



DEPARTMENT OF ELECTIONS

REPORT ON AUDIT FOR THE PERIOD JULY 1, 2012 THROUGH JUNE 30, 2015

Auditor of Public Accounts
Martha S. Mavredes, CPA

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AUDIT SUMMARY

Our audit of the Department of Elections for the period July 1, 2012 through June 30, 2015, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System and Cardinal;
- matters involving internal control and its operation 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
- adequate corrective action with respect to audit findings reported in the prior audit.

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AUDIT FINDINGS AND RECOMMENDATIONS

Document Policies and Procedures for Critical Business Functions

Type of Finding: Internal Control and Compliance

The Department of Elections (Elections) lacks clearly documented and approved policies and procedures for multiple critical business areas. These business areas include, but are not limited to, reimbursement payments for localities, reconciliations of the Commonwealth's accounting systems, payroll functions, and processes related to reporting information to the Virginia Retirement System (Retirement System).

The Commonwealth Accounting Policies and Procedures (CAPP) Manual, Section 20905, Cardinal Reconciliation Requirements, states that CAPP Manual procedures alone should never eliminate the need and requirement for each agency to publish its own internal policies and procedures documents, approved in writing by agency management.

The lack of complete and up-to-date internal policies and procedures reflects inadequate internal controls as statewide guidance from the CAPP Manual cannot provide sufficient detail for individual agencies' processes. The lack of clearly documented policies and procedures specific to Elections may result in employees completing tasks incorrectly or ineffectively. This also increases the risk that a verifiable audit trail will not remain intact for agency transactions.

Elections should create appropriate policies and procedures in all business areas. These policies and procedures should be approved by the Commissioner, communicated to employees, and be readily available for reference. This will ensure consistency and ensure that the proper record-keeping activities take place.

Improve Process for Payments for General Registrars and Electoral Boards

Type of Finding: Internal Control and Compliance

Elections is required to calculate and remit transfer payments to local governments for costs associated with general registrars and electoral boards. Based on a review of these transfer payments it was unclear whether Elections made these payments in full compliance with the legislative intent.

The Appropriation Act provides funding guidelines to Elections for payments to localities based on population. A recalculation of these payments did not agree to amounts actually paid to localities, indicating that these amounts were possibly incorrect, and no information to explain these small variances was available. In addition, Elections provided additional funding from balances within the program in fiscal year 2015, which indicates they did not disburse all available funding in previous fiscal years.

Inadequate documentation of the disbursement process increases the risk of noncompliance with the Appropriation Act. Due to the incomplete supporting documentation, it was not possible to verify the propriety of funding allocations or how the amounts were determined.

Elections should retain adequate supporting documentation to support all funding decisions and payments to localities. This will reduce the risk of incorrect amounts paid to localities and minimize the risk of noncompliance with the Appropriation Act.

Improve my VRS Navigator Reconciliation Processes

Type of Finding: Internal Control and Compliance

Elections is not adequately documenting reconciliations between its internal human resources records and the Retirement System's *myVRS Navigator*. Elections also did not perform its required confirmation of the contribution amounts timely for seven of the 30 months reviewed.

Section 50410 of the CAPP Manual and the VRS Employer Manual require each agency to perform monthly reconciliations between internal human resources records and *myVRS Navigator*. After performing the reconciliations, agencies are also required to confirm the Contribution Snapshot within *myVRS Navigator* by the tenth of each month.

Without sufficient documentation, there is no evidence that Elections reviewed and processed all potential discrepancies, that they performed these reconciliations in a timely manner, or that a proper separation of duties was present. Due to changes in the accounting and reporting standards governing pensions, accurate management of compensation and contribution data is critical to amounts reported in the Commonwealth's financial statements.

Elections should ensure its internal human resources data and *myVRS Navigator* data are properly reconciled, and Elections should retain sufficient documentation to demonstrate the identification and correction of reconciling discrepancies before confirming the Confirmation Snapshot timely as required. This will reduce the risk of reporting incorrect information to the Retirement System.

Ensure Adequate Internal Controls Exist for Federal Reporting

Type of Finding: Internal Control and Compliance

Elections filed federal financial reports with several errors and it was unclear whether separate individuals prepared and reviewed them. The errors indicate a lack of adequate internal control regarding the preparation and review of required federal reporting and time keeping for federal wage expenses. This increases the risk of inaccurate information submitted to the federal government and non-compliance with the grant.

