

*Federal Election Commission
Office of Inspector General*



Semiannual Report to Congress

April 1, 2006 – September 30, 2006

*Federal Election Commission
999 E Street, N.W., Suite 940
Washington, D.C. 20463*

November 2006



FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20463

December 1, 2006

OFFICE OF THE CHAIRMAN

The Honorable J. Dennis Hastert
Speaker of the House of Representatives
Washington, D.C. 20515-6501

Dear Mr. Speaker:

Pursuant to the Inspector General Act of 1978, as amended, the Federal Election Commission submits the Inspector General's Semiannual Report to Congress, which summarizes the activity of that office over the six-month period April 1, 2006 through September 30, 2006.

During this reporting period the FEC's Inspector General commenced an audit of the FEC's Employee Transit Benefit Program. The FEC expects to receive a favorable audit when the final report is released. Also in progress is an audit of the FEC Fiscal Year 2006 Financial Statements, which FEC will respond to once the final audit is released.

The report additionally discusses the completion of an investigation of several agency staff. As noted previously, Management is aware of the investigation referenced in the report. Management cooperated with the Inspector General and took prompt action with respect to the issues raised by the Inspector General. Management has already implemented many of the recommendations as suggested by the IG. For example, FEC has held mandatory EEO training and is currently updating a number of its internal personnel policies. Management will continue to ensure that FEC improves communications to all employees on the FEC's Rules of Behavior.

The Commission appreciates and shares the Inspector General's commitment to sound financial and management practices, and we anticipate a continued cooperative working relationship as management takes appropriate measures to improve operations of the Commission. Copies of this semiannual report are being provided to the Chairman and Ranking Members of FEC's oversight committees.

Sincerely,


Michael E. Toner
Chairman

Enclosure

MANAGEMENT REPORT ON FINAL ACTION
ON AUDITS WITH RECOMMENDATION TO PUT FUNDS TO BETTER USE
FOR THE SIX-MONTH PERIOD ENDING SEPTEMBER 30, 2006

| | <u>Number of Audit Reports</u> | <u>Funds to be Put to Better Use</u> |
|---|------------------------------------|--|
| A. Audit reports for which no management decision has been made by the commencement of the reporting period | 0 | 0 |
| B. Audit reports issued during the reporting period | 0 | 0 |
| C. Audit 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. Audit Reports for which no management decision has been made by the end of the reporting period | 0 | 0 |
| E. Audit Reports for which no management decision was made within six months of issuance | 0 | 0 |



FEDERAL ELECTION COMMISSION

WASHINGTON, D.C. 20463

A Message from the Inspector General

This report summarizes the work completed by the Office of Inspector General (OIG) for the semiannual reporting period April 1, 2006 – September 30, 2006. The activities highlighted in this report demonstrate our continuing commitment to the promotion of integrity, accountability, efficiency and effectiveness in the programs and operations of the Federal Election Commission (FEC).

This past year has seen a great change in the FEC. Three new Commissioners joined the Commission, two of whom replaced Commissioners with over twenty years tenure at the agency. The FEC also saw the retirement of the Staff Director and Budget Officer, both with over thirty years service to the FEC. This summer a new Staff Director was hired and plans are in place to fill other senior staff positions. This is a new and exciting time for the FEC as fresh ideas and methods are being put into practice. The OIG looks forward to working with the new management team at the FEC.

The OIG has also seen a significant increase in the volume and complexity of our work. As are other OIGs, we are now required to conduct an annual financial statement audit as required under *the Chief Financial Officers Act of 1990*, as amended. This reporting period also reflects the completion of phase one of an inspection the OIG is conducting in response to OMB Memorandum M-06-16, *Protection of Sensitive Agency Information*. Phase two will be completed early in the next reporting period.

We have also seen a noteworthy increase in the number of hotline complaints received in the office. Concurrently, an increase in the number of investigations has also followed. During this reporting period, an investigation we had been working jointly with the Federal Bureau of Investigation and the United States Attorney's Office was closed.

The OIG has risen to these additional challenges, but it is becoming increasingly difficult to continue without further resources. I have discussed my concerns with the Chairman and Vice Chairman and am hopeful that an increase in staffing will be possible.

During the next reporting period, the OIG will continue our commitment to work with the Federal Election Commission to ensure the efficiency, effectiveness and integrity of agency operations.

A handwritten signature in cursive script that reads "Lynne A. McFarland".

Lynne A. McFarland
Inspector General
Federal Election Commission

October 31, 2006

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EXECUTIVE SUMMARY

This *Semiannual Report to Congress* summarizes the work of the Federal Election Commission (FEC), Office of Inspector General (OIG) for the period covering April 1, 2006 through September 30, 2006.

The Office of Inspector General is responsible for directing and carrying out audits, inspections, and investigations related to the Federal Election Commission's programs and operations. The OIG recommends policies that promote economic, efficient, and effective use of agency resources and programs that prevent fraud, waste, abuse, and mismanagement. The OIG is also responsible for keeping Congress and the Commission fully informed regarding problems and deficiencies detected in FEC programs and operations, and the necessity for corrective action.

