Federal Election Commission

Agency Financial Report

Fiscal Year 2022

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Federal Election Commission
1050 First St. NE
Washington, D.C. 20463

(202) 694-1000
1-(800) 424-9530
www.fec.gov

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Message from the Chair

FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20463

OFFICE OF THE CHAIRMAN

November 15, 2022

I am pleased to present the Federal Election Commission's Agency Financial Report (AFR) for Fiscal Year (FY) 2022. To the best of my knowledge, the AFR reflects accurate and complete data with respect to the agency's program performance and financial activities over the past year. It further demonstrates our continued commitment to administering the *Federal Election Campaign Act of 1971,* as amended.

The Commission provides the public with accurate and accessible information about how candidates raise and spend funds to support their campaigns, civilly enforces the campaign finance laws, and encourages voluntary compliance through timely advice and educational outreach.

The Commission continues to seek opportunities to make its systems and processes more efficient and effective, including efforts to redesign the FEC website and to migrate data to a cloud environment. These efforts have helped the Commission accommodate a steep rise in the number of financial transactions reported to the agency over the last several years. At the same time, the Commission has continued to prioritize improving the customer service it provides and ensuring that the campaign finance information within its jurisdiction is readily available to the public.

With respect to the agency's FY 2022 financial statements, the Commission received an unmodified opinion from its independent auditors. This unmodified opinion reflects the continued commitment by the Commissioners and Commission staff to ensure that the agency's financial statements fairly present the agency's fiscal position.

Management, which consists of senior managers including the Chief Financial Officer, Acting General Counsel and Staff Director, continue their efforts to respond to risks included in the agency Risk Profile (see Section I) and challenges identified by the Inspector General (see Section III).

The efforts described in this report would have been impossible without the work and dedication of the agency's staff, all of whom strive to fulfill the FEC's mission in the most efficient manner possible.

On behalf of the Commission,

Allen Dickerson
Chairman

How to Use This Report

This Agency Financial Report presents financial information, as well as relevant performance information, on the Federal Election Commission's operations. The report was prepared pursuant to the *Accountability of Tax Dollars Act of 2002* and Office of Management and Budget (OMB) Circular A-136, revised, *Financial Reporting Requirements*, and covers activities from October 1, 2021 through September 30, 2022.

The FEC places a high importance on keeping the public informed of its activities. To learn more about the FEC and what the agency does to serve the American public, visit the FEC's website https://www.fec.gov/about/reports-about-fec/strategy-budget-and-performance/.

The FY 2022 Agency Financial Report is organized into three primary sections:

Section I – Management's Discussion and Analysis (MD&A) provides an overview of the FEC. It describes our mission, organizational structure and regulatory responsibilities. It also includes relevant performance information related to the FEC's strategic goals and objectives to provide a forward-looking discussion of future challenges.

Section II – Financial Information, including the Independent Auditor's Report, detailing the FEC's financial performance by 1) highlighting the agency's financial position and audit results and 2) describing the FEC's compliance with key legal and regulatory requirements.

Section III – Other Information includes our Inspector General's (IG) assessment of the FEC's management challenges and the FEC's response.

SECTION I – Management's Discussion and Analysis

Section I.A: Mission and Organizational Structure

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

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

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

The FEC has chosen to produce an Agency Financial Report (AFR) and Annual Performance Report (APR) pursuant to the *Government Performance and Results Act of 1993*, as amended. The FEC will include its FY 2022 Annual Performance Report with its Congressional Budget Justification and will post it on the FEC website at https://www.fec.gov/about/reports-about-fec/strategy-budget-and-performance/ in 2023.

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

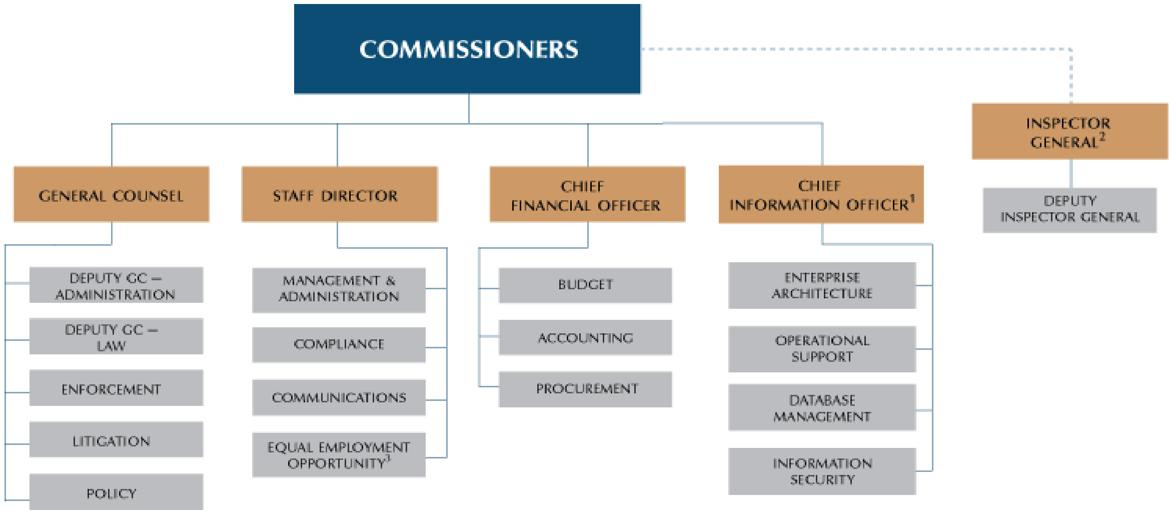
Mission Statement

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

Organizational Structure

To accomplish its legislative mandate, the FEC is directed by six Commissioners, who are appointed by the President with the advice and consent of the Senate. By law, no more than three Commissioners can be members of the same political party. Each member serves a six-year term, and two seats are subject to appointment every two years. Commissioners may serve beyond their six-year terms until new Commissioners are confirmed. The Chairmanship of the Commission rotates among the members, with no member serving as Chair more than once during his or her six-year term. The Commissioners are responsible for administering and enforcing the *Act* and meet regularly to formulate policy and to vote on significant legal and administrative matters. The *Act* requires the affirmative vote of four members of the Commission to approve official actions, thus requiring bipartisan decision-making. The FEC has its headquarters in Washington, D.C. and does not have any regional offices.

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



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

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

3 The Director for Equal Employment Opportunity reports to the Staff Director on administrative issues but has direct reporting authority to the Commission on all EEO matters. See 29 CFR 1614.102(b)(4).

Figure 1: FEC Organizational Chart

Office of the Staff Director (OSD)

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

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

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

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

The Office of the Chief Information Officer (OCIO) consists of four units: (1) Enterprise Architecture; (2) Operational Support; (3) Data Administration; and (4) IT Security. The OCIO provides secure, stable and robust technology solutions for Commission staff and the public. OCIO both develops and maintains the systems that serve as the public's primary source of information about campaign finance data and law. OCIO ensures agency employees have access to the tools and technology platforms that allow them to perform their day-to-day responsibilities administering and enforcing campaign finance law. In addition, OCIO provides a vision and leads the implementation of projects to ensure the FEC continues to modernize strategic systems in order to support the exponential growth in campaign finance transactions.

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

The Office of the Chief Financial Officer consists of three offices: (1) Budget; (2) Accounting; and (3) Procurement. The OCFO is responsible for complying with all financial management laws and standards, and all aspects of budget formulation, budget execution and procurement.

Sources of Funds

Figure 2 shows the agency's appropriation and total obligations from FY 2018 to FY 2022.

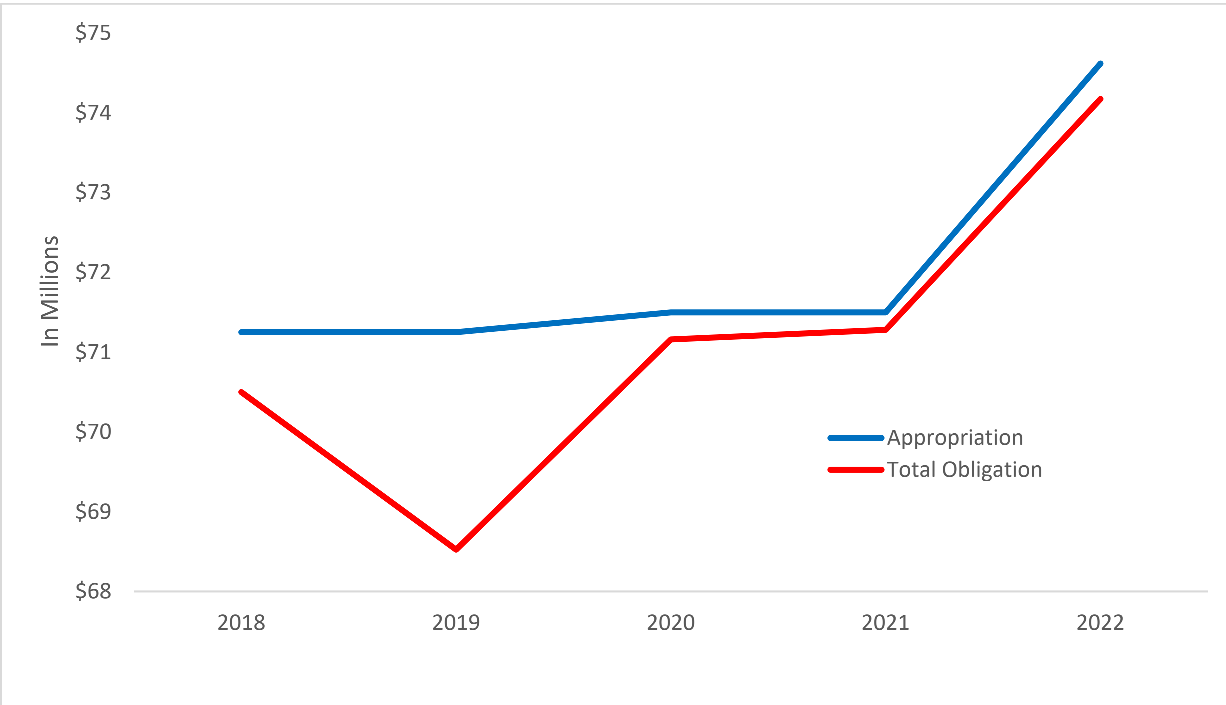


Figure 2: Summary of Funding (in millions of dollars)

The FEC also has the authority to collect fees from attendees of agency-sponsored educational conferences and webinars. The Commission may use those fees to defray the costs of conducting those programs. The Commission works with its conference-management contractor to set registration fees at a level that covers only the costs incurred, which may include meeting room rental and conference meals and compensation. All other conference-related expenses, such as materials and staff travel, are paid using appropriated funds. Registration fees for FY 2022 were $124,695.

Personnel vs. Non-Personnel Costs

Figure 3 represents the Commission's FY 2022 obligations by personnel and non-personnel costs. Personnel costs, which are primarily composed of salaries and employee benefits, accounted for 71 percent of the FEC's costs. The remaining 29 percent of the Commission's costs was spent on non-personnel items, such as infrastructure and support, software and hardware, office rent, building security and other related costs.

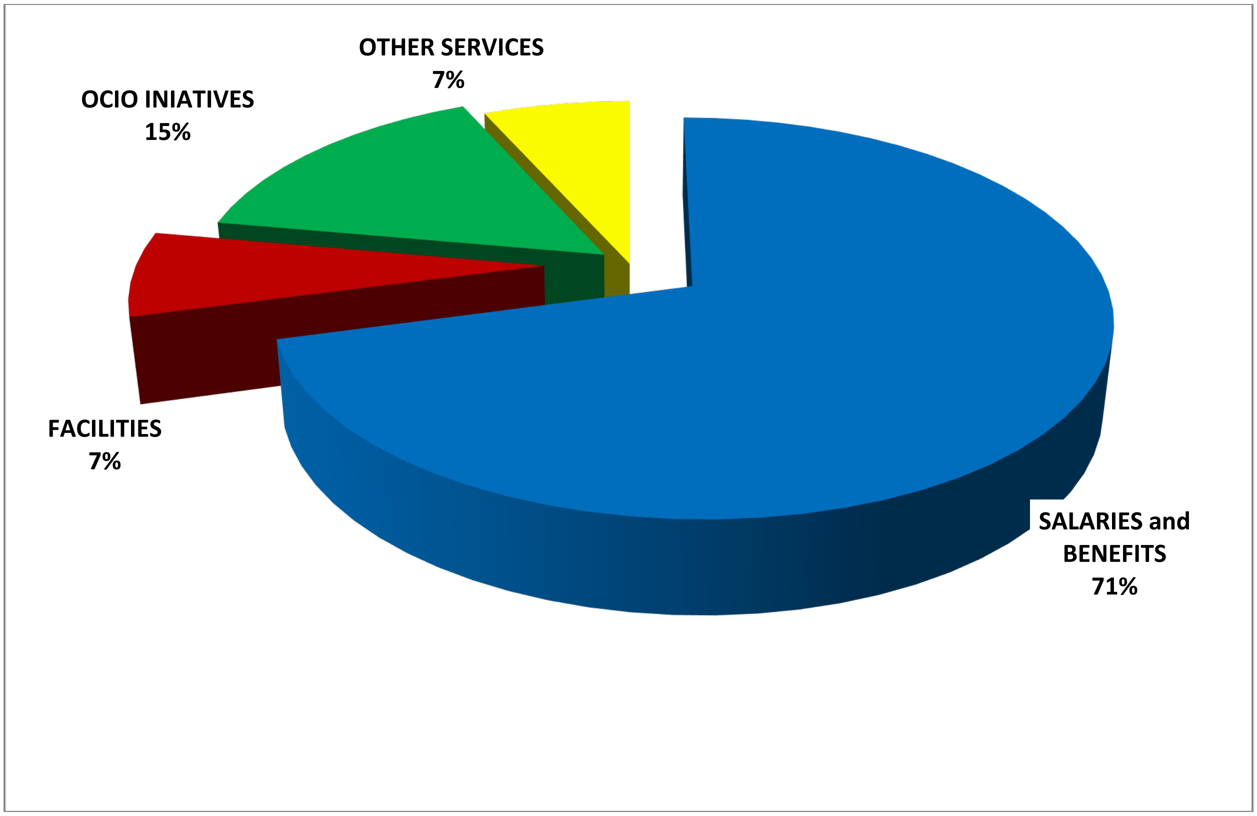


Figure 3: Fiscal Year 2022 by Major Category

Risk Identification and Mitigation

In Fiscal Year (FY) 2017, the FEC formed a Senior Management Council (SMC) to manage internal control and Enterprise Risk Management (ERM) efforts in response to new requirements outlined in OMB Circular A-123. The SMC delivered to OMB an agency-wide Risk Profile to assist in the effective management of risk areas impacting FEC strategic, operational, reporting, and compliance objectives. In FY 2018, the SMC took further steps toward effective management of risk by updating Commission Directive 53 *Implementation of OMB Circular A-123: Internal Control Program* to comply with ERM requirements. In FY 2018, 2019, 2020, 2021 and 2022 the SMC submitted an updated Risk Profile to OMB.

As part of the annual Internal Control Review (ICR) process, program offices rated each risk from the Risk Profile, detailed how the risk affects their operations and identified mitigating activities in place to respond to the risk. The current Agency-wide Risk Profile is shown below and further discussion on risk is included in the remaining MD&A sections.

Federal Election Commission - FY 2022 ERM Risk Profile

Identified Significant Risk	Risk Owner	Inherent Risk Rating	Current Risk Response	Residual Risk Rating	Proposed Additional Action	Proposed Implementation/ Monitoring Process
Budget Constraints That Limit Hiring and IT Modernization Initiatives	Agency	Very High	Reduction: seek additional funds and prioritize available resources	High	Continue to seek additional funding. Provision of additional funding is not in Management's control	OCFO and Congressional Affairs
Strategic Objectives Relating to Primary Mission Areas: Engage and Inform the Public About Campaign Finance Data; Promote Compliance with the FECA and Related Statues; Interpret the FEC and Related Statutes[2]						
Significant and Substantive Amendments to FECA/Pending Judicial Opinions	OGC	Medium	Acceptance: monitoring	Medium	Not in Management's control	OGC and Congressional Affairs
Absence of Quorum/Confirmation of Commissioners	OGC	Medium	Reduction: Directive 10	Medium	Not in Management's control	OGC and Congressional Affairs
Significant Increase in Federal Election Campaign Disclosure Activity	OSD	Very High	Reduction: infrastructure improvements	High	Move to scalable cloud-based computing and development of new e-filing platform. Advocate for more funding to invest in IT infrastructure and additional FTEs. Purchasing additional licenses	OCIO Performance/ Monitoring Reports

2 Certain risks relating to Strategic Objectives are external risks out of Management's control.

Identified Significant Risk	Risk Owner	Inherent Risk Rating	Current Risk Response	Residual Risk Rating	Proposed Additional Action	Proposed Implementation/ Monitoring Process
Changes to Government-wide Directives including Human Capital and Operating Requirements	SMC	Medium	Acceptance: monitoring	Medium	Continue monitoring centralized repository for new executive orders, directives, memorandums, and other guidance. Continuous updates to policies and procedures.	OGC and OHR
Disruptions to Agency Operations	OGC/ OSD/ OCFO	Medium	Acceptance: monitoring	Medium	Not in Management's control. Continuous updates to the Disaster Recovery Plan, COOP, and Shutdown Plan.	Monitored by Senior Management
Failure of Contractors to Provide Required Deliverables	OCIO/ OCFO/OSD/ CORs	High	Reduction: monitoring of contracts by Contracting Officer's Representatives (CORs) and review procurement process, including enhancements to objectives and requirements.	Medium	Consistent monitoring of contractor performance and implementation issues.	Monitored by CORs/COs

Identified Significant Risk	Risk Owner	Inherent Risk Rating	Current Risk Response	Residual Risk Rating	Proposed Additional Action	Proposed Implementation/ Monitoring Process
Operational Objective: Manage Human Capital Efficiently and Effective						
Multiple Acting Positions, Including Key Positions	OHR	High	Acceptance: monitoring	Medium	Continue to support hiring initiatives and streamline hiring process. Continuous monitoring of budget in order to fill positions when possible. Budget constraints are outside of Management's control.	Personnel and Finance Committees
Attrition and High Volume of Retirement Eligible Employees	OHR/ engagement coordinators	High	Reduction: succession planning and employee engagement efforts	High	Encourage succession planning, cross-training, and pooling support services and support employee engagement efforts. Retirement eligibility is outside of Management's control.	Retirement Eligibility Report and FEVS
Major Functions Performed by One Individual	OGC/ OSD/ OCFO	Medium	Reduction: cross-train and document processes	Medium	Cross-train individuals to perform major functions. Document procedures and processes. Also, continuous monitoring of budget in order to fill positions when possible.	Internal Controls

Identified Significant Risk	Risk Owner	Inherent Risk Rating	Current Risk Response	Residual Risk Rating	Proposed Additional Action	Proposed Implementation/ Monitoring Process
Operational Objective: Manage Information Security Risks						
Data Protection and Information Security Threats	OCIO	Very High	Reduction: corrective actions and internal controls	High	Continue to implement and enhance corrective actions, conduce training and enhance internal controls. Reviewing and updat6ing security policies	Internal Controls and Monitoring
Assessments and System Authorizations	OCIO	Medium	Reduction: corrective actions and internal controls	Medium	Continue to implement corrective actions and enhance internal controls.	Corrective Action Plan/Internal Controls
Compliance Objective: Manage Programs in Compliance with Applicable Law						
Outdated Policies, Procedures, and Commission Directives	OGC/ OSD/ OCFO	Medium	Reduction: implementing, revising, and reviewing policies, procedures, and Directives.	Medium	Update policies, procedures, and Directives in response to Covid, new or revised regulatory guidance, and changing operating procedures.	Monitor as part of Internal Control Review

Section I.B: Performance Goals, Objectives and Results

This section provides a summary of the results of the FEC's key performance objectives, which are discussed in greater detail in the FEC's FY 2022 APR.[3] This report will be part of the FEC's FY 2024 Congressional Budget Justification, which will be available at https://www.fec.gov/about/reports-about-fec/strategy-budget-and-performance/ in 2023.

Strategic Goal

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

Strategic Objectives

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

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

The FEC's eFiling system acts as the point of entry for submission of electronically filed campaign finance reports, providing faster access to reports and streamlining operations. This system provides for public disclosure of electronically filed reports, via the FEC website, within minutes of being filed. When a committee files a financial disclosure report on paper, the Commission ensures that a copy is available for public inspection within 48 hours of receipt, both electronically

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[3] The FEC has identified senior-level staff and key managers to serve as goal leaders for each area of the strategic and performance plans. In addition, each strategic activity in the Strategic Plan has been assigned one or more program managers, who are responsible for the delivery and performance reporting of that activity. These managers serve as measure managers and data quality leads to ensure the completeness, consistency and accuracy of the reported data of their respective strategic activity.

on the website and at the FEC's offices in Washington, D.C. The FEC is committed to providing timely and transparent campaign finance disclosure to the public and delivering data in accessible and easy-to-use formats.

