

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



**INDEPENDENT AUDITORS' REPORT
U.S. ELECTION ASSISTANCE COMMISSION
FINANCIAL STATEMENTS FOR
FY 2012 AND FY 2011**

**No. I-PA-EAC-01-12
NOVEMBER 2012**



U.S. ELECTION ASSISTANCE COMMISSION
OFFICE OF INSPECTOR GENERAL
1201 New York Ave. NW - Suite 300
Washington, DC 20005

November 14, 2012

To: Ms. Alice Miller,
Acting Executive Director

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

Subject: Audit of the U.S. Election Assistance Commission's Fiscal Year 2012
and 2011 Financial Statements.

This memorandum transmits Leon Snead & Co P.C.'s financial statement audit report of the U.S. Election Assistance Commission (EAC) for Fiscal Years 2012 and 2011.

Results of Independent Audit

The Chief Financial Officer's (CFO) Act of 1990 (P.L. 101-576), as amended, requires the EAC Inspector General or an independent external auditor, as determined by the Inspector General, to audit EAC's financial statements. Under a contract monitored by the Office of Inspector General (OIG), Leon Snead & Co. P.C., an independent public accounting firm, performed an audit of EAC's Fiscal Years 2012 and 2011 financial statements. The contract required that the audit be performed in accordance with the Government Auditing Standards issued by the Comptroller General of the United States, and Bulletin 07-04, *Audit Requirements of Federal Financial Statements*, as amended, issued by the United States Office of Management and Budget (OMB).

Leon Snead & Co. P.C. (LSC) issued a disclaimer of opinion on EAC's 2012 financial statement. LSC was unable to obtain sufficient competent evidential support for the amounts presented in the financial statements as of September 30, 2012. As a result, the scope of LSC's work was not sufficient to enable them to express an opinion on the 2012 financial statements. LSC did report that EAC's financial statement, as of and for the year ended September 30, 2011, were presented fairly, in all material respects, in conformity with the accounting principles generally accepted in the United States of America.

In its report, LSC identified two material weaknesses in internal control over financial reporting, as defined by auditing standards generally accepted in the United States of America.

LSC reported no instances of material noncompliance with laws and regulations that is required to be reported under Government Auditing Standards and OMB Bulletin 07-04 (as amended).

EAC management's response, dated November 9, 2012, follows Leon Snead & Co. P.C.'s report.

Evaluation of Leon Snead & Co. P.C.'s Audit Performance

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

- Reviewed Leon Snead & Co. P.C.'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 Leon Snead & Co. P.C.'s audit report;
- Performed other procedures we deemed necessary; and
- Coordinated issuance of the audit report.

Leon Snead & Co. P.C. is responsible for the attached auditor's report dated November 14, 2012, 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 Leon Snead & Co. P.C. and the OIG staff during the audit. If you, or your staff, have any questions, please contact me at (202) 566-3125.

Attachment

Copy to: Annette Lafferty, Chief Financial Officer

U. S. ELECTION ASSISTANCE COMMISSION

Financial Statements

**As of and for the Years Ended
September 30, 2012 and 2011**

Submitted By

Leon Snead & Company, P.C.
Certified Public Accountants & Management Consultants

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**LEON SNEAD
& COMPANY, P.C.**

Acting Executive Director
Inspector General
U.S. Election Assistance Commission

INDEPENDENT AUDITOR'S REPORT

We were engaged to audit the balance sheet of the U. S. Election Assistance Commission (EAC), as of September 30, 2012, and the related statements of net cost, changes in net position, and budgetary resources for the year then ended. We have audited the accompanying balance sheet, as of September 30, 2011, and the related statements of net cost, changes in net position, and budgetary resources for the year then ended. These financial statements are the responsibility of the EAC management. Our responsibility is to express an opinion on these financial statements based on our audits.

For fiscal year 2012, as discussed in detail later in our report, we were unable to obtain sufficient competent evidential support for the amounts presented in the financial statements as of September 30, 2012. Therefore, the scope of our work was not sufficient to enable us to express an opinion, and we do not express an opinion on the fiscal year 2012 financial statements. We found that the EAC's financial statements, as of and for the year ended September 30, 2011, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

Our consideration of internal control would not necessarily disclose all deficiencies in internal control over financial reporting that might be material weaknesses under standards issued by the American Institute of Certified Public Accountants. However, our testing of internal control identified two material weaknesses in internal controls over financial reporting.