The audits performed by the OIG are conducted in accordance with the *Government Auditing Standards* issued by the Government Accountability Office (GAO). The investigations carried out by the OIG comply with the *Quality Standards for Investigations* developed by the President's Council on Integrity and Efficiency (PCIE) and the Executive Council on Integrity and Efficiency (ECIE).

The audits, inspections, investigations, and other activities highlighted in the Executive Summary demonstrate our continuing commitment to the promotion of integrity, accountability, efficiency, and effectiveness in the programs and operations of the Federal Election Commission.

The *Audit of the FEC's Employee Transit Benefit Program - OIG-06-01* was initiated during the previous reporting period and continued into this reporting period. The Employee Transit Benefit Program is a federally mandated program that provides a monthly transit subsidy to eligible employees who commute by means other than single-occupancy motor vehicles. The primary objectives of the audit are to 1) assess program policies and operating procedures for compliance with applicable regulations, 2) verify employee compliance with program participation requirements, and 3) ensure the appropriate internal controls are in place.

To identify possible internal control weaknesses in the current transit benefit program, the OIG reviewed and analyzed documentation discussing past employee violations of the transit benefit program. Prior to the end of this reporting period, various meetings, reviews, and evaluations have been conducted, and the fieldwork was completed. To obtain additional information pertaining to the audit of the transit benefit program, refer to page 9.

The OIG is also currently working on the *Audit of the FEC's Fiscal Year 2006 Financial Statements – OIG-06-02*. To perform the audit of the FEC's FY 2006 financial statements, the OIG utilizes the services of independent public accounting firm Clifton Gunderson, LLP (CG-LLP). This audit is required by *The Chief Financial Officers Act of 1990* (Public Law 101-576), as amended. The entrance conference has been conducted, at which time the audit work plan was discussed along with other pertinent information as it relates to the FEC's financial statement audit. To ensure that the audit is carried out in accordance with auditing standards generally accepted in the United States of America, the OIG will continue to monitor the performance of Clifton Gunderson, LLP. See page 13 for additional information pertaining to the FEC's FY 2006 Financial Statements Audit.

As a result of numerous federal government incidents involving the compromise or loss of sensitive personal information, the Office of Management and Budget (OMB) issued Memorandum M-06-16, *Protection of Sensitive Agency Information*. The memorandum recommends that federal agencies take all necessary and reasonable measures to swiftly eliminate significant vulnerabilities to the sensitive information entrusted to them. The OIG, in conjunction with Clifton Gunderson LLP, performed phase one of a two part inspection of Personally Identifiable Information (PII) maintained

by the Commission. Phase one of the inspection was conducted to assess the FEC's progress to protect PII. To obtain information regarding phase one of the PII inspection, see the section entitled *Inspection* located on page 15.

The OIG opened four hotline complaints during this reporting period, bringing the total number of complaints to ten. Six complaints are pending; four hotline complaints are in progress; and one complaint was closed. Additional information associated with the hotline complaints can be found on page 17, the section entitled *Hotline Complaints*.

Additionally, the OIG opened one investigation, and closed one investigation during this time frame. The closed investigation involved allegations of misconduct by several senior management officials. The alleged misconduct also included a violation of a criminal conflict of interest law.

The OIG initiated a joint criminal investigation with the Federal Bureau of Investigation and the United States Attorney's Office. Over the course of several months, the investigative team interviewed over twenty-six witnesses, reviewed thousands of electronic and paper records, executed a search warrant and performed other investigative work in order to obtain the facts surrounding the allegations concerning senior management.

A key event in the investigation involved a \$10,000 obligation of funds payable to a law firm representing one of the witnesses and ultimate subjects in the investigation. In addition to the involvement in creating a false statement of work (description of services ordered), a manager took the unusual step of signing a procurement request in multiple places to enable the funds to be processed. This action removed one of the routine checks and balances in the procurement process to ensure that Commission funds are properly spent.

In September 2006, the U.S. Attorney's Office for the District of Columbia ultimately declined to prosecute the primary subject of the investigation. Except for one employee, all of the subjects of the investigation retired, separated, or were terminated from the agency. At the conclusion of the investigation, the OIG recommended FEC management review the facts of the investigation and consider disciplinary action against one of the subjects who is still employed by the agency. For further details on the investigations, see the *Investigation* section which can be found on page 18.

THE FEDERAL ELECTION COMMISSION

In 1975, Congress created the Federal Election Commission (FEC) to administer and enforce the *Federal Election Campaign Act* (FECA). 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 is made up of six members, who are appointed by the President and confirmed by the Senate. The current Chairman and Vice Chairman of the Federal Election Commission are Michael E. Toner and Robert D. Lenhard respectively. The other Commissioners are David M. Mason, Steven T. Walther, Hans A. von Spakovsky, and Ellen L. Weintraub. 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.

