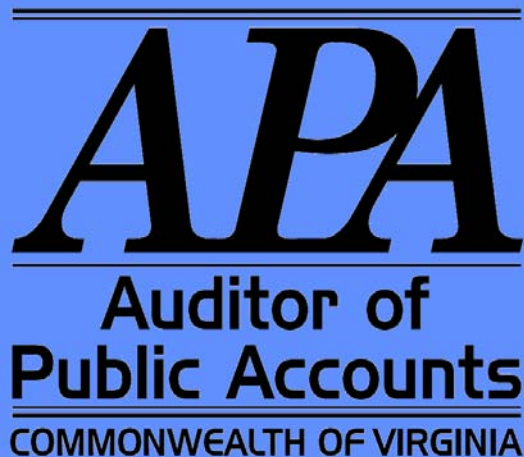


STATE BOARD OF ELECTIONS

**REPORT ON AUDIT
FOR THE YEARS ENDED
JUNE 30, 2007 AND JUNE 30, 2008**



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
- instances of noncompliance with applicable laws and regulations or other matters that are required to be reported.

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AUDIT FINDINGS AND RECOMMENDATIONS

Improve and Expand Administrative Service Arrangements

Elections, like other smaller agencies, struggles to have sufficient staff resources to process financial transactions, personnel, payroll, procurement, and other administrative processes, such as implementing an adequate information security program, and maintaining adequate separation of functions for basic internal controls. Loss of one person can compromise the internal control structure and agency's knowledge base needed to handle key transactions and duties. Therefore, the use of larger agencies with sufficient staff and resources can provide needed internal controls and facilitate management oversight of public resources.

Elections has recognized their limitations, implementing administrative arrangements with other agencies to provide payroll and fringe benefit accounting, and human resource assistance. Further, Elections has used such an arrangement in the past to facilitate financial transaction accounting. However, this specific arrangement was unsuccessful because Elections and the service provider's management did not document the expected level of performance and oversight in the memorandum of understanding.

The Auditor of Public Accounts continues to advocate that smaller agencies, which do not have the necessary resources or staff, use larger agencies for business functions such as accounting, budgeting, information security, or personnel resources. These arrangements allow the smaller agencies to concentrate on providing program services and eliminate unnecessary personnel costs and resources dedicated to administrative functions.

However, for these arrangements to provide the level of service and oversight needed, both entities must take ownership of the internal controls and agree to the level of oversight each will assume. Further, both entities need to define these responsibilities before starting the administrative service arrangement.

Elections' management should consider working with another agency to establish a central back office operation to provide accounting, budgeting, information security, human resources, and procurement services. The current arrangements with the Departments of Accounts and Human Resource Management do not provide a cohesive enough process to addresses the true operational needs of Elections. We recognize that leaders of the smaller agencies will resist this type of change; however, the Commonwealth and Elections will greatly improve internal controls and gain risk management benefits by using such an arrangement.

Complete Information Security Program

Elections has improved its information security program since our last review; however, there are some key components that still require strengthening to be fully compliant with Commonwealth's information security standards.

- While Elections has developed a continuity of operations plan, business resumption plan, and drafted several information technology security policies, they have not approved these new policies.
- Furthermore, Elections has not performed a business impact analysis or a risk assessment of their information technology environment. These documents support the evaluation of information security risks to an organization and validate the policies selected to comprise the information technology security program.

Elections should perform a business impact analysis and risk assessment to ensure they have identified and properly mitigated their information security risks. Further management should finalize their information technology security policies and formally approve them. Once the information security program is complete, Elections should fully implement the program and train its employees on the new policies and procedures.

Improve Federal Financial Reporting

Elections does not have adequate grant reporting procedures to ensure financial reports are consistently prepared and sufficiently supported. Federal Regulations under the Help America Vote Act of 2002 (HAVA) require Elections to prepare financial reports for its major grants on a calendar year basis to the Elections Assistance Commission. Further, Elections must ensure the information included on these reports reconciles to any internal or external financial systems in use by Elections.

Responsibility for the preparation and submission of these financial reports normally resides with the fiscal officer. However, Elections has experienced turnover within this position during fiscal year 2007 and 2008, with the position being vacant for a period of time. During this period, the business manager assumed all federal reporting responsibilities.

