



DEPARTMENT OF ELECTIONS

INTERNAL CONTROL QUESTIONNAIRE REVIEW RESULTS AS OF JULY 2021

Auditor of Public Accounts
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P.O. Box 1295
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October 11, 2021

Christopher Piper, Commissioner
Department of Elections
1100 Bank Street
Richmond, VA 23219

INTERNAL CONTROL QUESTIONNAIRE REVIEW RESULTS

We have reviewed the Internal Control Questionnaire for the **Department of Elections** (Elections). We completed the review on July 8, 2021. The purpose of this review was to evaluate if the agency has developed adequate internal controls over significant organizational areas and activities and not to express an opinion on the effectiveness of internal controls. Management of Elections is responsible for establishing and maintaining an effective control environment.

Review Process

During the review, the agency completes an Internal Control Questionnaire that covers significant organizational areas and activities including payroll and human resources; revenues and expenses; procurement and contract management; capital assets; grants management; debt; and information technology and security. The questionnaire focuses on key controls over these areas and activities.

We review the agency responses and supporting documentation to determine the nature, timing, and extent of additional procedures. The nature, timing, and extent of the procedures selected depend on our judgment in assessing the likelihood that the controls may fail to prevent and/or detect events that could prevent the achievement of the control objectives. The procedures performed target risks or business functions deemed significant and involve reviewing internal policies and procedures. Depending on the results of our initial procedures, we may perform additional procedures including reviewing evidence to ascertain that select transactions are executed in accordance with the policies and procedures and conducting inquiries with management. The "Review Procedures" section below details the procedures performed for Elections. The results of this review will be included within our risk analysis process for the upcoming year in determining which agencies we will audit.

Review Procedures

We evaluated the agency's corrective action for all prior review findings, including findings from the special report titled "Cycled Agency Transfer Payment Review Fiscal Year 2018." The agency has taken adequate corrective action with respect to all review findings reported in the prior year that are not repeated in the "Review Results" section below.

We reviewed a selection of system and transaction reconciliations in order to gain assurance that the statewide accounting system contains accurate data. The definitive source for internal control in the Commonwealth is the Agency Risk Management and Internal Control Standards (ARMICS) issued by the Department of Accounts (Accounts); therefore, we also included a review of ARMICS. The level of ARMICS review performed was based on judgment and the risk assessment at each agency. At some agencies only inquiry was necessary, while others included an in-depth analysis of the quality of the Stage 1 Agency-Level Internal Control Assessment Guide, or Stage 2 Process or Transaction-Level Control Assessment ARMICS processes. Our review of Elections' ARMICS program included a review of all current ARMICS documentation and a comparison to statewide guidelines established by Accounts. Further, we evaluated Elections' process of completing and submitting attachments to Accounts.

We reviewed the Internal Control Questionnaire and supporting documentation detailing policies and procedures. As a result of our review, we performed additional procedures over the following areas: payroll and human resources, expenses, and grants management. These procedures included validating the existence of certain transactions; observing controls to determine if the controls are designed and implemented; reviewing transactions for compliance with internal and Commonwealth policies and procedures; and conducting further review over management's risk assessment process.

As a result of these procedures, we noted areas that require management's attention. These areas are detailed in the "Review Results" section below.

Review Results

We noted the following areas requiring management's attention resulting from our review:

- **Repeat** - While Elections has policies and procedures established for most critical business areas, we did note some areas that were not up to date, including the process for calculating the reimbursements to local governments for costs associated with general registrars and electoral boards. Management worked with a vendor to document policies and create process flow diagrams for many areas; however, management should ensure documented policies and procedures exist for all critical business processes and are periodically reviewed in order to maintain an effective control environment and ensure continuity of operations if key personnel are unavailable.
- **Partial Repeat** – Since our last review, Elections has changed the process for calculating payments to localities to make the process more automated; however, as noted above, they

are still working to update the procedures to reflect these changes, therefore we were unable to determine if payments were calculated accurately. We did identify two errors with the posting of grant payments, with one error being corrected at the time of our review. Elections corrected the first typographical error related to an overpayment to the locality of \$540,000 once the locality brought it to their attention. The other non-corrected payment included a transposition error in account coding. Management states that the first error would have been caught during subsequent reconciliation. However, we recommend that the agency implement preventive internal controls, such as limit checks or reconciliations over grant payments before they are transferred to localities, which would reduce the likelihood of errors occurring. In situations where corrections are necessary, Elections should ensure that all errors are corrected timely. Management should also ensure that the policies and procedures are updated for this process.

