

FEDERAL ELECTION COMMISSION

OFFICE OF INSPECTOR GENERAL



FINAL REPORT

Review of Outstanding Audit Recommendations

JUNE 2012

ASSIGNMENT No. OIG -12-04

Office of Inspector General's Review of Outstanding Audit Recommendations June 2012 Report

Report Overview

As required by the Inspector General Act of 1978, as amended, the Office of Inspector General (OIG) is responsible for conducting audits of the Federal Election Commission's (FEC) programs and operations. When the OIG conducts an audit, or supervises an Independent Public Accounting firm to perform an audit, the OIG also has the responsibility of tracking audit recommendations and performing audit follow-up work to ensure adequate resolution of audit recommendations. Audit follow-up, to include the timely implementation of audit recommendations, is required by Office of Management and Budget Circular A-50, *Audit Followup*, as revised, and FEC Directive 50: *Audit Follow-up*,

Although management typically provides a semiannual status report to the Commission of their progress concerning outstanding audit recommendations, the official status (open/closed) of audit recommendations is determined by the OIG once the OIG has verified that management has adequately implemented the corrective actions to address the audit recommendations. This information is reported to the Commission and Congress in the OIG's Semiannual Reports to Congress.

This report provides the Commission with details regarding the:

- OIG's *Audit Follow-up process*, see page 2;
- *Quarterly meetings* with management to determine the status of outstanding audit recommendations, see page 2;
 - a. *Audit Follow-up Review of the FEC's Employee Transit Benefit Program*, see page 3
 - b. *Audit of the Commission's Property Management Controls*, see page 4
 - c. *2010 Follow-up Audit of Privacy and Data Protection*, see page 5
 - d. *2010 Follow-up Audit of Procurement and Contract Management*, see page 6
- OIG's *concerns* regarding management's progress and management of outstanding audit recommendations, see page 6; and
- Other FEC reviews with outstanding audit recommendations, see page 8.

For this review period, the OIG reviewed four audits that had a total of 161 audit recommendations that were outstanding for six months, or more. Collectively for three of the four audits, the OIG closed 48 outstanding audit recommendations based on the OIG's review of management's implementation of corrective action. However, for one audit (*2010 Follow-up Audit of Procurement and Contract Management*), the OIG's review determined that management had not implemented any corrective action, and all audit recommendations remain outstanding. The OIG's follow-up reviews were completed prior to the most recent May 2012 corrective action plans (CAPs) submitted to the Commission by management. Therefore, any recent corrective action completed by management will be reviewed by the OIG during the next review period.

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Audit Follow-up Process

At the conclusion of each audit, it is management's responsibility to develop a CAP. The CAP identifies the plan management has developed to address the audit findings. The CAP should detail the following:

1. assignment of Audit Follow-up Official (AFO);
2. audit finding(s);
3. audit recommendation(s);
4. corrective action to implement the audit recommendation(s);
5. staff person with responsibility to implement each task; and
6. expected completion dates.

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

FEC Directive 50 requires management to

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

In order to work effectively with FEC management in adhering to Directive 50, and to ensure continuous monitoring and adequate and timely audit resolution, the OIG has revamped our follow-up process to include quarterly meetings with management to discuss the progress of outstanding audit recommendations, and reporting semiannually (June & December) to the Commission on recommendations that the OIG has closed (if any) based on follow-up reviews. The quarterly meetings are also intended to assist the audit follow-up official in following provisions 4 through 6 of Directive 50, which are listed below:

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

Quarterly Meetings

At the start of the OIG's quarterly review process (December 2011), four OIG audits had a total of 161¹ outstanding audit recommendations. Corrective actions had not been adequately implemented since the release of each audit report. To discuss the current status and progress of

¹ The number (161) of outstanding audit recommendations includes recommendations that management has disagreed with the OIG. These recommendations remain open based on further improvement needed by management and/or the OIG believes the recommendation is essential to fixing the audit issue and should be implemented.

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each audit recommendation, the OIG held separate meetings with the applicable audit follow-up official and/or management staff for each audit. The OIG held the first meetings during the quarter ending December 2011. The OIG then conducted follow-up reviews in early 2012, and held meetings with management to discuss the official status of audit recommendations based on our reviews. Out of the four audits reviewed, the OIG was able to close several outstanding audit recommendations in three of the four audits, *Audit Follow-up Review of the FEC’s Employee Transit Benefit Program*, *Audit of the Commission’s Property Management Controls*, and *2010 Follow-up Audit of Privacy and Data Protection*.