The results of our tests of compliance with certain provisions of laws and regulations disclosed no instance of noncompliance that is required to be reported herein under *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 07-04, Audit Requirements for Federal Financial Statements, as amended.

REPORT ON THE FINANCIAL STATEMENTS

We were engaged to audit the balance sheet of the EAC, as of September 30, 2012, and the related statements of net cost, changes in net position, and budgetary resources for the year then ended (2012 financial statements). We have audited the accompanying balance sheet of the EAC, as of September 30, 2011, and the related statements of net cost, changes in net position, and budgetary resources (2011 financial statements) for the fiscal year then ended.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States, the standards applicable to financial audits contained in the *Government Auditing Standard*, issued by the Comptroller General of the United States, and OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

For fiscal year 2012, despite significant efforts, EAC was unable to provide accurate and timely accounting information from its general ledger, could not support amounts recorded for its grant expenses incurred and advances paid, and due to internal control and other accounting issues was unable to provide sufficient competent evidential support for the amounts presented in the 2012 financial statements.

Because of the matters discussed in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the balance sheet, as of September 30, 2012, and the related statements of net cost, changes in net position, and budgetary resources for the year then ended.

In our opinion, the 2011 financial statements present fairly, in all material respects, the financial position of the EAC, as of September 30, 2011, and the net cost, changes in net position, and budgetary resources for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and information about non-Federal physical property, and research development 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 (FASAB) 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. This information has not been subjected to auditing procedures, and accordingly, we do not express an opinion or provide any assurance on the information contained in this document.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The performance measures, Summary of Management Challenges, Summary of Financial Statement Audit and Management Assurances, and

reporting details related to the Improper Payments Improvement Act as amended by the Improper Payments Elimination and Recovery Act are presented for the purposes of additional analysis and are not required parts of the basic financial statements. Such information has not been subjected to procedures sufficient to provide any assurance on it, and accordingly, we do not express an opinion or provide any assurance on it.

RESPONSIBILITIES

Management Responsibilities

Management of the EAC is responsible for: (1) preparing the financial statements in conformity with generally accepted accounting principles; (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of the Federal Managers Financial Integrity Act (FMFIA) are met; and (3) complying with applicable laws and regulations. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies.

Auditor Responsibilities

Except as discussed previously in this report, we conducted our audit in accordance with auditing standards generally accepted in the United States, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and bulletin require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes (1) examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; (2) assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In planning and performing our audit, we considered the EAC's internal control over financial reporting by obtaining an understanding of the agency's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements.

We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin 07-04, as amended and *Government Auditing Standards*. We did not test all internal controls relevant to operating objectives as broadly defined by FMFIA. Our procedures were not designed to provide an opinion on internal control over financial reporting. Consequently, we do not express an opinion thereon.

As part of our audit, we performed tests of EAC's compliance with certain provisions of laws, regulations, and significant provisions of contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin 07-04, as amended. We limited our tests of compliance to these provisions, and we did not test compliance with all laws and regulations applicable to the EAC. Providing an opinion on compliance with certain provisions of laws, regulations, and significant contract provisions and grant agreements was not an objective of our audit and, accordingly, we do not express such an opinion our audit.

INTERNAL CONTROL OVER FINANCIAL REPORTING

As part of our audit, we considered the EAC's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the EAC's internal control. Accordingly, we do not express an opinion on the effectiveness of the EAC's internal control.

Because of inherent limitations in internal controls, including the possibility of management override of controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected. A control deficiency 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 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 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 of the EAC.

Our consideration of internal control was for the limited purpose described in the first paragraph in this section of the report and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies. Material weaknesses in internal control over financial reporting have been identified in the following areas:

- Preparation of and support for financial statements and footnote disclosures.
- Journal vouchers.

