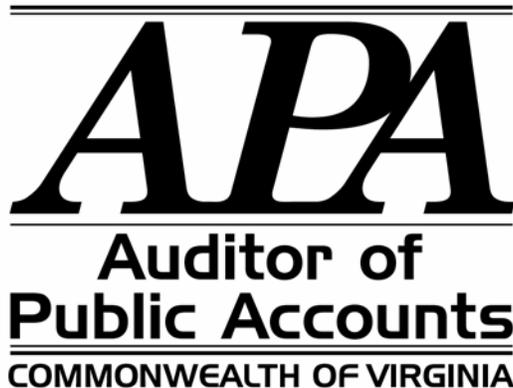


**STATE BOARD OF ELECTIONS
RICHMOND, VIRGINIA**

**REPORT ON AUDIT
FOR THE TWO-YEAR PERIOD ENDED
JUNE 30, 2004**



AUDIT SUMMARY

Our audit of the State Board of Elections for the two-year period ended June 30, 2004, found:

- No material weaknesses in internal controls;
- Proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- No instances of noncompliance with applicable laws and regulations; and
- Adequate implementation of corrective action on prior years audit findings.

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AGENCY BACKGROUND

The State Board of Elections (Board) 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 and fairness, accuracy, purity, and legality in all elections. The Board also provides guidance, certifies all voting equipment, qualifies candidates for nomination and election, and certifies statewide, general assembly, and shared constitutional officer results.

The Board provides localities funding to pay the salaries and some expenses of the Registrars and election officials. The Board calculates compensation amounts based on the most recent population estimates from the University of Virginia's Center for Public Service. The compensation period is March through February.

The Code of Virginia requires that the Board receives and catalogs all candidate and committee campaign finance reports. As part of this requirement, the Board verifies that all reports are complete and submitted on time, assessing civil penalties for late, incomplete, or un-filed reports. Effective January 1, 2004, electronic filing is mandatory for all statewide candidates and political committees that raise or spend more than \$10,000 in a calendar year.

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. The Board expects to receive over \$60 million in federal funds between fiscal years 2003 through 2007 towards this effort. The Board will use these funds to reimburse localities for voting machine replacement, training, and voter education. The agency will also replace the statewide voter registration system with the Virginia Elections and Registration Information System (VERIS), which we discuss in more detail later in this report. In addition, the Board will administer other voter improvements such as enhancing the provisional voting process to meet HAVA compliance requirements. In 2003, the Board received federal funds of \$11.6 million, and received none in fiscal year 2004.

Because HAVA is a new federal program, the Board had no federal expenses in fiscal year 2003; and had federal expenses of \$511,614 in fiscal year 2004. Federal expenses consisted primarily of aid to localities for voting machine replacement, preliminary VERIS costs, and HAVA training for Board personnel. Currently, \$1.5 million of the proposed HAVA activities are unfunded as illustrated in table A. To address this issue, the agency hopes to receive additional general fund appropriations in the future. Otherwise, the Board will have to modify proposed HAVA activities.

Table A

<u>HAVA Activities</u>		<u>Total Expected Cost (in millions)</u>
Replacement of punch card and lever voting machines		\$ 32.6
Training and voter education		13.5
Computerized statewide voter registration		12.1
HAVA plan creation, implementation, and management		2.5
Other voter improvements		<u>2.4</u>
Total expected HAVA activity costs		<u>63.1</u>
Authorized federal funds	\$ 60.5	
Matching funds to be provided by local governments	<u>1.1</u>	<u>(61.6)</u>
Additional funding needed		<u>\$ 1.5</u>

HAVA requires states to have a single, uniform, centralized interactive computerized statewide voter registration list defined, maintained and administered at the State level. The Board now uses a centralized voter registration system (VVRS). While VVRS is a statewide system, it does not meet all HAVA requirements since the Board maintains some temporary, federal-only registrants outside the system, thus creating two lists that the Board must merge into one paper list for each election. Currently, the Board is soliciting vendors to replace VVRS with VERIS, which will meet all state and federal regulations. The Board estimates the system will cost approximately \$12.1 million and be fully operational by January 1, 2006.

Financial Activity

The schedule below summarizes the Board's budgeted funding sources with actual expenses.