The Catalog of Federal Domestic Assistance (CFDA) has specific reporting requirements for the Help America Vote Act (HAVA) federal grant provided to Elections. Full compliance with HAVA requires that Elections maintain accurate records to facilitate effective auditing. A lack of oversight and proper separation of duties for the submission of federal financial reports led to the errors observed.

Elections should develop an adequate process to ensure they meet all reporting requirements for federal funds. Elections should ensure that adequate separation of duties exists regarding the preparation and review of required federal reporting. This will decrease the risk of non-compliance with the grant provisions.

AGENCY HIGHLIGHTS

Elections promotes statewide uniformity of voter registration and election procedures. The Governor appoints three members to the State Board of Elections (Board) every four years, who are subject to confirmation by the General Assembly, to govern electoral activities. Elections conducts the Board's administrative and programmatic operations and discharges the Board's duties. These duties include the administration of the statewide voter registration database, providing funding to support local registrars and boards of election, and certification of election results.

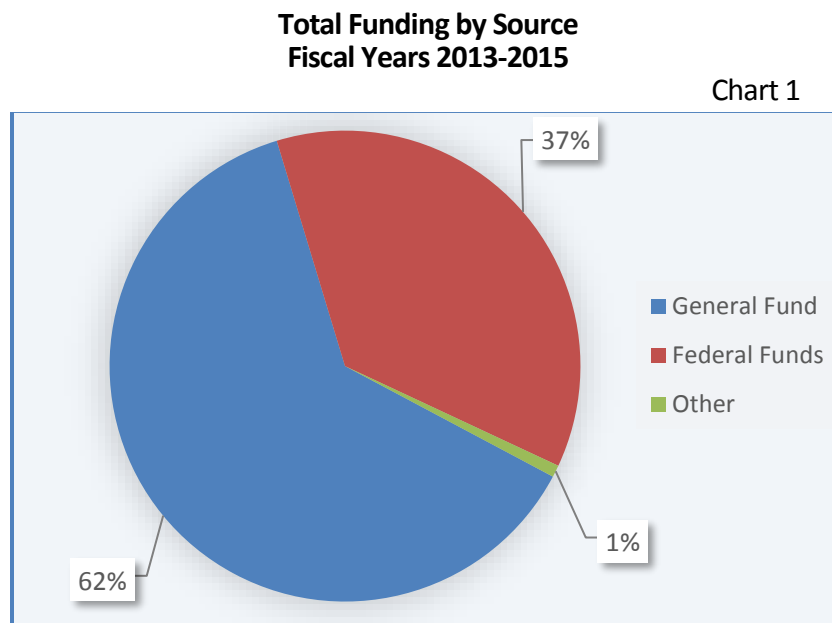
Since the prior audit, Elections has experienced several organizational changes. During the 2013 session of the General Assembly, the name of the agency changed from the State Board of Elections to the Department of Elections. The Governor is now responsible for appointing the Commissioner and the Deputy Commissioner of Elections. These changes became effective on July 1, 2014.

In addition to these structural changes, Elections has also had significant employee turnover in critical positions. The Commissioner and Deputy Commissioner assumed their roles during 2014 and they hired a new business manager in 2016. Together, the new team has worked together to better support Elections' day-to-day management.

Financial Information

Funding for Elections operations predominately comes from the General Fund and federal funds, including the Help America Vote (HAVA) Grant. The general fund provides the majority of the funding. Elections collects limited special revenues through fines and fees associated with the state election process and campaign finances reporting. Federal revenue, including HAVA funding, comprised a little more than one-third of Elections' funding during the period under review.

Chart 1 summarizes funding sources for Elections for the period July 1, 2012 through June 30, 2015.



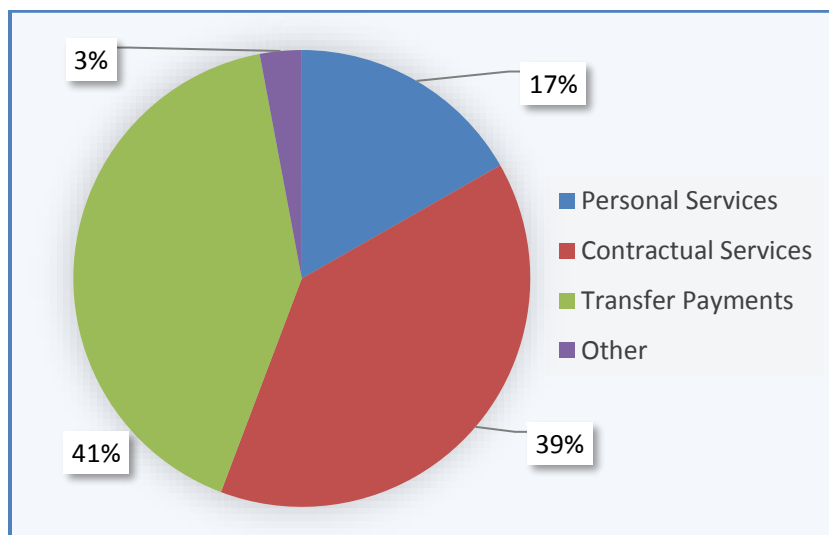
Source: Commonwealth Accounting and Reporting System

