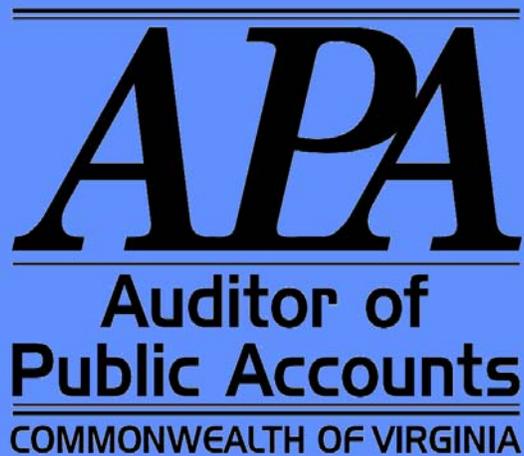


STATE BOARD OF ELECTIONS

**REPORT ON AUDIT
FOR THE YEARS ENDED
JUNE 30, 2011 AND JUNE 30, 2012**



AUDIT SUMMARY

Our audit of the State Board of Elections (Elections) for the years ending June 30, 2011, and June 30, 2012, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- a matter involving internal control and its operation necessary to bring to management's attention, which is discussed in the section entitled *Audit Findings and Recommendations*; and
- an instance of noncompliance with applicable laws and regulations or other matters that is required to be reported, which is addressed in the same section.

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AUDIT FINDINGS AND RECOMMENDATIONS

Improve Information Systems Security Program

Elections has made some progress on its information security program since our last audit; however, management still needs to address several key components to comply with the Commonwealth's Information Security Standards.

Specifically, while Elections completed its Business Impact Analysis (BIA) in April 2011, key items are missing, including:

- Information technology (IT) system sensitivity classification (Sensitive, Non-sensitive)
- IT system boundaries
- Data types stored, processed, and transmitted by each IT system (social security numbers, credit-card numbers, etc.)
- Data and system owners, data custodians, and system administrators for each IT system

Identification of this information is critical to ensure Elections adequately designs its security program to ensure secure continuity of operations by prioritizing where security and recovery efforts should be focused.

Further, Elections has still not completed a Risk Assessment (RA) of its current IT environment. RAs allow an agency to assess vulnerabilities and loss impact potential to IT systems and is essential for the identification of potential threats and likelihood of occurrence to the IT environment. The Commonwealth Security Standards state management must complete a full RA once every three years and review it annually. The timing of this review and update should be closely linked to the review and update of the BIA to ensure both documents remain relevant.

Elections should dedicate the necessary resources to complete its BIA and RA to ensure they have sufficiently identified their information technology security and continuity risks. As the Department of Accounts no longer has its Information Security Officer Services Program to support small agencies, this may require the use of external security experts due to Elections' limited internal resources in this area. Once the analysis and assessments are complete, Elections will need to address the results to ensure they are properly mitigating the identified risks.

AGENCY HIGHLIGHTS

Elections exists to ensure statewide uniformity of voter registration and election procedures. The Governor appoints three board members every four years to govern elections. One member is appointed as the Secretary and operates as the full-time agency head.

Since Elections' last audit, they have experienced the turnover of several key positions within the organization. A new Secretary and Deputy Secretary were appointed by the Governor in January 2011 and October 2010, respectively. They hired a new business manager in July 2011 and together worked to identify needed changes to the operating structure to better support Elections' day to day management.

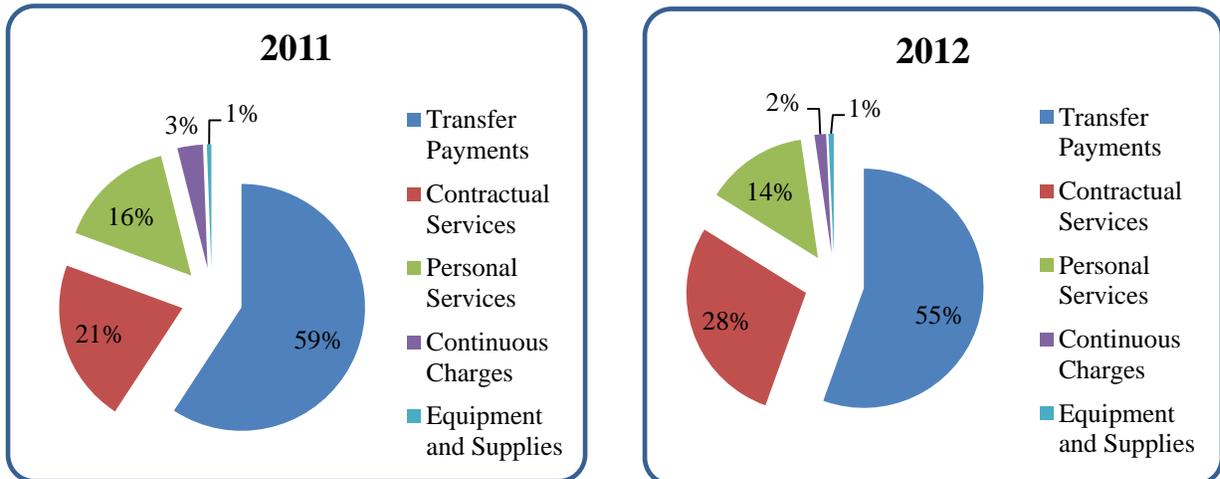
The new administration created a grant accountant position to assist with proper tracking and accounting of federal grants and address many of the previously reported issues in this area. Elections filled the position in January 2012; however, that individual left the organization in August 2012. Elections just recently refilled the position in February 2013.