The number of financial transactions reported to the FEC has nearly doubled each election cycle for the past several election cycles, resulting in a steep rise in the number of transactions that must be received, processed and made available to the public. This increase in reported activity places a strain on staff, systems and databases. For example, the number of financial transactions received during October 2020 alone was more than what was received during the entire 2016 election cycle. Each transaction must be received and processed by the FEC and made available to the public on the FEC website. This transaction-level data is also used by the FEC internally and supports much of the FEC's mission-related work.

The FEC understands it needs to modernize its disclosure data pipeline to receive, process, review and display the increasing volume of transaction-level data reported by political committees active in federal elections. Data pipelines are a set of automated methods and procedures that process raw data files received from filers into the primary campaign database for internal agency use and for public consumption on FEC.gov. They are essential to processing and reviewing campaign finance disclosure information in compliance with FECA's mandates.

During FY 2023, the FEC will begin a multi-year project to improve and modernize its data pipeline. Much of the focus will be on improving the extract, transform and load (ETL) process. This is a three-phase process where data is extracted from a source, transformed or standardized and loaded into a database table. The FEC has two distinct ETL processes. ETL-1 processes reports and statements received from filers into our primary campaign finance database. ETL-1 adds data descriptions and ensures database tables used for reporting purposes have as-amended data. ETL-2 moves data from our primary campaign finance database to our website and API database. ETL-2 produces aggregations used by the website and produces daily and weekly downloadable bulk data files for the public. The first milestone consists of four components: 1) refactoring ETL-2, 2) improving query performance, 3) changing database engines and 4) refactoring ETL-1.

The Commission is also improving and refining its website through iterative development, ensuring the FEC continues to provide an effective, user-centered online platform to deliver campaign finance information to its diverse base of users. This effort will ensure that the FEC provides full and meaningful campaign finance data and information in a manner that meets the public's increasing expectations for data customization and ease of use.

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

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

Key Indicator: Percent of reports processed within 30 days of receipt.								
FY 2017 Actual	FY 2018 Actual	FY 2019 Actual	FY 2020 Actual	FY 2021 Actual	FY 2022 Target	FY 2022 Actual	FY 2023 Target	FY 2024 Target
96%	100%	94%[4]	98%	89%[5]	95%	98%	95%	95%

Objective 2: Promote Compliance with the FECA and Related Statutes

Helping the public understand its obligations under the *Act* is an essential component of voluntary compliance. The FEC places a significant emphasis on encouraging compliance through its Information Division, Reports Analysis Division (RAD), Press Office and Office of Congressional, Legislative and Intergovernmental Affairs. The FEC measures its progress in meeting this Objective through two performance measures: one that measures the agency's efforts to encourage voluntary compliance through educational outreach and information and another that measures the FEC's efforts to seek adherence to *FECA* requirements through fair, effective and timely enforcement and compliance programs. Progress against these measures is detailed in the charts below.

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

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

One way the Commission encourages voluntary compliance is by hosting two-day conferences across the country, where Commissioners and staff explain how the *Act* applies to candidates, parties and political action committees (PACs). These conferences address recent changes in the law and focus on fundraising, methods of candidate support and reporting regulations. The agency supplements its conferences with a series of day-long webinars tailored specifically to candidates,

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4 The agency's ability to meet its target for this performance goal during FY 2019 was negatively impacted by the lapse in appropriations from December 22, 2018 to January 25, 2019.

5 The agency's ability to meet its target for this performance goal during FY 2021 was negatively impacted by staff shortages and an unprecedented volume of filings received during the 2020 election cycle.

parties and PACs, as well as periodic topic-based webinars and online discussions. These web-based events offer filers a convenient and cost-effective way to receive training.

The FEC also devotes considerable resources to ensuring that staff can provide distance learning opportunities to the general public. The Commission's website is one of the most important sources of instantly accessible information about the *Act*, Commission regulations, and Commission proceedings. In addition to viewing campaign finance data, anyone with internet access can use the website to track Commission rulemakings, search advisory opinions, audits and closed enforcement matters, view campaign finance data, find reporting dates and access examples of how to report specific types of transactions. The Commission places a high emphasis on providing educational materials about campaign finance law and its requirements. Toward this end, the FEC has moved its focus away from the printing and manual distribution of its educational materials and instead looked for ways to leverage available technologies to create and disseminate dynamic and up-to-date educational materials through the website. While the Commission continues to offer printed copies of its educational publications, transitioning to primarily web-based media has allowed the agency to reduce significantly its printing and mailing costs and use of resources while at the same time encouraging new and expanded ways of communicating with the public via the website.

As part of this broad effort to improve its internet communications and better serve the educational needs of the public, the Commission maintains its own YouTube channel, which can be found at https://www.youtube.com/FECTube. The YouTube channel offers a variety of instructional videos and tutorials that enable users to obtain guidance tailored to their specific activities.

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

In addition, the Reports Analysis Division (RAD) Education Program (the Program) provides an informal, education-based means for resolving compliance issues. The goal of the program is to educate political committees on disclosure and compliance requirements to ensure future compliance with the Federal Election Campaign Act and Commission regulations. The Program provides eligible committees with an opportunity to participate in tailored training focused on the issues identified during the review of the committees' reports and cited in Requests for Additional Information sent during the election cycle, in lieu of a referral for an audit. Further, committees that are not otherwise eligible for an audit referral, but that meet certain criteria, are invited to participate in the Program in order to prevent future compliance issues.

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

Key Indicator: Educational outreach programs and events achieve targeted satisfaction rating on user surveys.								
FY 2017 Actual	**FY 2018 Actual**	**FY 2019 Actual**	**FY 2020 Actual**	**FY 2021 Actual**	**FY 2022 Target**	**FY 2022 Actual**	**FY 2023 Target**	**FY 2024 Target**
4.43	4.53	4.45	4.51	4.36	4.0 or higher on a 5.0 scale	4.55	4.0 or higher on a 5.0 scale	4.0 or higher on a 5.0 scale

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

The FEC has formed strategies for ensuring that its enforcement and compliance programs are fair, effective and timely. The Commission's statutory obligation is to administer, interpret and enforce the *Federal Election Campaign Act*, which serves the compelling governmental interest in deterring corruption and the appearance of corruption in financing elections. In doing so, the Commission remains mindful of the First Amendment's guarantees of freedom of speech and association, and the practical implication of its actions on the political process.

The FEC has exclusive jurisdiction over civil enforcement of Federal campaign finance laws. It consults with the U.S. Department of Justice, as appropriate, on matters involving both civil and criminal enforcement of the *Act*. Commission enforcement actions, which are handled primarily by the Office of General Counsel (OGC), originate from a number of sources, including external complaints, referrals from other government agencies and matters generated by information ascertained by the Commission in the normal course of carrying out its supervisory responsibilities. Enforcement matters are handled by OGC pursuant to the requirements of the *FECA*. If the Commission cannot settle or conciliate a matter involving an alleged violation of the *Act*, the Commission may initiate civil litigation by filing and prosecuting a civil action in Federal district court to address the alleged violation. Closed enforcement matters are available via the FEC website.

To augment OGC's traditional enforcement role, the Office of Compliance manages several programs that seek to remedy alleged violations of the *Act* and encourage voluntary compliance. These programs include: 1) the Alternative Dispute Resolution Program, 2) the Administrative Fine Program and 3) the Audit Program. The Commission's Alternative Dispute Resolution Program is designed to resolve matters more swiftly by encouraging the settlement of less-complex enforcement matters with a streamlined process that focuses on remedial measures for candidates and political committees, such as training, internal audits and hiring compliance staff. Violations involving the late submission of, or failure to file, disclosure reports are subject to the

Administrative Fine Program. This Program is administered by the Reports Analysis Division (RAD) and the Office of Administrative Review (OAR), which assess monetary penalties and handle challenges to the penalty assessments. The Audit Program conducts "for cause" audits in those cases where political committees have failed to meet the threshold requirements for demonstrating substantial compliance with the *Act,* and conducts mandatory audits under the public funding statutes. Subject to limited redactions, threshold requirements approved by the Commission and used by RAD and the Audit Division are available via the FEC website.

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

Key Indicator: Of the enforcement matters resolved during the fiscal year, the percentage that was resolved within 15 months of the date of receipt.								
FY 2017 Actual	FY 2018 Actual	FY 2019 Actual	FY 2020 Actual	FY 2021 Actual	FY 2022 Target	FY 2022 Actual	FY 2023 Target	FY 2024 Target
68%	62%	56%	62%	34%[6]	50%	22%[7]	50%	50%

Objective 3: Interpret the FECA and Related Statutes

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

Regulations

The Policy Division of OGC drafts various rulemaking documents, including Notices of Proposed Rulemaking (NPRMs), for Commission consideration. NPRMs provide an opportunity for the public to review proposed regulations, submit written comments to the Commission and, when appropriate, testify at public hearings at the FEC. The Commission considers the comments and testimony and deliberates publicly regarding the adoption of the final regulations and the corresponding Explanations and Justifications, which provide the rationale and basis for the new or revised regulations.

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6 The agency's performance under this measure was negatively impacted by the lack of a quorum for most of FY 2020.

7 The agency's performance under this measure was negatively impacted by the lack of a quorum for most of FY 2020.

Advisory Opinions

Advisory opinions (AO) are official Commission responses to questions regarding the application of Federal campaign finance law to specific factual situations. The *Act* generally requires the Commission to respond to AO requests within 60 days. For AO requests from candidates in the two months leading up to an election that present a specific transaction or activity related to that election, the *Act* requires the Commission to respond within 20 days. On its own initiative, the Commission also makes available an expedited process for handling certain time-sensitive requests that are not otherwise entitled to expedited processing under the *Act*. The Commission strives to issue these advisory opinions in 30 days.

Defending Challenges to the Act

The Commission represents itself in most litigation before the Federal district court and courts of appeals and before the Supreme Court with respect to cases involving publicly financed Presidential candidates. It also has primary responsibility for defending the *Act* and Commission regulations against court challenges. In addition, the *Act* authorizes the Commission to institute civil actions to enforce the *Act*.

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

Key Indicator: Percent of legal guidance provided within statutory and court-ordered deadlines.								
FY 2017 Actual	FY 2018 Actual	FY 2019 Actual	FY 2020 Actual	FY 2021 Actual	FY 2022 Target	FY 2022 Actual	FY 2023 Target	FY 2024 Target
100%[8]	100%[9]	100%[10]	88%[11]	100%[12]	100%	100%[13]	100%	100%

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

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

10 The Commission obtained extensions to consider six advisory opinion requests in FY 2019; two of those extensions were lengthened by the partial Federal government shutdown during the first and second quarters of FY 2019.

11 This corrects the figure in the 2020 Agency Financial Report, which indicated that 100% of legal guidance was provided within statutory and court-ordered deadlines. The Agency Financial Report did not take into account one rulemaking that the Commission approved after the statutory deadline, due to the lack of a Commission quorum for most of FY 2020. The Commission approved the rulemaking—which adjusted for inflation civil monetary penalties—in July 2020, when a quorum was briefly restored.

12 The Commission obtained extensions to consider five advisory opinion requests in FY 2021; one of those extensions was lengthened by the lack of a Commission quorum during the first quarter of FY 2021.

13 The Commission obtained extensions to consider ten advisory opinion requests in FY 2022.

Objective 4: Foster a Culture of High Performance

The Commission understands that the success of its programs depends upon the skills and commitment of its staff. To ensure the agency can recruit and retain the best talent in support of its mission, the agency will work to increase strategic outreach and recruitment efforts and to provide a fair, impartial, inclusive and accessible work environment. The FEC is also committed to continuously improving the performance of staff in support of the agency's mission objectives. To ensure staff development opportunities and trainings are provided fairly, effectively and strategically in support of mission objectives, the FEC will work to develop and implement an agency-wide training program.

In recent years, the FEC has been challenged to recruit and retain talent necessary to meet the agency's workload and hiring goals. During FY 2022, the FEC identified additional strategic outreach platforms and partnerships to better ensure the agency's hiring efforts reach out to diverse and highly talented potential employees. In addition, the FEC has continued work to ensure staff retention by providing a fair, impartial, inclusive and accessible work environment.

Due to the COVID-19 pandemic and budget constraints, FEC spending on employee training was reduced during FY 2021. In FY 2022, the FEC began adjusting its spending to devote more resources to improve the skills base of the workforce, and the FEC intends to continue doing so in future fiscal years. However, with budget constraints continuing to affect the amount of funds that can be allocated to training, the FEC will focus on ensuring that mandatory training requirements are met first, along with training required to support activities that are deemed to be mission critical. The agency additionally maintains a robust online training library and encourages employees to use these resources to improve their skills.

The FEC is undertaking a multi-year IT modernization project to reduce overall costs to maintain the FEC's systems and data, improve services provided to the public and better ensure the security of the FEC's networks, systems and data. Modernization and refactoring of the agency's legacy applications, systems and data pipeline will help the FEC streamline the processing of information provided to the public while at the same time improve the systems and tools used by agency staff to provide services to the public and ensure compliance with the campaign finance law.

In FY 2018, the FEC completed the migration of its website and one of its campaign finance databases from a physical datacenter to a cloud environment, allowing the agency to shut down one of its physical datacenters. This migration effort allowed the agency to reduce its physical datacenter footprint by 25 percent.

During FY 2020, the FEC conducted a study of its remaining legacy systems to develop a cloud migration plan for these legacy applications and systems. The cloud migration plan developed during FY 2020 also included recommendations for migrating the FEC's disaster recovery environment and the FEC's primary campaign finance database to a cloud environment.

During FY 2022, the FEC completed migrating legacy mission critical applications, systems and databases identified in the cloud migration plan. In FY 2023, the FEC will continue to migrate network and storage devices and shut down our physical, datacenter-based disaster recovery site. The agency is also focused on reducing the footprint of its on-premise data center and will continue these efforts.

In FY 2023, the agency will begin to modernize and refactor the legacy systems that now reside in the cloud to adopt a cloud-native architecture. This project will include modernizing the data pipeline to help improve the processing of data, as well as automating parts of the review process, that lend themselves to machine learning, based on review standards used by our Reports Analysis Division to check compliance with FECA.

In addition, the Commission's records management program continues to make advancements. FY 2023 will bring continued focus on updating the agency's Records Management Program and training staff on the agency and governmentwide records schedules, policies and responsibilities.

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

Key Indicator: Commission-required quarterly updates meet targeted performance goals.								
FY 2017 Actual	FY 2018 Actual	FY 2019 Actual	FY 2020 Actual	FY 2021 Actual	FY 2022 Target	FY 2022 Actual	FY 2023 Target	FY 2024 Target
85%	73%	53%[14]	73%[15]	87%[16]	65%	87%[17]	65%	65%

14 The agency's ability to meet its target for this performance goal during FY 2019 was negatively impacted by the lapse in appropriations from December 22, 2018 to January 25, 2019.

15 The agency's performance under this measure was negatively impacted by the lack of a quorum for most of FY 2020.

16 The agency's ability to meet its target for this performance goal during FY 2021 was negatively impacted by staff shortages and an unprecedented volume of filings received during the 2020 election cycle.

17 The agency's ability to meet its target for this performance goal during FY 2022 was negatively impacted by the lack of a quorum for most of 2020 and staffing shortages during FY 2022.

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

The FEC's FY 2022 financial statements and notes are presented in the required format in accordance with OMB Circular A-136, as revised, *Financial Reporting Requirements*. The FEC's current-year financial statements and notes are presented in a comparative format in Section II of this report.

The following table summarizes the significant changes in the FEC's financial position during FY 2022:

Net Financial Condition	FY 2022	FY 2021	Increase (Decrease)	% Change
Assets	$29,142,534	$30,745,200	($1,602,666)	-5%
Liabilities	$14,835,598	$15,700,060	($864,462)	-6%
Net Position	$14,306,936	$15,045,141	($738,205)	-5%
Net Cost	$76,498,559	$77,960,050	($1,461,491)	-2%
Budgetary Resources	$81,666,693	$78,363,771	$3,302,922	4%
Custodial Revenue	$2,670,910	$1,590,976	$1,079,934	68%

The following is a brief description of the nature of each required financial statement and its relevance. The effects of some significant balances or conditions on the FEC's operations are explained.

Balance Sheet

The Balance Sheet presents the total amounts available for use by the FEC (assets) against the amounts owed (liabilities) and amounts that comprise the difference (Net Position). As a small independent agency, all of the FEC's assets consist of Fund Balance with Treasury (FBWT), Property and Equipment (P&E) and Accounts Receivable. Fund Balance with Treasury (i.e., cash) is available through the Department of Treasury accounts, from which the FEC is authorized to make expenditures (i.e., obligations) and payments. FBWT increased by approximately $1.8 million, or 9 percent, from the prior year.

Accounts Receivable primarily represent amounts due from the public for fines and penalties assessed by the FEC and referred to Treasury for collection, as deemed appropriate. In compliance with the *Debt Collection Improvement Act of 1996* (DCIA), the OCFO takes into consideration the most appropriate approach to debt management. These amounts are not available for FEC operations and are sent to the U.S. Treasury as miscellaneous receipts. Net accounts receivable increased by approximately $86 thousand, or 13.6%, from the prior year.

Total assets decreased by $1.6 million from the prior year to $29.1 million. Total liabilities decreased by approximately $864 thousand.

Statement of Net Cost

The Statement of Net Cost presents the annual cost of operating the FEC program. Gross costs are used to arrive at the total net cost of operations. The FEC's total gross costs in administering the *FECA* experienced a 2% decrease from the prior year.

Statement of Changes in Net Position

The Statement of Changes in Net Position presents in greater detail the net position section of the Balance Sheet, including Cumulative Results of Operations and Unexpended Appropriations. This statement identifies the activity that caused the net position to change during the reporting period. Total Net Position decreased by 5 percent, or approximately $738 thousand.

Statement of Budgetary Resources

The Statement of Budgetary Resources provides information on the source and status of budgetary resources made available to the FEC during the reporting period. It presents the relationship between budget authority and budget outlays, as well as the reconciliation of obligations to total outlays. Total Budgetary Resources and Status of Budgetary Resources increased by approximately $3.3 million, or 4 percent, from the prior year.

Statement of Custodial Activity

The Statement of Custodial Activity represents an accounting of revenue and funds collected by the FEC that are owed to the U.S. Treasury's general fund. These monies are not available for the FEC's use. Collection and revenue activity primarily result from enforcement actions that come before the Commission during the fiscal year. Revenue and collections on the Statement of Custodial Activity consist of collections on new assessments, prior year(s) receivables and miscellaneous receipts. In FY 2022, the total custodial revenue and collections increased by approximately $1.1 million from the prior year.

The chart below displays the assessment history for the past 20 years.[18]

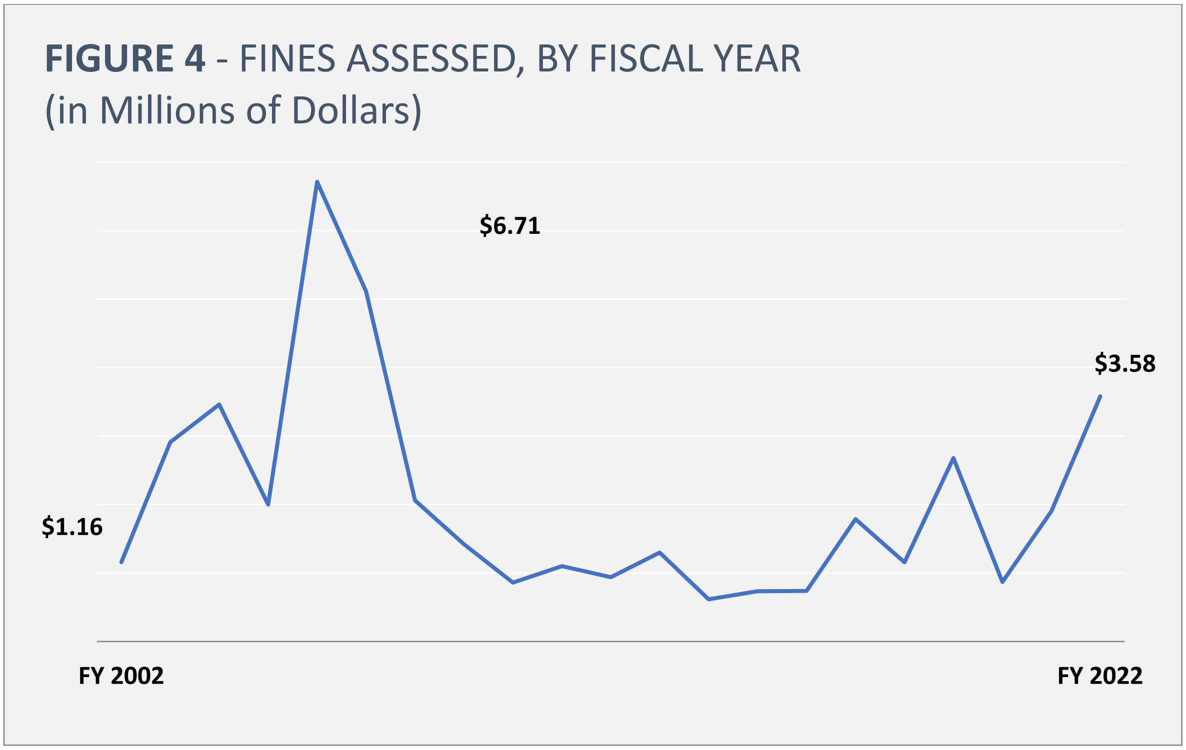

Figure 4: Fines Assessed, by Fiscal Year (in millions of dollars)

Financial impact, if significant, of the coronavirus disease 2019 (COVID-19)

The FY22 financial impact of the coronavirus disease 2019 on the Federal Election Commission was not extremely significant. Approximately $13,000 was spent on COVID-19 PPE Equipment, Supplies, Equipment, Signage, and Mitigation Countermeasures. This amount represents a 30% increase in COVID-related spending as compared to FY21. This increase is due to the enhanced on-site preparations that occurred to prepare the agency for an official return to work, following the expiration of the evacuation order, in February 2022. These expenditures were made with FY22 appropriated funds allocated to the Administrative Services Division (ASD) TUHS3302 within the scope of their normal budgetary purchasing authorities as outlined in the Management Plan. Expenditures were made either with the ASD Government Purchase Card, or through the GSA Advantage Supply Ordering Mechanism under the Supply & Materials Budget Object Class Code 26 Supplies and Materials. COVID-19 spending utilized approximately 38% of the Supplies and Materials of the ASD Budget for FY22.