Findings and Recommendations

1. Material Weaknesses Impacted EAC's Ability to Prepare 2012 Financial Statements

EAC and its current service provider were unable to provide 2012 financial statements that were free of material misstatements and/or provide sufficient competent evidential support for the amounts presented in the agency's financial statements for fiscal year 2012. We attributed this problem, primarily, to: (1) weaknesses in EAC's internal controls relating to accounting for advances and grant accounting operations; and (2) the failure of EAC's prior service provider¹ to establish controls over the processing of journal vouchers to EAC's general ledger and other accounting processing problems. EAC and the agency's current service provider were unable to provide financial statements free of material misstatements in sufficient time to enable us to complete our audit, due in part, to the extensive efforts necessary to correct errors in the accounting records. As a result, we disclaimed an opinion on the EAC's 2012 financial statements.

The Government Accountability Office's (GAO), *Standards for Internal Control in the Federal Government*, provides that internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. The documentation requirement should appear in management directives, administrative policies, or operating manuals and may be in paper or electronic form. All documentation and records should be properly managed and maintained. OMB Circular A-136, *Financial Reporting Requirements*, provides that reporting entities should ensure that information in the financial statements is presented in accordance with GAAP for Federal entities and the requirements of the Circular.

The problems we identified during the audit of the 2012 financial statements are detailed below.

- a. Interim testing identified significant problems with the financial statements, footnotes, and documentation necessary to support the fair presentation of the financial statements in accordance with FASAB and OMB Circular A-136. The problems resulted in the June 30, 2012, financial statements being materially misstated, and contributed significantly to the problems that the EAC, and its current service provider had in the preparation of the agency's September 30, 2012, financial statements.

We identified significant errors in the processing of advances by EAC and/or its service providers. As part of our testing of grant advances, we obtained a

¹ EAC changed accounting service providers effective July 1, 2012. To separate issues we have identified the service provider used by EAC prior to July 1 as the prior service provider. The service provider used by EAC after June 30 is identified as the current service provider. The current service provider converted the EAC accounting data in order to process the records on its accounting system.

detailed listing of grants included in the EAC's 2012 financial statements along with supporting records so that we could confirm the validity of the advances. Our review of these records disclosed significant errors. For example, we identified that: (1) a \$449,971 advance to one federal agency was incorrectly recorded as an operating expense; (2) other advances that should have been completely or partially expensed during the year; and (3) advances that should have been recorded as an accounts receivable because the purpose of the advance had expired. These errors materially misstated the 2012 financial statements, as detailed in the table below.

Grantee/Federal Agency	Advance per GL	Expense per GL	Advance per Auditor	Expense per Auditor	Receivable per Auditor
Grantee	\$8,000.00		\$0.00	\$8,000.00	
Grantee	\$8,851.67		\$1,093.00	\$7,758.67	
Federal Agency	\$147,579.10		\$63,376.91	\$84,284.20	
Federal Agency		\$449,971.00	\$328,745.00	\$121,226.00	
Federal Agency	\$20,000.00				\$20,000.00
Grantee	(\$0.39)		(\$0.39)		
Grantee	\$485,549.00			\$485,549.00	
Grantee	\$302,096.23				\$302,096.23
Totals	\$972,075.61	\$449,971.00	\$393,214.52	\$706,817.87	\$322,096.23
Change to GL			\$578,861.09	\$256,846.87	\$322,096.23

Based upon our analysis, we proposed and EAC made adjustments to the general ledger totaling approximately \$1.13² million dollars.

- Undelivered orders³ (UDO) subsidiary records were out-of balance, in absolute values, approximately \$2.1 million with corresponding general ledger accounts. This was due, in part, to incorrectly posted grant advances by the prior service provider. We also reported a problem with UDO in our 2011 financial statement audit. The table below shows the differences we noted between the subsidiary undelivered orders records and the general ledger.

² This amount represents the absolute value of the changes made to EAC's advance, receivable and expense general ledger accounts as shown on the last line of the table.

³ The amount of goods and/or services ordered, which have not been actually or constructively received. EAC officials advised us that a significant portion of the problem with UDO related to grants and advances, corrections on some issues were not processed by the prior service provider. The errors impacted the ability to apportion multi-year funds because the SF 133 and agency records did not balance.