Agency Revenues and Expenses

Funding for Elections operations comes from three distinct sources: general, special revenue, and federal funds, with the general fund providing the majority of the funding. Elections collects limited special revenues through fines and fees associated with the state election process and campaign finances reporting. Three federal grant award programs, discussed in greater detail below, provide on average just over 30 percent of the remaining available resources.

As demonstrated in the analysis below, 96 to 97 percent of Elections costs can be attributed to three areas: transfer payments to localities; contractual services, primarily relating to information technology costs; and personnel services.

Expense Analysis by Major Expense



Elections incurs these expenses to support its mission through the administration of two program areas: Electoral Services and Financial Assistance for Electoral Services. These program areas are further highlighted in the following sections.

Electoral Services Program

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 (VERIS), maintains voter registration records.

The table below illustrates the funding sources for the Electoral Services program for fiscal years 2011 and 2012; as well as the original and final budget compared to the actual expenses incurred.

Budget and Actual Expense Analysis for the Electoral Service Program

Funding Sources	2011			2012		
	Original Budget	Final Budget	Actual Expenses	Original Budget	Final Budget	Actual Expenses
General Fund	\$3,282,477	\$3,370,123	\$3,369,272	\$2,785,432	\$7,079,109	\$7,072,174
Special Revenue Fund	116,250	116,250	-	116,250	116,250	-
HAVA Trust Fund	4,600,000	4,967,235	3,151,743	3,975,000	3,976,709	2,644,540
Federal Trust Fund	-	75,000	53,240	-	1,075,000	402,973
Totals	\$7,998,727	\$8,528,608	\$6,574,255	\$6,876,682	\$12,247,068	\$10,119,687

Federal Funding for the Electoral Services program comes in the form of grant awards through three separate federal programs accounted for within the HAVA and Federal Trust Funds and highlighted in greater detail below. The budget to actual variances for these funding sources are also discussed below.

Help America Vote Act of 2002

The HAVA Trust Fund reflects funding Elections received 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. Elections originally received \$69.1 million in funding during the first two years of the act in 2003 and 2004, and did not receive any further funding until 2011 when Elections was awarded \$7.0 million for award years 2008, 2009, and 2010. As of June 30, 2012, Elections has spent approximately \$56 million of the \$76.1 million in total funding received. HAVA does not impose any deadline restrictions by when Elections must spend these funds.

Election attributes the significant variance between the budgeted and actual expenses in each year to anticipated costs related to the March 2012 Presidential Primary and the November 2012 Presidential Election, which did not materialize to the levels budgeted during the respective fiscal years.

Election Assistance for Individuals with Disabilities (EAID)

The Federal Trust Fund actual expenses listed in the table above reflects costs related to the EAID grant, which provides funding to ensure access to polling places for individuals with disabilities and to inform individuals about polling place accessibility. Elections received \$277,837 in EAID grant awards for award year 2011, in addition to having \$394,685 in unobligated awards from 2009 and 2010. EAID funds must be spent within a five year time frame of the award year.

Federal Voting Assistance Program (FVAP)

The FVAP grant, also accounted for within the Federal Trust Fund, provides funds to improve the voting process of military and overseas citizens participating in federal elections. The significant variance between the final budget and actual expenses for the Federal Trust Fund is mainly attributed to \$500,000 from the FVAP grant budgeted to be spent in fiscal year 2012. Elections did not spend these funds prior to the end of fiscal year 2012 as originally expected, but anticipates spending them during fiscal year 2013.

Financial Assistance for Electoral Services

Elections reimburses local governments for the compensation paid to local general registrars and compensation and mileage provided to local electoral board members through the Financial Assistance for Electoral Services program. Compensation for each of the 134 local general registrars is set forth in the Appropriation Act based on local population. Likewise, the Appropriation Act sets the compensation for the electoral board members using the respective locality’s population and the number of towns (if any) within the locality.

The table below illustrates the budget to actual expenses for this program for fiscal years 2011 and 2012. General funds pay for 100 percent of this program’s costs, which are made up entirely of transfer payments to the localities, for the reimbursements noted above.

**Budget and Actual Expense Analysis
for the Financial Assistance for Electoral Services Program**

<u>Fiscal Year</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Expenses</u>
2011	\$5,835,750	\$5,651,475	\$5,651,475
2012	\$5,602,322	\$5,429,994	\$5,418,217



Commonwealth of Virginia

Auditor of Public Accounts

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

March 1, 2013

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable John M. O'Bannon, III
Chairman, Joint Legislative Audit
and Review Commission

We have audited the financial records and operations of the **State Board of Elections** for the years ending June 30, 2011, and June 30, 2012. 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 in the Commonwealth Accounting and Reporting System, review the adequacy of Elections' internal controls, test compliance with applicable laws, regulations, contracts, and grant agreements and review corrective actions of audit findings from prior year reports.