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

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

I.D.i – FEC Integrated Internal Control Framework and Legal Compliance

The Commission is subject to numerous legislative and regulatory requirements that promote and support effective internal controls. The FEC complies with the following laws and regulations:

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

The Antideficiency Act of 1884, as amended;

Inspector General Act of 1978, as amended;

Federal Managers' Financial Integrity Act of 1982;

Federal Civil Penalties Inflation Adjustment Act of 1990;

Government Performance and Results Act of 1993, as amended;

Federal Financial Management Improvement Act of 1996;

Clinger-Cohen Act of 1996;

Debt Collection Improvement Act of 1996, as amended; and

Chief Financial Officers Act, as amended by the *Accountability of Tax Dollars Act of 2002*

The proper stewardship of Federal resources is a fundamental responsibility of the FEC. These laws help the FEC improve the management of its programs and financial operations and assure that programs are managed in compliance with applicable law.

I.D.ii – Management Assurances

The *Federal Managers' Financial Integrity Act of 1982* (*FMFIA*) is implemented by OMB Circular A-123, revised, *Management's Responsibility for Enterprise Risk Management and Internal Control,* with applicable appendices. The FEC management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the *FMFIA* and for performing a self-assessment under the guidance of its Directive 53, *Implementation of OMB Circular A-123, Internal Control Review*. Directive 53 outlines the process and describes roles and responsibilities for conducting risk assessments and internal control reviews.

Section 2 of the *FMFIA* requires Federal agencies to report, based on annual assessments, any material weaknesses that have been identified in connection with their internal and administrative controls. The reviews that took place during FY 2022 provide unqualified assurance that FEC systems and management controls comply with the requirements of the *FMFIA*.

Section 4 of the *FMFIA* requires that agencies annually provide assurance on programmatic internal controls and financial management systems, and effectiveness of internal control over financial reporting. The FEC evaluated its financial management systems in accordance with the *FMFIA*, OMB Circular A-123, as applicable, and reviewed the Statements on Standards for Attestation Engagements, Reporting on Controls at a Service Organization (SSAE 18) reports received from its shared service providers. The results of management reviews provided that the FEC's financial systems controls generally conform to the required principles and standards as per Section 4 of the *FMFIA*.

Enterprise Risk Management

In the current fiscal year, the FEC, led by the Senior Management Council (SMC), updated its Enterprise Risk Management (ERM) Risk Profile which captures enterprise level risks, as required by the revised OMB Circular A-123. The SMC identified a total of thirteen enterprise level risks the agency faces when seeking to achieve strategic, operational, and compliance objectives and rated these risk as being a medium or high inherent risk. The Risk Profile was delivered to the Office of the Inspector General (OIG) and OMB. The SMC looks forward to continuing to work closely with OIG to remediate any weaknesses which the OIG may deem to be at the level of a material weakness.

Prompt Payment Act

The *Prompt Payment Act* (*PPA*) requires Federal agencies to make timely vendor payments and to pay interest penalties when payments are late. The FEC's on-time payment rate for FY 2022 was nearly 100 percent, with less than 0.38 percent of all invoices paid after the date required by the *PPA*.

Improper Payments

The *Improper Payments Information Act (IPIA) of 2002,* as amended by the *Improper Payments Elimination and Recovery Act (IPERA) of 2010, Improper Payments Elimination and Recovery Improvement Act (IPERIA) of 2012,* and the *Payment Integrity Information Act (PIIA) of 2019* and OMB guidance require agencies to identify programs that are susceptible to significant improper payments and determine an annual estimated amount of improper payments made in their operations. The FEC reviewed all of its programs and activities to identify those susceptible to significant improper payments. Approximately 71 percent of the FEC's obligations pertain to salaries and benefits, which represents a low risk for improper payments, based on established internal controls. The FEC also reviewed all of its non-personnel procurements, charge card, and payroll costs to verify their accuracy and completeness. Accordingly, the FEC is unaware of any improper payments. The FEC continues to monitor its payment and internal control process to ensure that the risk of improper payments remains low.

Annual Assurance Statement on Internal Control

FEDERAL ELECTION COMMISSION
Washington, DC 20463

Annual Assurance Statement on Internal Control

The Federal Election Commission (FEC) is responsible for managing risks and maintaining effective internal control to meet the objectives of Sections 2 and 4 of the *Federal Managers' Financial Integrity Act*. The FEC conducted its assessment of risk and internal control in accordance with OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. Based on the results of the assessment, the Agency can provide reasonable assurance that internal control over operations, reporting, and compliance were operating effectively as of September 30, 2022.

Allen Dickerson
Chairman

Section I.E: Limitations of the Financial Statements

The principal financial statements have been prepared to report the financial position and results of operations of the FEC pursuant to the requirements of 31 U.S.C. §3515(b). While the statements have been prepared from the books and records of the FEC in accordance with United States generally accepted accounting principles (GAAP) for Federal entities and the formats prescribed by the OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

Section I.F: Forward-Looking Information

Changes in the way political committees raise and spend funds have contributed to a stark increase in the number of transactions disclosed to the FEC. During the 2020 election cycle, filers reported more than 600 million financial transactions, which were reviewed by FEC staff and disclosed to the public on the FEC's website. This is more than double the number of transactions reported in the previous election cycle, and a nearly 400% increase compared to 2016, the previous presidential election cycle. This ever-growing volume of campaign finance disclosure data must be received, processed and made available to the public within the agency's tight deadlines for public disclosure, and must be safeguarded to ensure the integrity and accessibility of the information. Aside from the substantial increase in the number of transactions reported to the FEC, the FEC website's Application Programming Interface (API), which permits users to customize data searches making vast quantities of campaign finance data readily available, received over 407 million hits during the 2020 election cycle and is expected to receive more in the 2022 cycle. With the steep rise in transactions reported every election cycle comes a heavier burden on the FEC's API to quickly search across the FEC's campaign finance database and display the data requested by the public. It is crucial for the agency to continue to implement new programs and modernize its systems to ensure the timely disclosure of this increasing volume of campaign finance data.

The FEC continues to confront a heavy workload alongside relatively flat funding levels that have contributed to the reduced staffing levels the FEC has seen over the past several years. Over the past decade, the FEC has been able to meet its statutory mission primarily due to efficiencies gained by reassigning staff using details, maximizing operational efficiencies through reorganizations, and improving technology and processes, among other efficiencies. However, in recent years the FEC has begun to exhaust the benefits that can be gained through such efficiencies and has, in some situations, reduced performance targets in response to these reductions in staffing amid increasing campaign finance activity. The FEC intends to continue its efforts to maintain the current high performance of staff and the excellent service that they provide to the public. A critical part of this effort is promoting adequate staffing levels across the agency.

SECTION II – Auditor's Report and Financial Statements

Message from the Chief Financial Officer

November 15, 2022

I am pleased to present the Commission's financial statements for Fiscal Year (FY) 2022. The financial statements are an integral part of the Agency Financial Report. For the fourteenth consecutive year, the Commission received an unmodified (clean) opinion on its financial statements from the independent auditor. Also, the agency made progress in improving its control environment by closing four previous year recommendations.

During fiscal year 2022, FEC also worked to respond to management challenges and recommendations made by independent auditors. For instance, working through its Senior Management Council, the agency reduced outstanding recommendations provided by the Office of the Inspector General to 12. The FEC also continues to review any inadequacies identified by independent auditors and will implement corrective action plans within the year, as required by Commission directive.

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

Sincerely,

John Quinlan

John Quinlan
Chief Financial Officer

OIG Transmittal Letter

Federal Election Commission
Office *of the* Inspector General

MEMORANDUM

TO: The Commission

FROM: Christopher Skinner

SUBJECT: Transmittal of the Federal Election Commission's Fiscal Year 2022 Financial Statement Audit Report

DATE: November 14, 2022

Pursuant to the Chief Financial Officers Act of 1990, as amended, this memorandum transmits the Independent Auditor's Report issued by Brown & Company Certified Public Accountants and Management Consultants, PLLC (Brown & Company) for the fiscal year (FY) ending September 30, 2022. Enclosed you will find the Independent Auditor's final audit report on the FEC (*i.e.*, the "FEC" or "Commission") FY 2022 Financial Statements. The final audit report is additionally included in Section II of the FEC's FY 2022 Agency Financial Report.

The audit was performed under a contract with, and monitored by, the OIG in accordance with generally accepted government auditing standards, the Comptroller General's *Government Auditing Standards*, and applicable provisions of Office of Management and Budget (OMB) Bulletin No. 22-01, *Audit Requirements for Federal Financial Statements*.

In Brown & Company's opinion, the FEC financial statements present fairly, in all material respects, the financial position, net cost, changes in net position, and budgetary resources for the year ending September 30, 2022, in accordance with U.S. generally accepted accounting principles.

Additionally, due to the Commission's position that it is legally exempt from the Federal Information Systems Management Act (FISMA), the OIG requires an assessment of the agency's Information Technology (IT) systems security controls. Accordingly, the audit included an examination of the Commission's IT security in comparison to government-wide best practices. The OIG acknowledges that the independent auditors are only required to explicitly opine on internal controls that have a material impact on agency financial statement reporting.

Brown & Company did not report any material weaknesses but did identify three significant deficiencies related to the FEC's IT security internal controls. All four open recommendations from the prior year audit report have been closed. Management was provided a draft copy of the audit report for review and comment. The official management response is included in Exhibit C.

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The OIG reviewed Brown & Company's report and related documentation and provided the required oversight throughout the course of the audit. Our review ensures the accuracy of the audit conclusions but may not express an opinion of the results. The OIG's review determined that Brown & Company complied with applicable required Government Auditing Standards.

We appreciate the collaboration and support from FEC staff and the professionalism that Brown & Company exercised throughout the course of the audit. If you have any questions concerning the enclosed report, please contact Ms. Shellie Purnell-Brown at (202) 694-1019.

Thank you.

cc: John Quinlan, Chief Financial Officer
Alec Palmer, Staff Director/Chief Information Officer
Lisa Stevenson, Acting General Counsel
Gilbert A. Ford, Director of Budget
Greg Baker, Deputy General Counsel
Kate Higginbothom, Deputy Staff Director for Management and Administration

Independent Auditor's Report

FEDERAL ELECTION COMMISSION

INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS

FOR THE YEARS ENDED
SEPTEMBER 30, 2022 AND 2021

Prepared By
Brown & Company CPAs and Management Consultants, PLLC
November 14, 2022

BROWN & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS, PLLC

INDEPENDENT AUDITOR'S REPORT

Inspector General
Federal Election Commission
Washington, D.C.

In our audits of the fiscal years 2022 and 2021 financial statements of the Federal Election Commission (FEC), we found:

- FEC's financial statements as of and for the fiscal years ended September 30, 2022, and 2021, are presented fairly, in all material respects, in accordance with United States of America (U.S.) generally accepted accounting principles;

- no material weaknesses in internal control over financial reporting based on the limited procedures we performed;

- no reportable noncompliance with provisions of applicable laws, regulations, contracts, and grant agreements for fiscal year 2022.

The following sections discuss in more detail (1) our report on the financial statements, which includes required supplementary information (RSI)[1] and other information included with the financial statements[2]; (2) our report on internal control over financial reporting; (3) our report on compliance with laws, regulations, contracts, and grant agreements.

Report on the Financial Statements

Opinion

In accordance with the provisions of the Accountability of Tax Dollars Act of 2002 (ATDA) (Pub. L. No. 107-289), we have audited FEC's financial statements. FEC's financial statements comprise the balance sheets as of September 30, 2022, and 2021; the related statements of net cost, changes in net position, and budgetary resources for the fiscal years then ended; and the related notes to the financial statements. In our opinion, FEC's financial statements present fairly, in all material respects, FEC's financial position as of September 30, 2022, and 2021, and its net costs of operations, changes in net position, and budgetary resources for the fiscal years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with U.S. generally accepted government auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit

[1] The RSI consists of Management's Discussion and Analysis and the Statement of Budgetary Resources, which are included with the financial statements.
[2] Other information consists of information included with the financial statements, other than the RSI, Financial section, and the auditor's report.

of the Financial Statements section of our report. We are required to be independent of FEC and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibility of Management for the Financial Statements

FEC management is responsible for (1) the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; (2) preparing, measuring, and presenting the RSI in accordance with U.S. generally accepted accounting principles; (3) preparing and presenting other information included in FEC's agency financial report, and ensuring the consistency of that information with the audited financial statements and the RSI; and (4) designing, implementing, and maintaining effective internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit of the financial statements conducted in accordance with U.S. generally accepted government auditing standards will always detect a material misstatement or a material weakness when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered to be material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with U.S. generally accepted government auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements in order to obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtain an understanding of internal control relevant to our audit of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of FEC's internal control over financial reporting. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Perform other procedures we consider necessary in the circumstances.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the financial statement audit.

Required Supplementary Information

U.S. generally accepted accounting principles issued by the Federal Accounting Standards Advisory Board (FASAB) require that the RSI be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by FASAB, which considers it to be an essential part of financial reporting for placing the financial statements in appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with U.S. generally accepted government auditing standards, which consisted of inquiries of management about the methods of preparing the RSI and comparing the information for consistency with management's responses to the auditor's inquiries, the financial statements, and other knowledge we obtained during the audit of the financial statements, in order to report omissions or material departures from FASAB guidelines, if any, identified by these limited procedures. We did not audit and we do not express an opinion or provide any assurance on the RSI because the limited procedures we applied do not provide sufficient evidence to express an opinion or provide any assurance.

Other Information

FEC's other information contains a wide range of information, some of which is not directly related to the financial statements. This information is presented for purposes of additional analysis and is not a required part of the financial statements or the RSI. Management is responsible for the other information included in FEC's agency financial report. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Report on Internal Control over Financial Reporting

In connection with our audits of FEC's financial statements, we considered FEC's internal control over financial reporting, consistent with our auditor's responsibilities discussed below.

Results of Our Consideration of Internal Control over Financial Reporting

Our consideration of internal control was for the limited purpose described below, and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies[3] or to express an opinion on the effectiveness of FEC's internal control over financial reporting. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting

[3] A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

During our FY 2022 audit, we identified three findings and recommendations related to FEC's internal control over financial reporting which are considered to be significant deficiencies. For more details on these findings and recommendations see below and Exhibit A.

- Finding # 2022-01 FEC Needs to Remediate Critical-Level and High-Level Vulnerabilities
- Finding # 2022-02 FEC Needs to Improve Control over User Account Management
- Finding # 2022-03 FEC Needs to Approve Its Configuration Management Procedures

During our FY 2022 audit, we identified deficiencies in FEC's internal control over financial reporting that we do not consider to be material weaknesses or significant deficiencies. Nonetheless, these deficiencies warrant FEC's management's attention. We communicated these matters to FEC management and, where appropriate, will report on them separately.

<u>Basis for Results of Our Consideration of Internal Control over Financial Reporting</u>

We performed our procedures related to FEC's internal control over financial reporting in accordance with U.S. generally accepted government auditing standards.

<u>Responsibilities of Management for Internal Control over Financial Reporting</u>

FEC management is responsible for designing, implementing, and maintaining effective internal control over financial reporting relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

<u>Auditor's Responsibilities for Internal Control over Financial Reporting</u>

In planning and performing our audit of FEC's financial statements as of and for the fiscal year ended September 30, 2022, in accordance with U.S. generally accepted government auditing standards, we considered FEC's internal control relevant to the financial statement audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of FEC's internal control over financial reporting. Accordingly, we do not express an opinion on FEC's internal control over financial reporting. We are required to report all deficiencies that are considered to be significant deficiencies or material weaknesses. We did not consider all internal controls relevant to operating objectives, such as those controls relevant to preparing performance information and ensuring efficient operations.

<u>Definition and Inherent Limitations of Internal Control over Financial Reporting</u>

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, the objectives of which are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition, and (2) transactions are executed in accordance with provisions of applicable laws, including those governing the use of budget authority, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements due to fraud or error.

Intended Purpose of Report on Internal Control over Financial Reporting

The purpose of this report is solely to describe the scope of our consideration of FEC's internal control over financial reporting and the results of our procedures, and not to provide an opinion on the effectiveness of FEC's internal control over financial reporting. This report is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering internal control over financial reporting. Accordingly, this report on internal control over financial reporting is not suitable for any other purpose.

Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

In connection with our audits of FEC's financial statements, we tested compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements consistent with our auditor's responsibilities discussed below.

Results of Our Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements

Our tests for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance for fiscal year 2022 that would be reportable under U.S. generally accepted government auditing standards. However, the objective of our tests was not to provide an opinion on compliance with laws, regulations, contracts, and grant agreements applicable to FEC. Accordingly, we do not express such an opinion.

Basis for Results of Our Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements

We performed our tests of compliance in accordance with U.S. generally accepted government auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for Tests of Compliance section below.

Responsibilities of Management for Compliance with Laws, Regulations, Contracts, and Grant Agreements

FEC management is responsible for complying with laws, regulations, contracts, and grant agreements applicable to FEC.

Auditor's Responsibilities for Tests of Compliance with Laws, Regulations, Contracts, and Grant Agreements

Our responsibility is to test compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements applicable to FEC that have a direct effect on the determination of material amounts and disclosures in FEC's financial statements, and to perform certain other limited procedures. Accordingly, we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to FEC. We caution that noncompliance may occur and not be detected by these tests.

Intended Purpose of Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

The purpose of this report is solely to describe the scope of our testing of compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements, and the results of that testing, and not to provide an opinion on compliance. This report is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering compliance. Accordingly, this report on compliance with laws, regulations, contracts, and grant agreements is not suitable for any other purpose.

Status of Prior Year's Findings and Recommendations

We have reviewed the status of open recommendations from the FY 2021 Independent Auditor's Report, dated November 12, 2021, and all prior year recommendations were closed. Details of prior year recommendations is presented in Exhibit B.

Management's Response to the Auditor's Report

Management has presented a response to the findings identified in our report. Management's response to the report is presented in Exhibit C. We did not audit FEC's response and, accordingly, we express no opinion on it.

Evaluation of Management's Response to the Auditor's Report

In response to the draft report, FEC provided its plans to address the findings, and agreed with the recommendations to improve information system security controls. FEC comments are included in their entirety in Exhibit C.

Beam & Company

Greenbelt, Maryland
November 14, 2022

Exhibit A - Significant Deficiencies
Effectiveness of Information System Controls Over Financial Reporting
Findings and Recommendations

IT Finding # 2022-01: FEC Needs to Remediate Critical-Level and High-Level Vulnerabilities

Condition:

Brown and Company examined the FEC Office of Chief Information Officer (OCIO) Plan of Action and Milestone (POA&M) report dated September 7, 2022 and noted critical-level and high-level vulnerabilities were not remediated within the timeframe required by the FEC OCIO System Security Plan (SSP).

The FEC OCIO PO&AM showed 24 out of 47, or 49% critical-level vulnerabilities, and 43 out of 70 or 39% high-level vulnerabilities were closed in FY 22. However, 23 (51%) critical-level (ranging from 278 to 478 days outstanding) and 27 (61%) high-level (ranging from 278 to 538 days outstanding) vulnerabilities remain open past the FEC requirements. See Table-1 Vulnerability Table below.