There have been several personnel changes in top management positions within the FEC. With such changes, there are opportunities to

implement new ideas that can result in additional improvements throughout the Commission.

OFFICE OF INSPECTOR GENERAL

The Inspector General Act of 1978 (P.L. 100-504), as amended in 1988, states that the Inspector General is responsible for: 1) conducting and supervising audits and investigations relating to the Federal Election Commission'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 Commissioners and Congress fully and currently informed about problems and deficiencies in FEC agency programs and operations, and the need for corrective action.

The mission of the OIG is to be an independent, objective voice that aids the Commission by promoting positive change, accountability and integrity. An inventory of suggested audits, investigations, and inspections received from a variety of sources is maintained. The most important challenges are identified and the final step is to plan and conduct audits, investigations, and inspections that address those challenges.

The OIG will continue its commitment to work with the Commission to ensure the efficiency, effectiveness, and integrity of agency programs. We take pride in our past accomplishments and anticipate future ones of even greater significance.

AUDITS

TITLE: **Audit of the FEC's Employee Transit Benefit Program**

ASSIGNMENT #: **OIG – 06-01**

RELEASE DATE: **In Progress**

PURPOSE: The primary objectives of the audit are to 1) assess program policies and operating procedures for compliance with applicable regulations, 2) verify employee compliance with program participation requirements, and 3) ensure the appropriate internal controls are in place.

The OIG examined and compared the Commission's current directive, as it pertains to the transit benefit program, to the Commission directive that was in effect during the previous employee transit benefit audit conducted by the OIG in 1994. Based on the comparison, it was found that the employee transit benefit program has experienced only a few minor changes.

The OIG evaluated the transit subsidy application approval process, and reviewed the applicable SmarTrip monthly benefits/claims activity reports, as well as the monthly fare media distribution listing to determine whether the participants received the transit benefits in the first full calendar month after the application had been approved. This step was conducted to ensure that participants received benefits in a timely manner.

The OIG researched various websites and other program material to determine the current transit carriers who accept SmarTrip as a form of payment for commuting services. The OIG obtained and reviewed the FEC transit subsidy program participant applications to determine if the participants were Metrochek recipients utilizing carriers who accept SmarTrip Cards as a form of payment.

The OIG identified the number of sampled program participants currently receiving Metrocheks who qualify to receive the monthly transit benefit on SmarTrip cards. This audit step was completed to determine whether program participants could switch from paper Metrocheks (which requires manual distribution monthly) to the paperless distribution method (electronic transfer of transit benefits on a SmarTrip card).

To further assist with the audit, the OIG contacted all employees who participated in the Commission's subsidized parking program from January 2003 through December 2005. The OIG completed this audit step to identify permit holders who had FEC employees carpool with them on a regular basis. In addition, the OIG reviewed the transit subsidy eligibility and the transit subsidy claiming/distribution lists to determine whether or not passengers of permit holders received transit subsidy benefits.

The OIG also contacted the agency's SmartBenefits program administrator to obtain copies of the agency's SmarTrip claiming reports for various calendar years. The claiming reports, produced by METRO's online database system, capture employee transit benefits usage data and will be used to observe the amount of transit subsidy actually claimed by program participants during the audit review period.

Travel orders maintained by the Finance office were reviewed to document program participants on extended official travel for ten or more business days during a one month period. The OIG also reviewed travel expense reports generated by the Commission's electronic travel service and the transit subsidy claiming reports to ascertain the number of transit benefit program participants who were on work related travel for two or more weeks during a month time frame, but claimed their full monthly transit benefit. Under FEC policy, commuters who alter their commute two weeks or more during a month are to adjust their transit benefit.

Meetings were held with management to discuss various issues regarding the review of the employee transit benefit program and to discuss the responsibilities of the overall management of the employee transit benefit program. During one of the meetings, the OIG discussed the SmarTrip account, and the separation process for removing former employees. The OIG

requested more information regarding separated employees that appear to be listed as eligible recipients of transit benefits.

Additional meetings were held to discuss the Commission's subsidized parking program. The OIG summarized and provided management with comments and suggestions for improvement to the proposed commission bulletin on subsidized parking policies & procedures.

The FEC's fare media eligibility list was reviewed to determine whether employees had been assigned a SmarTrip card number; and the transit subsidy distribution list was also reviewed to determine whether or not the employees claimed the paper Metrocheks. Furthermore, the OIG compared sampled participants' transit subsidy benefits claimed to reasonable costs associated with the commuting options available for those participants who utilize the Metro's subway trains or bus to ensure that participants did not claim excessive or unreasonable commuting costs.

The fieldwork for this audit was completed during this reporting period and we anticipate releasing the final report shortly.

