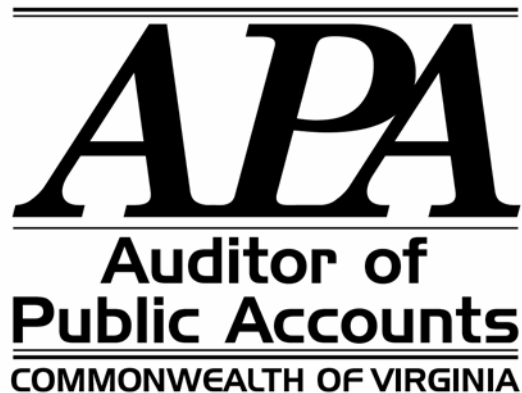


STATE BOARD OF ELECTIONS

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2005**



AUDIT SUMMARY

Our audit of the State Board of Elections' compliance with the Help America Vote Act of 2002 (HAVA) found:

- proper recording and reporting of HAVA transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- one matter involving internal control and its operations necessary to bring to management's attention discussed on page 1; and
- one instance of noncompliance with applicable laws and regulations discussed on page 2.

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INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

Update and Fully Implement the Virginia State Plan

In order to receive Title II funding, the Help America Vote Act of 2002 (HAVA) requires the Commonwealth to develop a state plan outlining how it would meet the HAVA requirements, including any proposed budgetary information. The State Board of Elections (Elections) completed and submitted this plan in July 2003. Elections submitted minor modifications to the state plan on August 22, 2005, amending language related to voting equipment, but has made no other modifications since its original submission. Based on our review of Elections' activities during fiscal year 2005, we identified several areas of concern regarding the management of HAVA funds in accordance with this plan.

- Elections has issued insufficient guidelines over allowable program expenses creating some confusion within the organization as to what constitutes permissible HAVA costs. As an example, localities initially received notification that they could incur a certain category of costs only to later receive notification that they could not claim these costs for reimbursement. We did not identify any instances where funds were expended for unallowable activities or costs during the audit period; however, decisions to deny a payment made late in the expenditure process frustrate both internal and external staff.
- Elections identified within their state plan several processes to monitor and evaluate its and local governments' success in fulfilling the state plan. However, we have been unable to identify where those processes were implemented.
- Elections has received more funding than originally anticipated and has identified areas where funding needs have changed as well. Budgetary documents included in the plan have not been updated to reflect these changes.

Elections should review and update their state plan to reflect current operations in accordance with Section 254(a) of HAVA. When updating the plan, Elections should consider incorporating agency policy and procedures for the administration of federal funds, as is done with other similar plans for the administration of federal funds, such as the Department of Medical Assistance Services' State Plan Under Title XIX of the Social Security Act Medical Assistance Program. This will allow the plan to communicate appropriate expectations of HAVA funding. Further, where necessary, Elections should modify existing policies and procedures provided to the localities to bring them into compliance with HAVA.

To facilitate the state plan update, Elections should review the compliance matters defined in HAVA and the Office of Management and Budget Circulars A-87 and A-133, the Cash Management Improvement Act, and the Uniform Administrative Requirements for Grants and Cooperative Agreements with State and Local Governments known as the "Common Rule" and contact the Election Assistance Commission for clarification as needed.

Once updated, Elections should begin executing the plan, including the monitoring processes. As a part of the implementation, Elections should provide training for all levels of management and staff involved with the administration of HAVA funds, as well as the local governments, to facilitate compliance with the plan and federal requirements and regulations.

Submit Revised Federal Report

The Election Advisory Committee, as the federal entity responsible for oversight of HAVA, requires Elections to annually submit an expenditure report on Title I funds. We reviewed the report submitted for the year ending December 31, 2004, and could not reconcile and agree the report to the Commonwealth Accounting and Reporting System (CARS). CARS is the Commonwealth's official accounting system and all reports or other supporting system must reconcile to CARS. Elections provided a spreadsheet which agreed to the submitted report; however, Elections could not explain the variances between this spreadsheet and CARS.

As such, Elections should review their submission and supporting documentation, determine the cause for the variances and, if necessary, submit a revised report to the Election Advisory Committee. Elections should not submit any official reports that do not reconcile to CARS and should maintain any documentation supporting differences between the federal reports and CARS. Elections should also maintain documentation of all variances between the originally submitted report and the revised report.

BACKGROUND

The U.S. Congress enacted the Help America Vote Act of 2002 (HAVA) to help states improve the election process. Specifically, HAVA was designed to help states:

- replace punch card and lever voting systems;
- establish voter education programs;
- train local election officials;
- establish or modify centralized voter registration systems in the states;
- assist with the administration of certain Federal election laws and programs;
- establish minimum election administration standards for states;
- clarify identification requirements for first time registrants;
- improve polling place accessibility for handicapped persons and non-English speakers; and
- improve support for military and overseas voters.

HAVA created the Election Advisory Committee (EAC) as an independent commission to administer the provisions the act. Specifically, HAVA charges the EAC with administering payments to states and developing guidance to meet HAVA requirements, implementing election administration improvements, adopting voluntary voting system guidelines and developing a national certification program for voting systems. The EAC also serves as a national clearinghouse and resource of information regarding election administration.