Specifically, critical-level and high-level vulnerabilities were not timely resolved for Window STIG baseline, McAfee Antivirus detection software, unsupported software, and missing patches.

Table -1 Vulnerability Table

Vulnerabilities	Total	Open	Closed
Critical-level	47	23	24
High-level	70	27	43

Criteria:

NIST SP 800-53, Revision 5.1, *Security and Privacy Controls for Information Systems and Organization*, states the following:

"RA-5 VULNERABILITY MONITORING AND SCANNING

a. Monitor and scan for vulnerabilities in the system and hosted applications [Assignment: organization-defined frequency and/or randomly in accordance with organization- defined process] and when new vulnerabilities potentially affecting the system are identified and reported;
b. Employ vulnerability monitoring tools and techniques that facilitate interoperability among tools and automate parts of the vulnerability management process by using standards for:
    1. Enumerating platforms, software flaws, and improper configurations;
    2. Formatting checklists and test procedures; and
    3. Measuring vulnerability impact.
c. Analyze vulnerability scan reports and results from vulnerability monitoring;
d. Remediate legitimate vulnerabilities [Assignment: organization-defined response times] in accordance with an organizational assessment of risk;
e. Share information obtained from the vulnerability monitoring process and control assessments with [Assignment: organization-defined personnel or roles] to help eliminate similar vulnerabilities in other systems; and

f. Employ vulnerability monitoring tools that include the capability to readily update the vulnerabilities to be scanned."

"SI-2 FLAW REMEDIATION

a. Identify, report, and correct system flaws;
b. Test software and firmware updates related to flaw remediation for effectiveness and potential side effects before installation;
c. Install security-relevant software and firmware updates within [Assignment: organization-defined time period] of the release of the updates; and
d. Incorporate flaw remediation into the organizational configuration management process."

FEC OCIO FECLAN System Security Plan (SSP):

"The FEC OCIO FECLAN SSP requires staff to remediate vulnerabilities within 30 days for critical-level risk, 45 days for high-level risk, 90 days for medium-level risk, and 180-days for low-level risk."

Cause:

FEC OCIO runs vulnerability scans weekly and monthly for its network and applications; however, flaw remediation controls were not consistently implemented to remediate known vulnerabilities due to a lack of resources and outdated equipment.

Effect:

Unmitigated vulnerabilities on FEC's network can compromise the confidentiality, integrity, and availability of the FEC data. For example:

- An attacker may leverage known issues to execute arbitrary code.
- Foundation employees may be unable to access systems.
- Foundation data may be compromised.

Recommendation 1:

We recommend FEC OCIO remediate critical-level and high-level vulnerabilities according to the FEC System Security Plan.

IT Finding # 2022-02: FEC Needs to Improve Control over User Account Management Condition:

During FY 2022, the FEC management did not disable user accounts timely for separated employees in accordance with the agency's account management policy and procedures.

On August 1 2022, FEC management recertified user accounts for the US Bank Purchase Card system. FEC's recertification schedule identified two separated users who were removed from the US Bank Purchase Card system but not disabled in the FEC Microsoft Active Directory system. These two users separated from FEC in 2020, but access accounts were not deactivated until 2022.

Table 1 lists the two separated users' names, separation dates, and deactivation dates in the FEC Microsoft Active Directory.

User Name	Separation Date	Deactivation Date
Carmen Robinson	10/29/2020	9/23/2022
Shayla Walker	4/15/2020	9/23/2022

Criteria:

NIST Special Publication (SP) 800-53, Revision 5.1 (Rev. 4), *Security and Privacy Controls for Information Systems and Organizations,* Security Control AC-2 Account Management, states the following:

"Control: The organization:

f. Creates, enables, modifies, disables, and removes information system accounts in accordance with [Assignment: organization-defined procedures or conditions];"

FEC Account Management Policy**,** states:

"Accounts of users terminated under non-hostile circumstances should be suspended not later than the close of business (8:00 p.m.) of their final day of employment."

Cause:

FEC management has not implemented sufficient account management controls to ensure separated employee user accounts are deactivated timely in accordance with the agency's policy.

Effect:

FEC's Microsoft Active Directory user accounts allow users to log on and access the FEC network resources. By not disabling the user accounts according to the agency's account management policy and procedures, there is an increased risk a user could gain or retain unauthorized access and/or perform unauthorized functions and transactions within FEC systems.

Recommendation 2:

We recommend the FEC OCIO establish controls to ensure user accounts are deactivated timely when employees separate from the agency.

IT Finding #2022-03: FEC Needs to Approve Its Configuration Management Procedures

Condition:

The FEC OCIO Configuration Management Policy requires management to identify, document, and obtain approval of any deviations from established configuration settings for all components based on FEC policies and procedures. The FEC has established configuration settings for its laptops using Windows 10 Security Technical Implementation Guide (STIG). However, FEC OCIO failed to obtain written approval for the deviations implemented for Windows 10 laptops as required by FEC's policy.

The FEC OCIO Security Content Automation Protocol (SCAP) Compliance Checker Report (dated July 14, 2022) showed that FEC OCIO implemented 191 (91%) out of 210 STIG configuration settings recommended for Windows 10 devices. Four of the 19 non-compliant settings were not implemented, and fifteen were compensating controls that deviated from STIG. Table 2 summarizes the FEC OCIO status of the 19 non-compliance STIG settings.

Table 2 – Window laptop non-compliance STIG settings

Windows 10 Security Technical Implementation Guide (STIG). Status of the non-compliant security controls.	Number of non-compliant security controls
Control was not implemented; FEC OCIO noted a compensating control was implemented to meet the security standards	15
Control was not implemented: FEC OCIO noted controls are currently being tested	2
Control was not implemented: FEC OCIO noted the control is being tested in its development environment	1
Control was not implemented: FEC OCIO did not provide explanation	1
Total non-compliant security controls	**19**

Criteria:

NIST Special Publication (SP) 800-53, Revision 5.1, *Security and Privacy Controls for Information Systems and Organizations,* Security Control CM-6 Configuration Settings, states the following:

"Control: The organization:

a. Establish and document configuration settings for components employed within the system that reflect the most restrictive mode consistent with operational requirements using [Assignment: organization-defined common secure configurations];
b. Implement the configuration settings;
c. Identify, document, and approve any deviations from established configuration settings for [Assignment: organization-defined system components] based on [Assignment: organization-defined operational requirements]; and
d. Monitor and control changes to the configuration settings in accordance with organizational policies and procedures."

NIST Special Publication 800-128, Guide for Security-Focused Configuration Management of Information Systems, states the following:

"Develop Organizational SecCM Procedures

…

Common Secure Configurations –Deviations from the common secure configurations are also addressed (e.g., identification of acceptable methods for assessing, approving, documenting, and justifying deviations to common secure configurations, along with identification of controls implemented to mitigate risk from the deviations), in the event that the configuration for a given system must diverge from the defined configuration due to mission requirements or other constraints

…"

***FEC Office Of Chief Information Officer (OCIO), FECLAN System Security Plan (SSP),* requires**

FEC OCIO staff to identify, document, and obtain approval of any deviations from established configuration settings for all components based on FEC policies and procedures.

Cause:

FEC management does not formally document the control procedure for identifying and obtaining approval for deviations from established configuration settings.

Effect:

Implementing configuration setting deviations not approved by management increases the risk of introducing functional problems within the agency's network. For example, a deviated configuration setting may close a port or stop a service that is needed for an operating system or application functionality.

Recommendation 3:

We recommend the FEC OCIO document and maintain evidence that the controls for identifying and obtaining management's approval for deviations from its established configuration settings for Windows 10 devices is performed on a consistent basis.

Exhibit B – Status of Prior Year's Finding and Recommendations

Status of FY 2021 Prior Year's Audit Recommendations	Status as of September 30, 2022
2020-01 We recommend the FEC OCIO in conjunction with the direct managers perform and document periodic user access reviews for FEC systems according to the agency's system security plan.	Closed
2020-03: We recommend the FEC OCIO utilize lessons learned from the COVID-19 pandemic to determine if any revisions are need to the Continuity of Operation Plan, and schedule periodic testing.	Closed
2020-04: We recommend that the FEC develop system- specific contingency plans, as appropriate for the agency risk level. (Repeat Recommendation)	Closed
2020-05: We recommend the FEC OCIO implement an effective procedure to enforce compliance with the security awareness training policy to ensure all system users complete security training in accordance with the FEC *Security Training and Awareness Policy*.	Closed

Exhibit C - Management's Response to the Auditor's Report

THE FEDERAL ELECTION COMMISSION
Washington, DC 20463

November 14, 2022

On behalf of the Federal Election Commission (FEC) Management, I would like to thank the FEC Office of Inspector General and Brown and Company for their diligent work auditing the FEC's FY 2022 financial statements. The unmodified opinion that you rendered is reflective of the hard work and continued process improvements made by the FEC staff.

On Behalf of Management,

John Quinlan

John Quinlan
Chief Financial Officer

IT Finding # 2022-01 FEC Needs to Remediate Critical-Level and High-Level Vulnerabilities.

Recommendation #1:
We recommend FEC OCIO remediate critical-level and high-level vulnerabilities according to the FEC System Security Plan.

Management Response:
___X_ Management concurs with this finding.
_____ Management does not concur with this finding.

Management's Response:
OCIO acknowledges the vulnerabilities shown in the plan of actions and milestones report as submitted to the auditors exist and that they have yet to be remediated but should be as soon as possible. OCIO has a plan to remediate most of these in place now; however, budgetary constraints have limited our ability to put that plan into action until recently. In the case of vulnerabilities affecting legacy application servers, OCIO has put compensating controls into place when it cannot replace the server.

In many cases, these outstanding items relate to Windows settings on 45 older laptops that are too old to accept the patches rolled out to remediate those vulnerabilities. This means that to remediate the vulnerabilities, OCIO will need to replace those laptops. Unfortunately, although OCIO has requested funding for replacement equipment for the past few fiscal years, it has not been available due to other budgetary priorities for the agency. This year, end-of-year funds became available and OCIO completed the procurement process to obtain the replacement laptops. A contract to supply the laptops was awarded in September 2022 and the new laptops were received in late October 2022. Currently, OCIO is working on configuring the new laptops to include the needed patches and upgrades that will remediate those vulnerabilities.

In the case of several Apache Tomcat servers with vulnerabilities, these servers relate to mission-critical legacy applications. Should OCIO put remediations in place, it may render those applications unusable and cause agency staff to be unable to accomplish their duties and mission. Instead, OCIO's SecOps team has put into place compensating controls using the CrowdStrike Endpoint Detection and Response and McAfee applications. Those applications help protect the agency from cybersecurity intrusions.

IT Finding 2022-02: FEC Needs to Improve Control over User Account Management

Recommendation #2:
We recommend the FEC OCIO establish controls to ensure user accounts are deactivated timely when employees separate from the agency.

Management Response:
___X_ Management concurs with this finding.
_____ Management does not concur with this finding.

Management's Response:
OCIO agrees that it is essential to disable user accounts of separating employees on the final day of their employment with the FEC. Thus, it has established controls and a workflow via the FEC's Federal Systems Access (FSA) process to ensure user accounts are deactivated timely when employees separate. OCIO strives to ensure that accounts are de-activated as soon as the employee separation request is input by OHR and received by OCIO in FSA, but no later than 8 p.m. of the day of the employee's separation.

In the case of the two employees who separated in 2020, a revised version of the FSA system was in the development stage and an anomaly in the FSA system failed to trigger the notification to OCIO that the two accounts needed de-activation. That bug has since been fixed and no longer occurs. When these two employees' accounts were brought to OCIO's attention, OCIO worked with OHR to determine if their separation requests had been submitted. OHR provided documentation that FSA separation requests had been timely submitted. OCIO quickly took action to disable their accounts and doublechecked the list of FEC Active Directory users to ensure no other separated employees were similarly impacted.

Going forward, OCIO believes the combination of the annual recertification by business owners of the users for financial systems coupled with regular review of the active system users along with the current controls and workflow will help ensure that user accounts are timely de-activated when an employee separates from the agency.

IT Finding # 2022-03 FEC Needs to Approve Its Configuration Management Procedures

Recommendation #3:
We recommend the FEC OCIO document and maintain evidence that the controls for identifying and obtaining management's approval for deviations from its established configuration settings for Windows 10 devices is performed on a consistent basis.

Management Response:
__X__ Management concurs with this finding.
_____ Management does not concur with this finding.

If you disagree, please provide comment:

Management response:
OCIO currently identifies, documents and obtains management's approval of deviations from established settings in a risk acceptance spreadsheet. The documentation includes descriptions of the deviation, the justification for risk acceptance and the applicable compensating controls. OCIO agrees with the auditors that the documentation is improved by adding columns for "Approved By" and "Approval Date" to the spreadsheet to indicate the approving manager and the date the approval was given. In response to the NFR, OCIO updated its spreadsheet to add those columns and provided that documentation to the auditors.

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

Financial Statements

BALANCE SHEET
As of September 30, 2022 and 2021

	2022	2021
Assets: (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 23,848,202	$ 21,955,438
Total Intragovernmental Assets	23,848,202	21,955,438
Other Than Intragovernmental:		
Accounts Receivable, net (Note 4)	718,867	632,862
General Property, Plant and Equipment, Net (Note 5)	4,575,465	8,156,901
Total Other Than Intragovernmental	5,294,332	8,789,763
Total Assets	**$ 29,142,534**	**$ 30,745,200**
Liabilities: (Note 6 & 7)		
Intragovernmental:		
Accounts Payable	$ 655,094	$ 1,082,000
Other Liabilities	7,305,733	7,762,402
Total Intragovernmental Liabilities	7,960,827	8,844,403
Other Than Intragovernmental:		
Accounts Payable	942,762	897,060
Federal Employee and Veterans Benefit Payable	3,633,170	3,879,195
Other Liabilities (Note 7)	2,298,838	2,079,403
Total Other Than Intragovernmental Liabilities	6,874,771	6,855,657
Total Liabilities	**$ 14,835,598**	**$ 15,700,060**
Net Position:		
Unexpended Appropriations - All Other Funds (Consolidated Totals)	$ 19,252,312	$ 17,167,807
Cumulative Results of Operations - All Other Funds (Consolidated Totals)	(4,945,375)	(2,122,666)
Total Net Position - All Other Funds (Consolidated Totals)	14,306,936	15,045,141
Total Net Position	**$ 14,306,936**	**$ 15,045,141**
Total Liabilities and Net Position	**$ 29,142,534**	**$ 30,745,201**

The accompanying notes are an integral part of these statements.

STATEMENT OF NET COST
For The Years Ended September 30, 2022 and 2021

	2022	2021
Program Costs:		
Administering and Enforcing the *FECA*		
Gross Costs (Note 15)	$ 76,616,416	$ 77,960,050
Less: Earned Revenue	117,857	-
Net Program Costs	76,498,559	77,960,050
Net Cost of Operations	**$ 76,498,559**	**$ 77,960,050**

The accompanying notes are an integral part of these statements.

STATEMENT OF CHANGES IN NET POSITION
For The Years Ended September 30, 2022 and 2021

	FY 2022 (CY)	
	All Other Funds (Consolidated Totals)	**Consolidated Total**
Unexpended Appropriations:		
Beginning Balance	$ 17,167,807	$ 7,167,807
Beginning balance, as adjusted	17,167,807	17,167,807
Appropriations received	74,500,000	74,500,000
Other adjustments	(1,255,530)	(1,255,530)
Appropriations used	(71,159,965)	(71,159,965)
Total Budgetary Financing Sources	**2,084,505**	**2,084,505**
Total Unexpended Appropriations	**$ 19,252,312**	**$ 9,252,312**
Cumulative Results from Operations:		
Beginning Balances	$ (2,122,666)	$ (2,122,666)
Beginning balance, as adjusted	(2,122,666)	(2,122,666)
Appropriations used	71,159,965	71,159,965
Transfers-in/out without reimbursement	3,033	3,033
Imputed Financing (Note 10)	2,512,852	2,512,852
Total Financing Sources	73,675,850	73,675,850
Net Cost of Operations	76,498,559	76,498,559
Net Change	(2,822,709)	(2,822,709)
Cumulative Results of Operations	**(4,945,375)**	**(4,945,375)**
Net Position	**$ 14,306,936**	**$ 14,306,936**

The accompanying notes are an integral part of these statements.

STATEMENT OF CHANGES IN NET POSITION
For The Years Ended September 30, 2022 and 2021

	FY 2021 (PY)	
	All Other Funds (Consolidated Totals)	**Consolidated Total**
Unexpended Appropriations:		
Beginning Balance	$ 18,546,408	$ 18,546,408
Beginning balance, as adjusted	18,546,408	18,546,408
Appropriations received	71,497,000	71,497,000
Other adjustments	(1,435,166)	(1,435,166)
Appropriations used	(71,440,435)	(71,440,435)
Total Budgetary Financing Sources	76,708,367	76,708,367
Total Unexpended Appropriations	**$ 17,167,807**	**$ 17,167,807**
Cumulative Results from Operations:		
Beginning Balances	$ 1,711,213	$ 1,711,213
Correction of error – roll forward adjustment	269,556	269,556
Beginning balance, as adjusted	1,980,769	1,980,769
Appropriations used	71,440,435	71,440,435
Imputed Financing (Note 10)	2,416,180	2,416,180
Total Financing Sources	73,856,615	73,856,615
Net Cost of Operations	77,960,050	77,960,050
Net Change	(4,103,435)	(4,103,435)
Cumulative Results of Operations	**(2,122,666)**	**(2,122,666)**
Net Position	**$ 15,045,141**	**$ 15,045,141**

The accompanying notes are an integral part of these statements.

STATEMENT OF BUDGETARY RESOURCES
For The Years Ended September 30, 2022 and 2021

	2022 Budgetary	2021 Budgetary
BUDGETARY RESOURCES		
Unobligated balance from prior year budget authority, net (discretionary and mandatory)	$ 7,045,802	$ 6,866,771
Appropriations (discretionary and mandatory)	74,500,000	71,497,000
Spending authority from offsetting collections (discretionary and mandatory)	120,890	-
Total budgetary resources	**$ 81,666,693**	**$ 78,363,771**
STATUS OF BUDGETARY RESOURCES		
New obligations and upward adjustments (total) (Note 9)	$ 75,587,129	$ 72,056,781
Unobligated balance, end of year:		
Apportioned, unexpired account	455,375	217,964
Unexpired unobligated balance, end of year	455,375	217,964
Expired unobligated balance, end of year	5,624,189	6,089,026
Unobligated balance, end of year (total)	6,079,564	6,306,990
Total budgetary resources	**$ 81,666,693**	**$ 78,363,771**
OUTLAYS, NET		
Outlays, net (discretionary and mandatory)	$ 71,351,706	$ 71,538,106
Agency outlays, net (discretionary and mandatory)	**$ 71,351,706**	**$ 71,538,106**

The accompanying notes are an integral part of these statements.

STATEMENT OF CUSTODIAL ACTIVITY
As Of And For The Years Ended September 30, 2022 and 2021

	2022	2021
Revenue Activity		
Sources of cash collections		
Civil penalties/Administrative Fines/Miscellaneous	$ 2,756,915	$ 1,310,924
Total cash collections	2,756,915	1,310,924
Accrual adjustments	(86,005)	280,052
Total custodial revenue	**$ 2,670,910**	**$ 1,590,976**
Disposition of Collections		
Transferred to Others (by Recipient)	$ 2,756,915	$ 1,474,574
Increase)/Decrease in Amounts yet to be transferred	86,005	116,402
Total disposition of collections	**2,670,910**	**1,590,976**
Net custodial activity	$ -	$ -

The accompanying notes are an integral part of these statements.

Notes to the Financial Statements

Note 1 – Summary of Significant Accounting Policies

Reporting Entity

The Federal Election Commission (FEC or Commission) was created in 1975 as an independent regulatory agency with exclusive responsibility for administering, enforcing, defending and interpreting the *Federal Election Campaign Act of 1971* (FECA), 2 U.S.C. 431 et seq., as amended ("the Act"). The Commission is also responsible for administering the public funding programs (26 U.S.C. §§ 9001- 9039) for Presidential campaigns, which include certification and audits of all participating candidates and committees, and enforcement of public funding legislation.

The financial activity presented relates to the execution of the FEC's Congressionally approved budget. Consistent with Federal Accounting Standards Advisory Board's (FASAB) *Statement of Federal Financial Accounting Concept No. 2, "Entity and Display,"* the Presidential Election Campaign Fund is not a reporting entity of the FEC. Financial activity of the fund is budgeted, apportioned, recorded, reported and paid by the U.S. Department of Treasury (Treasury). The accounts of the Presidential Election Campaign Fund are therefore not included in the FEC's financial statements.