AUDITS

TITLE: **Audit of the FEC’s Fiscal Year 2006 Financial Statements**

ASSIGNMENT #: **OIG – 06-02**

RELEASE DATE: **In Progress**

PURPOSE: *The Chief Financial Officers Act of 1990* (Public Law 101-576, commonly referred to as the “CFO Act”), as amended, requires the FEC Office of Inspector General (OIG), or an independent external auditor as determined by the Inspector General, to audit the agency financial statements. Under a contract monitored by the OIG, Clifton Gunderson LLP (CG-LLP), an independent certified public accounting firm, is performing the audit of the FEC’s FY 2006 financial statements.

The OIG is responsible for oversight of the financial statement audit. This includes: 1) reviewing the auditors approach and planning of the audit; 2) evaluating the qualifications and independence of the auditors; 3) monitoring the work of the auditors; 4) examining audit documents and reports to ensure compliance with Government Auditing Standards, and OMB Bulletin No. 01-02 *Audit Requirements for Federal Financial Statements*; and 5) other procedures the OIG deems necessary to oversee the contract and audit.

The entrance conference was conducted, at which time management, the OIG staff, and Clifton Gunderson, LLP, discussed the audit scope and ways to ensure an efficient and effective audit process for fiscal year 2006. This included a discussion on the issuance of an audit opinion; review of the internal control structure, including the material weaknesses and reportable conditions from the prior years' audits; review of compliance with laws and regulations; and information technology related compliance.

The OIG coordinated and participated in bi-weekly audit status meetings and attended a fraud awareness brainstorming meeting with the auditors. The OIG also reviewed the auditor's notice of findings and recommendations (NFR) recently submitted to management. The NFRs inform management of potential audit findings and allows management the opportunity to respond to the issues before the final audit report is issued.

INSPECTION

As a result of numerous federal government incidents involving the compromise or loss of sensitive personal information, the Office of Management and Budget (OMB) issued Memorandum M-06-16, *Protection of Sensitive Agency Information*. The memorandum recommends that Federal agencies take all necessary and reasonable measures to swiftly eliminate significant vulnerabilities to the sensitive information entrusted to them.

Sensitive PII is defined by OMB as “any information about an individual maintained by an agency, including, but not limited to, education, financial transactions, medical history, and criminal or employment history and information which can be used to distinguish or trace an individual's identity, such as their name, social security number, date and place of birth, mother’s maiden name, biometric records, etc., including any other personal information which is linked or linkable to an individual.” Information systems can be either electronic or manual.

The OIG’s inspection of PII internal controls includes two phases. Phase one, involved an assessment of the FEC’s progress to protect PII. Based on the results of phase one, the OIG concluded that the FEC has taken steps to protect sensitive personal information. Specifically, the FEC has categorized all portable devices as containing or processing PII and is

designing security controls (hard drive encryption and password protection) to protect these devices.

The results of phase one were documented in a computer spreadsheet and sent to another federal OIG. The results from each federal OIG will be consolidated into a single report detailing the federal government's progress to protect PII. Phase two of the OIG's inspection will include additional review work, and a written inspection report detailing the inspection results and conclusions.

HOTLINE COMPLAINTS

The Office of Inspector General established a hotline to enable employees and others to have direct and confidential contact with the OIG. The OIG receives complaints through various means such as U.S. mail, telephone, e-mail, and personal visits to the OIG. Once a hotline complaint has been received, a preliminary inquiry is conducted. When the inquiry has been completed, the hotline complaint can be closed with no further action taken, referred to management for action, or closed and an investigation is opened on the issue.

During the period April 1, 2006 - September 30, 2006, the OIG opened four hotline complaints. One hotline complaint was closed and opened as an investigation. The OIG has a total of ten hotline complaints at different stages - six are pending; and four are currently in progress.

INVESTIGATION

The Office of Inspector General is authorized by the IG Act to receive and investigate allegations of fraud, waste and abuse occurring within FEC programs and operations. Alleged incidents of possible fraud, waste and abuse could include administrative, civil or criminal wrongdoing by FEC employees or contractors. Allegations are received primarily from FEC staff and management. However, members of Congress, other agencies, citizens, contractors, and public interest groups may also refer matters to the OIG for investigation.

During this reporting period, the OIG completed an investigation that involved allegations of misconduct by several senior management officials. The alleged misconduct included a violation of a criminal conflict of interest law. As a result of the allegations, in November 2005, the OIG initiated a joint criminal investigation with the Federal Bureau of Investigation and the United States Attorney's Office. Over the course of several months, the investigative team interviewed over twenty-six witnesses, reviewed thousands of electronic and paper records, executed a search warrant and performed other investigative work in order to obtain the facts surrounding the allegations.

During the investigation, additional evidence of administrative misconduct was uncovered by the OIG involving other employees. When appropriate, the OIG promptly forwarded the facts to management for further review.