Fund	Service Provider Aging Report	General Ledger Balance	Out of Balance Amount
2008	(\$63,558.74)	(\$63,558.74)	\$0.00
2009	\$856,508.99	(\$40,967.96)	\$897,476.95
2010	(\$223,294.47)	(\$165,926.79)	(\$57,367.68)
2011	(\$417,875.21)	(\$233,223.30)	(\$184,651.91)
2012	(\$706,178.08)	(\$675,708.80)	(\$30,469.28)
803X	(\$21,548,799.21)	(\$20,557,919.39)	(\$990,879.82)
809	(\$3,186,085.00)	(\$3,186,085.00)	\$0.00
810X	(\$230.00)	(\$230.00)	\$0.00
Totals	(\$25,289,511.72)	(\$24,923,619.98)	(\$365,891.74)

The amounts shown above represent a material error in the EAC's accounting system and internal control processes. In addition, during our audit, we were advised by EAC officials that the inability to reconcile the SF 133, *Report on Budgetary Execution and Budgetary Resources*, to general ledger records significantly impacted the re-apportionment of available multi-year funds during FY 2012.

EAC and its current service provider worked to resolve this and related problems in the accounting records; however, these issues continued to impact the financial statements until the current service provider processed an approximate \$1.2 million JV to correct the out-of-balance condition during early November 2012. While the JV was provided too late to audit, we did note that the corrections processed also appeared to incorrectly impact other general ledger budgetary accounts.

- The Statement of Net Cost (SNC) and related footnote disclosure contained material errors in both the June 30 and September 30, 2012, financial statements. We identified that the SNC and related footnote disclosure were incorrect due to accounting errors made in recording advances, incorrect grant costs, and because of other problems discussed in this report. For example, information provided by EAC showed that grant expenses were about \$1.2 million more than the amounts included in the calculations for the SNC footnote disclosure. This problem related primarily to grant costs and grant accruals that could not be reconciled between the general ledger records and EAC's subsidiary grant accounting records. EAC and its current service provider are still researching the reason for this difference, as of November 1, 2012.

We requested from EAC officials documentation to support the footnote disclosure that identifies the grant payments made to grantees by grant type for fiscal year 2012. We reviewed this documentation, and noted differences between the detailed supporting records provided by EAC, and the grant payments listed in the footnote. We selected a non-statistical sample of three of the supporting grant records, and found that one grant

was omitted from the footnote, but should have been included as the funds were provided to the grantee during the fiscal year. For another sample, records showed that the grantee had incurred expenses during fiscal year 2012, and should have been included in the footnote, but was not.

- Accounts payable was materially misstated in the June 30 and September 30, 2012, financial statements. During our interim testing, we questioned, among other issues, whether the accounts payable line item was correctly presented since there were large abnormal balances included in the general ledger account that could not be explained by the prior service provider. During our final testing, we also determined that the process followed by EAC to determine the amount of grant accruals that should be recorded, and the amount of the expenses that should be accrued for other entities with outstanding advances was not documented. As a result, the accrual procedures were ineffective. For example, we identified: (1) about \$485,000 for one grantee was omitted from EAC's grant accruals; and (2) about \$84,000 was omitted for one non-grant accrual for another federal agency.

In our analysis of the financial statements, we identified that the first set of financial statements had erroneously excluded a significant amount of liabilities. Subsequent financial statement versions show liabilities increasing by approximately \$100,000.

- b. Significant problems were identified during our audit with the accounting data recorded in EAC's general ledger by the agency's prior service provider. EAC and its current service provider confirmed these problems, and identified additional issues with the general ledger accounting data. The correction of these errors required considerable time and effort by both EAC and the current service provider. In our opinion, this was a major factor preventing the EAC and the current service provider from providing agency financial statements for audit at the agreed upon due date of October 18, 2012.

When we did receive the first version of the financial statements on October 25 without footnotes, we found material and pervasive errors including that the Balance Sheet did not balance, the Statement of Net Cost was incorrect, the Statement of Budgetary Resources was incorrect, many of the footnotes did not contain correct information, did not reconcile with the statements, or were not correctly presented. We were provided with several additional financial statement versions (the last version was received on November 1) that corrected many, but not all of the problems.

