Federal Election Commission to administer and enforce the *Federal Election Campaign Act of 1971*, as amended. The duties of the FEC, an independent regulatory agency, are to disclose campaign finance information, enforce the provisions of the law, and oversee the public funding of Presidential elections.

The Commission consists of six members who are appointed by the President and confirmed by the Senate. Each member serves a six-year term, and two seats are subject to appointment every two years. By law, no more than three Commissioners can be members of the same political party, and at least four votes are required for any official Commission action. The Chairmanship of the Commission rotates among the members each year, with no member serving as Chairman more than once during his or her term.

Currently the FEC Commissioners consist of – Matthew S. Petersen, Chair; Steven T. Walther, Vice Chair; Commissioners Lee E. Goodman; Carolyn C. Hunter; and Ellen L. Weintraub.

Office of Inspector General

The *Inspector General Act of 1978*, as amended, states that the Inspector General is responsible for: 1) conducting and supervising audits and investigations relating to the FEC's programs and operations; 2) detecting and preventing fraud, waste, and abuse of agency programs and operations while providing leadership and coordination; 3) recommending policies designed to promote economy, efficiency, and effectiveness of the establishment; and 4) keeping the Commission and Congress fully and currently informed about problems and deficiencies in FEC agency programs and operations, and the need for corrective action

Federal Election Commission Office of Inspector General



Fraud Hotline 202-694-1015

or toll free at 1-800-424-9530 (press 0; then dial 1015)

Fax us at 202-501-8134 or e-mail us at oig@fec.gov

Visit or write to us at 999 E Street, N.W., Suite 940, Washington DC 20463

Individuals including FEC and FEC contractor employees are encouraged to alert the OIG to fraud, waste, abuse, and mismanagement of agency programs and operations. Individuals who contact the OIG can remain anonymous. However, persons who report allegations are encouraged to provide their contact information in the event additional questions arise as the OIG evaluates the allegations. Allegations with limited details or merit may be held in abeyance until further specific details are reported or obtained. Pursuant to the Inspector General Act of 1978, as amended, the Inspector General will not disclose the identity of an individual who provides information without the consent of that individual, unless the Inspector General determines that such disclosure is unavoidable during the course of an investigation. To learn more about the OIG, visit our Website at: <http://www.fec.gov/fecig/fecig.shtml>

Together we can make a difference.