In September 2006, the U.S. Attorney's Office for the District of Columbia ultimately declined to prosecute the primary subject of the investigation. Except for one employee, all of the subjects of the investigation retired, separated, or were terminated from the agency. At the conclusion of the investigation, the OIG recommended FEC management review the facts of the investigation and consider disciplinary action against one of the subjects who is still employed by the agency.

In addition, during the course of the criminal and subsequent administrative investigation, the OIG provided management with several suggestions for administrative improvement, these included:

- *Improvement of Internal Control*

A key event in the investigation involved a \$10,000 obligation of funds payable to a law firm representing one of the witnesses and ultimate subjects in the investigation.

In addition to the involvement in creating a false statement of work (description of services ordered), a manager took the unusual step of signing a procurement request as the “Requestor,” “Office Head,” and “Budget Officer” to enable the funds to be obligated. This action removed one of the routine checks and balances in the procurement process to ensure that Commission funds are properly spent. Absent a written procedure requiring the segregation of duties on the procurement request, and with pressure by a supervisor, the Administrative Officer approved the procurement request, with reservations. The OIG suggested a written policy requiring the “Requestor”, “Office Head,” and “Budget Officer” to be separate individuals to further strengthen the internal controls over the procurement process. Effective internal controls, such as policies and procedures, can help detect and prevent errors and irregularities from occurring. Examples of internal controls include the integrity and ethical tone established by senior management, proper documentation of transactions, and segregation of duties. The segregation of duties requires different people to be responsible for the authorizing of transactions. This

control is to ensure than no single individual has control over all phases of a transaction, such as a financial obligation or payment of government funds.

The OIG suggested the FEC revise existing procurement policies and procedures to ensure adequate segregation of duties on the approval of procurements. Specifically, the Administrative Officer's approval of procurements should require adequate segregation of duties, i.e. the requestor of the goods and services should generally be a different person than the office head approval. Likewise, the budget approval should be a different person than the requestor and office head.

Status

Management agrees in principle with the suggestion for the additional control. The OIG suggested management evaluate the level of additional control and incorporate the change into the existing policies and procedures.

- *Lack of a Formalized EEO Training Program and Outdated Policies*

During the early part of the investigation, it became apparent that improvement was necessary in the FEC's EEO program. Specifically, the FEC lacked a formalized

EEO training program and policies were in need of updating.

A former Acting EEO Director held mandatory EEO training in December 2005 for all managers and supervisors. However, prior to this training program, the FEC's formalized EEO training program for management and staff was minimal or non-existent.

In addition, the FEC's Personnel Instruction (PI) 713.1, *Equal Employment Opportunity – Complaint Processing Procedures*, has not been revised since June of 1986. The June 1986 personnel instruction continues to cite a federal regulation that was superseded in 1992 by a new Equal Employment Opportunity Commission (EEOC) regulation. The OIG identified the concern of outdated personnel policies during the fiscal year 2004 financial statement audit and recommended improvement in this area.

The OIG suggested the FEC establish a formalized EEO training program and issue/update the necessary EEO policies and procedures. The training program should be provided on a regular and consistent basis to all employees.

Status

The FEC is in the process of updating and creating several policies on the following: Alternative Dispute Resolution (ADR); Reasonable Accommodation; Anti-Harassment; and a Personnel Instruction to replace PI 713.1 *Equal Employment Opportunity-Complaint Processing Procedures*. In addition, the Staff Director has commenced an extensive review of Commission Directives in order to update Commission policy.

The EEO Director has scheduled a mandatory EEO briefing on the No FEAR Act in October 2006 for all Commission staff. In addition to the training in October, all new employees are required to be trained on the No FEAR Act within ninety days of hire and all employees are to receive refresher training every two years. In addition, the EEO Director has plans to provide additional EEO training in 2007 to management, supervisors, and staff.

- *Improve the EEO Director's Reporting Responsibility to the Commission*

The primary issue of the OIG's investigation centered upon the allegation a senior management official was committing a criminal conflict of interest. Specifically,

the allegation suggested a senior management official was purposely hiding from the Commission an EEO complaint filed against him by a Commission employee and attempted to settle the complaint at the lowest level possible. It was further alleged the senior management official ignored his own EEO contractor's advice cautioning about being directly involved in any EEO settlement negotiations, since the official was a named alleged discriminating official.

As a result of the investigation, the OIG suggests the FEC improve the EEO Director's reporting responsibilities to the Commission.

There is a federal regulation requirement for the EEO Director to be under the immediate supervision of the agency head. This direct reporting requirement also ensures that the EEO director is able to act with the greatest degree of independence.

Status

Currently the EEO Director reports to the Staff Director. Since there are no plans to change the reporting responsibility of the EEO Director, the OIG suggests the EEO Director submit quarterly reports, through the Staff Director, to the Commission. The quarterly reports would

include a list of the types of complaints and the offices involved to inform the Commission of the EEO Office's activities.