Although several audit recommendations were closed for these three audits, further corrective action from management is still needed to implement the remaining outstanding audit recommendations. In addition, no findings have been closed for the *2010 Follow-up Audit of Procurement and Contract Management* where all audit recommendations remain open. See table below for summary of progress made and outstanding recommendations as of May 2012.

<u>Outstanding Audit Recommendations Status Table</u>				
<i>Title of OIG Audits</i>	<i>Total Outstanding Recommendations</i>	<i>Total Closed per OIG</i>	<i>Total as of May 2012</i>	<i>Total Months Outstanding</i>
Audit Follow-up Review of the FEC’s Employee Transit Benefit Program	51	26	25	29
Audit of the Commission’s Property Management Controls	36	15	21	21
2010 Follow-up Audit of Privacy and Data Protection	45	7	38	9
2010 Follow-up Audit of Procurement and Contract Management	29	0	29	6

A. Audit Follow-up Review of the FEC’s Employee Transit Benefit Program

The OIG met with the Transit Benefit program manager on December 7, 2011 to discuss the status of each audit recommendation. During the meeting, the program manager described how implementation of system enhancements to the METRO’s SmartBenefits software application has improved the transit benefits process through automation and system preventative controls. OIG was also informed of the additional manual monitoring controls implemented by the FEC program management team. Following the meeting, the Transit Benefit program manager provided documentation to support the work performed and controls implemented to address many of the audit recommendations. The OIG reviewed, verified, and/or assessed the information provided to determine if the audit recommendations have been properly addressed and was able to close 26 of the 51 open recommendations. These recommendations were closed

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either because the OIG verified that adequate controls were implemented and operating effectively, or recommendations were no longer needed due to new automation and/or changes to the program since our audit.

The OIG held another quarterly meeting with the Director of the Office of Human Resources (OHR) on March 29, 2012 to provide an update to management based on the OIG's follow-up procedures performed to date. During this meeting, the OIG informed management that there are 25 audit recommendations that we consider are still *open*. OIG notes that management considers 12 of these 25 open recommendations as closed; the OIG will consider these findings closed once the OIG determines the findings have been addressed and the program is operating effectively. The OIG requested additional supporting documentation that could be used to evidence that corrective actions for these 12 audit recommendations have been properly implemented. Once the applicable information is reviewed and confirmed, these recommendations can be closed.

For the remaining 13 outstanding recommendations, the OIG received a status update and revised due dates from OHR management. The OIG notes that the majority of the 13 recommendations are tied to the issuance of a revised Commission Directive 54 on the transit benefit program. Until the revised Directive 54 is finalized and approved, and standard operating procedures are documented and communicated to employees, these recommendations cannot be closed.

B. Audit of the Commission's Property Management Controls

The *Audit of the Commission's Property Management Controls* (Property Audit) audit report was released in March 2010. Since release of the audit report, management has not identified an Audit Follow-up Official for this audit; therefore, the OIG has worked with the Administrative Services Division (ASD) Managers² and the Deputy Chief Information Officer of Operations (Deputy CIO) to receive any updates regarding the implementation of audit recommendations. The responsibility of implementing the audit recommendations are shared by the Administrative Services Division and the Office of Information Technology (OIT).

The Property Audit report identified 36 audit recommendations to improve the controls over FEC's property. ASD is responsible for 10 of the 36 audit recommendations that relate to the FEC's management controls over government vehicles and charge (fuel) cards. The OIG held the first quarterly meeting with the ASD manager for the Property Audit on December 13, 2011. The ASD manager discussed the status of the 10 audit recommendations and provided documentation and supporting information for the corrective actions that had been completed. The OIG reviewed the information provided by the ASD manager and then conducted follow-up reviews of tasks identified as completed by management to ensure adequate implementation.

The OIG held the next quarterly meeting in March 2012 to provide the ASD manager with the official status (open/closed) of the outstanding audit recommendations based on the OIG's

² The OIG has worked with one acting ASD manager and two permanent ASD managers since the completion of the Property audit due to frequent turnover in this position.

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review of supporting documentation and follow-up work. The OIG was able to close four of the ten ASD audit recommendations based on sufficient implementation of the audit recommendations by management. It should be noted that the current ASD manager is consistently working with her staff and outside parties to implement the remaining six audit recommendations, and the OIG has verified that much progress has been made in getting the corrective actions completed and fully implemented.

