

***FEDERAL ELECTION
COMMISSION***



***OFFICE OF THE
INSPECTOR GENERAL***

***999 E STREET, N.W., SUITE 940
WASHINGTON, DC 20463***

OCTOBER 1, 2006 – MARCH 31, 2007

MAY 2007



FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20463

OFFICE OF THE CHAIRMAN

May 29, 2007

The Honorable Nancy Pelosi
Speaker of the House of Representatives
Washington, D.C. 20515-6501

Dear Madam Speaker:

Pursuant to the Inspector General Act of 1978, as amended, the Federal Election Commission submits the Inspector General's Semiannual Report to Congress. The report summarizes the FEC's Inspector General's activity from October 1, 2006 through March 31, 2007. During this reporting period, the FEC's Inspector General completed the annual audit of the FEC's financial statements, an audit of the FEC's Employee Transit Benefit Program, and reviewed the FEC's protections for sensitive personal information. The Inspector General did not issue any reports that identified questioned costs or recommended that funds be put to better use.

The audit of the FEC's financial statements resulted in an unqualified (clean) opinion on five of the six required statements; the FEC's Balance Sheet, Statement of Changes in Net Position, Statement of Budgetary Resources, Statement of Financing, and Statement of Custodial Activity. The audit also found no instances of non-compliance with applicable laws and regulations. However, the auditors issued a qualified opinion regarding the FEC's Statement of Net Cost and identified some internal control weaknesses. The Statement of Net Cost details the allocation of costs between internal FEC programs and was raised in previous audits as an area of concern. In response to the previous audits, FEC management worked diligently throughout FY2006 to implement a new cost allocation process. As noted in the attached report, the Inspector General believes "the new system will yield further improvements in internal controls and reporting of FEC program costs in fiscal year 2007 and beyond."

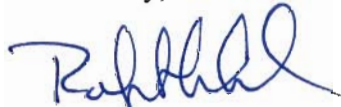
In addition to the significant improvements made in FY2006, we are continuing to improve our cost allocation process to ensure that it completely meets our standards and those of the auditors. Moreover, to further address the issues discussed in the auditor's report, FEC management has undertaken an effort to transition several administrative and financial functions to an outside, certified provider. The FEC is working closely with the Office of Management and Budget (OMB) to ensure this transition is consistent with OMB's Line of Business requirements, and has received positive feedback from OMB for its efforts to date. This transition will not only eliminate several of the remaining weaknesses identified in the audit, but is also expected to reduce administrative overhead.

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The audit of the FEC's Transit Benefit Program found that the FEC is managing the program effectively. The OIG suggested several additional improvements to the program, and the FEC will incorporate those suggestions into a comprehensive review of our procedures we are undertaking to ensure the program continues to operate effectively. Finally, the report discusses the completion of an inspection on Personally Identifiable Information (PII). This evaluation concluded that the FEC has taken the necessary steps to protect sensitive personal information. The evaluation also identified additional safeguards the FEC could implement to further protect information, and the FEC is in the process of analyzing their feasibility given current funding levels.

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

Sincerely,

A handwritten signature in blue ink, appearing to read "R. Lenhard", with a stylized flourish at the end.

Robert D. Lenhard
Chairman

Enclosure

MANAGEMENT REPORT ON FINAL ACTION
ON AUDITS WITH QUESTIONED COSTS
FOR THE SIX-MONTH PERIOD ENDING MARCH 31, 2007

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

MANAGEMENT REPORT ON FINAL ACTION
ON AUDITS WITH RECOMMENDATION TO PUT FUNDS TO BETTER USE
FOR THE SIX-MONTH PERIOD ENDING MARCH 31, 2007

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



FEDERAL ELECTION COMMISSION

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A Message from the Inspector General

This report summarizes the work completed by the Office of Inspector General (OIG) for the semiannual reporting period October 1, 2006 – March 31, 2007.

Significant work completed includes:

- Audit of the FEC's Fiscal Year 2006 Financial Statements;
- Audit of the FEC's Employee Transit Benefit Program; and
- Inspection Report on Personally Identifiable Information (PII)

The work and complexity of the OIG continues to grow as the audits required by statute increase and the number of hotline complaints received continue to rise.

While the OIG has met these challenges and adjusted current resources to reflect the work being done, I am growing increasingly concerned with the lack of resources available to the OIG. I had hoped to see an increase in staffing this fiscal year, but in the current FEC management plan, no additional personnel is anticipated for the office. I will continue to monitor this situation during the upcoming months.

During this reporting period, the FEC saw the new senior management team positions filled. A new Deputy Staff Director for Management, Chief Compliance Officer, Communications Officer, and Chief Financial Officer all arrived during the past six months. The Staff Director and her management team are providing a new perspective on the agency and its employees, and the OIG is looking forward to developing a good working relationship with the senior management team.

I would like to thank the OIG staff for their continued commitment to the mission of the Office of Inspector General.

A handwritten signature in black ink, reading "Lynne A. McFarland".

Lynne A. McFarland
Inspector General
Federal Election Commission

April 30, 2007

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