- *Improve Communication to Employees on the FEC's Rules of Behavior and on the FEC's Rules of Behavior and Acceptable Use Standards for Federal Election Commission Information and Systems Resources*

In order to investigate the reported allegations, the OIG obtained and reviewed the archived e-mails from the official e-mail accounts of the subjects, and principal witnesses associated with the investigation. The e-mail accounts included those of two senior management officials and revealed evidence showing violations of the *FEC's Rules of Behavior and Acceptable Use Standards for Federal Election Commission Information and Systems Resources*. Even though both of the individuals had received training on the FEC's computer rules of behavior, the two employees were found to be in violation of the FEC's computer policy. Specific violations of the computer policy included:

1) Numerous instant messages (apparently using the FEC's Lotus Notes e-mail program's instant messaging function) containing explicit sexual language. The instant

messages (IMs) were apparently copied and pasted into the employee's e-mail account and saved; and

- 2) E-mails containing explicit sexual language; and
- 3) FEC e-mails were forwarded by one of the employees to an outside party. The e-mails contained potentially confidential information on FEC budget, personnel, and EEO issues.

The OIG suggested that the FEC improve communication to employees on the *FEC's Rules of Behavior and Acceptable Use Standards for Federal Election Commission Information and Systems Resources*. In addition to the annual computer training, the agency should utilize additional methods to communicate the importance of the rules of behavior.

Status

The FEC has provided annual security training to all employees and contractors in the last two years. In June 2006, the FEC implemented a computer network banner on all FEC computers, based on a recommendation from the OIG. A network banner is an electronic warning message that is displayed on the computer screen, usually when the computer is turned on. The network banner is intended to be a daily reminder to employees that the

FEC's computers are to be used in accordance with FEC policy and misuse of the network can result in adverse action and/or criminal prosecution.

The FEC has taken steps to prevent the misuse of computer resources and should continue to adjust their communication methods regarding the policies and procedures, based on problems and events reported by management, the OIG, and other sources.

ADDITIONAL OFFICE OF INSPECTOR GENERAL ACTIVITY

In addition to conducting audits, inspections, and investigations, the OIG performs, and is involved in a variety of other projects and activities. All legislation, as compiled by the Commission's Congressional Affairs Office, is reviewed by the Inspector General, as required by the *Inspector General Act of 1978*, as amended. The Inspector General reviews and provides comments, when appropriate, on all legislation provided by the PCIE/ECIE Legislative Committee. In addition, the Inspector General routinely reads all Commission agenda items and attends the Finance Committee meetings.

- The OIG's audit contractor is required to follow-up on the status of the FEC's corrective actions with respect to findings and recommendations contained in previous audit report(s) on internal control. In an effort to close one or more outstanding recommendations, the OIG performed a limited audit follow-up review of fiscal year 2005 financial statements audit. Due to the narrow focus of the follow-up, and the lack of full implementation of the recommendations reviewed, no recommendations were closed as a result of the limited follow-up review. As in the past, management has been responsive in attempting to implement all OIG recommendations. The OIG appreciates management's support and we look forward to

working with management in our ongoing efforts to promote economy and efficiency in agency programs.

- The OIG requested a legal opinion from the FEC's Office of General Counsel (OGC) on whether or not the FEC is required to comply with provisions of the *Consolidated Appropriations Act, 2005*. Provisions of the law require, among other things, that agencies protect information in identifiable form (IIF), designate a Chief Privacy Officer, report to the Congress and agency IG on privacy matters, and provide training to employees on privacy and data protection policies. The provision also requires that every two years, the agency IG contract with an independent third party to conduct a review of the agency's privacy program and practices and that the IG issue a report based on that review.
- On an annual basis, the OIG community sponsors an award ceremony to recognize individuals and teams for outstanding accomplishments in various fields such as evaluations, audits, and investigations. During this reporting period, the Deputy Inspector General served on the ECIE's 2006 awards nomination panel. The nomination panel reviewed the

nominations submitted by the various OIGs and selected those individuals and/or teams to receive awards.

ECIE AND PCIE ACTIVITY

The President's Council on Integrity and Efficiency (PCIE) and the Executive Council on Integrity and Efficiency (ECIE) were established by Executive Order 12805 – May 11, 1992, and is chaired by the Office of Management and Budget, and in addition to the Inspectors General, includes representatives from the Office of Personnel and Management, the Office of Government Ethics, the Office of Special Counsel, and the Federal Bureau of Investigations.

The PCIE/ECIE have identical functions and responsibilities to coordinate and enhance governmental efforts to promote integrity and efficiency, and to detect and prevent fraud, waste and abuse in Federal programs. The PCIE is comprised of IGs appointed by the President of the United States. The ECIE consists of IGs appointed by the head of their respective agencies.

The Inspector General is an active member of the Executive Council on Integrity and Efficiency and has provided input on a number of initiatives proposed by the Council. The ECIE serves as a forum for the exchange of views for the Inspector General Community. The IG attends regular

meetings held by the ECIE, and the IG also participates in joint meetings and activities with the President's Council on Integrity and Efficiency.