Basis of Accounting and Presentation

As required by the *Accountability of Tax Dollars Act of 2002*, the accompanying financial statements present the financial position, net cost of operations, changes in net position, budgetary resources and custodial activity of the FEC. While these financial statements have been prepared from the books and records of the FEC in accordance with U.S. generally accepted accounting principles (GAAP) for the Federal Government and in accordance with the form and content for entity financial statements specified by the Office of Management and Budget (OMB) in Circular A-136, as revised, *Financial Reporting Requirements*, as well as the accounting policies of the FEC, the statements may differ from other financial reports submitted pursuant to OMB directives for the purpose of monitoring and controlling the use of the FEC's budgetary resources.

These financial statements reflect both accrual and budgetary accounting transactions. Under the accrual method of accounting, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting is designed to recognize the obligation of funds according to legal requirements. Budgetary accounting is essential for compliance with legal constraints and controls over the use of federal funds.

Throughout these financial statements, assets, liabilities, revenues and costs have been classified according to the type of entity with which the transactions are associated. Intragovernmental assets and liabilities are those resulting from transactions with other federal entities. Intragovernmental earned revenues are collections or accruals of revenue from other federal entities and intragovernmental costs are payments or accruals to other federal entities. These statements should be read with the understanding that they are for a component of the Federal Government, a sovereign entity.

Assets

Assets that an entity is authorized to use in its operations are termed entity assets, whereas assets that are held by an entity and are not available for the entity's use are termed non-entity assets. Most of the FEC's assets are entity assets and are available for use in carrying out the mission of the FEC as appropriated by Congress. The FEC also has non-entity assets which primarily consist of receivables from fines and penalties. These custodial collections are not available to the FEC to use in its operations and must be transferred to Treasury.

Fund Balance with Treasury

The FEC does not maintain cash in commercial bank accounts. Treasury processes cash receipts and disbursements. Fund Balance with Treasury consists of appropriated funds and custodial collections. With the exception of the custodial collections, these funds are available to pay current liabilities and finance authorized purchase commitments. Custodial collections, which are not available to finance FEC activities, are classified as non-entity assets.

Accounts Receivable

The FEC's Accounts Receivable mainly represents amounts due from the public for fines and penalties assessed by the FEC and referred to Treasury for collection. The FEC establishes an allowance for the estimated loss on accounts receivable from the public that are deemed uncollectible accounts. This allowance is included in Accounts Receivable, net on the balance sheet. The allowance is a percentage of the overall receivable balance, based on the collection rate of past balances.

General Property and Equipment

General Property and Equipment (P&E) is reported at acquisition cost, and consists of items that are used by the FEC to support its mission. Depreciation or amortization on these assets is calculated using the straight-line method with zero salvage value. Depreciation or amortization of an asset begins the day it is placed in service. Maintenance, repairs and minor renovations are expensed as incurred. Expenditures that materially increase the value, capacity or useful life of existing assets are capitalized. Refer to Note 5 *General Property and Equipment, Net* for additional details.

Liabilities

Liabilities represent amounts that are likely to be paid by the FEC as the result of transactions or events that have already occurred; however, no liabilities are paid by the FEC without an appropriation. Intragovernmental liabilities arise from transactions with other federal entities. Liabilities classified as not covered by budgetary resources are liabilities for which appropriations have not been enacted (e.g., annual leave benefits and actuarial liability under the

Federal Employees Compensation Act), or those resulting from the agency's custodial activities. The FEC has an intragovernmental liability to Treasury for fines, penalties and miscellaneous receipts which are due from the public but have not yet transferred. These funds may not be used to fund FEC operations.

Accounts Payable

Accounts Payable consists of liabilities to other entities or persons for amounts owed for goods and services received that have not yet been paid at the end of the fiscal year. Accounts Payable also consists of disbursements in-transit, which are payables that have been recorded by the FEC and are pending payment by Treasury. In addition to accounts payables recorded through normal business activities, unbilled payables are estimated based on historical data.

Accrued Payroll and Employer Contribution

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

Annual, Sick and Other Leave

Annual leave is recorded as a liability when it is earned by FEC employees; the liability is reduced as leave is taken. On a quarterly basis, the balance in the accrued leave account is adjusted to reflect the current leave balances and pay rates. Accrued annual leave is paid from future funding sources and is reflected as a liability not covered by budgetary resources. Sick leave and other types of non-vested leave are expensed as taken.

Federal Employee Benefits

A liability is recorded for estimated and actual future payments to be made for workers' compensation pursuant to the *Federal Employees Compensation Act*. The liability consists of the net present value of estimated future payments calculated by the Department of Labor (DOL) and the actual unreimbursed cost paid by DOL for compensation paid to recipients under the *Federal Employee's Compensation Act*. The future workers' compensation estimate is generated by DOL through an application of actuarial procedures developed to estimate the liability for the *Federal Employee's Compensation Act*, which includes the expected liability for death, disability, medical and miscellaneous costs for approved compensation cases. The liability is calculated using historical benefit payment patterns related to a specific incurred period to estimate the total payments related to that period. These projected annual benefits payments are discounted to present value.

Employee Retirement Plans

Each fiscal year, the Office of Personnel Management (OPM) estimates the Federal Government service cost for all covered employees. This estimate represents an annuity dollar amount which, if accumulated and invested each year of an employee's career, would provide sufficient funding to pay for that employee's future benefits. As the Federal Government's estimated service cost exceeds the amount of contributions made by employer agencies and covered employees, this plan is not fully funded by the FEC and its employees. As of September 30, 2022, the FEC recognized approximately $2,512,852 as an imputed cost and related financing source, for the difference between the estimated service cost and the contributions made by the FEC and its employees. This represents a 4% increase when compared to the $2,416,180 of imputed cost and related financing source recognized in Fiscal Year 2021.

FEC employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS), which became effective on January 1, 1987. For employees participating in CSRS, the FEC withheld 7% of base pay earnings and provided a matching contribution equal to the sum of the withholding. For employees covered by FERS, the FEC withheld .8% of base pay earnings and provided the agency contribution. The majority of FEC employees hired after December 31, 1983, are automatically covered by FERS.

Effective January 1, 2013, the *Middle Class Tax Relief and Job Creation Act of 2012* created a new FERS retirement category, Revised Annuity Employees (RAE) for new federal employees hired in calendar year (CY) 2013 or thereafter. In FY 2022, the FERS-RAE employee contribution rate was 3.1%.

Effective January 1, 2014, the *Bipartisan Budget Act of 2013* introduced a new FERS retirement category, Further Revised Annuity Employees (FRAE) for new federal employees hired in CY 2014 and thereafter. In FY 2022, the FERS-FRAE employee contribution rate was 4.4%.

FERS contributions made by employer agencies and covered employees are comparable to the Federal Government's estimated service costs. For FERS covered employees, the FEC made contributions of 19.7% of basic pay for FY 2022. For both FERS-RAE and FERS-FRAE covered employees, the FEC made contributions of 20.2% and 20.4% respectfully of basic pay for FY 2022.

Employees participating in FERS are covered under the *Federal Insurance Contribution Act (FICA)*, for which the FEC contributed 6.2% to the Social Security Administration in FY 2022. Effective in FY 2012 FERS and CSRS – Offset employees were granted a 2% decrease in Social Security for tax year (CY) 2012 under the *Temporary Payroll Tax Cut Continuation Act of 2011*; and *H.R. 3630, the Middle Class Tax Relief and Job Creation Act of 2012*. During FY 2013, employees contributed 4.2% to Social Security through December 31, 2012. Effective January 1, 2013 the employee contribution rate is 6.2%.

Thrift Savings Plan

The Thrift Savings Plan (TSP) is a retirement savings and investment plan for employees covered by either CSRS or FERS. The TSP is administered by the Federal Retirement Thrift Investment Board on behalf of federal agencies. For employees belonging to FERS, the FEC automatically contributes 1% of base pay to their account and matches contributions up to an additional 4%. For employees belonging to CSRS, there is no governmental matching contribution.

The FEC does not report on its financial statements CSRS and FERS assets, accumulated plan benefits or unfunded liabilities, if any, which may be applicable to FEC employees. Reporting such amounts is the responsibility of the Office of Personnel Management. The portion of the current and estimated future outlays for CSRS and FERS not paid by the FEC is in accordance with *Statement of Federal Financial Accounting Standards (*SFFAS*) No. 5, Accounting for Liabilities of the Federal Government*, and is included in the FEC's financial statements as an imputed financing source.

Commitments and Contingencies

A contingency is an existing condition, situation or set of circumstances involving uncertainty as to possible gain or loss. The uncertainty will ultimately be resolved when one or more future events occur or fail to occur. SFFAS No. 5, as amended by SFFAS No. 12, *Recognition of Contingent Liabilities Arising from Litigation,* contains the criteria for recognition and disclosure of contingent liabilities. A contingency is recognized in the financial statements when a past event or exchange transaction has occurred, a future outflow or other sacrifice of resources is probable and the future outflow or sacrifice of resources is measurable. A contingency is disclosed in the footnotes when any of the conditions for liability recognition are not met and the chance of the future confirming event or events occurring is more than remote but less than probable. In other words, contingent losses that are assessed as probable and measurable are accrued in the financial statements. Losses that are assessed to be at least reasonably possible are disclosed in the notes.

According to OMB Circular A-136, as revised, in addition to the contingent liabilities required by SFFAS No. 5, the following commitments should be disclosed: 1) an estimate of obligations related to cancelled appropriations for which the reporting entity has a contractual commitment for payment; and 2) amounts for contractual arrangements which may require future financial obligations. The FEC does not have commitments related to cancelled appropriations or amounts for contractual arrangements that would require future financial obligations.

Revenues and Other Financing Sources

Annual Appropriation

As a component of the Government-wide reporting entity, the FEC is subject to the Federal budget process, which involves appropriations that are provided annually and appropriations that are provided on a permanent basis. The financial transactions that are supported by budgetary resources, which include appropriations, are generally the same transactions reflected in agency and the Government-wide financial reports.

The FEC received all of its funding through an annual appropriation as provided by Congress. Additionally, the FEC received funding through reimbursement for services provided to other Federal agencies. Services performed for other Federal agencies under reimbursable agreements are financed through the account providing the service and reimbursements are recognized as revenue when earned.

The FEC's budgetary resources reflect past congressional action and enable the entity to incur budgetary obligations, but they do not reflect assets to the Government as a whole. Budgetary obligations are legal obligations for goods, services, or amounts to be paid based on statutory provisions (e.g., Social Security benefits). After budgetary obligations are incurred, Treasury will make disbursements to liquidate the budgetary obligations and finance those disbursements in the same way it finances all disbursements, using some combination of receipts, other inflows, and borrowing from the public (if there is a budget deficit).

Imputed Financing Sources

In accordance with OMB Circular A-136, as revised, all expenses should be reported by agencies whether or not these expenses would be paid by the agency that incurs the expense. The amounts for certain expenses of the FEC, which will be paid by other federal agencies, are recorded in the Statement of Net Cost (SNC). A corresponding amount is recognized in the "Statement of Changes in Net Position" as an "Imputed Financing Source." These imputed financing sources primarily represent unfunded pension costs of FEC employees, as described above.

Statement of Net Cost

Net cost of operations is the total of the FEC's expenditures. The presentation of the statement is based on the FEC's strategic plan, which presents one program that is based on the FEC's mission and strategic goal. The program that reflects this strategic goal is to administer and enforce the *Federal Election Campaign Act* efficiently and effectively.

Net Position

Net position is the residual difference between asset and liabilities and consists of unexpended appropriations and cumulative results of operations. Unexpended appropriations include the portion of the FEC's appropriations represented by undelivered orders and unobligated balances. Unobligated balances associated with appropriations that expire at the end of the fiscal year remain available for obligation adjustments, but not for new obligations, until that account is cancelled, five years after the appropriations expire. Cumulative results of operations represent the excess of financing sources over expenses since inception.

Statement of Custodial Activity

The Statement of Custodial Activity summarizes collections transferred or transferable to Treasury for miscellaneous receipts, fines and penalties assessed by the FEC. These amounts are not available for FEC operations, and accordingly, are reported as custodial revenue.

Use of Estimates

The preparation of the accompanying financial statements in accordance with GAAP requires management to make certain estimates and assumptions that directly affect the reported amounts of assets, liabilities, revenues and expenses. Actual results could differ from these estimates.

Classified Activities

Accounting standards require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information. The FEC has no classified activities.

Note 2 Non-Entity Assets

Non–entity assets, which primarily represent amounts due to the FEC for fines and penalties on those that violated the requirements of the *Federal Election Campaign Act*, consisted of the following as of September 30, 2022, and September 30, 2021:

	2022	2021
With the Public		
Accounts Receivable - Custodial	$ 718,867	$ 632,862
Total non-entity assets	**718,867**	**632,862**
Total entity assets	**28,423,667**	**30,112,339**
Total Assets	**$ 29,142,534**	**$ 30,745,201**

Note 3 Fund Balance with Treasury

Fund Balance with Treasury consisted of the following as of September 30, 2022 and September 30, 2021:

	2022	2021
Fund Balances		
Appropriated Funds	$ 23,848,202	$21,955,438
Total	**$ 23,848,202**	**$ 21,955,438**

	2022	2021
Status of Fund Balance with Treasury		
Unobligated Balance		
Available	$ 455,375	$217,964
Unavailable	5,624,189	$6,089,026
Obligated Balance not yet Disbursed	17,768,638	15,648,448
Total	**$ 23,848,202**	**$ 21,955,438**

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

Note 4 - Accounts Receivables, Net

Accounts receivable consist of the following as of September 30, 2022 and September 30, 2021:

	2022		
	Gross Accounts Receivable	**Allowance**	**Net Accounts Receivable**
Intragovernmental			
Intragovernmental	$ -	$ -	$ -
Total Intragovernmental	**$ -**	**$ -**	**$ -**
With the Public			
Fines and Penalties	$ 1,820,212	$ 1,101,345	$ 718,867
Total Non-Entity	**$ 1,820,212**	**$ 1,101,345**	**$ 718,867**
Total	**$ 1,820,212**	**$ 1,101,345**	**$ 718,867**

	2021		
	Gross Accounts Receivable	**Allowance**	**Net Accounts Receivable**
Intragovernmental			
Intragovernmental	$ -	$ -	$ -
Total Intragovernmental	**$ -**	**$ -**	**$ -**
With the Public			
Fines and Penalties	$ 1,088,801	$ 455,940	$ 632,862
Total Non-Entity	**$ 1,088,801**	**$ 455,940**	**$ 632,862**
Total	**$ 1,088,801**	**$ 455,940**	**$ 632,862**

Non-Entity receivables consist of civil penalties and administrative fines assessed by the FEC through its enforcement processes or conciliation agreements reached with parties. The FEC has three offices that administer the penalties: the Office of General Counsel (OGC); the Office of Administrative Review (OAR); and the Office of Alternative Dispute Resolution (ADR). Each office has a distinct role in the enforcement and collection process. The allowance is based on the historical rate of collection and an overall assessment of the debtor's willingness and ability to pay. Delinquent debts are referred to Treasury in accordance with the *Debt Collection Improvement Act of 1996*. The terms of the agreement between the FEC and the parties establish the conditions for collection. The "intragovernmental accounts receivable" is primarily attributed to the Deputy Inspector General servicing a Federal agency on a reimbursable basis pursuant to the Inspector General Act.

Note 5 General Property and Equipment, Net

General Property and Equipment (P&E) is reported at acquisition cost. The capitalization threshold is established at $25,000 and a useful life of two or more years. For bulk purchases, items are capitalized when the individual useful lives are at least two years and have an aggregate value of $250,000 or more. Acquisitions of P&E that do not meet the capitalization criteria are recorded as operating expenses.

General P&E consists of items that are used by the FEC to support its mission. Depreciation or amortization on these assets is calculated using the straight-line method with no salvage value. Depreciation or amortization begins the day the asset is placed in service. Maintenance, repairs and minor renovations are expensed as incurred. Expenditures that materially increase values, change capacities or extend useful lives are capitalized.

Effective FY 2017, the estimated useful life of assets such as office furniture and motor vehicles is five years. The estimated useful life of assets such as office equipment, IT equipment, IT software, telecommunications equipment, and audio/visual equipment is three years.

The office building in which the FEC operates is leased through the General Services Administration (GSA) under an occupancy agreement, which manages the lease agreement between the Federal Government and the commercial leasing entity. The FEC is billed by GSA for the leased space based upon estimated lease payments made by GSA plus an administrative fee. The cost of the office building is not capitalized. The costs of any leasehold improvements, which are managed through GSA, are financed with FEC appropriated funds. Construction costs of $25,000 or more are accumulated as construction in progress until completion and then are transferred and capitalized as a leasehold improvement. Leasehold improvements are amortized over the lesser of five years or the remaining life of the lease term.

The internal use software development and acquisition cost capitalization threshold changed as a result of a new policy that was implemented in FY 2011. Internal use software development and acquisition costs of $250,000 or more are capitalized as software in development until the development stage is complete and the software is tested and accepted. At acceptance, costs of software in development are reclassified as internal use software costs and amortized using the straight-line method over an estimated useful life of three years. Purchased commercial software that does not meet the capitalization criteria is expensed. In addition, enhancements which do not add significant new capability or functionality are also expensed.

The general components of capitalized property and equipment, net of accumulated depreciation or amortization, consisted of the following as of September 30, 2022 and September 30, 2021, respectively:

	2022			
Asset Class	**Service Life (years)**	**Acquisition Value**	**Accumulated Depreciation/ Amortization**	**Net Book Value**
Software	3	$ 17,522,904	$ 17,092,603	$ 430,301
Computers and peripherals	3	2,898,979	2,410,614	488,365
Furniture	5	-	-	-
Leasehold Improvements	5	10,125,947	9,523,661	602,285
Software-in-Development	n/a	3,054,514	-	3,054,514
Total		$ 33,602,344	$ 29,026,878	$ 4,575,465

	2021			
Asset Class	**Service Life (years)**	**Acquisition Value**	**Accumulated Depreciation/ Amortization**	**Net Book Value**
Software	3	$ 16,997,141	$ 16,397,902	$ 599,239
Computers and peripherals	3	2,898,979	2,215,259	683,720
Furniture	5	-	-	-
Leasehold Improvements	5	10,125,947	7,237,282	2,888,665
Software-in-Development	n/a	3,985,277	-	3,985,277
Total		$ 34,007,344	$ 25,850,443	$ 8,156,901

Note 6 Liabilities Not Covered by Budgetary Resources

Liabilities Not Covered by Budgetary Resources consisted of the following as of September 30, 2022 and September 30, 2021:

	2022	2021
Intragovernmental:		
Custodial Fines and Civil Penalties	$ 534,260	$ 469,213
Deferred Rent	6,061,708	6,657,942
Total Intragovernmental	**6,595,968**	**7,127,154**
With The Public:		
Unfunded Annual Leave	$ 3,532,395	$ 3,785,275
Contingent Liability	120,000	-
Total Liabilities Not Covered by Budgetary Resources	**$ 10,248,363**	**$ 10,912,429**
Total Liabilities Covered by Budgetary Resources	**$ 4,587,235**	**$ 4,787,631**
Total Liabilities	**$ 14,835,598**	**$ 15,700,060**

Liabilities not covered by budgetary resources require future congressional action whereas liabilities covered by budgetary resources reflect prior congressional action. Regardless of when the congressional action occurs, when the liabilities are liquidated, Treasury will finance the liquidation in the same way that it finances all other disbursements, using some combination of receipts, other inflows, and borrowing from the public (if there is a budget deficit). Liabilities that do not require the use of budgetary resources are covered by monetary assets that are not budgetary resources to the entity.

Beginning FY 2018, the FEC entered into a new lease agreement for its office building that provided a rent abatement of $8,943,504, which covers the equivalent of 22 months of rent. Consistent with generally accepted accounting principles, the FEC has recorded rent abatement as deferred rent, which is amortized over the life of the ten-year lease.

Note 7 Other Liabilities

As of September 30, 2022 and September 30, 2021, respectively, components of amounts reported on the Balance Sheet as Other Intragovernmental Liabilities and Other Liabilities along with a categorization of current versus long-term.

	2022		
	Non-Current	**Current**	**Total**
Other Intragovernmental Liabilities:			
Employer Contributions and Payroll Taxes Payable	$ -	$ 162,140	$ 162,140
Custodial Liability	534,260	-	534,260
Total Other Intragovernmental Liabilities:	**$ 534,260**	**$ 162,140**	**$ 696,399**
Other Non-Federal Liabilities			
Accrued Funded Payroll and Leave	-	2,178,838	2,178,838
Contingent Liability	-	120,000	120,000
Total Other Non-Federal Liabilities	**$ -**	**$ 2,298,838**	**$ 2,298,838**
Total Other Liabilities	**$ 534,260**	**$ 2,460,978**	**$ 2,995,238**

	2021		
	Non-Current	**Current**	**Total**
Other Intragovernmental Liabilities:			
Employer Contributions and Payroll Taxes Payable	$ -	$ 145,692	$ 145,692
Custodial Liability	320,525	148,688	469,213
Total Other Intragovernmental Liabilities:	**$ 320,525**	**$ 294,380**	**$ 614,905**
Other Non-Federal Liabilities			
Accrued Funded Payroll and Leave	-	2,079,402	2,079,402
Total Other Non-Federal Liabilities	**$ -**	**$ 2,079,402**	**$ 2,079,402**
Total Other Liabilities	**$ 320,525**	**$ 2,373,782**	**$ 2,694,307**

Note 8 Commitments and Contingencies

As of September 30, 2022, in the opinion of FEC management and legal counsel, the FEC was party to actions which could result in losses that are at least probable. Furthermore, there are cases where amounts have not been accrued or disclosed because the amounts of the potential loss cannot be estimated, or the likelihood of an unfavorable outcome is considered remote.

