STATE BOARD OF ELECTIONS

REPORT ON AUDIT

FOR THE YEAR ENDED

JUNE 30, 2006

Auditor of Public Accounts
COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of the State Board of Elections' (Elections) operations and compliance with the Help America Vote Act of 2002 found:

- proper recording and reporting of expenditure transactions, in all material respects, in the Commonwealth Accounting and Reporting System;

- no matters involving internal control and its operations necessary to bring to management's attention;

- one instance of noncompliance with applicable laws and regulations discussed on page 1, and

- one risk alert which is discussed below.

Risk Alert:

During the course of our audits, we sometimes encounter issues, which are beyond the corrective action of management and require the action of either another agency, outside party, or the method by which the Commonwealth conducts its operations. The following matter represents a risk to the State Board of Elections, (Elections), but the Elections must rely on Virginia Information Technology Agency and Department of General Services to address the risk.

- Because the Virginia Information Technology Agency has not provided assurance that appropriate security is available to meet Elections' information security requirements, Elections cannot fulfill their responsibilities for the security and safeguard of all of the agency's information technology assets, systems and information as stated in the state policy. This may put Elections' information technology assets, systems and information at risk. This risk alert is described in greater detail on page one.

-TABLE OF CONTENTS-

	Page
AUDIT SUMMARY	
COMMENTS TO MANAGEMENT	1
AUDIT FINDINGS AND RECOMMENDATIONS	2
AGENCY HIGHLIGHTS	3-5
AUDIT OBJECTIVES	6
AUDIT SCOPE AND METHODOLOGY	6
CONCLUSIONS	7
EXIT CONFERENCE AND REPORT DISTRIBUTION	7
AGENCY RESPONSE	8
AGENCY OFFICIALS	9

COMMENTS TO MANAGEMENT

Risk Alert

During the course of our audits, we sometimes encounter issues, which are beyond the corrective action of management and require the action of either another agency, outside party, or the method by which the Commonwealth conducts its operations. The following matter represents a risk to the State Board of Elections, (Elections), but the Elections must rely on VITA to address the risk.

Security Risk Assurance for Infrastructure

The Secretary of the State Board of Elections has responsibility for the security and safeguard of all of Elections' information technology assets, systems and information. Over the past three years, the Commonwealth has moved the information technology infrastructure supporting these databases to the Virginia Information Technologies Agency (VITA). In this environment, VITA and the Secretary clearly share responsibility for the security of Elections' information technology assets, systems and information and must provide mutual assurance of this safeguarding.

Elections has provided VITA with all the documentation required to make this assessment for the previous voter registration system, VVRS. However, VITA has not provided Elections with assurance that they can provide hardware and software configurations that satisfy these requirements and appropriate controls to secure information technology assets, systems and information.

Therefore, Elections cannot fulfill their responsibilities stated in the state policy, which puts its information technology assets, systems and information at risk. As such, VITA needs to provide assurance to Elections that appropriate security is available to met Elections information security requirements.

In February 2007, Elections implemented a new voter registration system, VERIS. Further, Elections signed a memorandum of understanding with the Department of General Services (DGS) to provide application support and manage the continuity of operations plan for VERIS.

Given these changes in Elections' information technology environment, Elections should coordinate with DGS and VITA to ensure that all security safeguards are in place to provide assurance over the information technology assets. Elections should fulfill their responsibilities by filling out the necessary documentation and providing it to VITA. Once received, VITA needs to provide assurance to Elections that appropriate security is available to met Elections information security requirements.

AUDIT FINDING AND RECOMMENDATION

Improve Subrecipient Monitoring

Elections is not satisfying all aspects of the Subrecipient Monitoring compliance requirement. Elections is not obtaining and reviewing the localities Single Audit for any audit findings related to HAVA awards and appropriate corrective action plans.

Elections should expand their subrecipient monitoring program to include reviewing locality‘s single audits. Elections could obtain copies of the localities’ A-133 audit reports, either from the locality or a central repository of such audit reports, and review them to determine if there are any findings relating to HAVA. Where findings exist, Elections should ensure the locality develops and executes their planned corrective actions promptly. A comprehensive subrecipient monitoring program will reduce the risk of the State losing HAVA funds as a result of locality non-compliance.

AGENCY HIGHLIGHTS

General

Elections supervises and coordinates the work of local voter registration officials (registrars) and Electoral Board members (election officials) who register voters and conduct elections within their jurisdictions. Its statutory mission is to ensure statewide uniformity of voter registration and election procedures.