The OIG staff, which consists of the Inspector General, the Deputy Inspector General, an Auditor and the Special Assistant to the Inspector General, continually seeks ways to improve their performance, skills and knowledge. For the period April 1, 2006 through September 30, 2006, the Inspector General and/or the OIG staff attended the following training, meetings, programs, seminars, and/or conferences:

- ECIE – *Monthly Meetings*
- PCIE – *Financial Statement Audit Network (FSAN) Meetings*
- PCIE / ECIE – *2006 Training Conference & Retreat – Adapting to Change, The Changing Role of the Inspector General Community*
- PCIE/ECIE – *Audit Peer Review Training*
- PCIE / ECIE – *Inspection and Evaluation (I&E) Roundtable Discussion*
- General Accountability Office (GAO) – *Inspector General Coordination Meeting*
- Association of Government Accountants (AGA) – *Financial Management Breakfast Seminar*
- Association of Government Accountants (AGA) – *55th Annual Professional Development Conference & Exposition*
- Association of Government Accountants (AGA) – *First National Internal Control & Fraud Conference*

- Federal Audit Executive Council (FAEC) – *2006 Federal Auditing Executive Council Conference – Value Adding Auditing*
- Federal Audit Executive Council (FAEC) – *Presentations on Financial Audit Revisions to GAGAS; the FISMA Framework and Personal Identifiable Information; and Data Collection Instrument*
- Inspector General Institute Investigator Academy – *IG Hotline Training Program*
- Western Intergovernmental Audit Forum – *16th Biennial Forum of Government Auditors*
- Federal Bureau of Investigation (FBI) – *Public Corruption/Governmental Fraud Meeting*
- Federal Election Commission – *Information Technology (IT) Security Awareness Training*
- Federal Election Commission – *Administrative Liaison Group Meetings*
- Federal Election Commission – *Records Management Program Training*
- Federal Election Commission – *Occupant Emergency Plan (OEP) Briefing*
- Federal Election Commission – *Time Reporting System (TRS) Training*
- Federal Election Commission – *SPAM Manager Overview Training*

| <i>IG ACT</i> | <i>REPORTING REQUIREMENTS</i> | <i>PAGE</i> |
|---------------|-------------------------------|-------------|
|---------------|-------------------------------|-------------|

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

| | | |
|------------------|--|------|
| Section 4(a)(2) | Review of Legislation----- | 28 |
| 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)----- | 37 |
| Section 5(a)(4) | Matters Referred to Prosecuting Authorities----- | 18 |
| Section 5(a)(5) | Summary of Instances Where Information was Refused----- | None |
| Section 5(a)(7) | Summary of Significant Reports----- | 9 |
| Section 5(a)(8) | Questioned and Unsupported Costs-(Table I)----- | 35 |
| Section 5(a)(9) | Recommendations that Funds be put to Better Use (Table II)----- | 36 |
| Section 5(a)(10) | 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)(11) | Significant revised Management Decisions----- | N/A |
| Section 5(a)(12) | Management Decisions with which the Inspector General is in Disagreement----- | 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**

| | <i>NUMBER</i> | <i>DOLLAR VALUE (in thousands)</i> |
|---|---------------|--|
| 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 REPORTS WITH CORRECTIVE ACTIONS
OUTSTANDING FOR MORE THAN SIX MONTHS**

Financial Statement Audits

| <u>Fiscal Year</u> | <u>Report Number</u> | <u>Repeat*</u> | <u>Recommendations</u> | | |
|--------------------|--------------------------|----------------|------------------------|---------------|--------------|
| | | | <u>New</u> | <u>Closed</u> | <u>Total</u> |
| Fiscal Year 2004 | OIG-04-01 | 0 | 42 | 12 | 30 |
| Fiscal Year 2005 | OIG-05-01 | 30 | 11 | 0 | 41 |

* Repeat column represents recommendations from the prior fiscal year report that are still applicable to the current fiscal year report.

OIG Products: *To provide products and services that promote positive change in FEC policies, programs, and operations.*

Objective A: Deliver timely, high-quality products and services that promote positive change.

Strategy:

- establish common OIG standards for communicating results;
- conduct quality assurance programs;
- solicit appropriate internal and external review and comment;
- comply with applicable statutory guidelines and standards;
- set realistic and appropriate milestones.

Objective B: Address priority issues and concerns of the Commission, Management, and Congress.

Strategy: Perform work that supports;

- Federal Election Commission and Congressional priorities;
- Strategic Management Initiative efforts;

Focus OIG attention in the following areas of emphasis:

- managing change;
- resource allocation in relation to policy objectives;
- delivery of client service;
- causes of fraud and inefficiency; and,
- automation and communication.

Objective C: Follow-up and evaluate results of OIG products and services to assess their effectiveness in promoting positive change.

Strategy:

- Identify, as appropriate, lessons learned to improve timeliness and quality; and,
- conduct follow-up reviews to determine if intended results have been achieved.

