

**FEDERAL ELECTION COMMISSION**

**OFFICE OF INSPECTOR GENERAL**



**FINAL REPORT**

**INSPECTION OF THE COMMISSION'S  
COMPLIANCE WITH THE FEDERAL MANAGERS'  
FINANCIAL INTEGRITY ACT OF 1982**

JUNE 2001  
ASSIGNMENT NO. 01-03

# TABLE OF CONTENTS

---

Introduction, Objectives and Background.....	1
Scope and Methodology .....	3
Inspection Results.....	4
Conclusions.....	10

# INTRODUCTION AND OBJECTIVES

The Office of the Inspector General completed an inspection of the Federal Election Commission's (FEC or Commission) compliance with the *Federal Managers' Financial Integrity Act of 1982* (the Act or FMFIA). The FMFIA requires Federal managers to establish a continuous process for evaluating, improving, and reporting on the internal controls and accounting systems for which they are responsible. We conducted our inspection to primarily assess the Commission's program for meeting the requirements of the Act. Specifically, our objectives were to:

- (1) Evaluate the Commission's compliance with the provisions of the *Federal Managers' Integrity Act of 1982*, General Accounting Office (GAO) standards, Office of Management and Budget (OMB) policies, and Commission directives;
- (2) Determine whether the Commission adequately implemented agency policies and procedures to assess as well as strengthen the internal control environment;
- (3) Determine whether the Commission's Annual FMFIA report for Fiscal Year 2000 to the President and Congress accurately represented the adequacy of the review process within the Commission; and
- (4) Follow up on issues addressed during the 1991 review of the Commission's FMFIA program.

## BACKGROUND

### *The Federal Managers' Financial Integrity Act of 1982 (FMFIA)*

The FMFIA was enacted in response to continuing disclosures of waste, loss, unauthorized use, and misappropriation of funds or assets associated with weak internal controls and accounting systems. It establishes requirements with regard to management accountability and controls. This law encompasses program, operational, and administrative areas as well as accounting and financial management. The Act further states that agency heads must submit an annual statement of assurance to the President and Congress on the adequacy of internal controls and actions taken to correct identified weaknesses. Each annual statement prepared must also include a report on whether the agency's accounting system conforms to the principles, standards, and other related FMFIA requirements.

Under the provisions of the Act, OMB, and GAO are required to issue evaluation guidelines for agencies, such as the FEC, of their systems of internal accounting and administrative control to determine such systems' compliance.

As a result, OMB issued implementing guidance Circular A-123 Revised, *Management Accountability Control* dated June 21, 1995. It provides detailed guidance to Federal managers on improving the accountability and effectiveness of Federal programs and operations by establishing, assessing, correcting, and reporting on management controls. The A-123 Circular defines management controls as the organization's policies and procedures used to reasonably ensure that: (1) programs achieve their intended results; (2) resources are used consistent with agency mission; (3) laws and regulations are followed; (4) programs and resources are protected from waste, fraud, and mismanagement; and (5) reliable and timely information is used for decision making. As Federal managers develop and implement strategies for reengineering agencies' programs and operations, they should design management structures that help ensure accountability for results, and include appropriate, cost-effective controls.

Additional FMFIA policy was issued in OMB Circular A-127 Revised, *Financial Management Accountability and Control*, dated July 23, 1993, to govern agencies' financial management systems. In its policy section, the A-127 states that "financial management systems must be in place to process and record financial events effectively and efficiently, and to provide complete, timely, reliable and consistent information for decision makers and the public. In support of these objectives, each agency must establish and maintain a single integrated financial management system that complies with, among other requirements, internal control standards as defined in A-123 and successor documents."

Furthermore, GAO published the *Standards of Internal Control in the Federal Government*, dated November 1999. These standards provide the overall framework for establishing and maintaining internal control. The standards also identify and address major performance and management challenges as well as areas at greatest risk of fraud, waste, abuse, and mismanagement. Internal control is an integral component of an organization's management and helps government program managers achieve desired results through effective stewardship of public resources.

### **The Commission**

At the Commission, the FMFIA program requirements were implemented through Commission Directive 53 Revised, *Implementation of A-123: Internal Control Review*, dated September 17, 1993 and Commission Directive 57 *Implementation of A-127: Financial Management System Section of Federal Managers' Financial Integrity Act (FMFIA)*, dated September 17, 1993. The Commission's FMFIA assessment program relies upon the results of the informal vulnerability assessments conducted by the program/office heads of their respective program functions.

