FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20463

COMMISSION DIRECTIVE	PREVIOUS NO. 53	NO. 53
	RESCINDS: July 21, 2005	EFFECTIVE DATE: December 15, 2010
Implementation of OMB Circular A-123: Internal Control Program		

This directive addresses the following aspects in the implementation of an internal control program in compliance with the Federal Managers' Financial Integrity Act of 1982, following the guidance of Office of Management and Budget (OMB) Circular A-123:

- Purpose
- General Process
- Annual Requirements

Authority. This directive is issued under the authority of the Federal Managers' Financial Integrity Act of 1982 (FMFIA) as codified in 31 U.S.C. 3512. OMB Circular A-123 provides guidance for implementing the FMFIA. 31 U.S.C. 3512(b) specifies that agency heads must establish and maintain an internal control program. By this directive, the Commission delegates operational responsibility for the FEC's internal control program to the Chief Financial Officer (CFO).

Background. The FMFIA amended the Accounting and Auditing Act of 1950 to "require ongoing evaluations and reports on the adequacy of systems of internal accounting and administrative control...." Each year, agency heads must, on the basis of an evaluation, prepare a statement to the President and Congress that their systems of internal accounting and administrative control fully comply with the requirements set forth in the Act. The Office of Management & Budget (OMB) issues guidance on this requirement via OMB Circular A-123, Management's Responsibility for Internal Control. This directive establishes the Commission's program to evaluate the adequacy of its internal accounting and administrative control systems.

Definitions. For purposes of this directive:

a. "Control environment" means an organization or business unit's approach to internal controls. It includes, but is not limited to, variables such as the demonstrated commitment to ethics and integrity within the organization or unit; the organization or unit's level of competence to carry out the responsibilities assigned to it; the operating style and attitude of the employees and managers towards controls; and whether the organization or unit is structured such that there is appropriate separation of duties. (See OMB Circular A-123 for additional details).

b. "Director" means any position reporting directly to the Commission.

c. "Program manager" means the official with responsibility for a program or process, as designated by the appropriate Director and identified in the internal control review guidance issued annually by the Office of the Chief Financial Officer (OCFO).

Purpose. Implementing internal controls throughout the organization provides to the Commission, the President, Congress, and the public evidence that the Commission has in place policies and procedures to provide reasonable assurance that:

a. Programs operate effectively and efficiently;
b. Financial reports are reliable; and,
c. Programs comply with applicable laws and regulations.

All FEC components must develop and maintain effective systems of internal controls over their program operations and administrative functions. Program managers are responsible for the internal control program for their areas of responsibilities. The program managers will evaluate all internal control processes on an ongoing basis, take prompt action to correct weaknesses, and report all findings and corrective actions taken in their annual report.

Annual Requirements

Annually, each program manager will submit an internal control report (ICR) that provides the results of his/her respective program's compliance with this directive, including the following:

a. Letter of assurance;
b. Vulnerability assessment checklist;
c. List of pertinent policies and procedures for the respective program area; and
d. Summary description of any material internal control weaknesses (if any), and a brief corrective action plan (if any).

Each of these documents will be on forms and/or in accordance with specific instructions to be provided annually by the OCFO to program managers.

Reports will identify weaknesses, if any, within the program's internal control program and recommend corrective actions, as necessary, with a brief cost-benefit analysis weighing the cost of any recommended improvements with the expected benefits.

Problems or weaknesses requiring immediate corrective action will be included in the program managers' annual internal control reports as part of their letters of assurance.
The recommendations for corrective actions may include the following:

a. Take no further action;
b. Take improvement actions recommended by the manager;
c. Establish increased or improved internal control monitoring procedures;
d. Develop and conduct training programs for the staff;
e. Scheduling an external source to conduct a internal control review; or
f. Requesting an audit by the Office of Inspector General (OIG).

Program managers will submit their annual report through their respective Director to the OCFO. The OCFO will review and consolidate the reports received from the Directors. The CFO will submit a summary agency-wide internal control report to the Commission based on the program managers' internal control reports. Based on this report, the Chairman, on behalf of the Commission, will issue an annual assurance statement on internal controls as a part of the Performance and Accountability Report (PAR), as required by the FMFIA.

Documentation of final reviews and summaries should reside with the OCFO whereas detailed backup should stay with program offices. The documentation should be maintained for a period of at least two years for record-keeping purposes.

General Process

The overarching requirement for annual internal control review is for program managers to ensure that their internal controls work as intended. When preparing the annual internal control reports, managers should bear in mind the following three major concepts: risk assessment, review of internal controls and mitigating controls evaluation.

a. Risk Assessment

Each program manager must evaluate risks associated with his or her program. Risks are potential negative outcomes that may occur because of inadequate internal controls. They may include, but are by no means limited to, outcomes such as loss or misspending of taxpayer funds; failure to carry out aspects of the agency's mission; failure to comply with statutory requirements; and reputational injury to the agency or individuals associated with it.

An analysis of risk includes a determination of the inherent potential for fraud, waste, or abuse due to the nature of the activity itself. Factors to be considered are:

1. Purpose and characteristics of the program or activity;
2. Budget allocation;
3. Degree of centralization;
4. Prior reviews;
5. Management responsiveness; and
6. Other special concerns.

Program managers should consider the following when performing the risk assessment:

1. Past experience with achieving the goals of the program;
2. Experience and skill level of staff;
3. Documentation of the policies and procedures;
4. Complexity of the program in relation to the agency's mission;
5. Determining if the regular reviews of operating performance and exception reports are sufficient to reveal potential waste, fraud and abuse;
6. Ensuring there is appropriate segregation of duties to reduce a person's opportunity to commit and conceal fraud or errors;
7. Evaluating the cost versus the benefit of implementing the risk control;
8. Identifying the appropriate safeguards for access to and use of records; and,
9. Determining if there are sufficient independent checks to ensure that internal controls are operating as expected.

b. Review of Internal Controls

In reviewing internal controls, program managers should:

1. Identify the internal control objectives relevant to the program, department, business line, or organization;
2. Review pertinent policies, procedures, and documentation;
3. Discuss controls with appropriate personnel;
4. Evaluate the control environment, as defined above, for the area(s) of their responsibility;
5. Test transactions, if that concept is appropriate to the particular program or department's functions;
6. Determine whether there are sufficient processes in place that reduce program risks to an acceptable level;
7. Share findings, concerns, and recommendations with senior management; and,
8. Determine that the organization has taken timely corrective action on noted deficiencies.

c. Mitigating Controls Evaluation

Program managers should also consider whether any of the following are present in the programs for which they are responsible and determine if there are sufficient internal controls to mitigate any of these conditions:

1. Broad or vague legislative authority;
2. Cumbersome regulatory requirements;
3. High degree of complexity;
4. Existence of third party beneficiaries;
5. Activities involving the payment of entitlement monies (e.g., matching funds);
6. Activities operating under severe time constraints and/or staff shortages;
7. Activities involving the handling of cash receipts;
8. Activities involving the granting of authority, certifications, or administration of applicable laws and regulations;
9. Activities involving the direct obligation of agency funds, such as purchasing and contracting; and
10. Activities involving the indirect obligation of agency funds, such as FEC sponsored conferences, workshops, and seminars.

Deadlines

The internal control review reports (including annual assurance letters) are due to the CFO in compliance with the timeframe established in the annual financial statement preparation guide and in specific internal control reporting guidance to be provided annually by the CFO.

This Directive was adopted on December 15, 2010.

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