As of September 30, 2022, and September 30, 2021, respectively, the following table includes the status of Commitments and Contingencies.

Contingent Loss Table

		Estimated Range of Loss	
	Accrued Liabilities	**Lower End**	**Upper End**
As of September 30, 2022 Legal Contingencies:			
Probable	$ 120,000	$ 120,000	$ 120,000
Reasonably Possible	$ -	$ 34,483	$ 34,483
As of September 30, 2021 Legal Contingencies:			
Probable	$ -	$ -	$ -
Reasonably Possible	$ -	$ 34,483	$ 34,483

Note 9 Leases

The FEC did not have any capital leases as of September 30, 2022 or September 30, 2021. The FEC has a non-cancellable operating lease for its office space through November 30, 2032.

As contained in the FEC's Occupancy Agreement with the General Services Administration (GSA), as amended July 30, 2019, future payments under the operating lease are as follows:

Future Payments Due for Non-Cancelable Operating Lease - Building

	2022	
Fiscal Year		**Lease Payment**
2023		5,270,698
2024		5,327,993
2025		5,387,007
2026		5,447,791
2027		5,510,399
2028		5,708,203
2029		5,801,287
2030		5,869,701
2031		5,940,166
2032		6,012,746
2033		933,755
Total	**$**	**57,209,746**

As per the terms of the lease agreement, the FEC was granted a total of $8,943,503, or 22 months, in free rent from the lessor. Per the FEC's policy, the total free rent will be amortized as deferred rent over the life of the lease.

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

Note 10 Inter-Entity Costs

The FEC recognizes certain inter-entity costs for goods and services that are received from other Federal entities at no cost or at a cost less than the full cost. Consistent with accounting standards, certain costs of the providing entity that are not fully reimbursed are recognized as imputed cost [in the Statement of Net Cost] and are offset by imputed revenue [in the Statement of Changes in Net Position]. Such imputed costs and revenues relate to employee benefits and claims to be settled by the Treasury Judgement Fund. The FEC recognizes as inter-entity costs the amount of accrued pension and post-retirement benefit expenses. However, unreimbursed costs of goods and services other than those identified above are not included in our financial statements for current employees. The assets and liabilities associated with such benefits are the responsibility of the administering agency, OPM. For the periods ended September 30, 2022 and 2021, respectively, inter-entity costs were as follows:

	2022	2021
Office of Personnel Management	$ 2,512,852	$ 2,416,180
Total Imputed Financing Sources	$ 2,512,852	$ 2,416,180

Note 11 Statement of Budgetary Resources

The Statement of Budgetary Resources (SBR) compares budgetary resources with the status of those resources. For the year ended September 30, 2022, budgetary resources were $81,666,693 and net outlays were $71,351,706. For the year ended September 30, 2021, budgetary resources were $78,363,771 and net outlays were $71,538,106.

Apportionment Categories of Obligations Incurred

The FEC receives apportionments of its resources from OMB. Apportionments are for resources that can be obligated without restriction, other than to be in compliance with legislation for which the resources were made available.

For the years ended September 30, 2022 and September 30, 2021, direct obligations incurred amounted to $75,587,129 and $72,056,781, respectively. For the years ended September 30, 2022 and September 30, 2021, reimbursable obligations incurred amounted to $117,857 and $0, respectively.

Comparison to the Budget of the United States Government

SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, requires an explanation of material differences between budgetary resources available, the status of those resources and outlays as presented in the Statement of Budgetary Resources to the related actual balances published in the *Budget of the United States Government* (Budget). The Budget that will include FY 2022 actual budgetary execution information is scheduled for publication in February 2023, which will be available through OMB's website at http://www.whitehouse.gov/omb/budget. Accordingly, information required for such disclosure is not available at the time of publication of these financial statements.

Balance reported in the FY 2021 SBR and related President's Budget reflect the following:

FY 2021	**Budgetary Resources**	**New Obligations & Upward Adjustments**	**Distributed Offsetting Receipts**	**Net Outlays**
Statement of Budgetary Resources	$78,363,771	$72,056,781	$ -	$71,538,106
Budget of the U.S. Government	71,000,000	71,000,000	-	72,000,000
Difference	**$7,363,771**	**$ 1,056,781**	$ -	**$ (461,894)**

The difference between the Statement of Budgetary Resources and the *Budget of the United States Government* for budgetary resources is primarily due to expired unobligated balances and rounding. The differences for obligations incurred and net outlays are due to rounding.

Net Adjustments to Unobligated Balance, Brought Forward, October 1

The Unobligated Balance Brought Forward from the prior fiscal year has been adjusted for recoveries of prior year paid and unpaid obligations and other changes such as canceled authority. The Adjustments to Unobligated Balance Brought Forward, October 1, as of September 30, 2022, and 2021, consisted of the following:

	2022	2021
Unobligated Balance Brought Forward From Prior Year, October 1	$ 6,306,990	$ 7,053,575
Recoveries of Prior Year Obligations	1,994,342	1,248,362
Other Changes in Unobligated Balances	(1,255,530)	(1,435,166)
Unobligated Balance From Prior Year Budget Authority, Net	**$ 7,045,802**	**$ 6,866,771**

Note 12 Custodial Revenues and Liability

The FEC uses the accrual basis of accounting for the collections of fines, penalties and miscellaneous receipts. The FEC's ability to collect fines and penalties is based on the responsible parties' willingness and ability to pay:

Custodial Revenue	**2022**	**2021**
Fines, Penalties, and Other Miscellaneous Revenue	$ 2,670,910	$ 1,590,976
Custodial Liability		
Receivable for Fines and Penalties	$ 1,820,212	$ 1,088,802
Less: Allowance for Doubtful Accounts	(1,101,345)	(455,940)
Total Custodial Liability	**$ 718,867**	**$ 632,862**

The Custodial Liability account represents the amount of custodial revenue pending transfer to Treasury. Accrual adjustments reflected on the Statement of Custodial Activity represent the difference between the FEC's opening and closing accounts receivable balances. Accounts receivable are the funds owed to the FEC (as a custodian) and ultimately to Treasury. The accrual adjustment for civil penalties is composed of a net increase of approximately $1,620,253 for FY 2022 and a net increase of approximately $132,000 for FY 2021, respectively. The accrual adjustment for administrative fines is composed of a net decrease of approximately $1,532,688 in FY 2022 and a net increase of approximately $63,000 in FY 2021, respectively.

Note 13 Undelivered Orders at the End of the Period

For Fiscal Year 2022, Unpaid Undelivered orders were $13,181,403, of which $2,436,212 were Federal and $10,745,191 were non-Federal. As of September 30, 2022, there were no Fiscal Year 2022 Paid Undelivered Orders.

For Fiscal Year 2021, Unpaid Undelivered orders were $11,630,337, of which $2,162,612 were Federal and $9,467,725 were non-Federal. As of September 30, 2021, there were no Fiscal Year 2021 Paid Undelivered Orders.

Note 14 - Reconciliation of Net Operating Cost to Net Budgetary Outlays

Budgetary and financial accounting information differ. Budgetary accounting is used for planning and control purposes and relates to both the receipt and use of cash, as well as reporting the federal deficit. Financial accounting is intended to provide a picture of the government's financial operations and financial position, so it presents information on an accrual basis. The accrual basis includes information about costs arising from the consumption of assets and the incurrence of liabilities. The reconciliation of net outlays, presented on a budgetary basis, and the net cost, presented on an accrual basis, provides an explanation of the relationship between budgetary and financial accounting information. The reconciliation serves not only to identify costs paid for in the past and those that will be paid in the future, but also to assure integrity between budgetary and financial accounting. The analysis below illustrates this reconciliation by listing the key differences between net cost and net outlays.

FY 2022 Reconciliation of Net Operating Cost and Net Budgetary Outlays

	Intragovernmental	With the Public	Total
Net Operating Cost (SNC)	**$ 20,703,947**	**$ 55,794,612**	**$ 76,498,559**
Components of Net Operating Cost Not Part of the Budgetary Outlays			
Property, plant, and equipment depreciation		(3,176,435)	(3,176,435)
Other	-	20,958	20,958
(Increase)/Decrease in Liabilities not affecting Budget Outlays:			
Accounts payable	426,906	(45,702)	381,204
Salaries and benefits	(51,256)	(129,552)	(180,808)
Other liabilities (Unfunded leave, unfunded FECA, actuarial FECA)	596,234	132,879	729,113
Other financing sources			
Federal employee retirement benefit costs	(2,512,852)		(2,512,852)
Transfers out (in) without reimbursement	(3,033)		(3,033)
Total Components of Net Operating Cost Not Part of the Budget Outlays	**(1,544,001)**	**(3,197,853)**	**(4,741,854)**
Components of the Budget Outlays That Are Not Part of Net Operating Cost			
Acquisition of capital assets	-	(405,000)	(405,000)
Total Components of the Budgetary Outlays That Are Not Part of Net Operating Cost	**-**	**(405,000)**	**(405,000)**
Net Outlays (Calculated Total)	**$ 19,159,946**	**$ 52,191,759**	**$ 71,351,706**
Related Amounts on the Statement of Budgetary Resources			
Outlays, net			$ 71,351,706
Agency Outlays, Net			**$ 71,351,706**

FY 2021 Reconciliation of Net Operating Cost and Net Budgetary Outlays

	Intragovernmental	With the Public	Total
Net Operating Cost (SNC)	**$ 20,981,917**	**$ 56,978,133**	**$ 77,960,050**
Components of Net Operating Cost Not Part of the Budgetary Outlays			
Property, plant, and equipment depreciation		(4,617,559)	(4,617,559)
(Increase)/Decrease in Liabilities not affecting Budget Outlays:			
Accounts payable	167,618	210,215	377,833
Salaries and benefits	(76,455)	(203,706)	(280,161)
Other liabilities (Unfunded leave, unfunded FECA, actuarial FECA)	596,234	(238,401)	357,833
Other financing sources			
Federal employee retirement benefit costs	(2,416,180)		(2,416,180)
Transfers out (in) without reimbursement	269,556		269,556
Total Components of Net Operating Cost Not Part of the Budget Outlays	**(1,459,227)**	**(4,849,451)**	**(6,308,678)**
Components of the Budget Outlays That Are Not Part of Net Operating Cost			
Acquisition of capital assets	-	(7,359)	(7,359)
Other	-	57,743	57,743
Total Components of the Budgetary Outlays That Are Not Part of Net Operating Cost	**-**	**50,384**	**50,384**
Other Temporary Timing Differences	-	(163,649)	(163,649)
Net Outlays (Calculated Total)	**$ 19,522,690**	**$ 52,015,417**	**$ 71,538,106**
Related Amounts on the Statement of Budgetary Resources			
Outlays, net			71,538,106
Agency Outlays, Net			**$ 71,538,106**

SECTION III – Other Information

Inspector General's Statement on FEC Management and Performance Challenges

Federal Election Commission
Office *of the* Inspector General

Management and Performance Challenges Facing the FEC for FY 2023

October 26, 2022

Table of Contents

Introduction and Approach

Why do we publish this report?

In accordance with the Reports Consolidation Act of 2000, the Federal Election Commission (the "FEC" or "Commission") Office of Inspector General (OIG) identifies the most serious management and performance challenges facing the Commission and provides a brief assessment of the Commission's progress in addressing those challenges. By statute, this report is required to be included in the FEC's Agency Financial Report.

What are management challenges?

The Government Performance and Results Modernization Act of 2010 identifies major management challenges as programs or management functions that are vulnerable to waste, fraud, abuse, and mismanagement, and where a failure to perform well could seriously affect the ability of the agency to achieve its mission objectives. Each challenge area is related to the agency's mission and reflects both continuing vulnerabilities and emerging issues. The FEC OIG identified the top management and performance challenges facing the Commission as the following:

- Growth of election spending
- Identifying and regulating unlawful foreign contributions
- Continuity of operations
- Human capital management
- Cybersecurity

How did we identify these challenges?

We identified the Commission's major management and performance challenges by recognizing and assessing key themes from OIG audits, special reviews, hotline complaints, investigations, and an internal risk assessment, as well as reports published by external oversight bodies, such as the Office of Personnel Management (OPM) and the Government Accountability Office (GAO). Additionally, we reviewed previous management challenge reports to determine if those challenges remain significant for this submission. Finally, we considered publicly available information and internal Commission records. As a result, we identified five key management and performance challenges, which are detailed herein.

Management and Performance Challenge: Growth of Election Spending

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In recent years, federal campaign fundraising and spending have increased dramatically, particularly since the U.S. Supreme Court's decision in *Citizens United v. FEC* in 2010. The rapid growth of contributions to campaigns and committees, both in total dollars and in the number of contributions, has not been met with corresponding budgetary resources for the FEC to provide campaign finance oversight.

Total spending on federal election campaigns during presidential years increased from $3.1 billion in 2000 to approximately $14.4 billion for the 2020 election cycle, nearly a 5-fold increase. Spending on the 2022 mid-term elections reached $5.6 billion through September 30, 2022, nearly equaling the $5.7 billion spent for the entirety of the 2018 mid-term election cycle. Projected spending for the full 2022 mid-term is $7.7 billion based on historical precedents.

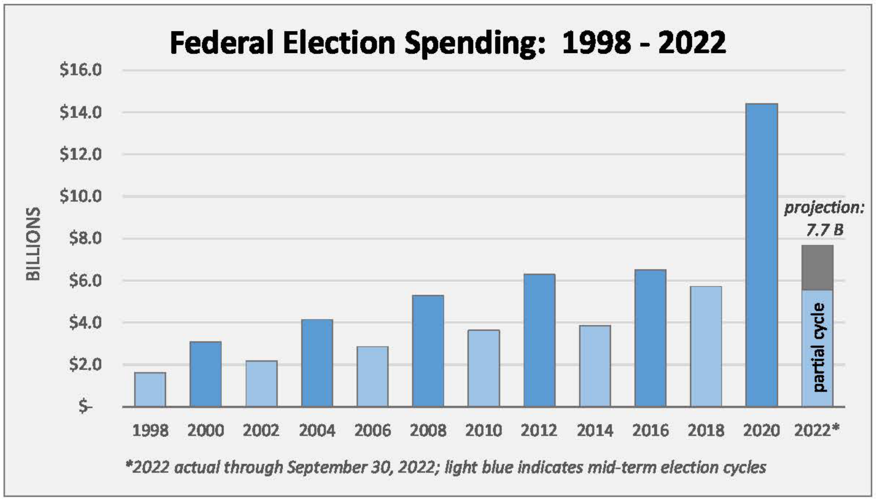


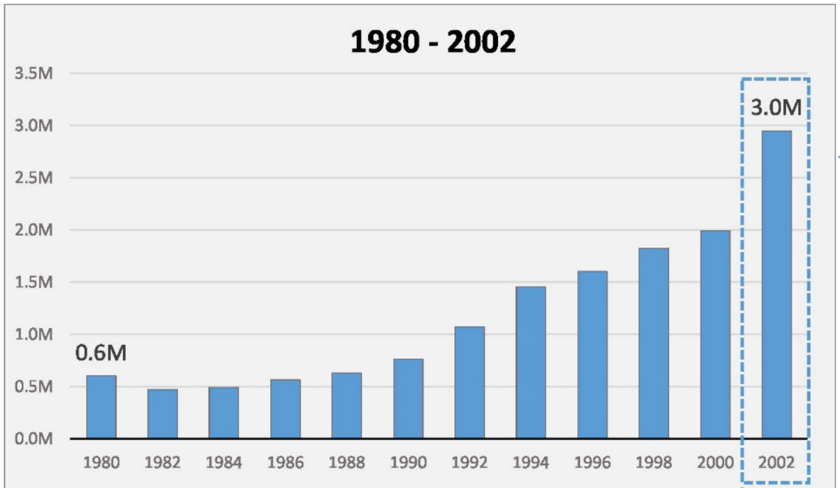
Figure: Total spending on congressional, presidential, and party committees per election cycle reported to the FEC by all filers. The totals in this figure include PAC expenditures to campaign committees. All data is obtained from FEC filings. The 2022 projection is based on 2018 percentages.

The total number of transactions subject to FEC regulation and oversight has also dramatically increased, especially in recent years. Transactions are reported in mandatory filings with the FEC and are comprised of itemized details of receipts (including contributions), disbursements (including expenditures), and other financial activity.

Some highlights of transaction growth, which is illustrated on the following page, include:

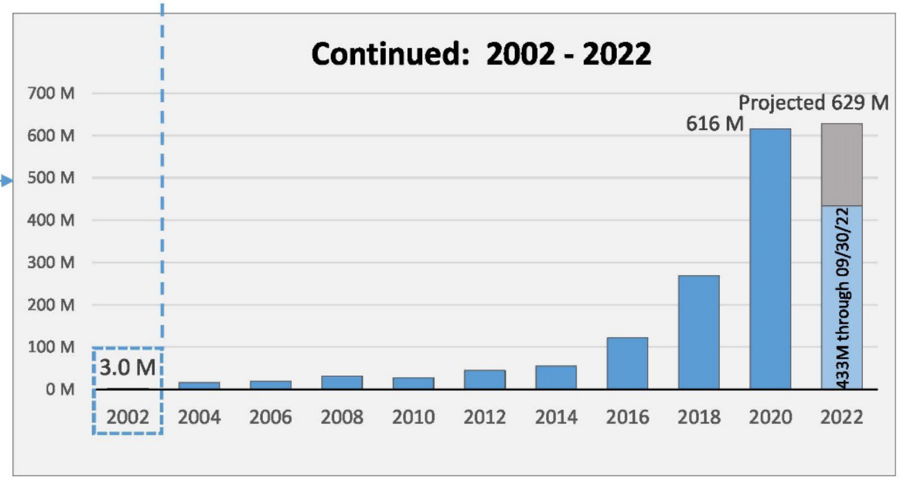
- Between 1980 and 2002, the total number of transactions subject to FEC regulation and oversight increased from approximately 602,000 to nearly 3.0 million per election cycle.
- In the 2018 election cycle, the FEC handled nearly 270 million transactions.
- That number exceed 616 million transactions in the 2020 election cycle.
- The number of transactions for the 2022 mid-term cycle is expected to surpass the 2020 presidential cycle.

FEC Total Transactions (1980 - 2022)



Between 1980 and 2002, the total number of transactions subject to FEC regulation and oversight increased from approximately 602,000 to nearly 3.0 million per election cycle.

By 2018, the FEC handled nearly 270 million transactions in that cycle. That number exceeded 616 million in 2020 and is expected to surpass 629 million for 2022.



Despite dramatic increases in campaign expenditures and the number of transactions subject to FEC regulation and oversight, the Commission's budget has remained largely static and has even faced recent reductions. Since 2008, the FEC's budget has increased by an average of only 1.4% per year. Those increases have not kept up with inflation, which has averaged approximately 2.5% per year over the same period. Indeed, the FEC's 2022 budget was **approximately 14.3% less** than its 2008 budget when adjusted for inflation.[1]

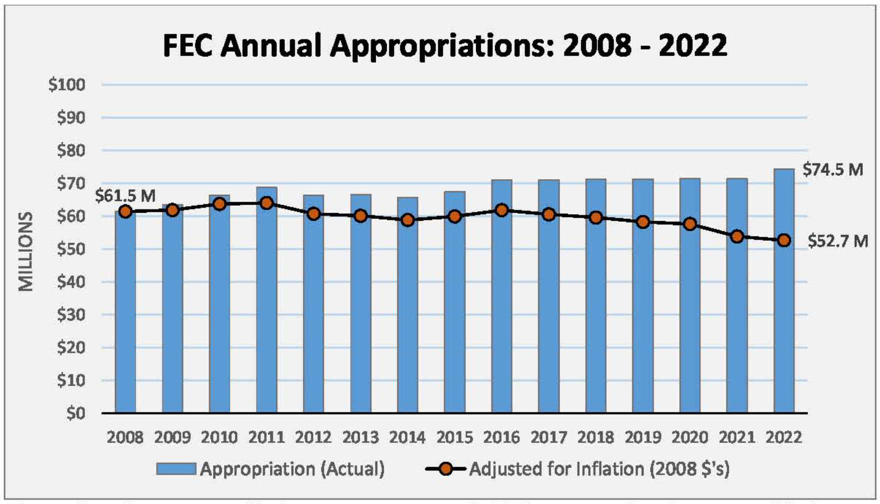


Figure: Annual congressional budget appropriations to the FEC, as reported in Congressional budget justifications. Inflation adjustment from Bureau of Labor Statistics published annual CPI data.