The Office of Information Technology is responsible for implementing 26 of the 36 outstanding audit recommendations that relate to the FEC's management controls over mobile devices (Blackberry phones). The OIG also met with the Deputy CIO on December 13, 2011 to discuss the current status of the 26 audit recommendations. During and after the meeting, the Deputy CIO provided a revised policy along with other supporting documents to support corrective actions that have been completed. The OIG reviewed the information provided; conducted interviews with IT staff; and requested further documentation to determine if management had sufficiently implemented the audit recommendations.

The OIG's review identified seven audit recommendations that could be closed based on the FEC's decision to transition to a bundled (voice and data) service plan with AT&T. These seven audit recommendations were no longer applicable based on the change of the service plan. In addition, four audit recommendations were closed based on updates made to the OIT's *Policy 58-4.4: Personal Communication Devices Security Policy*, and one recommendation was closed related to a process change. However, for the remaining 14 audit recommendations, which all require process improvements, management has not made any significant progress in addressing the audit recommendations. In total, the Property Audit still has 20 outstanding audit recommendations outstanding, six in the ASD area, and 14 in OIT.

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

The OIG met with the Privacy Team regarding the *2010 Follow-up Audit of Privacy and Data Protection* on December 12, 2011. The Privacy Team and the OIG went through the CAP and discussed the status of each audit recommendation. Following the meeting, the Privacy Team provided supporting documentation for 16 of the 45³ audit recommendations that management considered completed. The OIG reviewed all information that was provided and was able to close six audit recommendations due to sufficient implementation. The corrective actions and/or documentation management provided to support the remaining ten audit recommendations were not sufficient or adequately implemented to effectively address the audit issue.

Due to conflicting schedules and office workload in both offices, the Privacy Team and the OIG were unable to meet during the next quarterly period (ending March 2012). Therefore, a meeting was held on May 17, 2012 to discuss the OIG's review. From this meeting, further supporting documentation and information was provided by the Privacy Team to close one additional finding. In total, the OIG was able to close seven findings, leaving 38 still outstanding.

³ Out of the 45 recommendations, there are 8 recommendations management has disagreed with the OIG, and does not plan to implement any corrective action.

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

The OIG held quarterly meetings with the Chief Financial Officer (CFO) on December 13, 2011 and March 28, 2012 to determine the status of the outstanding audit recommendations for the 2010 *Follow-up Audit of Procurement and Contract Management*. During the December 2011 meeting, the CFO stated that all 29⁴ recommendations were open and would not be completed until Directive 66 (planned procurement Directive/policy) was finalized and approved by the Commission. When the OIG met with the CFO in March 2012, it was determined that minimal progress had been made and all 29 audit recommendations are still outstanding. The CFO continued to report that corrective action on outstanding audit recommendations had been delayed pending the approval of the new procurement directive, as well as a vacancy in the Procurement Director position and other staffing gaps. The OIG communicated to the CFO that we did not agree that progress on all 29 recommendations should be contingent on the finalization and approval of Directive 66 or hiring a Procurement Director. The OIG stressed the importance of implementing adequate internal controls and that management should make every effort to complete all recommendations by the revised due dates.

Office of Inspector General Concerns

1. Management's reporting process for providing the Commission with semiannual status reports needs to be improved. Based on review of the semiannual status reports sent to the Commission, we identified the following:
 - May 2012 status report for the *Audit of the Commission's Property Management Controls* was not the most recent CAP to reflect the current status of audit recommendations;
 - CAPs submitted to the Commission for May 2012 did not contain all relevant information. The CAPs did not include OIG comments, the status (open/closed) of each recommendation and/or estimated completion dates;
 - Management did not consistently revise the corrective action due dates in the CAPs when the original completion dates are not achieved;
 - In many instances, completion dates for audit implementation are overdue by several months without any progress being made;
 - Historically, CAPs are not submitted in a timely fashion or not at all⁵; and
 - CAPs are not always in a readable format. CAPs are scanned and/or converted to a PDF format and the font is not legible. For example, the *Audit of the Commission's Property Management Controls* CAP sent to the Commission in October 2010, May 2011, and the most recent May 2012.

Suggestion: Management should improve the timeliness and quality of the CAPs submitted to the Commission.

⁴ Out of the 29 recommendations, there is one recommendation management has disagreed with the OIG, and does not plan to implement any corrective action.

⁵ The OIG notes that FEC management submitted all May 2012 CAPs to the Commission on time, and therefore the OIG is hopeful that improvement on timeliness is being addressed by management.

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2. There is no standard format used for reporting the status of the CAPs to the Commission or the OIG.

Suggestion: Management should adopt a standard CAP template to be used for all CAPs. A standard template will ensure consistency of the information. The OIG has provided management a standard template and the OIG plans to work with management to save this template in a central location for all follow-up officials.

