U.S. ELECTION ASSISTANCE COMMISSION
OFFICE OF INSPECTOR GENERAL

U.S. ELECTION ASSISTANCE COMMISSION FINANCIAL STATEMENTS FOR FY 2014 AND FY 2013

NO. I-PA-EAC-01-14
NOVEMBER 2014

U.S. ELECTION ASSISTANCE COMMISSION
OFFICE OF INSPECTOR GENERAL
1335 East West Highway - Suite 4300
Silver Spring, MD 20910

November 12, 2014

Memorandum

To: Ms. Alice Miller
Acting Executive Director

From: Curtis W. Crider *Curtis W. Crider*
Inspector General, U.S. Election Assistance Commission

Subject: Audit Report of the U.S. Election Assistance Commission's Financial Statements for Fiscal Years 2014 and 2013 (Assignment No. I-PA-EAC-01-14)

Introduction

The Chief Financial Officer's (CFO) Act of 1990 (P.L. 101-576) as amended, requires the Inspector General for the U. S. Election Assistance Commission (EAC) or an independent external auditor, as determined by the Inspector General, to audit EAC's financial statements. The independent public accounting firm of Brown & Company CPAs, PLLC (Brown & Company) performed the audit of the EAC's financial statements as of September 30, 2014 and for the year then ended. The audit was performed by Brown & Company under a contract that was monitored by the Office of Inspector General (OIG). The contract required that the audit be performed in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States; Office of Management and Budget (OMB) Bulletin 14-02, *Audit Requirements for Federal Financial Statements*; and the Financial Audit Manual of the Government Accountability Office/President's Council on Integrity and Efficiency.

Results of Audit

In Brown & Company's opinion, the financial statements present fairly, in all material respects, the financial position of EAC as of September 30, 2014, and its net costs, changes in net position, budgetary resources, and custodial activity for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

The financial statements as of and for the year ended September 30, 2013, were restated because of material adjustments. Brown & Company audited the adjustments described in Note 16 that were applied to restate the financial statements as of and for the year ended September 30, 2013. In Brown & Company's opinion, the adjustments were appropriate and had been properly applied.

The restated financial statements as of and for the year ended September 30, 2013, were not audited by a Brown & Company. Brown & Company did not express an opinion or any other form of assurance on them.

The predecessor auditors reported on the financial statements as of and for the period ended September 30, 2013 before the restatement. The financial statements as of and for the year ended September 30, 2013 were audited by Leon Snead & Company, P.C. whose report, dated December 16, 2013, expressed a disclaimer opinion on those statements. The disclaimer was due to significant and pervasive uncertainties relating to a $2.2M grant liability accrual, as well as, the validity of remaining obligations reported for a 2008 requirement payment appropriation.

Brown & Company identified a material weakness in internal control over disbursements. EAC's controls over disbursements were not effective, to ensure disbursements were not made from a canceled fund. EAC made a $2,266,085 disbursement from a fiscal year (FY) 2008 fund after the fund was canceled on September 30, 2013. The disbursement was unable to be authorized from the FY 2008 authority. The payment was liquidated directly from Treasury's General Fund which caused EAC to be in violation of the Anti-Deficiency Act. This also caused the agency to make an improper payment. Brown & Company determined that the responsible officials had no willful or knowing intent to violate the Anti-deficiency Act.

In its response to the draft report, the EAC indicated that it had reported the Anti-Deficiency Act violation to the President, Congress and the Comptroller General on October 21, 2014, and that the EAC was in the funds collection process. Corrective actions had been taken to remove canceling funds prior to expiration; a system control had been added; and EAC's Administrative Control of Funds Policy had been amended to emphasize OMB Circular A-II Section 130.14, and to include the Closing Act, 31 U.S. Code 1552. Staff had been counseled, will review the revised funds control policy, and are scheduled to take training in December 2014 and January 2015.

Evaluation of Brown & Company's Audit Performance

To fulfill our responsibilities under the CFO Act of 1990, as amended, and other related financial management requirements, the OIG:

- Reviewed Brown & Company's approach and planning of the audit;
- Evaluated the qualification and independence of the auditors;
- Monitored the progress of the audit at key points;
- Coordinated periodic meetings with EAC management to discuss progress, findings, and recommendations;
- Reviewed Brown & Company's audit report;
- Performed other procedures we deemed necessary; and
- Coordinated issuance of the audit report.

Brown & Company, CPAs is responsible for the attached auditor's report and the conclusions expressed in the report. We do not express any opinion on EAC's financial statements or conclusions on the effectiveness of internal control, or compliance with laws and regulations.

Report Distribution

The Inspector General Act of 1978, as amended, requires semiannual reporting to Congress on all reports issued, actions taken to implement recommendation, and recommendations that have not been implemented. Therefore, we will include the information in the attached audit report in our next semiannual report to Congress. The distribution of this report is not restricted and copies are available for public inspection.

The Office of Inspector General appreciates the courtesies and cooperation EAC extended to Brown & Company and the OIG during the audit. If you, or your staff, have any questions, please contact me at (301) 734-3104.