Recommendations:

1. Ensure that EAC personnel with federal accounting expertise, including the preparation of financial statements, are available to assist EAC officials in

providing appropriate oversight and reporting of its financial and accounting operations.

2. 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.
3. Develop policies and detailed operating procedures relating to the accounting for and control of advances made by EAC. Ensure these policies and procedures specify: (a) under what circumstances advances are provided; (b) roles and responsibilities; and (c) monitoring and reporting requirements for determining when advances are reduced, and/or accounts receivable should be recorded so that accounting records are accurate. Reconsider providing advances to other federal agencies.
4. Review accounting, grant and contracting records for fiscal year 2012 to ensure that all advances have been properly recognized in the agency's accounting and subsidiary records.
5. Take action to have advances promptly returned to the agency when either the grant has expired, the purpose of the grant has been completed, when the purpose of the non-grant advance has been accomplished, or when the funds are not being used in a timely manner.
6. Ensure that problems identified with undelivered orders in the accounting system are corrected, and controls are established to prevent such problems in the future.
7. Complete the analysis of differences between EAC grant subsidiary records and the general ledger accounting system, and make necessary adjustments to those systems that are incorrect. Maintain documentation of the problems noted, and revise or issue EAC policies and operating procedures to ensure that the problem does not recur.
8. Strengthen EAC's subsidiary grant records to ensure that accurate and complete information is maintained on grant advances, disbursements, and other required information.
9. Strengthen EAC policies and procedures for identifying the amount that should be accrued for grant and non-grant liabilities.

2. Errors and Lack of Controls over Journal Vouchers Continue

Journal Vouchers (JVs) prepared by EAC's prior service provider were prepared in error, did not adhere to standard general ledger posting models, and did not have

documentation to support the entries posted to EAC's general ledger. The prior service provider bypassed internal controls that they had agreed to implement in response to problems first noted in our 2009 financial statement audit. In addition, there was insufficient oversight by EAC accounting personnel to identify and correct the errors. Bypassing of control processes for critical documents such as JVs substantially increases the risk of misstatements, and was a contributing factor in disclaimer of opinion on the EAC 2012 financial statements.

JVs bypass accounting and reporting edits built into an accounting system. Since the Treasury approved U. S. Standard General Ledger (USSGL) posting models are bypassed, any entry included on the JV will be posted to the general ledger. Therefore, it is critical that controls are in place to limit the number of JVs processed, that documentation clearly supports the reason for the JV, and the entries proposed be thoroughly reviewed and approved by supervisory personnel.

OMB Circular A-127, *Financial Management Systems*, requires that "financial events shall be recorded applying the requirements of the U.S. Government Standard General Ledger (USSGL). Application of the USSGL at the transaction level means that each time an approved transaction is recorded in the system, it will generate appropriate general ledger accounts for posting the transaction according to the rules defined in the USSGL guidance." The GAO's, *Standards for Internal Control in the Federal Government*," provides that internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. The GAO standards further provide that the documentation requirement should appear in management directives, administrative policies, or operating manuals.

Documentation provided, at our request, to support the purpose, amount and posting entries for a sample of JVs selected during our interim testing was not sufficient to determine whether the entries were appropriate. We selected for testing 13 of the 33 JVs processed to the general ledger during the first nine months of fiscal year 2012. (Only 21 of the JVs were included on the JV control log provided to us; however, we identified an additional 12 JVs that were processed by the prior service provider through our analysis of the transaction database.)

We identified problems with nine of the 13 JVs sampled. Seven of the JVs posted entries to the general ledger that were not in accordance with approved USSGL posting models, and two contained other errors. For example, one JV, totaling approximately \$141,000, was processed to attempt to correct previous JV posting errors. While supporting documentation provided by the prior service provider was minimal, we were able to determine that the JV did not correct the errors, and resulted in EAC's status of funds report to OMB not to balance. Many of these JVs were reversed and/or corrected when reviewed by the current service provider.

Recommendations:

1. Implement an internal control process that provides appropriate agency oversight over the JVs processed by the current service provider.
2. Provide training to EAC accounting personnel to ensure that they have the skills to provide adequate oversight of this area.