Commission Directive 53 instructs all FEC components to develop and maintain effective systems of management control over their program operations and administrative functions. Specifically, it assigns roles and responsibilities to managers within the FEC for completing the A-123 assessment review. For example, the Director of Planning and

Management was assigned the responsibility of submitting the annual assurance statement required by statute on the status of the Agency's system of management control by December 15th of each year.

Commission Directive 57 states that the FEC shall develop and maintain effective systems of financial management to assure management control over Commission program operations and administrative functions. This directive established the following OMB required actions into Commission policy: (1) establish financial management system and issue operating policies; (2) inventory and evaluate agency systems; and (3) develop an agency financial management system plan. The annual statement to the President must include an assurance that the Agency's financial management systems complies with government wide standards and requirements as set forth in A-127.

## **SCOPE AND METHODOLOGY**

We reviewed the applicable laws, implementing guidance, Commission Directives, as well as, our audit report entitled *Audit Of the Federal Election Commission's Federal Managers' Financial Integrity Act Program* (OIG 91-02). To accomplish the inspection objectives, we also reviewed results of financial system evaluations performed by the Accounting manager, current (FY 2000) and prior years (FY 1995, 1998 & 1999) assurance statements and the available documentation. Our inspection included discussions with the FMFIA program manager and other Commission managers with FMFIA assessment responsibilities.

Due to the limited scope of this inspection, actual testing of internal controls techniques were not considered. Therefore, we will not address the adequacy of internal control measures within FEC components on an individual basis. Rather, we will address the FEC's program for evaluating and reporting on internal controls.

We conducted our inspection from March through May 2001, in accordance with the *Quality Standards for Inspections* issued by the President's Council on Integrity and Efficiency (PCIE).

# INSPECTION RESULTS

## *Compliance with Statutory Requirements*

To evaluate the Commission's compliance with the applicable laws and policies issued under the authority of the Act, we compared the statutory FMFIA requirements to Commission Directives. We determined that the Commission policies adequately addressed *most* of the requirements established by OMB and GAO. However, Commission policy *does not* include the OMB's requirement to develop a *five-year* Financial Management System Plan in accordance with the *CFO Financial Management Five-Year Plan* Guidance. As a result, the Commission does not have a five-year Financial Management System Plan.

Commission Directive No. 57 states the following "Agency must develop a financial management system plan based on the annual assessment performed by the Accounting Officer and emphasize compliance with GAO standards. If there are no reported non-conformances and/or material weaknesses to be corrected, the Plan shall consist of an assessment of the cost of maintaining the Financial Management System at the Commission. If any non-conformances or material weaknesses are reported, the Plan shall consist of a document describing the actions to be undertaken to remedy the weakness as reported." Commission policy omits the requirement to prepare plans based on the *CFO Financial Management Five-Year Plan* Guidance.

The FEC must prepare an annual financial management plan in accordance with guidance issued annually by OMB. The OMB A-127 Circular also states that agencies not covered by the Chief Financial Officers (CFO) Act shall prepare plans, but are not required to submit the plans to OMB.

The OIG suggested that a *five-year* Financial Management System Plans be developed to satisfy OMB's requirement. Also, Commission Directive No. 57 should be revised to include the requirement to develop and maintain a *five-year* Financial Management System Plan in accordance with the *CFO Financial Management Five-Year Plan* Guidance.

We discussed this finding with the program manager. He believed that it would be redundant to produce a five-year financial system plan when the information is contained in the five-year IT Strategic Plan. He also stated that the FEC is not covered by the CFO Act, and therefore, not required to comply with guidance regarding the CFO agencies. However, he would review the OMB guidance regarding the five-year plan as time permits to determine applicability to the FEC.

The OIG believes that OMB policy clearly states that agencies not covered by the CFO Act are to develop five year plans, even though they are not required to submit them. The Commission's IT Strategic Plan does not incorporate the strategies and tactical initiatives included in CFO Financial Management five-year Plan guidance.

## ***Implementation of Commission Policies***

Based on the results of inspection work completed, we determined that the Commission did not adequately implement agency policies and procedures to assess, and strengthen the internal control environment. We noted several examples of noncompliance with Commission policy. Specifically, during discussions with six managers and through the examination of the available documentation we identified the following:

### **LACK OF TRAINING**

We found that managers lacked the required FMFIA training. Commission Directive #53 states that it is the responsibility of the Deputy Staff Director to provide and/or authorize orientation and FMFIA training for FEC Managers. However, *none* of the managers/office heads interviewed had received *any* management control training.

Managers and employees are to maintain a level of competence that allows them to accomplish their assigned duties as well as understand the importance of developing and implementing good management controls. Therefore, the OIG stressed the importance of training and suggested that management provide FMFIA training to office heads/managers with FMFIA reporting responsibilities for management control of their respective operating functions.