Attachment

INDEPENDENT AUDITOR'S REPORT

U.S. Election Assistance Commission
Silver Spring, MD

Report on the Financial Statements

We have audited the accompanying balance sheet of the U.S. Election Assistance Commission (EAC) as of September 30, 2014, and the related statements of net cost, changes in net position, budgetary resources, and custodial activity for the year then ended (collectively referred to as the financial statements), and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 14-02, require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of EAC as of September 30, 2014, and its net costs, changes in net position, budgetary resources, and custodial activity for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the information in the Management's Discussion and Analysis (MD&A) and Required Supplementary Information (RSI) sections be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Prior Year Financial Statements
The financial statements as of and for the year ended September 30, 2013, were restated because of material adjustments. We audited the adjustments described in Note 16 that were applied to restate the financial statements as of and for the year ended September 30, 2013. In our opinion, such adjustments are appropriate and have been properly applied.

The accompanying restated financial statements as of and for the year ended September 30, 2013, were not audited, and accordingly, we do not express an opinion or any other form of assurance on them.

The predecessor auditor's reported on the financial statements as of and for the period ended September 30, 2013 before the restatement. The financial statements as of and for the year ended September 30, 2013 were audited by other auditors whose report, dated December 16, 2013, expressed a disclaimer opinion on those statements. The disclaimer was due to significant and pervasive uncertainties relating to a $2.2M grant liability accrual, as well as, the validity of remaining obligations reported for a 2008 requirement payment appropriation.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered EAC's internal control over financial reporting (internal control) to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of EAC's internal control. Accordingly, we do not express an opinion on the effectiveness of EAC's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we identified a material weakness in internal control, which states EAC's controls over disbursements were not effective, to ensure a disbursement was not made from a canceled obligation. The material weakness is described in Section I.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether EAC's financial statements are free from material misstatement, we performed tests of its compliance with applicable provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* or OMB Bulletin No. 14-02. The noncompliance is described in Section 1.

Management's Responsibility for Internal Control and Compliance

EAC's management is responsible for (1) evaluating effectiveness of internal control based on criteria established under the Federal Managers Financial Integrity Act (FMFIA), (2) providing a statement of assurance on the overall effectiveness of internal control over financial reporting, and (3) ensuring compliance with other applicable laws and regulations.

Auditor's Responsibilities

We are responsible for: (1) obtaining a sufficient understanding of internal controls to plan the audit, (2) testing compliance with certain provisions of laws and regulations that have a direct and material effect on the financial statements and applicable laws for which OMB Bulletin 14-02 requires testing, and (3) applying certain limited procedures with respect to the MD&A and other RSI.

We did not evaluate all internal controls relevant to operating objectives as broadly established by the FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to testing controls over financial reporting. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also caution that projecting our audit results to future periods is subject to risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate. In addition, we caution that our internal control testing may not be sufficient for other purposes.

We did not test compliance with all laws and regulations applicable to EAC. We limited our tests of compliance to certain provisions of laws and regulations that have a direct and material effect on the financial statements and those required by OMB Bulletin 14-02 that we deemed applicable to EAC's financial statements for the fiscal year ended September 30, 2014. We caution that noncompliance with laws and regulations may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

Status of Prior Year's Control Deficiencies and Noncompliance Issues

We have reviewed the status of EAC's corrective action plan with respect to the findings included in the prior year's Independent Auditors' Report, dated December 16, 2013. The status of prior year is presented in Section II.

Purpose of the Report on Internal Control over Financial Reporting and the Report on Compliance and Other Matters

The purpose of the Report on Internal Control over Financial Reporting and the Report on Compliance and Other Matters sections of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of EAC's internal control or on compliance. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering EAC's internal control and compliance. Accordingly, these reports are not suitable for any other purpose.

This report is intended solely for the information and use of the management of EAC, OMB, OIG and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Brown & Company

Largo, Maryland
November 3, 2014

SECTION I Material Weakness and Noncompliance

Anti-Deficiency Violation

Condition:

EAC's controls over disbursements were not effective, to ensure disbursements were not made from a canceled fund. EAC made a $2,266,085 disbursement from a fiscal year (FY) 2008 fund after the fund was canceled on September 30, 2013. Specifically**,** EAC received a request for FY 2008 funds, submitted by a State in a letter to EAC dated September 6, 2013, certifying compliance with Help America Vote Act of 2002 (HAVA) Section 251 Requirements Payment funds requirements. On October 17, 2013, the agency sent a written request to its financial service provider, to disburse the funds to the State. The FY 2008 fund disbursement was made on October 25, 2013, from the canceled fund, which caused EAC to be anti-deficient.

Criteria:

31 U.S. Code Section 1552, states that "On September 30th of the 5th fiscal year after the period of availability for obligation of a fixed appropriation accounts ends, the account shall be and any remaining balance (whether obligated or unobligated) in the account shall be canceled and thereafter shall not be available for obligation or expenditure for any purpose."

OMB A-11 Section 130.14 states that legitimately incurred obligations that have not been disbursed at the time a Treasury Appropriation Fund Symbol (TAFS) is canceled cannot be disbursed from the canceled obligated or unobligated balances of the canceled TAFS.