The most significant expenditures made by Elections are transfer payments to localities to fund the positions of local registrars and electoral boards. These payments only slightly exceed contractual service payments. Contractual service payments represent functions which Elections has contracted out to support operations. During the audit period, the most significant of these contractual payments are costs associated with Elections' information technology systems.

As shown in Chart 2, roughly 97 percent of Elections' expenses fall within the three major categories described above.

**Total Expenses by Type
Fiscal Years 2013-2015**

Chart 2



Source: Commonwealth Accounting and Reporting System

Elections incurs these expenses to support its mission through the administration of two program areas: Electoral Services and Financial Assistance for Electoral Services, highlighted below.

Electoral Services Program

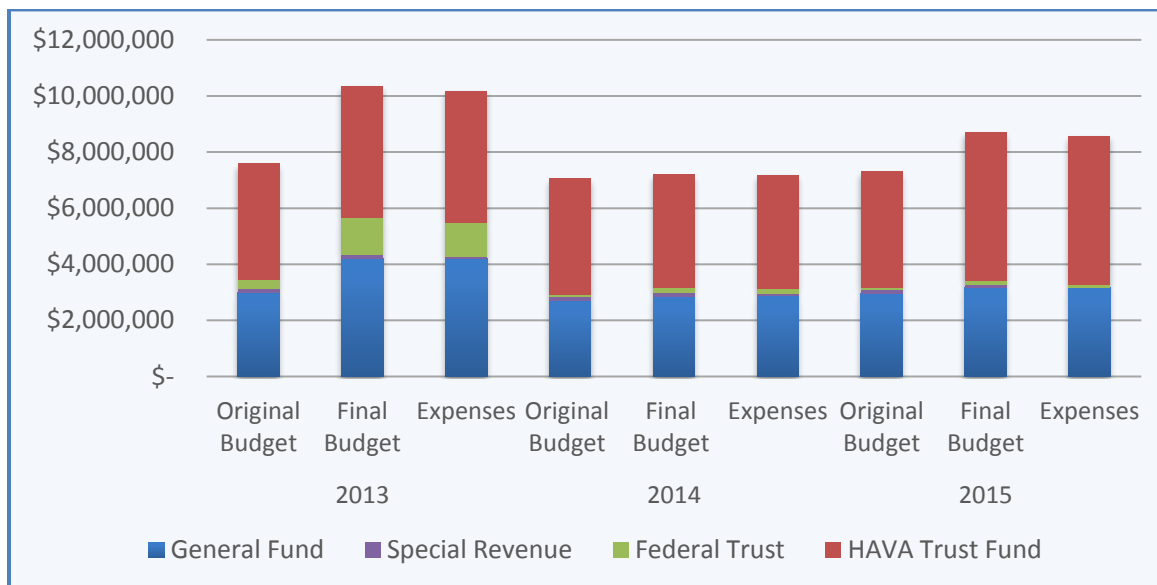
Through the Electoral Services program, Elections supervises and coordinates the work of local registrars and Electoral Board members who register voters and conduct elections within their jurisdictions. Elections also provides guidance, certifies all voting equipment, and qualifies candidates for nomination and election. They certify election results for statewide, General Assembly, and shared constitutional officer elections.

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 chart below illustrates the funding sources for the Electoral Services program for fiscal years 2013, 2014, and 2015; as well as the original and final budget compared to the actual expenses incurred.

**Budget and Actual Expense Analysis for the Electoral Service Program
Fiscal Years 2013-2015**

Chart 3



Source: Commonwealth Accounting and Reporting System

Funding for the Electoral Services program comes from the General Fund and grant awards through federal programs accounted for within the Help America Vote Act (HAVA) and Federal Trust Funds. As shown above, Elections incurred more general fund expenses in fiscal year 2013 due to implementation efforts associated with the voter identification requirements passed by the General Assembly and subsequent executive action to ensure Virginians would be able to vote under these requirements.