In the opinion of the FMFIA program manager, all managers have been at the FEC for several years and are well acquainted with their responsibilities under A-123. He agreed to conduct a refresher A-123 training course for managers.

The OIG believes that up-to-date knowledge and skill is critical for both organizational performance and individual employee success. Training and development are the keys to adding skills and competencies that will improve program results. The Commission's management should be dedicated to maintaining an environment of continuous learning. Conducting a refresher A-123 training course for managers will improve the FMFIA assessment process and strengthen the Commission overall internal control structure.

### **LACK OF DOCUMENTATION**

Commission policy states that management control systems and other significant events are to be clearly documented, and that the documentation is to be readily available for examination. It also requires documentation of assessments to be maintained for a period of at least two years to provide a permanent record of the methods used, the personnel involved and their roles, key factors considered and the conclusions reached. However, we discovered that the managers interviewed had not prepared *any* written documentation

of their system of internal controls or self- assessments of their respective programs/divisions.

As stated in Commission policy, this information would be useful in evaluating the review process and performing subsequent assessments and reviews. Therefore, the OIG suggested that management ensure that Commission policy is fully implemented to satisfy documentation requirements.

During our discussions with the FMFIA program manager, he agreed to ensure that Commission managers prepare documentation of their systems of internal controls and self-assessments. He also stated that he would track the progress of the FMFIA assessment process and require managers to submit documentation in a timely manner.

#### LACK OF A MANAGEMENT CONTROL PROGRAM/PLAN

Managers are required to develop a management control program/plan in accordance with the GAO standards and FEC internal guidance. Although Commission policy requires a control plan, none of the six managers interviewed could provide a copy of such a plan to the OIG.

The FMFIA program manager reemphasized the importance of having such a management control program/plan in the annual FMFIA assessment advisory memorandum sent to each manager/office head. It stated that “managers should review their management control more thoroughly, and should be able to produce a management control plan if requested by the IG or any other reviewing office...” The memorandum also provided suggestions on how to develop a detailed management control plan outline of documents, reports, manuals, guidelines, procedures, techniques which may be used to manage programs.

The OIG met with the program manager and suggested that management ensure that Commission policy is fully implemented to satisfy management control plan requirements. Management agreed to direct managers to prepare outlines of their A-123 controls processes. Additionally, management will circulate an outline of management control procedures as a model for office heads/managers to follow in the development of management controls for their programs.

#### NO MONITORING SYSTEM

We found that the Commission does not have a system (manual or automated) in place to monitor the FMFIA assessment process. Department managers/office heads are required to prepare an assurance statement based on the results of their vulnerability assessments. As a result of no monitoring system, several managers neglected to conduct vulnerability assessments and did not submit their FY 2000 annual assurance statement to the FMFIA program manager .

Commission Directive 53 requires the development and implementation of a monitoring system to assure that vulnerability assessments and management control reviews are adequate and performed in a timely fashion. It should monitor the progress and timely completion of: (1) internally performed vulnerability assessments and management control



reviews; (2) corrective actions; (3) required reports; and (4) the preparation of the annual statement. Agency policy assigned primary responsibility to Planning and Management for establishing an adequate system for monitoring within the Budgeting and Management Information System (MIS).

Therefore, OIG suggested that Planning and Management develop and implement a system to monitor the timely completion of vulnerability assessments, management control reviews and the timely submission of assurance statements reviews. The assurance statements are a vital part of the FEC's FMFIA assessment process because they provide the basis for the Annual Assurance Report to the President and Congress.

In management's response to us, they agreed to develop a system to monitor the FMFIA program to ensure that A-123 statements are submitted in a timely fashion.

### ***The Commission's FY 2000 Annual FMFIA Report***

Based on inspection results, the OIG could not attest to the accuracy of the Commission's FY 2000 FMFIA report to the President and Congress due to the inadequate FMFIA review process. Our inspection determined that the Commission FMFIA review process is deficient because the agency neglected to implement the established FMFIA review procedures. As stated above, the Commission's FMFIA review process lacked documentation, management control plans and the required assurance statements. Additionally, managers had not received the required training nor did the Commission have a monitoring system in place to track the progression of the annual assessment process. Therefore, OIG believes that the Commission's FY 2000 FMFIA review process was insufficient. OIG suggested that management ensure that the Commission established A-123 policies are fully implemented.

The FMFIA program manager agreed to ensure that A-123 statements are received in a timely manner and will direct managers to prepare outlines of their A-123 controls processes. He stated that the FEC has adequate management and financial management controls, and the agency is not subject to serious and unnecessary vulnerability to potential waste, fraud, abuse and misuse of funds.