Elections also provides guidance, certifies all voting equipment, qualifies candidates for nomination and election, and certifies statewide, general assembly, and shared constitutional officer election results. Finally, Elections provides localities funding to pay the salaries and some expenses of the registrars and election officials.

In meeting its legal responsibilities of ensuring uniformity of the registration processes, Elections has a computerized central record-keeping system of registered voters in the Commonwealth. In February 2007, Elections implemented a new system, the Virginia Election and Registration Information System (VERIS), to meet federally mandated requirements under the Help America Vote Act of 2002 (HAVA). We discuss this and other requirements of HAVA in greater detail below.

During our review, we evaluated Elections progress toward resolving the issues identified in the Review of Information Security in the Commonwealth of Virginia report issued by our office in December 2006. Elections hired a chief information officer in the summer of 2006 to begin addressing the security needs of the organization as they relate to VERIS. The chief information officer has developed new policies and procedures and is updating Elections' Continuity of Operations Plan. All of these actions are part of implementing VERIS.

Elections is traditionally supported through General Fund appropriations. The following table reflects Elections' General Fund activity for fiscal year 2006.

	Fiscal Year 2006
Appropriations:	
Original	$10,574,537
Adjustments	555,174
Final	11,129,711
Actual expenses:	
Continuous charges	172,804
Contractual services	1,668,959
Equipment	28,667
Personal services	1,471,756
Supplies and materials	34,293
Transfer payments	7,008,575
Total expenses	$10,385,055

*Information obtained from CARS

As reflected in the previous table, transfer payments to localities represent the majority of Election's expense activity, which is the payment of registrars and election officials' salaries and some other expenses. Contractual services include the ongoing maintenance costs of Elections' legacy voter registration system as well as telecommunication costs. Personal Services includes the salaries and fringe benefits for Election's central office staff. The remaining expenses support the operational needs of those staff.

Since fiscal year 2003, Elections has received several large federal grant awards under HAVA. We discuss the nature of these awards and the actual expenses in greater detail below.

Help America Vote Act of 2002

The U.S. Congress enacted the Help America Vote Act of 2002 (HAVA) to help states improve the election process. Specifically, HAVA was designed to help states:

- replace punch card and lever voting systems;
- establish voter education programs;
- train local election officials;
- establish or modify centralized voter registration systems in the states;
- assist with the administration of certain federal election laws and programs;
- establish minimum election administration standards for states;
- clarify identification requirements for first time registrants;
- improve polling place accessibility for handicapped persons and non-English speakers; and
- improve support for military and overseas voters.

HAVA created the Election Advisory Committee (EAC) as an independent commission to administer the provisions the act. Specifically, HAVA charges the EAC with administering payments to states and developing guidance to meet HAVA requirements, implementing election administration improvements, adopting voluntary voting system guidelines and developing a national certification program for voting systems. The EAC also serves as a national clearinghouse and resource of information regarding election administration.

Funding comes from four different programs within HAVA, with restrictions related to each program. To date, Elections has received $69.1 million in funding under Title I and Title II - Section 251 and does not anticipate receiving any further funding from these sources. HAVA does not impose any deadline restrictions by when Elections must expend these funds. Elections has also received $960,690 in Title II - Section 261 funds over the past three fiscal years. These funds are available from the federal government to reimburse Elections' cost, but must be spent within five years of the original award year.

The following table summarizes the HAVA program revenues, including Title II, Section 261 funds received to date. Virginia can earn interest on the Title I and Title II, Section 251 funds and uses the interest earning to meet the HAVA requirements of the Title II, Section 251 funding. The table below summarizes the interest earned on those funds as well.

	Fiscal Year Received				
Funding Source	2003	2004	2005	2006	Total
Title I, Section 101	$ 7,105,891	$ -	$ -	$ -	$ 7,105,891
Title I, Section 102	4,526,568	-	-	-	4,526,568
Title II, Section 251	-	-	57,489,361	-	57,489,361
Title II, Section 261	-	41,666	83,755	116,501	241,922
Total	$11,632,459	$ 41,666	$57,573,116	$ 116,501	$69,363,742
Interest earned	$ -	$263,573	$ 904,649	$1,646,167	$ 2,814,389

*Information obtained from CARS

Title I, Section 101 funding has the least number of restrictions and is available to improve the overall administration of elections, including the training of voters and election officials. Title I, Section 102 strictly provides funding for the replacement of punch card or lever voting machines. Title II, Section 251 funding allows states to meet uniform minimum voting system standards; provide a provisional voting mechanism, as well as minimal voter information requirements; and maintain a single computerized statewide voter registration list. However, states, once meeting these requirements, can use the remaining funds to improve the administration of federal elections. Finally, Title II, Section 261 funding supports efforts undertaken to make polling locations accessible for individuals with disabilities.