Help America Vote Act of 2002

The HAVA Trust Fund includes funding Elections received as part of the Help America Vote Act of 2002 (HAVA), enacted by the United States Congress to help states improve the federal election process. As of June 30, 2015, Elections has spent approximately \$71.1 million of the \$76.1 million in total HAVA funding received. HAVA does not impose any deadline restrictions on when Elections must spend these funds, and Elections is able to collect interest on these funds. As of June 30, 2015, Elections had collected approximately \$9.3 million in interest earnings on its HAVA allocation.

Financial Assistance for Electoral Services

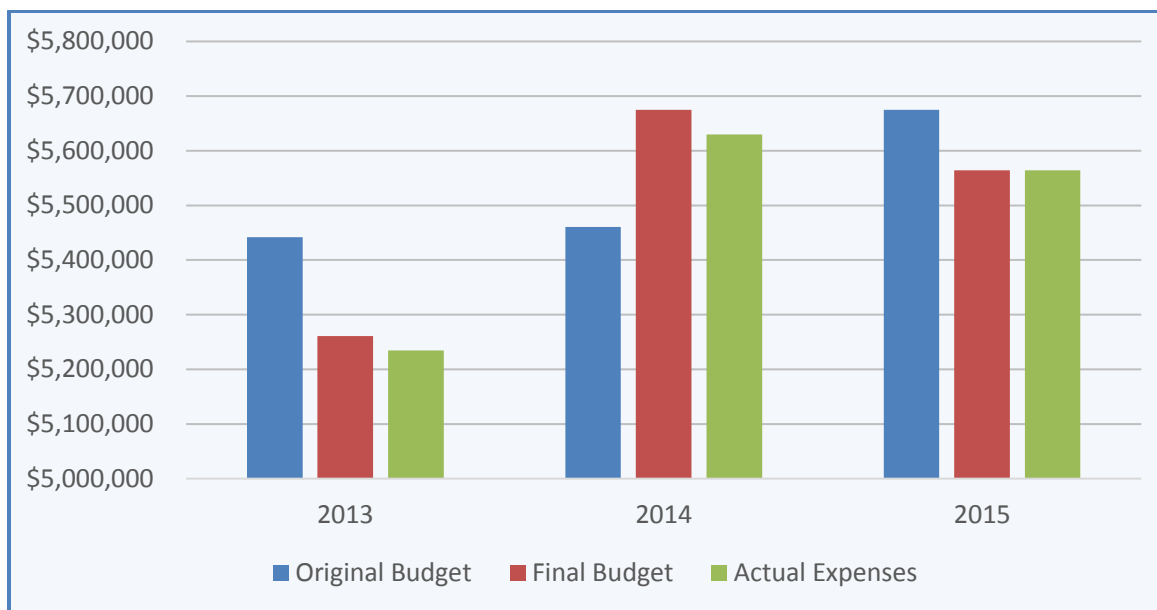
Elections reimburses local governments for the compensation paid to local general registrars and compensation provided to local electoral board members through the Financial Assistance for

Electoral Services program. Compensation for each of the 133 local general registrars is set forth in the Appropriation Act based on local population estimates. The Appropriation Act also 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 graph below illustrates the budget and actual expenses for this program for fiscal years 2013, 2014, and 2015. For 2014, the General Assembly and the Governor included nearly \$215,000 in the Appropriation Act to support benefit and salary increases for local general registrars and local electoral board members. The original budget for 2015 reflected this increase as part of the base budget for the program. The general fund is the primary source of funding for this program and transfer payments to localities make up the expenses, as noted above.

**Budget and Actual Expense Analysis for the Financial Assistance for
Electoral Services Program
Fiscal Years 2013-2015**

Chart 4



Source: Commonwealth Accounting and Reporting System



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

June 30, 2016

The Honorable Terence R. McAuliffe
Governor of Virginia

The Honorable Robert D. Orrock, Sr.
Chairman, Joint Legislative Audit
and Review Commission

We have audited the financial records and operations of the **Department of Elections** for the period July 1, 2012, through June 30, 2015. 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 and Cardinal, review the adequacy of Elections' internal controls, test compliance with applicable laws, regulations, contracts, and grant agreements and review corrective actions of the audit finding from the prior year report. Elections transitioned to using Cardinal, the Commonwealth's new accounting and reporting system, on October 1, 2014.

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 the 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 the 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 and Cardinal. 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 and Cardinal.

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.”