Objective D: Satisfy customers, consistent with the independent nature of the OIG.

Strategy:

- establish professional communication and interaction with customers to promote the open exchange of ideas;
- incorporate customer feedback, as appropriate; and,
- be open to customer-generated solutions and options.

Performance Measures: Determine the timeliness and quality of products and services; their effectiveness in promoting positive change; and, reach agreement with management on at least 90% of recommendations within six months of the report issue date.

OIG Process: *To develop and implement processes, policies, and procedures to ensure the most effective and appropriate use of OIG resources in support of our people and products.*

Objective A: Maintain a dynamic strategic planning process.

Strategy:

- periodically review and update the strategic plan to address changing OIG and FEC priorities; and,
- identify factors that influence organizational change and develop short and long term plans to address them.

Objective B: Plan and conduct cost-effective work that address critical issues and results in positive change.

Strategy:

- solicit FEC and Congressional input in planning OIG activities;
- develop internal planning mechanisms to support FEC goals and priorities;
- ensure that priorities of IG are effectively communicated; and,
- identify specific targets for OIG review that are the most cost-effective

Objective C: Identify customer needs and provide products and services to meet them.

Strategy:

- establish new customer feed back mechanisms;
- consider and evaluate customers feedback when planning and developing products and services;
- respond to Congressional inquiries and request for briefing and testimony;
- promote open exchange of ideas and information through outreach and through use of e-mail; and,
- receive, evaluate, and respond, as appropriate, to information received through the OIG hotline and other sources.

Objective D: Implement efficient, effective, and consistent resolution and follow-up procedures.

Strategy:

- ensure that IG follow-up procedures are followed and that management is aware of their role in the process;
- establish common OIG standards for terminology, date maintenance and communications.

Objective E: Establish a positive and productive working environment.

Strategy:

- reengineer or streamline OIG procedures to achieve the most effective use of resources; and,
- ensure that necessary technologies, evolving and otherwise, are made available to staff as needed.

Performance Measures: An annual audit plan is issued; strategic plan is periodically reviewed; and, necessary technology is provided to staff to enable them to most efficiently perform their duties.

OIG Staff: *To maintain a skilled and motivated work force in an environment that fosters accountability, communications, teamwork, and personal and professional growth.*

Objective A: Attract and retain well-qualified, diverse and motivated employees.

Strategy:

- develop and implement a comprehensive recruiting program that attracts a broad population with the knowledge, skills, abilities, and expertise necessary to make meaningful contributions to the OIG;
- assess employee satisfaction and develop strategies to address employee concerns;
- identify reasons for staff departures and develop plans to foster greater staff retention; and,
- adhere to EEO principles and strive to maintain a diverse work force.

Objective B: Provide training and developmental opportunities to employees.

Strategy:

- assess training needs in relation not only to employee but also office needs as well;
- ensure that Government Auditing Standards in relation to training are adhered to; and,
- maintain a reporting system to ensure that educational requirements are met.

Objective C: Assess, recognize, and reward, when possible, performance that contributes to achieving the OIG mission.

Strategy:

- develop and articulate expectations for each employee's performance, including contributions in meeting the mission & goals of the OIG; and,
- ensure that rewards, when possible, are given in recognition of exceptional employee performance.

Objective D: Create and maintain a working environment that promotes teamwork and effective communication.

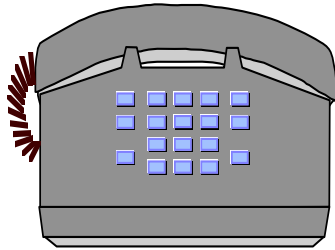
Strategy:

- ensure that communication between employees is open;
- provide employees with the tools and incentives they need to adequately perform their duties.

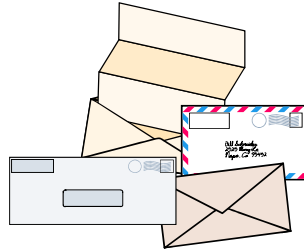
Performance Measures: All employees meet the training requirements; all employees have performance standards; and all employees meet the basic requirements for the position in which they were hired to perform.

CONTACTING THE OFFICE OF INSPECTOR GENERAL

The success of the OIG mission to prevent fraud, waste, and abuse depends on the cooperation of FEC employees (and the public). There are several ways to report questionable activity.



Call us at **202-694-1015** or toll-free **1-800-424-9530**. A confidential or anonymous message can be left 24 hours a day/7 days a week.



Write or visit us - we are located at: **Federal Election Commission
Office of Inspector General
999 E Street, N.W., Suite 940
Washington, D.C. 20463**

Mail is opened by OIG staff members only.



You can also contact us by e-mail at: **oig@fec.gov**.
Website address: **<http://www.fec.gov/fecig/fecig.shtml>**

Individuals may be subject to disciplinary or criminal action for knowingly making a false complaint or providing false information.