Through fiscal year 2006, Elections has expended over $31.7 million in HAVA funds as follows.

	Fiscal Year Disbursed			
Funding Source	2004	2005	2006	Total
Title I, Section 101	$284,550	$ 3,137,222	$ 510,563	$ 3,932,335
Title I, Section 102	226,648	2,103,477	2,094,468	4,424,593
Title II, Section 251	-	7,508,396	15,690,542	23,198,938
Title II, Section 261	41,666	83,755	116,501	241,922
Total	$552,864	$12,832,850	$18,412,074	$31,797,788

*Information obtained from CARS

Commonwealth of Virginia

Walter J. Kucharski, Auditor

Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218

March 12, 2007

The Honorable Timothy M. Kaine
Governor of Virginia
State Capital
Richmond, Virginia

The Honorable Thomas K. Norment, Jr.
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

We have audited selected financial records and operations of the **State Board of Elections** for the year ended June 30, 2006. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objectives

Our audit's primary objectives were to evaluate the accuracy of recorded financial transactions on the Commonwealth Accounting and Reporting System, and test compliance for the Statewide Single Audit. In support of this objective, we reviewed the adequacy of the State Board of Election's internal control, tested for compliance with applicable laws, regulations, contracts, and grant agreements, and reviewed corrective actions of audit findings from prior year reports.

Audit Scope and Methodology

The State Board of Elections' management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances.

Federal grant expenditures
Transfer payments
Payroll expenditures, and
Application access

We also followed up on the status of the State Board of Elections' resolution of issues identified in the Review of Information Security in the Commonwealth of Virginia report.

We performed audit tests to determine whether the State Board of Elections' controls over federal expenditures were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations. We also reviewed and performed testwork on internal policies and procedures applicable to transfer payments, payroll expenditures and application access. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of the State Board of Elections' operations. We also tested transactions and performed analytical procedures.

Conclusions

We found that the State Board of Elections properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The State Board of Elections records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

We noted no matters involving internal control and its operation that we consider necessary to be reported to management. We noted a matter involving compliance with applicable laws and regulations that requires management's attention and corrective action. This matter, entitled, "Improve Subrecipient Monitoring" is described in the section entitled "Audit Findings and Recommendations."

The Agency has taken adequate corrective action with respect to audit findings reported in the prior year.

EXIT CONFERENCE

We discussed this report with management on March 20, 2007. Management's response has been included at the end of this report.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

JBS/sks

COMMONWEALTH of VIRGINIA
STATE BOARD OF ELECTIONS

Michael G. Brown
Chairman
Barbara Hildenbrand
Vice Chairman

Jean R. Jensen
Secretary
Valarie A. Jones
Deputy Secretary

March 28, 2007

Mr. Walter Kucharski
Auditor of Public Accounts
P.O. Box 1295
Richmond, VA 23218

Dear Mr. Kucharski,

Thank you for allowing me the opportunity to comment on your audit of the State Board of Elections' (SBE) compliance with the Help America Vote Act of 2002 (HAVA). The SBE agrees with your findings concerning our lack of subrecipient audit monitoring and will take the following corrective actions:

- Business Manager will develop and implement procedures for subrecipient audit monitoring by June 1, 2007.

We appreciate your assistance.

Sincerely,

Jean R. Jensen

Jean R. Jensen
Secretary

200 North 9th Street, Suite 101 - Richmond 23219 - 804-864-8901 - Toll-Free (800) 552-9745 - Fax 804-371-0194 - TDD 800-260-3466
http://www.sbe.virginia.gov

STATE BOARD OF ELECTIONS

BOARD MEMBERS

Michael G. Brown
Chairman

Barbara Hildenbrand
Vice Chairman

Jean R. Jensen
Secretary

OFFICIALS

Jean R. Jensen
Secretary

Reginald C. Wilson
Business Manager