



**U.S. ELECTION ASSISTANCE
COMMISSION
OFFICE OF INSPECTOR GENERAL**

FINAL REPORT:

**ADMINISTRATION OF PAYMENTS
RECEIVED UNDER THE HELP
AMERICA VOTE ACT BY THE
COMMONWEALTH OF VIRGINIA
STATE BOARD OF ELECTIONS**

MAY 1,2003 THROUGH AUGUST 31,2006

**Report No.
E-HP-VA-12-06
May 2007**



U.S. ELECTION ASSISTANCE COMMISSION
OFFICE OF INSPECTOR GENERAL
1225 New York Ave. NW - Suite 1100
Washington, DC 20005

May 17, 2007

Memorandum

To: Thomas Wilkey
Executive Director

From: Curtis W. Crider
Inspector General

Subject: Final Audit Report - Administration of Payments Received Under the Help America Vote Act by the Commonwealth of Virginia State Board of Elections
(Assignment Number E-HP-VA-12-06)

We contracted with the independent certified public accounting firm of Clifton Gunderson LLP (Clifton Gunderson) to audit the administration of payments received under the Help America Vote Act (HAVA) by the Commonwealth of Virginia State Board of Elections (Board of Elections). The contract required that the audit be done in accordance with U.S. generally accepted government auditing standards. Clifton Gunderson is responsible for the attached auditor's report and the conclusions expressed therein.

In its audit of the Board of Elections, Clifton Gunderson found that the Board of Elections generally accounted for and expended HAVA funds in accordance with the HAVA requirements and complied with the financial management requirements established by the U.S. Election Assistance Commission. The Board of Elections also complied with section 251 requirements. However, Clifton Gunderson identified a need for the Board of Elections to improve its financial reporting and property controls.

In its May 11, 2007 response to the draft report (Appendix A), the Board of Elections agreed with the report's findings and recommendations. The response indicated that the Board of Elections had amended and submitted corrected SF-269 reports. In addition, the Board of Elections indicated that steps were underway to improve controls over property.

Please provide us with your written response to the recommendations included in this report by July 18, 2007. Your response should contain information on actions taken or planned, including target dates and titles of EAC officials responsible for implementing the recommendations.

The legislation, as amended, creating the Office of Inspector General (5 U.S.C. § App.3) requires semiannual reporting to Congress on all audit reports issued, actions taken to implement audit recommendations, and recommendations that have not been implemented. Therefore, this report will be included in our next semiannual report to Congress.

If you have any questions regarding this report, please call me at (202) 566-3125

PERFORMANCE AUDIT REPORT

**ADMINISTRATION OF PAYMENTS
RECEIVED UNDER THE HELP AMERICA
VOTE ACT BY THE COMMONWEALTH OF
VIRGINIA STATE BOARD OF ELECTIONS**

May 1, 2003 Through August 31, 2006

**UNITED STATES ELECTION
ASSISTANCE COMMISSION**

TABLE OF CONTENTS

	PAGE
EXECUTIVE SUMMARY	1
BACKGROUND	2
AUDIT OBJECTIVES	2
SCOPE AND METHODOLOGY	3
AUDIT RESULTS	4
APPENDICES	
Appendix A: STATE BOARD OF ELECTIONS' RESPONSE TO AUDIT RESULTS	7
Appendix B: AUDIT METHODOLOGY	8

EXECUTIVE SUMMARY

Clifton Gunderson LLP was engaged by the U.S. Election Assistance Commission (EAC or the Commission) Office of Inspector General to conduct a performance audit of the Commonwealth of Virginia State Board of Elections (SBE) for the period May 1, 2003 through August 31, 2006 to determine whether the Virginia SBE used payments authorized by Sections 101, 102, and 251 of the Help America Vote Act of 2002 (HAVA or the Act) in accordance with HAVA and applicable requirements; accurately and properly accounted for property purchased with HAVA payments and for program income, and met HAVA requirements for Section 251 funds for an election fund, for a matching contribution, and for maintenance of a base level of state outlays. In addition, the Commission requires states to comply with certain financial management requirements, specifically:

- Comply with the uniform administrative requirements for grants and cooperative agreements with state and local governments (also known as the “Common Rule”) as published in the Code of Federal Regulations 41 CFR 105-71.
- Expend payments in accordance with cost principles for establishing the allowance or disallowance of certain items of cost for federal participation issued by the Office of Management and Budget (OMB) in Circular A-87.
- Submit detailed annual financial reports on the use of Title I and Title II payments.