<u>Fund</u>	<u>Original Budget</u>		<u>Adjusted Budget</u>		<u>Actual Expenses</u>	
	<u>FY 03</u>	<u>FY 04</u>	<u>FY 03</u>	<u>FY 04</u>	<u>FY 03</u>	<u>FY 04</u>
General Fund	\$9,515,972	\$8,777,707	\$9,150,129	\$ 9,204,682	\$9,149,297	\$9,109,464
Special Fund	-	-	-	3,000	-	-
Federal Fund	-	-	-	<u>32,400,000</u>	-	<u>511,614</u>
Total	<u>\$9,178,823</u>	<u>\$8,777,707</u>	<u>\$9,150,129</u>	<u>\$41,607,682</u>	<u>\$9,149,297</u>	<u>\$9,621,078</u>

Sources:

- 2002 Acts of Assembly (Chapter 899)
- 2003 Acts of Assembly (Chapter 1042)
- 2004 Acts of Assembly (Chapter 943)
- Commonwealth Accounting and Reporting System

The decrease between fiscal year 2003 original budget and adjusted budget reflects budget reduction efforts including decreasing printing costs, distribution of materials to registration offices, and reimbursement for local electoral board salaries. The increase between fiscal year 2004 original budget and adjusted budget is due to a \$32.4 million federal fund appropriation for the HAVA program. Because it was a new federal program, these funds were not included in the fiscal year 2004 original budget.

In addition to the federal funding discussed previously, General Fund appropriations support the majority of the Boards activities. The Board received \$9,150,129 and \$9,204,682 in general fund appropriations in fiscal year 2003 and fiscal year 2004, respectively. The Board also collects minimal revenues from the assessment of Campaign Finance Disclosure fines (civil penalties) on behalf of the Commonwealth. Additionally, the Board receives collections from the sale of copies of voter registration listings and campaign finance reports, and applies these collections towards expenses.

The Board's expenses fall into the following broad areas for fiscal years 2003 and 2004, of which over 64 percent and 61 percent respectively, were transfer payments to localities.

	<u>2003</u>	<u>2004</u>
Aid to local governments	\$ 5,927,520	\$ 6,150,321
Personal services	1,132,305	1,343,988
Contractual services	1,916,131	1,842,594
Rent, insurance and other charges	117,016	149,589
Supplies and materials	31,812	95,867
Equipment	<u>24,513</u>	<u>38,720</u>
Total expenses	<u>\$ 9,149,297</u>	<u>\$ 9,621,078</u>

Source:
Commonwealth Accounting and Reporting System



Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

October 15, 2004

The Honorable Mark R. Warner
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Lacey E. Putney
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

INDEPENDENT AUDITOR'S REPORT

We have audited the financial records and operations of the **State Board of Elections (Board)** for the two year period ended June 30, 2004. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objective, Scope, and Methodology

Our audit's primary objectives were to evaluate the accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System, review the adequacy of the Board's internal control, and test compliance with applicable laws and regulations. We also reviewed the Board's corrective actions of audit findings from prior year reports.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the Board's operations. We also tested transactions and performed such other auditing procedures, as we considered necessary to achieve our objectives. We reviewed the overall internal accounting controls, including controls for administering compliance with applicable laws and regulations. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances.

Expenditures
Revenues

We obtained an understanding of the relevant internal control components sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. We performed audit tests to determine whether the Board's controls 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.

The Board's 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.

Our audit was more limited than would be necessary to provide assurance on internal control or to provide an opinion on overall compliance with laws and regulations. Because of inherent limitations in internal control, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of internal control to future periods is subject to the risk that the controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls may deteriorate.

Audit Conclusions

We found that the Board properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Board 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 to be material weaknesses. Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to financial operations may occur and not be detected promptly by employees in the normal course of performing their duties.

The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

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

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.

EXIT CONFERENCE

We discussed this report with management on October 27, 2004.

AUDITOR OF PUBLIC ACCOUNTS

STATE BOARD OF ELECTIONS
Richmond, Virginia

BOARD MEMBERS

Michael G. Brown, Chairman
Barbara Hilenbrand, Vice Chairman
Jean R. Jensen, Secretary

OFFICIALS

Jean R. Jensen
Secretary

Lynda Sharp Anderson
Deputy Secretary