Our inspection objectives did not include actual testing of internal controls techniques, therefore, we did not address the adequacy of the internal control measures within the FEC. Additionally, we can not affirm as to whether or not the agency is subject to serious and unnecessary vulnerability to potential waste, fraud, and abuse due to the insufficiencies found in the agency's FMFIA review process.

## ***Prior FMFIA Audit Recommendation Not Implemented***

As part of our review, we followed up on the Commission's actions taken in response to the most recent FMFIA compliance review (Audit No. 91-02) conducted by the OIG in 1990. We found that one audit recommendation had not been fully implemented.

During the 1990 audit, we reported that managers' position descriptions and performance standards lacked management control responsibilities. In our report entitled "*Audit of the Federal Election Commission's Federal Managers' Financial Integrity Act Program*", we recommended that the Staff Director ensure that position descriptions and performance standards are revised for all managers to encompass internal control responsibilities and evaluation criteria. Management agreed and stated that "All managers should have a performance element addressing their obligations to guard against waste, fraud and abuse. The Personnel Office shall ensure that management controls are an integral part of each manager's job description and performance standards."

As part of our FY 2000 compliance inspection, we reviewed 25 managerial position descriptions and found that only 3 of the descriptions contain the required internal control element. Our 1990 FMFIA Compliance Audit recommendation was *never implemented*.

A basic requirement of internal controls for any federal agency or business/entity is to ensure that each employee fully understands his/her duties, responsibilities and limits of authority. Furthermore, Commission Directive 53 states that the Personnel Office shall ensure that the position descriptions of each office head includes a statement about the management control responsibilities and will provide the staff assistance necessary for the development and implementation of a corresponding performance standard. However, position descriptions of Commission officials and managers responsible for evaluating management controls lacked internal control responsibilities.

The OIG finds it disturbing to discover that this recommendation was never fully implemented even though management *agreed* to the recommendation and presented us with a statement that was to be included in every manager's position description. The recommendation was closed based on management's assurances and the receipt of the statement.

As stated in Commission policy, managers are responsible for the prompt resolution and completion of corrective actions within the established time frame. In this case, management neglected to implement corrective actions that should have been taken over 10 years ago. The OIG believes that this practice is unacceptable.

We met with the Personnel Office to discuss the inaccurate position descriptions. We found that the Personnel Office recently experienced a 100% turnover in staff. However, the Director stated that his office is in the process of rewriting position descriptions and plans to incorporate the required internal control element.

## *Other Issues*

While assessing the adequacy of the Commission FMFIA program, the OIG, noted that the Annual Assurance Letter to the President was submitted after the due date for the past two years. The FMFIA requires that Federal agencies submit a report annually by December 31st. We discussed this issue with management and they agreed that submission of the annual letter had been delayed.

Management stated in their response to us that the delay was due to the Chairman and/or other Commissioners requests for additional Presidential Election Fund statistical information to include in the letter. Although this shortfall in funding is not due to inadequate management controls by the FEC, each year management uses the annual letter as a device to warn about potential funding shortfalls in a key component of the Presidential elections. Furthermore, management stated that the Commission will strive to meet the December 31 deadline, however, the priority will continue to be placed on the accuracy and sufficiency of the information provided.

Additionally, we identified that during the 1998 assessment process, a Management Control Review (MCR) was requested by the Acting Director of Personnel based on the results of the vulnerability assessment. According to Commission policy, a summary and analysis of the completed assessment which finds the need for subsequent action is required to be documented and transmitted to the Staff Director. However, no documentation was prepared.

According to the program manager, a request for funds to complete the proposed MCR of the Personnel Office was included the 1999 budget submission, however, no funds were granted due to staff resource constraints. In the absence of funds, the requested MCR was never conducted. The OIG pointed out that we could have conducted the MCR, but our office was never contacted or considered in this matter. Also, we suggested and management agreed that requests for MCRs be clearly documented.

## CONCLUSIONS

Due to the Commission's inadequate review process, the OIG could not attest to the accuracy of the Commission's FY 2000 FMFIA report to the President and Congress. The OIG found that the FEC did not adequately implement agency policies and procedures relating to the annual FMFIA assessment. Several examples of noncompliance with Commission policy were identified and conveyed to management during our inspection. Additionally, we discovered that the Commission failed to fully implement an agreed upon recommendation made during the 1991 review of the Commission's FMFIA program. The OIG believes implementation of the established procedures will proactively improve as well as strengthen the internal control environment at the FEC.