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 the audit objectives. Because of inherent limitations, a study and evaluation made for the limited purposes of our review would not necessarily disclose all weaknesses in administering HAVA payments.

Our audit concluded that Virginia SBE generally accounted for and expended HAVA funds in accordance with the requirements mentioned above. We also determined that the Virginia SBE complied with section 251 requirements for an election fund, for a matching contribution, and for maintenance of a base level of state outlays. However, we identified a need for the Virginia SBE to improve its reporting and property controls in the following two areas needing management attention:

- Interest earned on HAVA funds deposited with the Commonwealth of Virginia was not reported on the latest Financial Status Report, SF 269, submitted to the Commission.

- Physical security over voting equipment purchased with HAVA funds and controlled by the counties needs improvement.

We have included in this report the Virginia SBE's formal response to our report and recommendations dated May 11, 2007. The Virginia SBE stated that it had amended and submitted past SF 269 financial reports with the EAC to report the interest earnings, and would implement procedures at both the state and county levels to update inventory and security procedures.

BACKGROUND

The Help America Vote Act of 2002 created the U.S. Election Assistance Commission to assist states and insular areas with the improvement of the administration of Federal elections and to provide funds to states to help implement these improvements. HAVA authorizes payments to states under Titles I and II, as follows:

- Title I, Section 101 payments are for activities such as complying with Title III of HAVA for uniform and nondiscriminatory election technology and administration requirements, improving the administration of elections for Federal office, educating voters, training election officials and poll workers, and developing a state plan for requirements payments.
- Title I, Section 102 payments are available only for the replacement of punch card and lever action voting systems.
- Title II, Section 251 requirements payments are for complying with Title III requirements for voting system equipment; and for addressing provisional voting, voting information, statewide voter registration lists, and voters who register by mail.

Title II also requires that states must:

- Have appropriated funds "equal to 5 percent of the total amount to be spent for such activities [activities for which requirements payments are made]." (Section 253)(5)).
- "Maintain the expenditures of the State for activities funded by the [requirements] payment at a level that is not less than the level of such expenditures maintained by the State for the fiscal year ending prior to November 2000." (Section 254 (a) (7)).
- Establish an election fund for amounts appropriated by the state "for carrying out the activities for which the requirements payment is made," for the Federal requirements payments received, for "such other amounts as may be appropriated under law," and for "interest earned on deposits of the fund." (Section 254)(1)).

AUDIT OBJECTIVES

The objectives of our audit were to determine whether the Commonwealth of Virginia:

1. Used payments authorized by Sections 101, 102, and 251 of the Help America Vote Act (HAVA) in accordance with HAVA and applicable requirements;

2. Accurately and properly accounted for property purchased with HAVA payments and for program income;
3. Met HAVA requirements for Section 251 funds for an election fund, for a matching contribution, and for maintenance of a base level of state outlays.

In addition, to account for HAVA payments, the Act requires states to maintain records that are consistent with sound accounting principles, that fully disclose the amount and disposition of the payments, that identify the project costs financed with the payments and other sources, and that will facilitate an effective audit. The Commission requires states receiving HAVA funds to comply with certain financial management requirements, specifically:

4. Comply with the *Uniform Administrative Requirements For Grants And Cooperative Agreements With State and Local Governments* (also known as the “Common Rule”) as published in the Code of Federal Regulations at 41 CFR 105-71.
5. Expend payments in accordance with cost principles for establishing the allowance or disallowance of certain items of cost for federal participation issued by the Office of Management and Budget (OMB) in Circular A-87.
6. Submit detailed annual financial reports on the use of Title I and Title II payments.¹

SCOPE AND METHODOLOGY

We audited the HAVA funds received and disbursed by the Virginia SBE through August 31, 2006.

