

STATE BOARD OF ELECTIONS

**REPORT ON AUDIT
FOR THE YEARS ENDED
JUNE 30, 2009 AND JUNE 30, 2010**

APA

**Auditor of
Public Accounts**

COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of the State Board of Elections (Elections), found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- certain matters involving internal control and its operations necessary to bring to management's attention; and
- an instance of noncompliance with applicable laws and regulations or other matters that is required to be reported.

- TABLE OF CONTENTS -

	<u>Pages</u>
AUDIT SUMMARY	
AUDIT FINDINGS AND RECOMMENDATIONS	1
AGENCY HIGHLIGHTS	2-4
AUDIT OBJECTIVES	5
AUDIT SCOPE AND METHODOLOGY	5-6
CONCLUSIONS	6
EXIT CONFERENCE AND REPORT DISTRIBUTION	6
AGENCY RESPONSE	7
AGENCY OFFICIALS	8

AUDIT FINDINGS AND RECOMMENDATIONS

Improve Federal Financial Status Reporting Process

While Elections submitted the required Federal Financial Status Reports as of September 30, 2009, showing expenses by the various titles and sections of the Help America Vote Act (HAVA), we could not determine the accuracy of the information reported. Specifically, Elections did not provide supporting financial documentation for the HAVA Title I – Section 101 and HAVA Title II Section 251 federal expenses, program income, or state matching expenses.

Federal regulations require that Elections complete separate financial status reports by title and section for HAVA funds and submit them annually to the Election Assistance Commission (EAC). Elections should maintain supporting financial documentation with each submission to ensure the validity of all amounts reported, thereby enabling management and the EAC to monitor the financial status of the HAVA program awards. Failing to report correct expenses on the report can result in the EAC revoking federal funds.

We recommend that Elections recheck the state and federal expenses and program income reported to the EAC for the 2009 federal fiscal year. Elections should either reconcile the expenses and revenue in the Commonwealth Accounting and Reporting System to the filed reports or if necessary, file an amended report that correctly reflects expenses and program income, or adjust the current report to reflect those changes since the report shows cumulative financial activity.

We also recommend Elections document the process for compiling these reports. These procedures should address maintaining an adequate audit trail to ensure that expenses and program income report results from the state accounting system, and which in turn reconciles to the reports that the Federal Government receives.

Improve Information Systems Security Program

Elections has made some progress on its information security program since our last audit. However, there are key components that management must complete to ensure compliance with the Commonwealth's information security standards.

While Elections approved their Information Technology Security Policies, they have not performed a Business Impact Analysis (BIA) or a Risk Assessment (RA). A first step in evaluating information security risks to an organization is completing a business impact analysis to determine what systems are sensitive or mission critical, and require additional risk assessments to ensure establishing, documenting, and communicating proper mitigating controls within the organization.

Elections is currently working with the Department of Accounts to complete a Business Impact Analysis and Risk Assessment. They plan to have both completed by April 2011.

Elections needs to complete a BIA and RA to ensure that they have identified and properly mitigated information security risks. Once the analysis and assessments are completed, Elections needs to address the results and implement them into their information security policies and procedures.

AGENCY HIGHLIGHTS

Elections exists to ensure statewide uniformity of voter registration and election procedures. Elections carries out its mission through two programs: Electoral Services and Financial Assistance for Electoral Services.

Electoral Services

Through the Electoral Services program, Elections supervises and coordinates the work of local registrars and Electoral Board members who register voters and conduct elections within their jurisdictions. 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.

In addition, Elections’ establishes and implements policies and procedures to properly register voters and maintain voter registration records. Elections’ computerized central record-keeping system, Virginia Election and Registration Information System, maintains voter registration records.

The tables below illustrate the appropriations the program received, original and final, for fiscal years 2009 and 2010; as well as the funding sources for the final appropriation, and the actual expenses incurred.

Budget and Actual Expense Analysis for the Electoral Service Program for Fiscal Years 2009

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Expenses</u>
General fund	\$ 3,700,061	\$ 3,398,763	\$3,366,630
Federal fund	<u>15,077,867</u>	<u>15,189,706</u>	<u>5,269,766</u>
Totals	<u>\$18,777,928</u>	<u>\$18,588,469</u>	<u>\$8,636,396</u>

*Source: Chapter 872 of the Appropriation Act, Caboose Bill of the Appropriation Act
Commonwealth Accounting and Reporting System*

Budget and Actual Expense Analysis for the Electoral Service Program for Fiscal Years 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Expenses</u>
General fund	\$ 3,700,061	\$ 3,246,752	\$3,233,235
Special revenue funds	-	173,907	73,135
Federal fund	10,077,867	10,427,867	3,870,765
Trust	<u>-</u>	<u>200,000</u>	<u>-</u>
Totals	<u>\$13,777,928</u>	<u>\$14,048,526</u>	<u>\$7,177,135</u>

*Source: Chapter 872 of the Appropriation Act, Caboose Bill of the Appropriation Act
Commonwealth Accounting and Reporting System*

The significant variance between the final budget and actual expenses is attributable to the uncertainty surrounding anticipated federal changes to voting equipment requirements and activities to improve the administration of elections for federal offices. To address this uncertainty, Elections consistently requests a significant amount of federal funds in their budget. However, to date the federal government has not required those changes and, as a result those budgeted funds remain unspent.