COMPLIANCE WITH LAWS AND REGULATIONS

The results of our tests of compliance with certain provisions of laws and regulations, as described in the Responsibilities section of this report, disclosed no instance of noncompliance with laws and regulations that is required to be reported under *Government Auditing Standards*, and OMB Bulletin 07-04 (as amended).

Management of EAC reported the above material weaknesses in its reporting prepared pursuant to the Federal Managers' Financial Integrity Act (FMFIA).

A summary of the status of prior year findings is included as Attachment 1.

AGENCY RESPONSE AND AUDITOR COMMENTS

The Acting Executive Director and Chief Financial Officer responded to the draft report in a memorandum dated November 8, 2012. In the response, the EAC officials stated that reduced funding, staffing reductions, including the loss of personnel with accounting expertise, and other factors impacted financial management operations during the 2012 fiscal year. The officials generally agreed with the audit recommendations, and summarized the actions the agency plans to take to implement the recommendations.

The EAC's written response to the material weaknesses identified in our audit was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

DISTRIBUTION

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

Leon Snead & Company, P.C.

November 14, 2012

Status of 2011 Audit Findings and Recommendations

Finding No.	Finding Summary	Recommendations ⁴	Status as of September 30, 2012
1a.	For our tests of year-end financial statements, documentation necessary to support the financial statements and footnotes was frequently not provided timely, and in some cases did not initially support the financial statements or footnotes. In order to opine to the fair presentation of the EAC financial statements, we were required to perform substantial additional audit testing and apply other auditing procedures to satisfy ourselves as to the completeness and accuracy of areas tested.	<p>1. Strengthen the agreement with the service provider to ensure that financial statements and supporting documentation are required to be provided to EAC and its auditors in a timely manner.</p> <p>2. Develop specific information requirements and checklists that the service provider must complete and provide to EAC to support interim and year-end financial statements.</p>	Open. EAC has taken actions to address these two recommendations by changing service providers, and by planning to hire a full-time accountant to assist in the monitoring of agency accounting operations. However, we continued to find problems with the JVs processed during a significant portion of the 2012 fiscal year; therefore the recommendations remain open.
1b.	We identified posting model errors in the service provider’s accounting system that resulted in misclassifying capital assets as an operating expense, errors in posting a transfer of funds to another federal agency, and direct entries to equity accounts.	3. Obtain assurances from the service provider that necessary controls are in place and operating effectively concerning the validation of posting models and changes made to the posting models.	Closed. EAC has addressed this recommendation by changing service providers.
1c.	Journal vouchers (JV) initiated and processed by the service provider to the general ledger were not provided to EAC officials for review and approval, and/or necessary supporting documentation was not provided to enable a determination on the appropriateness of the entries made.	4. Review all 2011 fiscal year JVs that have not been approved by EAC to ensure that the entries are proper. Require the service provider to provide documentation that supports it meets published control procedures relating to preparation of JVs.	Open. Errors continued to be made by in JVs posted to the agency’s general ledger through June 30, 2012, when EAC moved its accounting operations. EAC’s oversight of this area was not sufficiently effective.

⁴ All discussions in this table refer to the EAC’s prior service provider.

Finding No.	Finding Summary	Recommendations ⁴	Status as of September 30, 2012
1d.	The financial statements presented for audit contained errors that if not corrected would have resulted in qualifications to the audit opinion on the 2011 and 2010 financial statements and footnotes.	<p>5. Ensure that the service provider corrects the problem with its undelivered order aging report.</p> <p>6. Ensure that EAC's internal controls over financial reporting, including strengthened oversight over its accounting service provider, are re-established.</p>	<p>Opened. Problems continued with the ability of the EAC to provide timely, competent evidence to support the amounts reported in the 2012 financial statements.</p> <p>Open. Controls over the preparation of and support for the financial statements remained a problem.</p>
2.	EAC processed an approximately \$613,000 transfer to the National Institute of Standards and Technology (NIST) in early December 2010. Because errors were made by the service provider, EAC's general ledger records showed it did not have sufficient available funds to make this transfer.	7. Require the service provider to correct this posting model error, and identify and correct all transactions processed under this posting model during this fiscal year.	Closed. EAC provided information to address this recommendation