Funds received and disbursed from May 1, 2003 (program initiation date) to August 31, 2006 (41-month period):

<u>TYPE OF PAYMENT</u>	<u>AMOUNT RECEIVED</u>	<u>AMOUNT DISBURSED</u>	<u>DATA AS OF</u>
101	\$7,575,793	\$1,631,100	8/31/2006
102	4,737,340	4,526,743	8/31/2006
251	59,667,595	27,112,702	8/31/2006
	<u>\$71,980,728</u>	<u>\$33,270,545</u>	

Our audit methodology is set forth in Appendix B.

¹ EAC requires states to submit annual reports on the expenditure of HAVA Sections 101, 102, and 251 funds. For Sections 101 and 102, reports are due on February 28 for the activities of the previous calendar year. For Section 251, reports are due by March 31 for the activities of the previous fiscal year ending on September 30.

AUDIT RESULTS

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 the audit objectives. Because of inherent limitations, a study and evaluation made for the limited purposes of our review would not necessarily disclose all weaknesses in administering HAVA payments.

We concluded that Virginia SBE generally accounted for and expended HAVA funds in accordance with the HAVA requirements and complied with the financial management requirements established by the Commission. The Virginia SBE also complied with section 251 requirements. However, we identified a need for Virginia SBE to improve its financial reporting and property controls as described below:

I. Financial Reporting

The Financial Status Report, SF 269, did not include all of the required information. Interest earned on HAVA funds deposited with the Commonwealth of Virginia in the Sections 101, 102 and 251 accounts was not reported on SF 269. Interest income aggregating \$2,858,908 through August 31, 2006, was deposited with the HAVA Title II funds by the state Department of Accounts, and should have been included in the total receipts on Line 10.0 on the financial forms at each reporting period. The interest earned for the reporting year and the cumulative interest earnings to the date of the report should be reported in the explanation block on Line 12. The omission of the interest from the reports appeared to be an oversight on the part of the SBE staff.

HAVA, Section 254(b) (1), Requirements for Election Fund states that, “For purposes of subsection (a) (5), a fund described in this subsection with respect to a State is a fund which is established in the treasury of the State government, which is used in accordance with paragraph (2), and which consists of the following amounts: (D) Interest earned on deposits of the fund.” Since interest is included in the fund balance, it should also be reported with the federal funds authorized on the SF 269, and explained in Line 12, Remarks.

Recommendations:

We recommend that the EAC require SBE:

1. To prepare future SF-269 submissions that contains complete and accurate information prior to filing, as identified on EAC’s website at <http://www.eac.gov/docs/Model> 269 Title II final pdf.
2. File amended reports for prior periods to provide the correct information.

SBE's Response:

The SBE stated that it had amended and submitted past SF 269 reports to reflect interest earned on HAVA funds deposited with the Commonwealth of Virginia.

II. Voting Equipment Security

We conducted site visits to five (5) of the 134 Virginia counties to perform a physical observation of selected voting equipment to ensure that the machines matched the inventory records, and to determine the security procedures employed by the counties to protect the voting equipment. In two (2) of the five (5) counties visited, we determined that the procedures did not provide adequate security.

In one location, the voting machines were kept in a large warehouse shared with the county fire department and schools. Although there is a warehouse person at the office by the gate we entered, the voting machines are kept in a section accessible to anyone who is inside the warehouse. The voting machines are not housed in cages or a locked area where it can be accessed by only authorized staff. In addition, most of the voting machines are kept inside a cart that can hold up to 6 machines, the carts are not locked. Moreover, there were some machines that are on wood pallets piled on top of one another.

In another county, The voting machines were locked in a cage within the Election Board Office that had no other security devices, such as alarms or cameras, and the machines were located next to a window on the ground floor on an obscure side of the building, visible from the outside.

The Code of Federal Regulations at 41 CFR 105-71.132(3) states that a control system must be developed to ensure adequate safeguards to prevent loss, damage or theft of the property. Any loss, damage or theft shall be investigated.

Strong physical security control deters or prevents theft and/or the sabotage of an asset (especially sensitive assets).

Recommendation:

We recommend that the EAC require SBE to develop and implement policies and procedures to ensure that the security of voting machines and other equipment complies with the USEAC guidelines in the pamphlet entitled Quick Start Management Guide issued in September 2006, and conduct a review of the security procedures in all counties to ascertain compliance.