3. Management has made minimal progress on the corrective action plan for the *2010 Follow-up Audit of Procurement and Contract Management*. The OIG is concerned by the delay in implementing adequate internal controls in procurement processes, which is an area that has a high inherent risk of fraud. The OIG notes that some of the audit recommendations are directly related to bringing the FEC in compliance with the FAR (Federal Acquisition Regulations). The longer it takes to address these recommendations, the greater the exposure the FEC has to being cited for violating government mandated regulations over the procurement function, among other risks. According to the Office of the Chief Financial Officer, delays in implementing recommendations are attributed to a lack of continuity in the Contracting Officer position and the revision of a Commission Directive on procurement pending Commission approval. While we agree these are relevant issues, the OIG believes some progress on implementing recommendations could and should have been made since the issuance of the OIG's audit report.

Suggestion: A new Contracting Officer has been hired by the FEC and is expected to start on Monday, June 18, 2012. Also, in the event the revised Commission Directive on Procurement is not finalized by July 31, 2012, the OIG suggests the Office of the Chief Financial Officer should move forward with implementation of corrective action on the OIG's recommendations to ensure compliance with contracting regulations and internal control requirements. Any revisions to operating procedures as a result of the new Commission Directive can be made, as appropriate.

4. The progress that has been made by Office of Information Technology to adequately implement audit recommendations for the *Audit of the Commission's Property Management Controls* is minimal. Management has expressed that additional progress to sufficiently address outstanding audit findings is not likely.

Suggestion: The CIO should review the latest CAP, discuss progress with his OIT team, and meet with the OIG to discuss a plan forward.

5. Management has not established an audit follow-up official for the *Audit of the Commission's Property Management Controls*. Also ASD and OIT do not maintain one comprehensive CAP with management's updated activity.

Suggestion: Management should appoint an audit follow-up official for all audits as required by Commission Directive 50 and OMB Circular A-50. Specifically, an audit follow-up official should be appointed for the *Audit of the Commission's Property Management Controls*. In addition, for all future audits, an audit follow-up official should be identified at

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the time the initial CAP is finalized by management and submitted to the Commission and OIG, i.e. within 30 days from the issuance of the final audit report.

Other Matters

In addition to the aforementioned audits, there are other FEC audits and reviews that have outstanding recommendations:

1. *2011 Inspection of the FEC's Kastle Key Program;*
2. *FEC's FY 2011 Financial Statement Audit;* and
3. *FEC's 2009 Human Capital Management Evaluation.*

The objective of the inspection was to identify management processes or controls concerning the FEC's Kastle Key system that can be improved, and provide management with recommendations to help strengthen this FEC function. The OIG released the Kastle Key inspection report in December 2011, which proposed 15 recommendations to management to assist in strengthening the controls over the Kastle Key program. This inspection was not included in this review as the recommendations have not been outstanding for six months, which is the time frame for triggering an OIG follow-up review. Management's CAP for the Kastle Key inspection is scheduled for review in the upcoming quarterly review period. Any recommendations that have been adequately implemented based on the OIG's review will be closed and reported during the OIG's next semiannual reporting period, December 2012.

The *FEC's FY 2011 Financial Statement Audit* contained 20 outstanding audit recommendations. In accordance with LSC's contract with the OIG, LSC is responsible for conducting follow-up work each audit year on the prior year's audit recommendations, and reporting on management's progress. LSC began the current year's (FY 2012) financial statement audit in May 2012. LSC will be reviewing the work completed by management to address the outstanding audit recommendations from FY 2011. The results of LSC's follow-up work will be reported in the *FEC's FY 2012 Financial Statement Audit report*.

The *FEC's Human Capital Management Evaluation* was conducted by the Office of Personnel Management (OPM) in 2009. OPM's evaluation resulted in 35 required corrective actions that should be implemented by OHR, and 39 recommended corrective actions to assist in improving OHR's business processes. According to management, via their May 2012 semiannual report of corrective actions submitted to the Commission, management has fully implemented 17 of the 35 required corrective actions, and 19 of the 39 recommended actions since 2009. Although this evaluation was conducted by an external entity that was not contracted by the OIG, the OIG reviews the progress that management is making to implement the OPM recommendations and requesting the CAP updates that are sent to the Commission. However, the OIG does not review OHR's implementation of OPM's evaluation recommendations for sufficiency, and does not confirm that the recommendations identified as closed by management have been adequately implemented. The OIG's review of OHR's progress in implementing OPM's evaluation recommendations is used as part of the OIG's risk assessment for our annual work plan.

Federal Election Commission Office of Inspector General



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