Audit Scope and Methodology

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, regulations, contracts, and grant agreements.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered significance and 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 revenues and expenses
Contractual services expenses
Transfer payments

Payroll expenses
Small purchase charge card expenses
Information System Security

We performed audit tests to determine whether 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, regulations, contracts, and grant agreements. 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 Elections properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. 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, regulations, contracts and grant agreements that require management's attention and corrective action. These matters are 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 that are not repeated in this letter.

Exit Conference and Report Distribution

We discussed this report with management on March 21, 2013. Management's response to the findings identified in our audit is included in the section titled "Agency Response." We did not audit management's response and, accordingly, we express no opinion on it.

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/alh



COMMONWEALTH of VIRGINIA
STATE BOARD OF ELECTIONS

Charles E. Judd
Chairman

Donald L. Palmer
Secretary

Kimberly T. Bowers
Vice-Chair

Justin Riemer
Deputy Secretary

March 27, 2013

Martha Mavredes
Auditor of Public Accounts
Virginia Auditor of Public Accounts
101 N. 14th St., 8th Floor
Richmond, VA 23218

Re: SBE Response to APA Audit Report for FY2011 and 2012

Dear Ms. Mavredes:

The State Board of Elections (SBE) acknowledges the Auditor of Public Accounts' (APA) findings in its audit regarding the agency's information security program and thanks APA for giving SBE the opportunity to respond.

Protecting the systems and data that make the administration of elections in Virginia possible is of paramount concern to this agency. As APA notes in its findings, SBE has made progress on our information security program since APA's audit. In addition to the improvements noted in the audit report, SBE has:

- 1) Upgraded all servers to Windows 2008 operating system.
- 2) Upgraded all database servers to Windows SQL Server 2008 R2.
- 3) Completely replaced the disaster recovery servers housed at Southwest Enterprise Solutions Center (CESC).
- 4) Taken advantage of the new server cloning services provided by VITA/Northrop Grumman (NG).
- 5) Take advantage of the new hosted e-mail archiving services provided by VITA/NG.
- 6) Provided Department of Human Resource Management (DHRM) and VITA approved training to all employees on information security.

SBE recognizes that these efforts have not led to full compliance with the Commonwealth's Information Security Standards. While our Information Services Division has worked diligently in this area, the lack of resources experienced by many small agencies of SBE's size combined with complications associated

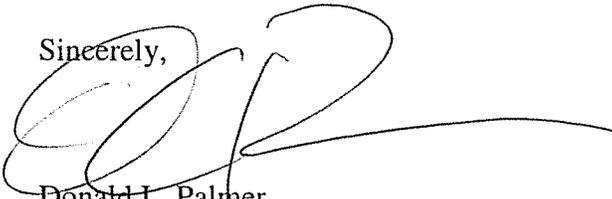
with 2011 and 2012's decennial statewide redistricting process have made any further progress extremely difficult in this area. Additionally, the Information Services Division had planned to complete the required business impact analysis and risk assessment in early 2012, after the new server environment was completed by NG. Unfortunately, the new server environment was delivered over a year late and close to the 2012 General Election, which pushed back the planned timeline. Also during that time, VITA's security standards document was completely rewritten. Given these two variables, combined with our agency's limited resources, it has not seemed prudent for SBE to engage in these time consuming processes until now.

Notwithstanding the difficulties of complying with this mandate, SBE pledges to be in full compliance with the Commonwealth's Information Security Standards by January 1, 2014. SBE hopes that recent amendments to the 2012-2014 Biennium Budget creating an Information Security Officer for VITA specifically for the purpose of assisting and supporting small agencies in developing the information security requirements should assist SBE in this process. SBE will commit additional resources as needed, including procuring outside consulting resources if necessary, to ensure compliance with this mandate.

In its efforts towards full compliance, SBE will update and fill in any gaps in its Business Impact Analysis (BIA), perform a full Risk Assessment (RA) of the agency's current Information Technology (IT) environment, and perform any additional tasks needed to satisfy the Commonwealth's IT security policies.

I am pleased that SBE has made significant improvements in its federal financial reporting related to grants, an issue that APA flagged in previous audits of the agency. We look forward to implementing your recommendations from this year relating to SBE's information security program.

Sincerely,

A handwritten signature in black ink, appearing to read 'D. Palmer', with a long horizontal flourish extending to the right.

Donald L. Palmer
Secretary

CC: Lisa Hicks-Thomas, Secretary of Administration

STATE BOARD OF ELECTIONS

BOARD MEMBERS

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Chairman

Kimberly Bowers
Vice-Chairman

Don Palmer
Secretary

AGENCY OFFICIALS

Justin Riemer
Chief Deputy

Sharon Woo
Business Manager