U.S. ELECTION ASSISTANCE COMMISSION
1201 NEW YORK AVENUE, N.W., SUITE 300
WASHINGTON, D.C. 20005

November 8, 2012

To: Curtis Crider, Inspector General
Arnie Garza, Deputy Inspector General

From: Alice Miller, Chief Operating Officer and Acting Executive Director
Annette Lafferty, Chief Financial Officer *Annette Lafferty*

Subject: Response to Draft Audit Report of the U.S. Election Assistance Commission's Financial Statements for Fiscal Years 2012 and 2011 (Assignment No. I-PA-EAC-01-12)

For the past three years, the Election Assistance Commission (EAC) has obtained unqualified audited financial statements. This was primarily due to the efforts of an experienced staff accountant hired in April 2009 in large part based on findings in the agency's first financial statement audit for FY 2008. After EAC's full-time staff accountant left the agency in September 2011, EAC took into consideration concerns from Congress and you that the agency has too many administrative staff at the expense of program staff. Further, as you know, a bill has passed to eliminate EAC, and efforts to move functions or drastically reduce EAC's salaries and expenses funding have occurred. EAC instituted a hiring freeze beginning October 1, 2010. Not including statutory positions (Commissioners, Executive Director and General Counsel), EAC has gone from 46 full-time staff to its current level of 24 full-time staff. As staff left, duties were reassigned to remaining staff. We also pledged to make operations as efficient as possible.

These factors were heavily influential in the decision to replace the full-time accountant with a half-time Certified Public Accountant (CPA). As you know, on July 1, 2012, EAC changed financial service providers. With the memorandum of understanding with the new service provider came EAC's first automated procurement, travel and purchase card systems which improve our efficiency, financial documentation and accuracy. There was an understanding that the new service provider along with the half-time CPA would provide sufficient guidance to produce sound financial statements.

At the time EAC changed service providers, the new service provider was transitioning to a financial system version. It was discovered that the previous service provider's controls were not compatible with those of the new provider. For example, the previous provider in many cases did not code vendors with accurate Office of Management and Budget-required Data Universal Number System (DUNS) numbers in the general ledger. A large number of DUNS numbers were collected by EAC and staff of the new provider, which automatically sorts data into the appropriate federal and non-federal categories, and the numbers were verified before entry into the new financial system.

The conversion of data from the original service provider to make the data compatible with controls required by the new service provider, in addition to the new provider system upgrade, loss of three program staff who worked with the staff accountant on recording of advances to other agencies and grants have left the agency since April 2011, and due to deficiencies in

agency accounting expertise proved to be more difficult than anticipated by the individuals involved in the process. Further, it became apparent that even though we are a microagency, a full-time accountant who knows EAC programs and operations is needed in addition to financial services provided by other federal agencies. In our experience this has been the case with two different federal financial service providers. Therefore, we plan on hiring a full-time EAC accountant with auditing experience and preferably a CPA to provide appropriate agency expertise.

Following, please find the Election Assistance Commission (EAC) response to recommendations made in the Draft Audit Report for Fiscal Years (FYs) 2012 and 2011. Our next step will be to develop an action plan to address the findings and to restore our internal controls to the level we had operated under during between April 2009 and September 2011 when we had a full-time experienced accountant.

Recommendation 1.: Ensure that personnel with federal accounting expertise, including the preparation of financial statements, are available to assist EAC officials in providing appropriate oversight and reporting of its financial and accounting operations.

Management Response: EAC recognizes that a part-time staff accountant with extensive federal accounting experience but without audit experience is not sufficient to fulfill the requirements for sound internal controls. A vacancy announcement has been posted for a full-time EAC accountant with federal accounting and auditing experience and preferably a CPA to provide appropriate agency expertise. Further, a full-time accountant is even more critical now with the turnover of program staff who worked with the accountant on recording of advances to other agencies and grants since April 2011.

Recommendation 2.: 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.

Management Response: EAC has an extensive Accounting Manual and spreadsheets in place to produce its own financial statements as well as systems to collect, review and present supporting documentation. The staff member will follow the EAC Accounting Manual procedures and will ensure that necessary statements and supporting documentation for all financial statement line items and footnotes is accurate, complete and timely, is compiled, reviewed, and approved by EAC personnel before being provided for audit.