Due to the absence of adequate documented procedures and training, Elections did not sufficiently document the reconciliation of their internal financial records to two out of the three financial reports submitted for 2007. We have previously identified inaccurate financial reporting as an issue, which can impact HAVA funding.

Elections should document its policies and procedures for preparing the financial status report for all grants. In addition, Elections should ensure all personnel who prepare the reports understand the procedures, reconcile the report to internal financial reports, and maintain the supporting documentation of the reconciliation. By having documented procedures available, Elections will reduce the risk of preparing inaccurate financial reports of the use of HAVA funds.

Properly Approve Payments

Annually, each locality must submit to Elections a reimbursement application for various operational expenses. Elections must review and approve the reimbursement application to determine if the reimbursement is for allowable expenses and within available funding. Also, HAVA regulations require that Elections personnel review and approve payment of HAVA funds to determine if the costs are allowable under the federal program.

We found eight of 30 tested reimbursement applications and three of thirty tested HAVA funded payments did not have any documentation of the review and approval before payment. Although we found the amounts and items paid for appropriate, the lack of documented review and approval could result in the payment for items which are not appropriate. We recommend management evaluate their approval process and update their procedures as deemed necessary to ensure all payments undergo the appropriate review and approval before processing.

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 table below illustrates the appropriations the program received, original and final, for fiscal years 2007 and 2008; 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 2007 and 2008

<u>Fiscal</u> <u>Year</u>	<u>Appropriation</u>		<u>Funding Source</u>		
	<u>Original</u> <u>Budget</u>	<u>Final</u> <u>Budget</u>	<u>General</u> <u>Fund</u>	<u>Federal</u> <u>Fund</u>	<u>Actual</u> <u>Expenses</u>
2007	\$ 4,054,294	\$26,736,033	\$4,727,525	\$22,008,508	\$12,046,042
2008	\$23,720,478	\$26,676,287	\$6,667,779	\$20,008,508	\$ 9,535,861

*Source: Chapter 847, Acts of the Assembly of 2008
Commonwealth Accounting and Reporting System*

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, 2008, Elections has spent approximately \$41.9 million of the \$69.1 million in funding they originally received. HAVA does not impose any deadline restrictions by when Elections must expend these funds.

The significant variance between the final budget and actual expenses is attributable to the uncertainty surrounding anticipated federal changes to voting equipment requirements. 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.

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 paid to 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.

The table below illustrates appropriations, funding source, and actual expenses for this program, for fiscal years 2007 and 2008.

Budget and Actual Expense Analysis
for the Financial Assistance for Electoral Services Program
for Fiscal Years 2007 and 2008

<u>Fiscal Year</u>	<u>Appropriation</u>		<u>Funding Source</u>	
	<u>Original Budget</u>	<u>Final Budget</u>	<u>General Fund</u>	<u>Actual Expenses</u>
2007	\$7,208,147	\$7,251,397	\$7,251,397	\$7,224,796
2008	\$7,208,147	\$6,874,341	\$6,874,341	\$6,851,674

*Source: Chapter 847, Acts of the Assembly of 2008
Commonwealth Accounting and Reporting System*

On average more than 50 percent of Elections' total expenses are for transfer payments to the localities. In recent years, the next largest expenditure has been for contractual services. This is predominantly due to the implementation of Elections' new voter registration and election management system, VERIS. However, now that implementation is complete, those expenses are declining. In fiscal year 2008, contractual services represented only 25 percent of total expenses. The remaining expenses are predominantly attributable to personnel costs.



Commonwealth of Virginia

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

Walter J. Kucharski, Auditor

April 10, 2009

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

The Honorable M. Kirkland Cox
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

We have audited the financial records and operations of the **State Board of Elections** for the years ended June 30, 2007 and June 30, 2008. 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 expenditures
Contractual services expenditures
Payroll expenditures
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. We also reviewed and performed testwork on internal policies and procedures applicable to transfer payments and payroll expenditures. 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 May 11, 2008.