Elections received the federal funding listed above as part of the Help America Vote Act of 2002 (HAVA) enacted by the U.S. Congress to help states improve the federal election process. As of June 30, 2010, Elections had spent approximately \$44.1 million of the \$69.1 million in funding they originally received. HAVA does not impose any deadline restrictions by when Elections must spend these funds.

Election Assistance for Individuals with Disabilities (EAID)

The Election Assistance for Individuals with Disabilities (EAID) grant provides funding to ensure access to polling places for individuals with disabilities and to inform individuals about polling place accessibility. The table below is a summary of EAID grant expenses over the past three years.

Election Assistance for Individuals with Disabilities

	<u>2008</u>	<u>2009</u>	<u>2010</u>
Grant expenses	\$98,133	\$102,447	\$42,022

During fiscal 2010, the Administration for Children and Families (ACF) of the Federal Department of Health and Human Services required elections to repay \$234,119 of EAID funds spent between fiscal 2003 and 2009 because Elections did not submit the required quarterly reports to ACF since the inception of the grant. Due to the small size of the EAID grant, when ACF disallowed previously spent funds, Elections reimbursed the federal government from its General Fund.

Elections, with the assistance of the Department of Accounts, reconciled all of its federal grant accounting records to ensure their accuracy and has improved their process for segregating federal grants at a more granular level. Elections is also attempting to have the disallowed expenses awarded back to them through a current federal appropriation in order to repay the General Fund, but at the time of our audit, there has been no such action.

Financial Assistance for Electoral Services

The primary responsibility of the Financial Assistance for Electoral Services program is the reimbursement to local governments for the compensation paid to local registrars and the compensation and mileage reimbursement for local electoral board members. Compensation for each of the 134 general registrars is set forth in the Appropriations Act based on local population. Compensation for the Electoral Board members is also set using the locality’s population and the number of towns (if any) in the locality as set forth in the Appropriations Act. General Funds pay for this program.

The table below illustrates appropriations, funding source, and actual expenses for this program, for fiscal years 2009 and 2010.

Budget and Actual Expense Analysis
for the Financial Assistance for Electoral Services Program
for Fiscal Years 2009 and 2010

<u>Fiscal Year</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Expenses</u>
2009	\$7,392,674	\$7,221,679	\$7,179,713
2010	\$7,392,674	\$6,145,109	\$6,138,446

*Source: Chapter 872 of the Appropriation Act, Caboose Bill of the Appropriation Act
Commonwealth Accounting and Reporting System*

On average more than 61 percent of Elections' total expenses are for transfer payments to the localities. In recent years, the next largest expense was for contractual services for the implementation of Elections' new voter registration and election management system, VERIS. However, with implementation complete, this category of expenses is declining. In fiscal year 2010, contractual services represented only 30 percent of total expenses. The remaining expenses are predominantly attributable to personnel costs.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

January 13, 2011

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable Charles J. Colgan
Chairman, Joint Legislative Audit
and Review Commission

We have audited the financial records and operations of the **State Board of Elections** for the years ended June 30, 2009 and June 30, 2010. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Objectives

Our audit's primary objectives were to evaluate the accuracy of recorded financial transactions on the Commonwealth Accounting and Reporting System, review the adequacy of Elections' internal controls, test compliance with applicable laws and regulations, and review 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 expenses and compliance with the Help America Vote Act
Contractual services expenses
Payroll expenses
Transfer payments

We performed audit tests to determine whether the State Board of Elections' 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, including provisions of the Election Assistance Commission's Help America Vote Act. We also reviewed and performed testwork on internal policies and procedures applicable to transfer payments and payroll expenses. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of Elections' operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

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 certain matters involving internal control and its operation and compliance with applicable laws and regulations that require management's attention and corrective action. These matters are described in the section entitled "Audit Findings and Recommendations."

Elections has taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this letter.

Exit Conference and Report Distribution

We discussed this report with management on January 20, 2011.

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

AWP/clj

January 20, 2011

Mr. Walter Kucharski
Auditor of Public Accounts
James Monroe Building
101 N. 14th Street
Richmond, Virginia 23219

Dear Mr. Kucharski:

The State Board of Elections concurs with the audit findings and recommendations to improve federal financial status reporting process and improve the information systems security program.

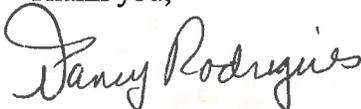
Improve Federal Financial Status Reporting Process

The employee who completed the 2009 federal financial status reports to the Election Assistance Commission (EAC) is no longer employed at the State Board of Elections. The current State Board of Elections staff was unable to reconcile the figures previously reported and we are submitting amended reports to EAC. The amended report will be submitted to EAC by January 28, 2011. We will provide the Auditors of Public Accounts (APA) a copy the amended report. Lastly, we are in the process of drafting procedures for all accounting functions to include grant reporting.

Improve Information Systems Security Program

SBE staff is currently working on completing the Business Impact Analysis and Risk Assessment to evaluate our information security risks. Once completed, SBE will work to address the results and implement and required changes into its information security policies and procedures.

Thank you,



Nancy Rodrigues
Secretary

STATE BOARD OF ELECTIONS

BOARD MEMBERS

Jean Cunningham
Chairman

Harold Pyon
Vice Chairman

Nancy Rodrigues
Secretary

OFFICIALS

Stacy Vanlelived
Acting Business Manager