In addition, the nature of federal campaigns has evolved in recent years. Online fundraising, the influence of dark money, and potential foreign electoral influence continue to place further strain on the FEC's ability to provide oversight of federal campaigns. As such, absent additional resources, the FEC faces challenges in successfully regulating campaign finance.

Management and Performance Challenge: Identifying and Regulating Unlawful Foreign Contributions

Identifying and regulating unlawful foreign campaign contributions continues to pose a significant challenge to the FEC. As campaign expenditures and the number of transactions subject to FEC regulation and oversight increase, potential contributions by foreign nationals also increase, which demands greater scrutiny by agency regulators. However, an August 2021 OIG report found that the FEC's practice of relying on filers' self-certifications concerning potential foreign contributions poses a national security risk and provides insufficient oversight

[1] This is not merely due to recent inflation during 2021-2022. As shown in the accompanying chart, the FEC's annual budget evinces a pattern of decline dating back to 2011 when adjusted for inflation.

of possible illegal foreign donations. Indeed, numerous recent cases highlight the risk of unlawful foreign influence in U.S. elections.

The Federal Election Campaign Act of 1971 (FECA), related statutes, and implementing regulations prohibit direct and indirect contributions to candidates, political committees, and inaugural committees by foreign nationals. As noted above, campaign expenditures and transactions subject to FEC regulation and oversight have dramatically increased in recent years. However, as previously noted, the FEC's budget has remained static, if not reduced, over the same period. Indeed, the FEC's FY 2022 budget was approximately 14% less than its 2008 budget when adjusted for inflation. The increase in transactions subject to review, in conjunction with declining resources (in real terms), poses a challenge for the FEC in identifying and regulating unlawful contributions.

Moreover, recent cases demonstrate that the risk of foreign electoral influence is real and not hypothetical. For example, a matter that came before the Commission in 2016, and was decided in October 2021, involved a consultant for a super PAC that supported a presidential candidate. The consultant allegedly solicited a $2 million contribution from representatives of a foreign national. The Commission ultimately reached a settlement with the super PAC. Numerous other reported cases further illustrate the risk.

Notwithstanding these risks, an August 2021 investigative report by the OIG found that the FEC's current practices provide limited oversight of potential foreign contributions. Specifically, the OIG investigation found that the FEC identifies many potential foreign national donations based on the reported addresses of donors, but generally defers to a committee's self-certification that it verified the U.S. citizenship of those donors. However, that practice does not appear to be memorialized in policy and relies heavily on the good faith and due diligence of filers.

Accordingly, the OIG recommended that the FEC update and memorialize its practice concerning donors with foreign addresses to identify unlawful foreign donations more effectively. However, we recognize that the FEC's resources are significantly constrained as detailed above. As such, identifying and regulating foreign contributions will likely continue to challenge the FEC.

Management and Performance Challenge: Continuity of Operations

Recent and dramatic changes in workplace dynamics due to the COVID-19 pandemic pose many management and performance challenges for the FEC. Federal agencies, including the FEC, have implemented various return-to-office policies after the expiration of evacuation orders that mandated remote work during the height of the pandemic. However, substantial uncertainty remains regarding how the post-pandemic work environment will look for the FEC, how the FEC's telework policies will affect retention and recruitment, and how the agency would respond to a future pandemic or similar event that disrupts operations.

The FEC implemented a pilot program that provides more telework opportunities than were available to most employees prior to the pandemic. However, that pilot program will end in March 2023. Significant disagreements remain among stakeholders, including the Commissioners, FEC managers, and the FEC workforce, concerning the degree to which the

FEC should permanently embrace telework and remote work. Moreover, if the Commissioners themselves are unable to agree upon permanent changes to agency policies, it may result in much more limited telework and remote work options for FEC employees.

The OIG has observed concerns about the impact of limited telework and remote work options on employee morale and attrition in the course of numerous recent engagements. Concerns include potential employee turnover, given that greater telework and remote work options appear to be permanent expectations for the modern public and private sector workplaces. As such, many stakeholders at the FEC have expressed concerns that, absent continued telework and remote work flexibilities, FEC employees may seek telework and remote employment options elsewhere, resign, or retire, if eligible. The OIG will further evaluate this issue in future engagements; however, FEC leadership should prioritize further study of this and related concerns.

Management and Performance Challenge: Human Capital Management

Human capital management is the process of acquiring, training, managing, and retaining employees to effectively execute the agency's mission. In prior management challenge reports the OIG identified, among other things, the unusual salary structure of certain senior leaders at the Commission (including Commissioners), the practice of agency personnel serving in acting positions for extended periods of time, and the Commission's attempt to address these issues through repeated legislative recommendations to Congress.

These challenges have a direct impact on the Commission's management of human capital. For example, the problems brought about by the challenged senior salary structure, coupled with declining staffing levels and increased workload, appear to have contributed to the recent 29th out of 29 ranking among small agencies that the FEC received in the Partnership for Public Service's 2021 Best Places to Work in the Federal Government report.[2]

Commissioner Pay: The FECA specifies that FEC Commissioners are to be paid equivalent to level IV of the Executive Schedule; however, pay for political appointees at the FEC has been frozen since 2019 with little increases over the last 10 years. As a result, some personnel in the GS 15 and Senior Level (SL) positions earn higher salaries than the FEC Commissioners. This unique salary structure has a direct impact on Commissioner morale and may indirectly impact staff morale throughout the agency. The problem is intensified by the high costs of living and working in Washington, D.C. that commissioners must bear to serve term appointments.

Salary Structure (Staff Director and General Counsel): Currently, the senior leadership roles of the Staff Director and Chief Information Officer (CIO) are occupied by the same individual and have been since August 2011. Information technology is ever evolving, which affects all government agencies. Without a fully dedicated CIO to focus on technological issues, to ensure resources are properly allocated, and that adequate processes are in place for the protection and safeguards of the agency, the agency will remain at risk.

[2] See Partnership for Public Service Survey Results and Rankings.

Similarly, the Deputy General Counsel for Law is concurrently serving as the Acting General Counsel and has been doing so since September 2016.[3] This has potential to put the agency at risk of not effectively and efficiently meeting its mission requirements, as robust internal dialogue and diversity of opinion are essential to ensuring the agency considers competing legal theories and courses of action.

The FECA requires the Staff Director to be paid at Level IV and the General Counsel to be paid at Level V of the Executive Schedule. Further, this statutory requirement provides that both positions supervise personnel at the GS 15 and SL pay scales, who may have higher salaries than Levels IV or V of the Executive Schedule. This disparity creates significant challenges in recruitment and retention of talent for two of the most senior career positions at the FEC.

Management previously reported that the Commission adopted legislative recommendations in 2021, 2018, 2017, 2016, 2015, 2014, 2013 and 2011 that urged Congress to remove the statutory references to the Executive Schedule in FECA with respect to the FEC Staff Director and General Counsel Positions. The removal of that reference would ensure the two positions be compensated under the same schedule as the Commission's other senior managers.

Declining Staffing Levels: Despite dramatic increases in campaign expenditures and the number of transactions subject to FEC regulation and oversight (see management challenge #1), the Commission reported that staffing levels have decreased by over 17.5% since 2012.[4] The agency maintained an average of 295-296 employees throughout FY 2022. The increase in workload combined with declining staffing levels has resulted in performance benchmark and morale challenges. Additionally, the FEC must focus on employee retention challenges as the Commission continues to define its new normal in a hybrid work environment.

Morale: The FEC ranked last (29/29) among small agency workplaces in the 2021 Partnership for Public Service report. Each year, the Partnership for Public Service ranks federal workplaces by analyzing employee engagement and satisfaction scores across all federal agencies. Specifically, these results refer to the commitment of the workforce, job and organizational satisfaction, and employee desire to achieve results. The rankings are separated by large, medium, and small agencies and the data used for compiling these rankings is collected by OPM through its Federal Employee Viewpoint Survey (FEVS). Additionally, the OPM published preliminary results from the 2022 FEVS survey and the data indicated that employee morale across the federal government fell two points in 2022.

The foregoing human capital challenges are impacting the FEC's ability to achieve its mission objectives effectively and efficiently. Despite the internal resource constraints and emerging external issues beyond the Commission's control, we encourage the Commission to continue to invest in the recruitment of quality employees, training employees, and motivating employees to complete mission objectives.

[3] The FEC posted a job announcement for the General Counsel position on USAJOBS with an opening application date of September 30, 2021, and a closing date of October 22, 2021. As of October 26, 2022, the position remains unfilled.

[4] The FEC reported 293 employees on board as of September 2022—a 17.5% decrease compared to FY 2012 (355).

Management and Performance Challenge: Cybersecurity

Protecting data, systems, and networks from threats remains a top challenge. The FEC was established to protect the integrity of federal campaign finance by providing transparency and enforcing and administering federal campaign finance laws. In doing so, the FEC discloses campaign finance data to the public and as a result, encounters large volumes of webpage traffic from stakeholders and members of the public. In efforts to streamline transparency initiatives and improve business processes, the Commission is more technology reliant today, as is society; as such, it is imperative that the Commission continue to prioritize cybersecurity.

Cybersecurity encompasses attempts from criminals and adversaries to obtain sensitive information linked to government networks, personal identifiable information, intellectual property, and other sensitive data. Cyber threats may arise from phishing, ransomware, or other malware attacks and can infiltrate any level within an organization. In response to ever-growing threats, the Commission has partnered with the Department of Homeland Security (DHS) and the Cybersecurity and Infrastructure Security Agency (CISA), an operational component under DHS, to improve its overall security posture by identifying, protecting, and responding to network vulnerabilities. We encourage the agency to continue to utilize these partnerships and work to develop the in-house expertise to protect the network.

It is essential that the Commission continue to maintain the integrity and availability of its information, as it looks to modernize its systems, which includes moving towards a cloud environment. We recognize that federal agencies have struggled to compete with the private sector for cyber expertise and talent; however, the Commission should continue to seek and adequately compensate industry experts to manage the FEC's cybersecurity requirements. We encourage the Commission to continue to be proactive in establishing a cybersecurity framework and strengthen internal controls to mitigate external threats from entering the FEC's network.

Conclusion

The OIG presents these challenges as ongoing issues facing the FEC in FY 2023. These challenges impede efficiency and effectiveness in the management of FEC operations and programs. The OIG remains dedicated to independent oversight to ensure accountability of the mission of the FEC.

FY 2022 Management Challenges Not Included in FY 2023 Report

All FY 2022 management challenges have been included in this report although some have been updated, retitled, and/or consolidated.

Federal Election Commission
Office *of the* Inspector General

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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/oig**.

Together we can make a difference!

Management's Response to the Office of Inspector General's Statement on the Federal Election Commission's Management and Performance Challenges [19]

November 9, 2022

In its Statement on the FEC's Management and Performance Challenges ("Statement"), the Office of the Inspector General ("OIG") identified five overarching management and performance challenges for inclusion in the FEC's Agency Financial Report for Fiscal Year 2022. Management's response to the OIG's Statement is below.

Challenge 1: Growth of Campaign Spending
In its Statement, OIG describes how the FEC's budget has not kept pace with inflation. Without an appropriate level of funding, the agency will be unable to fund several modernization projects and hire and retain staff needed to address the increased volume of campaign finance data, specifically, and increased FECA related activity, generally. Over the past several years, the FEC has advocated for increases to its budget in its annual submissions to Congress. For example, for FY 2023 the FEC requested a 9.63 percent increase in its appropriation.

As illustrated in the OIG's description of this management challenge, increases in the amount of money raised and spent in federal elections, and changes in the way political committees raise and report contributions, have resulted in explosive growth in the number of campaign finance transactions reported to the FEC each election cycle. Each of these transactions represents a data element that must be received by the FEC, added to our database and disclosed and made searchable on the FEC website and via the FEC campaign finance Application Programming Interface (API).

The FEC receives campaign finance reports, statements and other disclosure documents from more than 16,000 political committees and other filers. During the 2020 election cycle, these filers reported more than 600 million financial transactions, which were reviewed by FEC staff and disclosed to the public on the FEC's website and through the agency's API. This volume of data is more than double the number of transactions reported in the previous election cycle, and a nearly 400% increase compared to 2016, the last presidential election cycle. With the steep rise in transactions reported every election cycle comes a heavier burden on the FEC's API to quickly search across the FEC's campaign finance database and display the data requested by the public.

In FY 2015 the FEC proactively launched a comprehensive, multi-year IT Modernization project in part in response to projected increases in campaign finance activity. The IT Modernization plan outlines reducing the agency's physical data center footprint by migrating applications to a cloud environment, modernizing internal applications, modernizing the electronic filing platform, adopting open-source software solutions, and increasing the use of shared services.

Budget and staffing constraints have limited the FEC's progress, but the agency has accomplished some of the plan's goals. As part of the FEC's website redesign, the FEC redesigned its website

19 Management consists of the agency's senior managers, including the Staff Director, Acting General Counsel, and Chief Financial Officer.

and migrated both the website and the campaign finance database that supports it to a cloud environment. In addition to providing faster and easier access to campaign finance data hosted in the cloud, this migration allowed the agency to shut down one of its physical data centers during FY 2018, realizing attendant costs associated with maintaining that data center. During FY 2020, the FEC made additional database enhancements to improve database performance and control costs of hosting and maintaining the database. Over the past several years, the FEC has concluded the migration to a cloud environment of the FEC's primary campaign finance database, which contains over forty years of transaction-level campaign finance data reported to the agency, the searchable legal systems and related databases, almost all legacy mission-critical applications and some of its infrastructure. As a result of these efforts, the FEC has been able to reduce its physical datacenter footprint, and it plans to continue to do so.

During FY 2022, the FEC completed the initial migration, commonly known as a lift and shift, of legacy applications to a cloud environment. The FEC is in the process of decommissioning old servers located in physical data centers to continue efforts to reduce the agency's physical data center footprint. Planning is underway to modernize mission-critical internal applications to ensure they take advantage of all the cost-saving benefits of cloud-native technologies. The trends in campaign finance activity of increasing spending, increasing transactions and increasing API hits illustrate how crucial it is for the agency to continue to implement new programs and systems to ensure the timely disclosure of campaign finance data. The migration of campaign finance data to a cloud environment and modernization of applications migrated to the cloud during previous fiscal years are essential components of these efforts. Modernizing the applications and data pipelines will permit users to utilize all the advantages of the cloud, which will help the agency to efficiently, fairly and effectively achieve its mission objectives. Data pipelines are a set of automated methods and procedures that process raw data files received from filers into the primary campaign database for internal agency use and for public consumption on FEC.gov. They are essential to processing and reviewing campaign finance disclosure information in compliance with the statutory mandates as well as government-wide customer service initiatives.

To continue to mitigate an anticipated steep rise in future costs from maintaining physical datacenters, the FEC will continue to pursue its IT modernization plan which requires investment now and over the next several years to continue cloud migration and realize improvements in its IT processes. The FEC will continue to strive to implement the recommendations of this study during FY 2023 and FY 2024, by modernizing migrated legacy applications to ensure they take full advantage of cloud-native technology, with the goal of generating efficiencies in future years while maintaining high levels of service to the public. Applications prioritized for modernization would include solutions for the Reports Analysis Division's review process as well as the voting and certification system used by the Commission.

Efforts to modernize the FEC's eFiling system are also essential components of the agency's efforts to ensure the timely disclosure of this increasing volume of campaign finance data. The FEC is currently working to upgrade its eFiling platform. In FY 2017, the Commission published a study of its current eFiling platform, including a survey of the existing functionality of the FEC's free filing software and an in-depth investigation of needs expressed by filers. The FEC is relying on the recommendations of this study to improve its eFiling platform to allow greater operating system flexibility for users when generating filings for submission to the Commission, and to increase the consistency and accuracy of reporting. The FEC's new eFiling platform will improve ease of filing for users by allowing greater operating system flexibility when generating filings for submission to the Commission, as well as the process for validating filings prior to acceptance and generate modern file outputs that will provide for more flexibility in accessing data. In addition, the modernization efforts will provide for seamless integration with the data portion of the website and, therefore, more efficient use of the agency's resources. The FEC will continue development in FY 2023 and work toward implementation of the new eFiling platform during FY 2024.

Challenge 2: Identifying and regulating unlawful foreign contributions

Management has undertaken a number of actions over the last several years to prioritize enforcement of the foreign national prohibition. Along with cases that are statute-of-limitations imperiled when OGC receives them, foreign national prohibition cases are assigned to OGC staff attorneys before any other class of cases. OGC has also modified its Status of Enforcement reports to the Commission so that the Commission is provided with complete data on every foreign national prohibition case on a quarterly basis. Further, OGC has revised its procedures so that it may more efficiently track the progress of all foreign national prohibition matters through the enforcement process. OGC has also modified its case management software to make it easier to run reports for the Commission concerning all foreign national prohibition matters.

Moreover, requirements for committee actions to prevent the receipt of foreign national, or other illegal, contributions are extensive. All committee treasurers are required by regulation to examine all contributions received for evidence of illegality. 11 C.F.R. 103.3(b). Contributions that present genuine questions as to whether they were made by foreign nationals, such as by coming from a foreign address or being drawn on a non-U.S. bank, may be, within ten days of receipt, either deposited in the campaign depository or returned to the contributor. If deposited, the treasurer shall make his or her best efforts to determine the legality of the contribution, including at least one written or oral request for evidence of legality. If the contribution cannot be determined to be legal, the treasurer shall refund the contribution within 30 days of receipt. 11 C.F.R. 103.3(b)(1). If the treasurer determines that the contribution did not appear to be made by a foreign national, but later discovers that it is illegal based on new evidence not available at the time of deposit, the treasurer shall refund the contribution within 30 days of discovering the illegality. 11 C.F.R. 103.3(b)(2). Any contribution which appears to be illegal but is deposited in a campaign depository may not be used for any disbursements until the contribution has been determined to be legal, and the receiving committee must either establish a separate account for such contributions or maintain sufficient funds to make any required refunds. 11 C.F.R. 103.3(b)(4). The treasurer must keep a written record noting the basis for the appearance of illegality of any such contribution, and if a committee's disclosure report is due while resolution of a contribution's legality is still pending, a statement to that effect must be included in the disclosure report. 11 C.F.R. 103.3(b)(5).

In another document, OIG has suggested additional requirements for disclosure to the Commission about suspected foreign national contributions. However, legal and practical concerns block immediate implementation of additional requirements for disclosure. Disclosure of additional information would require a legislative change, which of course is solely the purview of Congress. Specifics as to what must be reported to the Commission as part of disclosure reports are exhaustively described in 52 U.S.C. 30104. Moreover, given that all disclosure reports must be made available to the public, 52 U.S.C. 30111(a)(4), reporting of information such as contributors' U.S. passport numbers, as suggested elsewhere by OIG, would potentially raise serious privacy concerns.

In its Statement, OIG recounts its recommendation that the FEC update and memorialize its practice concerning donors with foreign addresses to identify unlawful foreign contributions more effectively. That practice is already memorialized and regularly updated. The practice is based on a regulation, duly promulgated by the Commission, 11 C.F.R. § 110.20(a)(7), which provides a regulatory safe harbor for these situations. The practice is memorialized in the Reports Analysis Division's Policies and Procedures, which are updated for every election cycle and approved by the Commission, and which are publicly available on FEC.gov, with certain redactions unrelated to this practice.

Finally, Management notes that as of July 1, 2022, only five cases on OGC-Enforcement Division's docket pertain to FECA's foreign national prohibition, which is a marked reduction over recent years.

Challenge 3: Continuity of Operations

Upon returning additional employees to the physical workplace in late-February 2022, the FEC implemented a one-year Expanded Workplace Flexibilities Pilot Program that provides significantly expanded telework options for employees as compared to the agency's pre-pandemic policies. Under the Pilot Program, over 98 percent of FEC employees now participate in the agency's telework program on a regular or episodic basis. OIG notes that significant disagreements may remain among stakeholders, including the Commissioners, concerning the degree to which the FEC should permanently embrace telework and remote work when the Pilot Program ends in March 2023.

However, the one-year Pilot Program was specifically designed to test and evaluate the impact of providing expanded telework flexibilities on FEC operations before determining the agency's new permanent program. The Pilot Program policies require management to complete informal and formal assessments of program operations, effectiveness, and impacts during the one-year Pilot period. Management is currently conducting its formal assessment using data from agency-wide surveys of employees and supervisors, performance metrics, and cost-evaluations. Results of the assessment will be shared with Commissioners and the FEC workforce, and will be utilized by management in developing recommendations to the Commission for the permanent telework program.

The FEC's Office of Human Resources has also implemented exit surveys to gather data on potential reasons for employee departures, including whether the current telework program is impacting attrition. In addition, the agency has begun collecting data regarding whether the FEC's telework policies might affect the agency's recruitment efforts.