Recommendation 3.: Develop policies and detailed operating procedures relating to the accounting for and control of advances made by EAC. Ensure these policies and procedures specify: (a) under what circumstances advances are provided; (b) roles and responsibilities; and (c) monitoring and reporting requirements for determining when advances are reduced, and/or accounts receivable should be recorded so that accounting records are accurate. Reconsider providing advances to other federal agencies.

Management Response: EAC's Accounting Manual provides basic procedures for advances and accounts receivable. More extensive procedures identifying roles and responsibilities,

internal controls and detailed information on how to account for and monitor advances and accounts receivable are drafted. EAC plans on working with the new financial services provider on finalizing clear and complete procedures for EAC staff and both agencies. We will also reconsider providing advances to other federal agencies.

Recommendation 4.: Review accounting, contracting and grant records for fiscal year 2012 to ensure that all advances have been properly recognized in the agency's accounting system and subsidiary systems.

Management Response: To the best of our knowledge, issues with the records for advances have been identified and EAC's new financial services provider has resolved or is resolving the issues for FY 2012. We will review all financial documents FY 2012 to ensure they have been properly recorded, with special focus on the recording of advances. EAC will work with the new accountant and service provider on reviewing and documenting all advances reported on the financial statement to ensure that errors are researched, approved and corrected so that the general ledger account 1410 is properly stated.

Recommendation 5.: Take action to have advances promptly returned to the agency when either the grant has expired, the purpose of the grant has been completed, when the purpose of the grant has been accomplished, or when the funds are not being used in a timely manner by the entity that had received the advance.

Management Response: Our plan is to ensure that the detailed procedures for advances and receivables mentioned above and EAC's Grants Handbook include criteria for treatment of advances.

Recommendation 6.: Ensure that problems identified with undelivered orders (UDOs) in the accounting system are corrected, and controls are established to prevent such problems in the future.

Management Response: The UDO out-of-balance condition was previously identified by the agency but remained uncorrected by the prior service provider. We will work with the current service provider to resolve the impact that the journal voucher which corrected the condition has on other general ledger budgetary accounts.

Recommendation 7.: Complete the analysis of differences between EAC grant subsidiary records and the general ledger accounting system, and make necessary adjustments to those systems that are incorrect. Maintain documentation of the problems noted, and revise or issue EAC policies and operating procedures to ensure that the problem does not recur.

Management Response: Our analysis to date shows that the issues stated in recommendation 7 stem primarily from overstated accruals estimated at the end of FY 2011, and the lack of a checklist to ensure that financial transactions relating to grants are not only recorded in our grant subsidiary records but are recorded in the general ledger accounting system and are accurate. Accruals were omitted from the end-of-year open obligation reports on September 27, 2012 due to issues with the conversion processes. We plan on documenting accrual procedures along with the advance and receivable procedures previously mentioned, and ensuring that staff who,

subsequent to staff turnover, currently have new and primary responsibility for these transactions.

Recommendation 8.: Strengthen EAC’s subsidiary grant records to ensure that accurate and complete information is maintained on grant advances, disbursements, and other required information.

Management Response: We will produce supporting documentation and review for completeness and accuracy, for all transactions in the subsidiary grant records and general ledger accounting system. Further, we will work on a system of reporting of the data to management on a regular basis.

Recommendation 9.: Strengthen EAC policies and procedures for identifying the amount that should be accrued for grant and non-grant liabilities.

Management Response: Please see the response to Recommendation 7. above.

Recommendation 10.: Implement an internal control process that provides appropriate agency oversight over the processing of JVs by the current service provider .

Management Response: We agree that a sound internal control process and oversight are necessary for the processing of Journal Vouchers (JVs). We will work with the current service provider on a review and documentation process for necessary JVs to ensure the reasons for the entries and the amounts for them are clear and agreed upon.

Recommendation 11.: Provide training to EAC accounting personnel to ensure that they have the skills to provide adequate oversight of this area.

Management Response: EAC currently has no accounting personnel. We plan on hiring a staff accountant with proven skills in working with JVs to provide adequate agency oversight of the processing of JVs.

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