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

JPS/alh



COMMONWEALTH of VIRGINIA
STATE BOARD OF ELECTIONS

Jean Cunningham
Chairman

Harold Pyon
Vice-Chairman

Nancy Rodrigues
Secretary

Valarie A. Jones
Deputy Secretary

May 14, 2009

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

Dear Mr. Kucharski:

The State Board of Elections (SBE) thank you for the opportunity to respond to the audit findings and recommendations contained in your *2009 State Board of Elections Audit Report*. Your comments and recommendations are appreciated and are given the highest level of importance and consideration by State Board of Elections' management as we continue to review and improve our current practices. This audit occurred during a period when we held more elections in one year than ever before. It was also the year that we had the biggest federal election that we've ever had in Virginia. Therefore, we also thank you for your patience and appreciate your acknowledgement of the progress made on prior recommendations. Please find our responses to your findings and recommendations below.

Improve and Expand Administrative Service Arrangements

The State Board of Elections, like many agencies, is indeed limited in resources, not only in administrative areas but, also in all areas of its operations. Therefore, the State Board of Elections' management continues to consider arrangements with larger organizations that will allow us to optimize our ability to obtain optimum results in meeting federal and state administrative, accounting, information system security and financial reporting standards and requirements.

During the audit period, the agency experienced long term vacancies in two key positions: Information Services Manager and the Fiscal Officer's position. However, in ensuring that State Board of Elections continues to be good stewards over public resources, during the past eight months, the agency acquired services of two highly experienced professionals, an information services manager and, a senior financial services specialist. These resources, together with our partnerships with other state agencies will help

to ensure that the agency's internal control framework and procedures safeguard against the loss or inefficient use of Commonwealth assets.

The State Board of Elections will continue to strengthen its internal control structure and its services with other agencies to ensure that the loss of resources does not compromise the internal control structure and knowledge base needed to handle key transactions and duties. In small agencies, such as the State Board of Elections, administrative knowledge base is shared within the small group of staff tasked with carrying out administrative and information services functions for the agency. As a result, even long periods of vacancies have not prevented the agency from meeting increasing demands for its services and resources.

As noted in the audit recommendations, the State Board of Elections, has in the past and, does currently have agreements with larger agencies to perform certain administrative and information services functions.

The State Board of Elections will continue to look for ways to expand and improve administrative services and internally review our existing partnerships with other agencies.

Complete Information Security Program

As noted in your findings, the State Board of Elections has developed a continuity of operations plan (coop) and information technology security policies. The coop and security policies were presented to and approved by our board on April 28, 2009, after the audit engagement.

As noted earlier, the agency recently acquired the services of a highly qualified Information Services Manager. One of the priorities of this position will be to coordinate the activities needed to perform a business impact analysis and risk assessment to identify and properly mitigate information security risks. We have already made arrangements with Matthew Teasdale of Department of Accounts to move forward in this area.

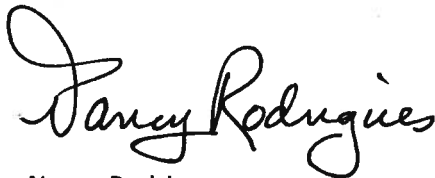
Improve Federal Financial Reporting

The State Board of Elections administers three federal grants under the Help America Vote Act of 2002. While the required financial status reports were reconciled to the agency's internal records and to the Commonwealth Accounting and Reporting System (CARS), there were no written procedures to document the reconciliation procedures. Based on the recommendations contained in the audit, the State Board of Elections senior financial services specialist is currently reviewing and revising our federal grant administration procedures to ensure that there is sufficient support and documentation of the reconciliations procedures to internal our financial systems and to CARS. Our projected completion date for these written procedures is July 1, 2009.

Properly Approve Payments

All reimbursements made to local governments were reviewed prior to being approved for payment. The review is normally documented by the reviewer's initial on the individual request. However, the eight documents that lacked the reviewer's initials were processed in a batch which did contain the reviewer's approval signature. The reviewer approved the batch but did not initial each individual request. However, to ensure that the documentation reflects that the review was performed, going forward State Board of Elections will update the agency procedures to require the reviewer/approver initial each individual request, prior to being batched for payment.

Sincerely,

A handwritten signature in black ink that reads "Nancy Rodrigues". The signature is written in a cursive, flowing style with a large initial "N".

Nancy Rodrigues
Secretary

AGENCY OFFICIALS
STATE BOARD OF ELECTIONS

BOARD MEMBERS

Jean Cunningham
Chairman

Harold Pyon
Vice Chairman

Nancy Rodrigues
Secretary

OFFICIALS

Reginald C. Wilson
Business Manager