Challenge 4: Human Capital Management

As the OIG recognizes, the FEC continues to confront a heavy workload alongside relatively flat funding levels that have contributed to the reduced staffing levels the FEC has seen over the past several years. Over the past decade, the FEC has been able to meet its statutory mission primarily due to efficiencies gained by reassigning staff using details, maximizing operational efficiencies through reorganizations, and improving technology and processes, among other efficiencies. However, in recent years the FEC has begun to exhaust the benefits that can be gained through such efficiencies and has, in some situations, reduced performance targets in response to these reductions in staffing amid increasing campaign finance activity. The FEC intends to continue its current efforts to maintain the current high performance of staff and the excellent service that they provide to the public. A critical part of this effort is obtaining adequate funding, promoting adequate staffing levels across the agency, and ensuring improvements in the agency's salary structure to be able to compete and retain top talent in leadership positions.

As identified by the OIG, the FEC Commissioners are currently compensated at level IV of the Executive Schedule (EX) as specified in FECA. The full compensation for this level in 2022 is $176,300. However, the compensation for certain political appointees, including Members of the FEC, has been frozen. A pay freeze has been in effect since 2014, which set commissioner pay at 2013 levels. A small adjustment was made in 2019, which set the frozen pay level at $158,500, or 1.9% more than the 2013 amount. EX salaries are uniform nationwide, while the General Schedule (GS) salaries include locality adjustments. The relatively high cost of living in the Washington, D.C. region means that salaries at the top of the GS scale applicable to FEC employees have outpaced frozen salaries on the EX scale. Thus, the pay freeze exacerbates a salary discrepancy where commissioners receive less compensation than FEC employees in Senior Level (SL) positions, and less compensation than some agency employees in the GS-14 and GS-15 positions, including many of their direct reports. Under these circumstances, it may be difficult to find individuals willing to serve as FEC commissioners in the future, and recruitment will be limited to a smaller pool of potential commissioners due to this salary constraint. While FEC management is not responsible for recruiting potential commissioners, the lack of quorum that could result from vacant commissioner seats would be a management challenge for the FEC. Looking ahead to May 1, 2023, it is very likely that the terms of four of the six Commissioners serving at that point will have expired. An expired term leaves a commissioner serving in a hold-over capacity and eligible to be replaced at any time.

In addition, section 306 of FECA links salaries to Level IV and Level V of the Executive Schedule for the Staff Director and General Counsel. Both positions supervise personnel at the GS-15 and Senior Level pay scales, which often provide higher salaries than Levels IV and V of the Executive Schedule. The Commission has proposed removing the statutory references to the Executive Schedule, so that the Staff Director and General Counsel would be compensated under the same schedule as the Commission's other senior managers. This revision will remedy the current situation where the Commission's top managers are compensated at a lower rate than many of their direct reports and will ensure that the Commission can retain highly qualified individuals to serve in those positions as well as enable it to remain competitive in the marketplace for federal executives when filing the current vacancy or when further vacancies arise.

Management continues to fully support the Commission's ongoing efforts to change the salary structure for key leadership positions of Staff Director and General Counsel. Meanwhile, the Commission has implemented interim solutions for these positions that, very importantly, have allowed the Commission to maintain consistency and needed stability in its two most senior staff leadership positions. Moreover, the Commission has been able to continue to receive the services of agency leaders who were selected for these positions after substantial experience working in positions of significant responsibility for the FEC. Instability in these positions has been the subject of prior management challenges identified by the OIG, and the Commission attributes the stability in these positions that has been achieved to the use of the interim solutions.

In recent years, the FEC has also been challenged to recruit and retain talent necessary to meet the agency's workload and hiring goals across the agency, in part as a result of the FEC's relatively flat funding levels over this period. Indeed, between FY 2012 and FY 2022, the FEC's overall staffing levels were reduced by over 17 percent. The agency's challenges in filling leadership positions on a permanent basis were compounded by the lapse in appropriations from December 22, 2018 to January 25, 2019 and the FEC's loss of a quorum between September 2019 and May 2020 and again between July and December 2020. An affirmative vote of four FEC Commissioners is required to permanently fill any position at the GS-15 level or higher. Upon resumption of operations following the lapse in appropriations in FY 2019, the Commission prioritized filling several critical senior management positions. Leveraging the FEC's partnership with OPM HR Solutions, the agency was able to move efficiently through the hiring process and in the summer of 2019 filled the positions of Inspector General, Associate General Counsel for Policy, and Assistant General Counsel for Administrative Law. However, upon losing quorum in September 2019, the Commission could not approve selections at the GS-15 or Senior Level. During the brief period in FY 2020 when the Commission had a quorum, the position of Director of Human Resources was filled. Following the resumption of a quorum in December 2020, led by its Personnel Committee, the Commission again prioritized filling critical management vacancies and since that time eight GS-15 management vacancies and one Senior Level vacancy, the Associate General Counsel for Enforcement, were filled. The Commission and its senior managers continue to prioritize hiring, particularly management positions that result in cascading details and vacancies. Indeed, in this fiscal year alone, the agency permanently filled eight management positions that were previously filled in an "acting" capacity. Currently, only two supervisory positions are filled in an "acting" capacity.

Finally, the agency has undertaken significant efforts to increase morale and employee satisfaction across the agency, including instituting an Employee Engagement Steering Committee, and supporting the implementation of the Diversity, Equity and Inclusion Council. The Engagement Steering Committee was established to help foster improved employee engagement across the agency. The Steering Committee, through the FEVs results and internal surveys, identifies key areas for improvement. Some of the areas that have been identified have been better and more frequent communication from management to staff, more transparency in the hiring and budget processes, and suggested improvements with work/life balance issues. The Steering Committee also works with offices across the Agency to promote training and development opportunities to the FEC workforce and co-sponsors Public Service Recognition Week. The Diversity, Equity and Inclusion Council was established to promote diversity, equity and inclusion efforts across the agency. Through its efforts, the Council has put on numerous programs and trainings, organized the first ever Diversity, Equity and Inclusion Week, and have made several recommendations to help improve hiring, promotion, and retention throughout the agency.

Management recently received preliminary data from the 2022 Federal Employee Viewpoint Survey (FEVS) and is in the process of evaluating the data and preparing it for publication. The FEC's score on OPM's Employee Engagement Index, which measures employees' perceptions of senior leaders, supervisors, and the intrinsic work experience, increased by two percentage points from 2021 to 2022 (72% to 74%). While the agency has yet to receive full data comparison reports for the 2022 FEVS, management notes that the FEC's increase is in contrast with the overall government-wide reduction in EEI scores identified by OIG.

Challenge 5: Cybersecurity

The FEC developed a comprehensive cybersecurity program led by the Chief Information Security Officer (CISO) to protect critical infrastructure from the cyber threats. The FEC's overarching strategy to protect the security and privacy of its systems and network begins with the adoption of the National Institute of Standards and Technology (NIST) Risk Management Framework and NIST IT security control "best practices." NIST Special Publication 800-37 Rev. 2 – Risk Management Framework for Information Systems and Organizations," identifies seven steps essential to the successful execution of the risk management framework (RMF):

- **Prepare** to execute the RMF from an organization- and a system-level perspective by establishing a context and priorities for managing security and privacy risk.
- **Categorize** the system and the information processed, stored, and transmitted by the system based on an analysis of the impact of loss.
- **Select** an initial set of controls for the system and tailor the controls as needed to reduce risk to an acceptable level based on an assessment of risk.
- **Implement** the controls and describe how the controls are employed within the system and its environment of operation.
- **Assess** the controls to determine if the controls are implemented correctly, operating as intended, and producing the desired outcomes with respect to satisfying the security and privacy requirements.
- **Authorize** the system or common controls based on a determination that the risk to organizational operations and assets, individuals, other organizations, and the Nation is acceptable.
- **Monitor** the system and the associated controls on an ongoing basis to include assessing control effectiveness, documenting changes to the system and environment of operation, conducting risk assessments and impact analyses, and reporting the security and privacy posture of the system.

The FEC currently employs this continuous monitoring and ongoing authorization approach to assess the risk to systems and networks and allow the authorizing official to determine whether that risk is acceptable. Three of the FEC's major systems follow the formal Authority to Operate (ATO) process: the General Support System, the FEC website and the FEC's eFiling system.

Robust Security Architecture

As a result of, and in support of, the RMF, the FEC's Office of the Chief Information Officer (OCIO) continues to take steps to implement a robust security architecture. For example, in partnership with the Department of Homeland Security (DHS), the OCIO has collaborated with FEC stakeholders and technical experts to identify, protect, detect and respond to the impact of known and unknown threats, continuously assessing security controls and addressing residual and new risks.

As identified in OIG's description of this management challenge, the FEC has proactively pursued three significant joint efforts with DHS over the past two years to better identify and remediate emerging threats to the FEC's systems and networks. In addition, the FEC maintains ongoing information security efforts, including our security operation center and the applications for continuous diagnostics and mitigation, and implementing security controls to address identified cybersecurity gaps. These efforts help to ensure that identified risks are appropriately addressed and that its cybersecurity program and security architecture will continue to safeguard the agency's infrastructure, networks, and applications against cyber threats and malicious activities.

Continuous Monitoring and Mitigation
OCIO Security has worked with DHS to improve security capability by integrating with the Continuous Diagnostics and Mitigation (CDM) program. OCIO Security has also introduced the use of secure baselining standards, such as the use of Defense Information Systems Agency (DISA) Security Technical Implementation Guides (STIGs) and Benchmarks. System hardening and secure baselining practices are being expanded in OCIO teams. The OCIO security team has developed a privileged user account agreement and a new password policy to add administrative controls to supplement the technical access controls. The addition of the new password policy and multi-factor authentication (MFA) has improved the security posture of authentication types within the FEC's information systems.

Cloud-First Initiative
The FEC has also adopted a cloud first initiative for security, accessibility and recoverability. The FEC has migrated many legacy applications and systems to the cloud. Leveraging cloud computing allows the Commission to take advantage of cloud service providers' significant resources and expertise dedicated to maintaining the highest level of security. Hosting information, data and systems in the cloud will allow the FEC to better leverage government and industry best practices, such as DevSecOps, which improves our security posture by adding security mechanisms into the development and operation processes. Adopting a cloud first initiative will ultimately result in the consolidation and the modernization of all FEC's application and systems. Moreover, in cloud architecture, the security controls are built into the native configuration. In addition, by utilizing the cloud service providers' robust disaster recovery solutions, the FEC eliminates the need to maintain physical disaster recovery sites, which are costly to maintain and secure. The FEC has already completed the migration of its largest database, the campaign finance database, and its website to a cloud environment. The FEC's new website, launched in May 2017, uses FedRAMP Authorized cloud services, which provides a standardized approach to security assessment, authorization, and continuous monitoring for cloud products and services.

Building a Cybersecurity Culture
At the same time, the FEC is working to build a cybersecurity culture among its employees. The first line of defense in maintaining the protection and integrity of the agency's network is the

ongoing education of employees about their role in identifying and preventing malicious actors—internal or external—from compromising the FEC's systems and networks. Efforts to build a cybersecurity culture include steps to educate staff about FEC IT security policies and to ensure staff awareness of potential cybersecurity threats, such as phishing scams. The FEC promotes this cybersecurity culture in part through annual, mandatory IT security trainings and through year-round communication and notices to staff from the CISO. This year, the FEC implemented additional trainings for all staff to help staff recognize and avoid social engineering attempts.

Building Capacity in the Information Security Office

The FEC has also taken steps to build capacity in its Information Security Office. In April 2019, the FEC entered into a partnership with the Partnership for Public Service to participate in the Cybersecurity Talent Initiative. This selective, cross-sector program, which provides loan forgiveness to top bachelors and masters graduates around the United States in exchange for at least two-years' service at a federal agency, addresses the immediate cybersecurity talent deficiency faced by Federal government agencies by attracting service-minded individuals to government who might not otherwise have applied. During FY2020, the FEC completed the selection process and brought on board an individual for a two-year cybersecurity fellowship. In the past two years, FEC actively participated in the CTI program, attended the CTI's leadership panel discussions, and encouraged the cybersecurity analyst from the CTI program to actively participate in CTI training activities as well as training outside of CTI. However, with a two-year limit on the fellowship, and in the hopes of retaining employees with cybersecurity expertise, the Commission has created a permanent position to replace this fellowship position. FEC has recently filled this security position with a cybersecurity engineer/analyst.

Payment Integrity Information Reporting

The *Improper Payments Information Act (IPIA) of 2002*, as amended by the *Improper Payments Elimination and Recovery Act (IPERA) of 2010*, *Improper Payments Elimination and Recovery Improvement Act (IPERIA) of 2012,* and the *Payment Integrity Information Act (PIIA) of 2019* requires agencies to review all programs and activities they administer and identify those which may be susceptible to significant improper payments. The FEC preforms risk assessments at least once every three years. The FEC does not have any programs or activities that are susceptible to significant improper payments and is only required to perform an improper payment risk assessment.

Risk Assessment

In FY 2021, the FEC performed a systematic review of its program and related activities to identify processes which may be susceptible to "significant improper payments." "Significant improper payments" are defined as gross annual improper payments (i.e., the total amount of overpayments and underpayments) in the program exceeding (1) both 1.5 percent of program outlays and $10 million or (2) $100 million. The review was performed for the FEC's only program area which is to administer and enforce the *Federal Election Campaign Act (FECA).* For FY 2021, the FEC considered risk factors that may significantly increase the risk of improper payments as outlined in OMB Circular A-123, Appendix C, *Transmittal of Appendix C to OMB Circular No. A-123, Requirements for Payment Integrity Improvement.* Based on the systematic review performed, the FEC concluded that it is not susceptible to these risk factors and none of its program activities are susceptible to significant improper payments at or above the threshold level set by OMB. Thus, the agency's only program (*FECA)* is considered to be in Phase 1 and are not likely have an annual amount of improper payments (IP) plus an annual unknown payments (UP) above the statutory threshold. Information about agency improper payment risk assessments, recoveries, and other agency-wide reporting requirements can be found at https://www.paymentaccuracy.gov/

Recapture of Improper Payments Reporting

The FEC has determined that the risk of improper payments is low; therefore, implementing a payment recovery audit program is not applicable to the agency.

PIIA Requirements	Agency Response
Improper Payment Risk Assessment	Reviewed as noted above. See also Section I.D.ii, Improper Payments
Statistical Sampling	Not Applicable.*
Corrective Action Plan	Not Applicable.*
Improper Payment and Unknown Payment Estimate	Not Applicable.*
Recovery of Improper Payments Reporting	Not Applicable.*
High Dollar Overpayment and High-Priority Program Report	Not Applicable.*
*The FEC does not have programs or activities that are susceptible to significant improper payments.	

Reporting on Internal Control Assurances

The FEC is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the *Federal Managers' Financial Integrity Act of 1982 (FMFIA),* as implemented by OMB Circular A-123, revised, *Management's Responsibility for Enterprise Risk Management and Internal Control.* Internal control is an integral component of management to provide reasonable assurance that (1) programs operate effectively and efficiently, (2) financial reports are reliable, and (3) programs comply with applicable laws and regulations. The FEC conducted its evaluation of internal control in accordance with OMB Circular A-123. Based on the results of the Fiscal Year 2022 internal control review, the FEC reported no material weaknesses under the FMFIA and is able to provide an unqualified statement of assurance that the internal controls and financial management systems meet the objectives of the FMFIA.

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

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

- Office of Communications
- Office of Compliance
- Office of Equal Employment Opportunity
- Office of Management and Administration
- Office of the Chief Financial Officer
- Office of the Chief Information Officer
- Office of the General Counsel

Detailed assurances from each of these assessable units were provided to support the single assurance statement signed by the FEC Chair.

Civil Monetary Penalties Adjustment for Inflation

The following is the FEC's table of Civil Monetary Penalties Adjustment for Inflation for FY 2022.

US Code	Statutory Authority; Public Law	Year of Enactment/ Adjustment Other Than Pursuant to IAA	Name/Description of Penalty	Latest Annual Inflation of Adjustment	Section in Title 11 of CFR for Penalty Update Detail	Current Penalty or Penalty Formula
52 U.S.C. 30109(a)(5)(A), (6)	Federal Election Campaign Act Amendments of 1976, PL 94-283 sec. 109	1976	Violations of FECA or chapters 95 or 96 of title 26 of U S Code	Civil Monetary Penalties Annual Inflation Adjustments, 83 Fed. Reg. 66593 (Dec. 27, 2018), https://sers.fec.gov/fosers/showpdf.htm?docid=401529.	111.24(a)(1)	21,805
52 U.S.C. 30109(a)(5)(B)	Federal Election Campaign Act Amendments of 1976, PL 94-283 sec. 109	1976	Knowing and willful violations of FECA or chapters 95 or 96 of title 26 of U S Code	Civil Monetary Penalties Annual Inflation Adjustments, 83 Fed. Reg. 66593 (Dec. 27, 2018), https://sers.fec.gov/fosers/showpdf.htm?docid=401529.	111.24(a)(2)(i)	46,517
52 U.S.C. 30109(a)(5)(B)	Bipartisan Campaign Reform Act of 2002, PL 107-155 sec. 312(a)	2002	Knowing and willful contributions in the name of another	Civil Monetary Penalties Annual Inflation Adjustments, 83 Fed. Reg. 66593 (Dec. 27, 2018), https://sers.fec.gov/fosers/showpdf.htm?docid=401529.	111.24(a)(2)(ii)	76,280
52 U.S.C. 30109(a)(12)	Federal Election Campaign Act Amendments of 1976, PL 94-283 sec. 109	1980	Making public an investigation without consent	Civil Monetary Penalties Annual Inflation Adjustments, 83 Fed. Reg. 66593 (Dec. 27, 2018), https://sers.fec.gov/fosers/showpdf.htm?docid=401529.	111.24(b)	6,523

US Code	Statutory Authority; Public Law	Year of Enactment/ Adjustment Other Than Pursuant to IAA	Name/Description of Penalty	Latest Annual Inflation of Adjustment	Section in Title 11 of CFR for Penalty Update Detail	Current Penalty or Penalty Formula
52 U.S.C. 30109(a)(12)	94-283 sec. 109	1980	Knowingly and willfully making public an investigation without consent	Civil Monetary Penalties Annual Inflation Adjustments, 83 Fed. Reg. 66593 (Dec. 27, 2018), https://sers.fec.gov/fosers/showpdf.htm?docid=401529.	111.24(b)	16,307
52 U.S.C. 30109(a)(4)(C)	Treasury and General Government Appropriations Act, 2000, PL 106-58 sec. 640	2003	Late and Non-Filed Reports	Civil Monetary Penalties Annual Inflation Adjustments, 83 Fed. Reg. 66593 (Dec. 27, 2018), https://sers.fec.gov/fosers/showpdf.htm?docid=401529.	111.43(a)	Penalty formula that accounts for (a) level of activity in late or non-filed report; and (b) if report was filed late, (i) the number of days late and (ii) the number of previous violations; or (c) if the report was not filed, the number of previous violations.
52 U.S.C. 30109(a)(4)(C)	Treasury and General Government Appropriations Act, 2000, PL 106-58 sec. 640	2003	Election Sensitive Late and Non-Filed Reports	Civil Monetary Penalties Annual Inflation Adjustments, 83 Fed. Reg. 66593 (Dec. 27, 2018), https://sers.fec.gov/fosers/showpdf.htm?docid=401529.	111.43(b)	Penalty formula that accounts for (a) level of activity in late or non-filed report; and (b) if report was filed late, (i) the number of days late and number of previous violations; or (c) if the report was not filed, the number of previous violations.

US Code	Statutory Authority; Public Law	Year of Enactment/ Adjustment Other Than Pursuant to IAA	Name/Description of Penalty	Latest Annual Inflation of Adjustment	Section in Title 11 of CFR for Penalty Update Detail	Current Penalty or Penalty Formula
52 U.S.C. 30109(a)(4)(C)	Treasury and General Government Appropriations Act, 2000, PL 106-58 sec. 640	2000	Late or Non-Filed Reports where Commission cannot calculate amount of activity	Civil Monetary Penalties Annual Inflation Adjustments, 83 Fed. Reg. 66593 (Dec. 27, 2018), https://sers.fec.gov/fosers/showpdf.htm?docid=401529.	111.43(c)	8,743
52 U.S.C. 30109(a)(4)(C)	Treasury and General Government Appropriations Act, 2000, PL 106-58 sec. 640	2000	Late or Non-Filed 48-hour notices	Civil Monetary Penalties Annual Inflation Adjustments, 83 Fed. Reg. 66593 (Dec. 27, 2018), https://sers.fec.gov/fosers/showpdf.htm?docid=401529.	111.44	Penalty formula is 160+ (.10 x amount of contribution(s) not timely reported), subject to a 25% increase for each prior violation

APPENDIX

List of Acronyms

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

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