To date, Elections has received \$69.1 million in HAVA funding on behalf of Virginia relating to Title I and Title II, Section 251 and does not anticipate receiving any further funding from these sources. There are no restrictions on when Elections must expend the funds it has received. Elections has also been awarded \$721,151 in Title II, Section 261 funds over the past three fiscal years, which are available for drawdown from the federal government as expended. These funds must be expended within five years of the original award year.

Funding comes from four different programs within HAVA, with restrictions related to each program. Virginia can earn interest on the Title I and Title II, Section 251 funds and use that interest earning to meet the HAVA requirements associated with the Title II, Section 251 funding. Summarized below are the HAVA program revenues.

<u>Funding Source</u>	<u>Fiscal Year Received</u>			<u>Total</u>
	<u>2003</u>	<u>2004</u>	<u>2005</u>	
Title I, Section 101	\$ 7,105,891	\$ -	\$ -	\$ 7,105,891
Title I, Section 102	4,526,568	-	-	4,526,568
Title II, Section 251	-	-	57,489,361	57,489,361
Title II, Section 261	-	<u>41,666</u>	<u>83,755</u>	<u>125,421</u>
Total	<u>\$11,632,459</u>	<u>\$ 41,666</u>	<u>\$57,573,116</u>	<u>\$69,247,241</u>

*Information obtained CARS

Title I, Section 101 funding has the least number of restrictions and is available to improve the overall administration of elections, including the training of voters and election officials. Title I, Section 102 strictly provides funding for the replacement of punch card or lever voting machines. Title II, Section 251 funding

allows states to meet uniform minimum voting system standards; provide a provisional voting mechanism, as well as minimal voter information requirements; and maintain a single computerized statewide voter registration list. However, states, once meeting these requirements, can use the remaining funds to improve the administration of federal elections. Finally, Title II, Section 261 funding supports efforts undertaken to make polling locations accessible for individuals with disabilities.

Through fiscal year 2005, Elections has expended over \$13.3 million in HAVA funds as follows.

<u>Funding Source</u>	<u>Fiscal Year Disbursed</u>			
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>Total</u>
Title I, Section 101	\$ -	\$284,550	\$ 3,137,222	\$ 3,421,772
Title I, Section 102	-	226,648	2,103,477	2,330,125
Title II, Section 251	-	-	7,508,396	7,508,396
Title II, Section 261	-	41,666	83,755	125,421
Total	<u>\$ -</u>	<u>\$552,864</u>	<u>\$12,832,850</u>	<u>\$13,385,714</u>

*Information obtained from CARS



Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

March 1, 2006

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

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

We have audited selected financial records and operations of the **State Board of Elections** for the year ended June 30, 2005. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objectives

Our audit's primary objective was to test the State Board of Elections' compliance with the Help America Vote Act of 2002 (HAVA) for the Statewide Single Audit. In support of this objective, we evaluated the accuracy of recording HAVA financial transactions on the Commonwealth Accounting and Reporting System, reviewed the adequacy of the State Board of Elections' internal control over HAVA, and tested for compliance with applicable laws, regulations, contracts, and grant agreements.

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 federal grant revenues and expenditures.

We performed audit tests to determine whether the State Board of Elections' controls over HAVA 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. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of the State Board of Elections' operations. We tested transactions and performed analytical procedures.

Conclusions

We found that the State Board of Elections properly stated, in all material respects, the HAVA 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 a matter involving internal control and its operation that require management's attention and corrective action. The results of our tests of compliance with applicable laws and regulations disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards. These matters, entitled, "Update and Fully Implement the Virginia State Plan" and "Submit Revised Federal Report," respectively, are described in the section entitled "Internal Control and Compliance Findings and Recommendations."

EXIT CONFERENCE

We discussed this report with management on March 9, 2006. Management's response has been included at the end of this report.

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

MSM/kva



COMMONWEALTH of VIRGINIA
STATE BOARD OF ELECTIONS

Michael G. Brown
Chairman
Barbara Hildenbrand
Vice Chairman

Jean R. Jensen
Secretary
Lynda Sharp Anderson
Deputy Secretary

March 10, 2006

Mr. Walter Kucharski
Auditor of Public Accounts
P.O. Box 1295
Richmond, VA 23218

Dear Mr. Kucharski,

Thank you for allowing me the opportunity to comment on your audit of the State Board of Elections' compliance with the Help America Vote Act of 2002 (HAVA). We find no errors in the audit performed by your department and fully agree with your findings.

We have already initiated corrective action by requesting a meeting with the Elections Assistance Commission to clarify interpretations of the law. Once we have received clarification from the EAC, we intend to:

- update and publish our official policies and procedures documents related to this grant,
- update our goals and measurements used to evaluate successful implementation in fulfilling the State Plan,
- update the State Plan to reflect current funding and spending plans,
- revise our financial status reports and agree them to CARS, and
- provide training to all levels of management and staff involved with the administration of HAVA funds as well as to localities, to facilitate compliance with the plan and federal requirements and regulations.

We appreciate your assistance.

Sincerely,

A handwritten signature in cursive script that reads "Jean Jensen".

Jean Jensen
Secretary

STATE BOARD OF ELECTIONS

BOARD MEMBERS

Michael G. Brown
Chairman

Barbara Hildenbrand
Vice Chairman

Jean R. Jensen
Secretary

OFFICIALS

Jean R. Jensen
Secretary

Lynda Sharp Anderson
Deputy Secretary

Barbara Cockrell
Deputy Secretary

Susan McCleary
Deputy Secretary

Reginald C. Wilson
Business Manager