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

Exit Conference and Report Distribution

We discussed this report with management on August 29, 2016. 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

BDH/alh



COMMONWEALTH of VIRGINIA
DEPARTMENT OF ELECTIONS

Edgardo Cortés
Commissioner

Elizabeth L. Howard
Deputy Commissioner

August 18, 2016

Martha Mavredes
Auditor of Public Accounts
101 North 14th Street
Richmond, VA 23219

Dear Ms. Mavredes:

Thank you for the opportunity to review the draft audit report of the Department of Elections for the July 1, 2012 through June 30, 2015 period and to respond to the findings noted in the report. The Department generally concurs with the audit findings and recommendations provided by the Auditor of Public Accounts ("APA"). Detailed responses to each finding appear below:

Document Policies and Procedures for Critical Business Functions

The Department plans to significantly improve its policies and procedures for critical business functions by prioritizing the drafting of these policies and procedures by Department staff, the approval of these documents by the Commissioner, and the prompt distribution of these policies and procedures to staff. The Department is able to implement this recommendation now that the Business Services Division is again fully staffed after experiencing high employee turnover in this division.

Responsible person: Kevin Hill, Business Services Manager

Improve Process for Payments for General Registrars and Electoral Boards

The APA noted that it was unclear whether the annual payments for general registrars and electoral board members were made "in full compliance with the legislative intent." The Department believes that prior payments were made in full compliance with legislative intent; however, as the Department acknowledges that adequate documentation supporting these payments has not been maintained, it is important to note why variances between the amount budgeted by the General Assembly for payments to localities and the amount sent to localities for these payments may exist.

Such variances may arise due to many different factors. For example, although the Department's budget anticipates neither vacancies nor uncompensated leaves of absence in the

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offices of general registrar or electoral board member, such vacancies and/or uncompensated leaves of absence occur. If a locality does not compensate a general registrar and/or member of the local electoral board for a period of time, then the amount the locality requests may fall below the maximum amount which they may receive upon request from the Department. If a locality submitted a request for payment for less than the maximum amount authorized, then the Department only sent payment for the amount requested.

Separately, the Department only sends payments upon receipt of requested documentation regarding costs related to the general registrar and electoral board members. If a locality fails to submit the required documentation, then the Department will not send payment for any undocumented request.

In response to this finding and recommendation, the Department plans to ensure that adequate documentation of the disbursement process is created and maintained for the distribution of annual payments to localities for general registrars and electoral board members. Further, the Department will annually reconcile the amount budgeted to the actual payments made to the localities for general registrars and electoral board members and retain adequate documentation of this annual reconciliation.

Responsible person: Kevin Hill, Business Services Manager

Improve myVRS Navigator Reconciliation Process

The Department agrees that reconciliations between the Department's internal human resources records and the Retirement System's myVRS Navigator should be completed in a timely manner and properly documented. As noted, the Department has faced high turnover in its Business Services division, which had a negative impact on the Department's ability to complete the reconciliations in a timely manner and ensure adequate documentation and proper separation of duties existed.

At this time, the Business Services division is fully staffed and is working to complete all reconciliations in a timely manner. In addition, the Department plans to adopt policies and procedures which will ensure that adequate documentation of this process is maintained in the future.

Responsible person: Kevin Hill, Business Services Manager

Ensure Adequate Internal Controls Exist for Federal Reporting

In response to this finding, the Department is undertaking a process to reconcile the reports related to the Help America Vote Act ("HAVA") grant initially awarded in 2004 with the state accounting system. The Department plans to file amended federal financial reports as necessary based on this review. In addition, the Department will adopt appropriate policies and procedures to ensure accurate reports are drafted, reviewed and submitted with sufficient oversight and that sufficient documentation of this process is maintained going forward.



COMMONWEALTH of VIRGINIA
DEPARTMENT OF ELECTIONS

Edgardo Cortés
Commissioner

Elizabeth L. Howard
Deputy Commissioner

Again, the Department has experienced high turnover in the Business Services Division. The previous lack of adequate documentation coupled with this high turnover negatively impacted the Department's ability to provide supporting documentation to the auditors.

Responsible persons: Edgardo Cortés, Commissioner and Kevin Hill, Business Services Manager

I truly appreciate the collaborative effort and the constructive feedback provided by the audit team during this process. The Department looks forward to making the recommended improvements and hope we can continue to rely on the APA for feedback and support.

Sincerely,

A handwritten signature in blue ink, appearing to read "Edgardo Cortés".

Edgardo Cortés
Commissioner

DEPARTMENT OF ELECTIONS

AGENCY OFFICIALS
As Of June 30, 2015

Edgardo Cortes
Commissioner

Elizabeth Howard
Deputy Commissioner