Cause:

The FY 2008 funds were appropriated as annual funds and expired in five years; therefore, the FY 2008 fund were canceled on September 30, 2013 and returned to Department of Treasury. The disbursement was made in error from canceled funds.

Effect:

The disbursement was unable to be authorized from the FY 2008 authority. Therefore the payment was liquidated directly from Treasury's General Fund. This caused EAC to be in violation of the Anti-Deficiency Act. This also caused the agency to make an improper payment. We determined that the responsible officials had no willful or knowing intent to violate the Anti-deficiency Act.

Recommendation:

We recommend that EAC revise the agency's internal guidance on control of funds to ensure disbursements are made in accordance with OMB policy and procedures and disbursements does not violate the Anti-deficiency Act. We also recommend that EAC's responsible officials are counseled and receive additional fiscal law and program management training. In addition, we recommend that EAC report the Anti-Deficiency Act violation to the President and to Congress.

Management's Response

Management generally agrees with the recommendation. EAC's "Administrative Control of Funds Policy" references adherence to compliance with 31 USC 1341. To remediate circumstances that allowed the FY 2014 ADA violation, EAC staff will be required to retake appropriations law training in FY 2015 from GAO, and will be instructed to review EAC's Administrative Control of Funds Policy.

Auditor's Response to Management's Response

Management has presented a response to the finding identified in our report. We did not audit EAC's response and, accordingly, we express no opinion on it.

SECTION II Status of Prior Year Recommendations

Finding No.	Finding	FY 2013 Recommendation	Status
1	Significant Uncertainties Relating to Transactions Recorded in a FY 2008 Appropriation and Reported in the 2013 Financial Statements	1. Fully document all interim decisions made concerning the accrual and subsequent disbursement of the approximately $2.2 million payment made to one grantee from 2008 appropriations. Based upon an assessment of this documentation, strengthen internal control processes at EAC and, as appropriate, request internal controls at the service provider be further strengthened in this area.	Open. EAC has not completed training.
		2. Take action, if EAC management officials determine, based upon authoritative legal guidance, that the 2008 requirements payment appropriation should have been canceled, to meet the reporting requirements of the ADA and OMB Circular A-136.	Closed.
2	Interim Financial Statements Were Materially Misstated	1. Ensure a comprehensive analysis of Journal Vouchers (JV) is completed prior to approving JVs prepared by service provider. Analyze the problems reported with JVs processed during 2013, and strengthen controls to preclude these errors from recurring.	Closed.
		2. Develop specific information requirements and financial statement preparation checklists that the service provider and EAC much complete, including affirmation that documentation is sufficient and supports all financial statements and footnotes, prior to submitting financial statements to OMB and for audit.	Closed.
		3. Strengthen internal controls to ensure that necessary supporting documentation for all financial statement line items and footnotes is complied, reviewed, and approved by EAC personnel before submitting the	Closed.

Finding No.	Finding	FY 2013 Recommendation	Status
		financial statements for audit and to OMB.	
		4. Strengthen the quality control process used by EAC to ensure that financial statements reports are presented to OMB and audits are fairly stated in all material respects, and in accordance with FASAB, USSGL and OMB Circular A-136.	Closed.

Finding No.	Finding	FY 2012 Recommendation	Status
1	Material Weaknesses Impacted EAC's Ability to Prepare 2012 Financial Statements.	1. Develop a detailed operating procedure that provides guidance on the preparation, review and approval of agency financial statements, and requires supporting documentation to be compiled, reviewed and approved for all financial statement line items and footnotes prior to submission for audit.	Closed.
2	Errors and Lack of Controls over Journal Vouchers Continue.	1. Implement an internal control process that provides appropriate agency oversight over the JVs processed by the current service provider.	Closed.
		2. Provide training to EAC accounting personnel to ensure that they have the skills to provide adequate oversight of this area.	Closed.

U.S. Election Assistance Commission
1335 East-West Highway, Suite 4300
Silver Spring, MD 20910

To: Curtis W. Crider, Inspector General

Date: November 3, 2014

From: Alice P. Miller, Chief Operating Officer
and Acting Executive Director

Subject: Election Assistance Commission Response to the Draft Audit Report of the U.S. Election Assistance Commission's Financial Statements for Fiscal Year 2014 (Assignment No. I-PA-EAC-01-14)

We have reviewed the Draft Audit Report and concur with the facts stated in the report and the results of the audit. As noted, a material weakness in internal control over financial reporting was identified. The agency reported the resultant Anti-Deficiency Act violation to the President, Congress and the Comptroller General on October 21, 2014, and we are in the funds collection process. Corrective actions have been taken to remove canceling funds prior to expiration; a system control has been added; and EAC's Administrative Control of Funds Policy has been amended to emphasize OMB Circular A-11 Section 130.14, and to include the Closing Act, 31 U.S. Code 1552. Staff has been counseled, will review the revised funds control policy, and are scheduled to take training in December 2014 and January 2015.

Thank you for the opportunity to respond to the auditor's report. We also appreciate your cooperation and assistance, as well as the auditor's, throughout the audit process.

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