- Elections does not have policies and procedures over subrecipient monitoring, nor do they have a formalized process for monitoring subrecipients of federal funds in accordance with 2 C.F.R. § 200.332. Elections received the Help America Vote Act grant and the Coronavirus Aid, Relief, and Economic Security grant to prevent, prepare for, and respond to the impact of the COVID-19 pandemic for the 2020 federal election cycle. Elections has not historically made transfer payments to localities utilizing federal funds. Although Elections maintains an expense tracking sheet and the localities sign an agreement that they will retain records subject to audit, Elections has not performed spot audits and does not have evidence that subrecipients used grant funds properly. Monitoring of the subrecipient requires a risk-based approach, which must include review of financial and performance reports, as well as follow up to ensure that the pass-through entity took timely and appropriate action in response to deficiencies detected through audits, on-site reviews, and other means. Elections should establish a formalized approach to subrecipient monitoring.
- Elections does not have proper internal controls over matching requirements for its federal grant. Elections calculated the overall state match amount for the federal grant and either applied amounts fully to the general fund or federal fund. This method of matching federal funds is not in compliance with Commonwealth Accounting Policies and Procedures (CAPP) Manual Topic 20605 which states there are two methods to match federal funds, with the preferred method being to split the funding on the voucher and the other method being to transfer funding from the general fund to federal funds via journal entry within seven business days of the voucher. We recommend that Elections reevaluate their process for matching all federal funds and ensure that it is in compliance with guidance set out in the CAPP Manual.
- Elections' ARMICS process covers most of the minimum requirements set by Accounts; however, we noted some requirements that were not met. The consideration of fraud risk was not documented within the agency-level risk assessment as required by Accounts'

ARMICS Standards. The agency-level control activities applicable to significant fiscal processes, accounting administration, the general ledger, and information systems should be identified, and details of testing should be sufficiently documented. Financial reporting should be documented and assessed as a significant fiscal process. The transaction-level controls related to payroll and financial reporting should be tested.

- The financial system reconciliations that we reviewed did not include a sign-off and date by the preparer which does not allow us to determine if the reconciliation was timely or if there was proper segregation of duties. In accordance with CAPP Manual Topic 20905, reconciliations of the agency's internal records to the Commonwealth's accounting and financial reporting system should include both preparer and reviewer sign-offs as evidence of proper segregation of duties.

We discussed these matters with management on September 9, 2021. Management's response to the findings identified in our review is included in the section titled "Agency Response." We did not validate management's response and, accordingly, cannot take a position on whether or not it adequately addresses the issues in this report.

This report is intended for the information and use of management. However, it is a public record and its distribution is not limited.

Sincerely,

Staci A. Henshaw
Auditor of Public Accounts

JDE/vks



COMMONWEALTH of VIRGINIA
DEPARTMENT OF ELECTIONS

Christopher E. "Chris" Piper
Commissioner

October 25, 2021

Staci A. Henshaw, CPA
Auditor of Public Accounts
P.O. Box 1295
Richmond, VA 23219

Dear Ms. Henshaw:

The Department of Elections (ELECT) has received the "Results Letter" for our Internal Control Questionnaire Review. ELECT concurs with several of the findings and based on initial feedback have taken immediate steps to correct the following:

- Add a sign-off line to include preparer and reviewer with date for reconciliations.
- Strengthen the ARMICS process for the consideration of fraud risk and other agency-level controls to included additional documentation with additional transaction-level controls to be tested.
- ELECT is developing policies and procedures for sub-grantee awards that will be used for all future federal grant awards. In addition to the development of the policy and procedures ELECT has performed spot audits related to the funding passed through to localities related to the CoronavirusAid, Relief, and Economic Security grant.

ELECT will continue to review and update procedures where needed. Currently we anticipate that this review will be completed prior to end of Fiscal Year 2022. Included as part of this update will be the policy for payments to localities that will document the automated process for payments to general registrars and electoral boards.

ELECT appreciates this most recent review. We will ensure that your recommendations are used, as necessary, to strengthen internal controls at ELECT and to maintain an effective control environment.

In closing, thank you for the opportunity to respond to the results of your review. Please feel free to contact us if you have any additional questions or concerns.

Sincerely

A handwritten signature in black ink, appearing to read "Chris Piper".

Chris Piper
Commissioner

cc: DJ Geiger, Director of Operations
Kevin A Hill, Business Manger