SBE's Response:

The SBE will:

- update the State Board of Elections' inventory procedures for HAVA equipment and security policies for voting equipment;

- require updated security plans from all 134 Virginia localities. (A bill currently pending in the General Assembly will codify the current Board requirement for a security plan); and
- audit the inventory and security procedures of the two counties cited by the auditors.

County officials took exception to the statement that the machines “are on wood palettes piled on top of one another.” They stated that the system was designed to store machines in this manner for battery charging and maintenance purpose.

Auditor’s Evaluation of SBE’s Response:

We acknowledge the use of palettes for storage purposes, but agree that the machines need to be better secured.



COMMONWEALTH of VIRGINIA
STATE BOARD OF ELECTIONS

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Barbara Hildenbrand
Vice Chairman

Jean R. Jensen
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Valarie A. Jones
Deputy Secretary

May 11, 2007

Curtis Crider
U.S. Election Assistance Commission
Office of Inspector General
1225 New York Ave, NW – Suite 1100
Washington, DC 20005

Mr. Crider,

Thank you for allowing me the opportunity to comment on the results of your draft report entitled, "*Performance Audit Report – Administration of Payments received Under the Help America Vote Act of 2002 by the Commonwealth of Virginia State Board of Elections.*"

Related to audit finding #1, the State Board of Elections has amended and submitted past SF-269 reports to reflect interest earned on HAVA funds deposited with the State of Virginia.

Related to audit finding #2, the State Board of Elections intends to:

- update the State Board of Elections' inventory procedures for HAVA equipment and security policies for voting equipment;
- require updated security plans from all 134 Virginia localities. (A new Virginia law requires annual updates by localities for voting equipment security plans); and
- audit the inventory and security procedures of Fairfax and Greene counties.

The counties listed in the audit have already begun work to improve the security of their voting equipment. The first county is obtaining bids for cages and security cameras for their voting equipment warehouse and expects to complete installation before July. This county takes exception to the statement that the machines "are on wood palettes piled on top of one another." The voting machines are designed to be stackable and were in fact stacked neatly on palettes while batteries were being charged and the machines were being serviced. The second county will install metal security bars over the window in the room where the voting equipment is locked to prevent any unauthorized entries.

We appreciate your assistance.

Sincerely,

A handwritten signature in cursive script, appearing to read "Valarie Jones".

Valarie Jones
Acting Secretary

AUDIT METHODOLOGY

Our audit methodology included:

- Assessing audit risk and significance within the context of the audit objectives.
- Obtaining an understanding of internal control that is significant to the administration of the HAVA funds.
- Understanding relevant information systems controls as applicable.
- Identifying sources of evidence and the amount and type of evidence required.
- Determining whether other auditors have conducted, or are conducting, audits of the program that could be relevant to the audit objectives.

To implement our audit methodology, below are some of the audit procedures we performed:

- Interviewed appropriate SBE employees about the organization and operations of the HAVA program.
- Reviewed prior single audit report and other reviews related to the Commonwealth of Virginia's financial management systems and the HAVA program for the last 2 years.
- Reviewed policies, procedures and regulations for the Virginia SBE's management and accounting systems as they relate to the administration of HAVA programs.
- Analyzed the inventory lists of equipment purchased with HAVA funds.
- Tested major purchases and supporting documentation.
- Tested randomly sampled payments made with the HAVA funds.
- Verified support for reimbursements to local governments (counties, cities, and municipalities).
- Reviewed certain Virginia laws that impacted the election fund.
- Examined appropriations and expenditure reports for state funds used to maintain the level of expenses for elections at least equal to the amount expended in fiscal year 2000 and to meet the five percent matching requirement for section 251 requirements payments.
- Reviewed/examined information regarding source/supporting documents kept for maintenance of effort and matching contributions.

- Evaluated compliance with the requirements for accumulating financial information reported to the Commission on the Financial Status Reports, Form SF 269, accounting for property, purchasing HAVA related goods and services, and accounting for salaries.
- Verified the establishment and maintenance of an election fund.
- Verified whether the Commonwealth of Virginia has sustained the state's level of expenditures for Elections.

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