

Agency Financial Report

U.S. Election Assistance Commission

November 16, 2009

ABOUT THIS REPORT

For FY 2009 reporting purposes, the U.S. Election Assistance Commission (EAC) has elected to submit an Agency Financial Report at this time, with an Annual Performance Report and Citizens' Report on February 15, 2010. Last year at this time, EAC submitted a Performance and Accountability Report (PAR). The PAR consolidates financial, budgetary and performance information to the Office of Management and Budget (OMB), Congress and the Public. The quantity and diversity of information makes the target audience difficult to identify. Acknowledging this issue, OMB implemented a pilot program in FY 2007 providing agencies with the option of splitting the information in the PAR into three separate reports targeted to OMB, Congress and the Public, respectively: the Agency Financial Report (AFR), due 45 days after the close of the fiscal year; the Annual Performance Report, due with the Congressional Budget Justification; and a Citizens Report. The AFR allows EAC to focus on and lay out its financial position at this time, while providing summary performance data. A Citizen's Report and a combined Annual Performance Report/Congressional Budget Justification will follow per guidance in OMB Circular A-136 *Financial Reporting Requirements*.

Information about EAC's programs is available at www.eac.gov.



MESSAGE FROM THE CHAIR

I am pleased to present the U.S. Election Assistance Commission (EAC) FY 2009 Annual Financial Report. The report describes EAC's financial results over the past year as it pursued its mission to assist the effective administration of Federal elections. The report highlights efforts to strengthen internal controls and financial management activities. This is the second year EAC has undergone a financial statement audit per the Accountability of Tax Dollar Act of 2002, and the first year EAC is participating in the pilot performance reporting project as described in OMB Circular A-136 on Financial Reporting Requirements in place of the Performance and Accountability Report. EAC presents summarized performance data in this report, and plans on providing as much detailed data as possible in February in conjunction with the FY 2011 Congressional Justification.

During FY 2009, to address issues in the FY 2008 financial statement audit, EAC:

- Adopted its first Strategic Plan for 2009 through 2014 in March 2009 allowing the agency to begin the process of reporting on formal performance metrics;
- Reorganized, establishing its first Chief Financial Officer department consisting of experienced grants, budget, accounting and procurement staff;
- Finalized financial management policies and procedures;
- Submitted a FY 2010 Congressional Budget Justification and FY 2011 OMB Budget Justification in a performance based format; and
- Closed out many outstanding recommendations from operational audits and the FY 2008 financial statement audit.

The agency has made tremendous progress in the program areas during FY 2009. EAC made strides in speeding up certification of voting systems: between February and August, three voting systems were certified. In order to improve communications with stakeholders, EAC instituted a Testing and Certification Voting System Reports Clearinghouse on its website. EAC issued a report on Voter Registration, Quick Start Management guides on administering Federal elections, best practices for voter information web sites; held roundtable discussions on Elections, Election Office Management and Accessibility; awarded 13 Poll Worker grants to colleges, universities and nonprofit organizations totaling \$750,000, and seven Mock Election grants to State and local election officials, and regional and nonprofit organizations totaling \$300,000 to educate secondary school students and their parents about the electoral process through mock Federal elections.

EAC committed resources and time to move from a disclaimer opinion on our financial statements to an unqualified (clean) opinion in the second half of FY 2009. EAC continues to improve its programs and operations, strengthening internal controls, financial management, and information technology across the agency. Additional information on corrective actions can be found in Section I.E. of the Management Discussion and Analysis which follows. Some work remains to be done, such as a program of continuous internal control assessment and improvement as required by the Federal Managers' Financial Integrity Act.

The financial and performance data in this report is reliable and complete without any current material weaknesses. The financial statements being submitted in this report are, to the best of my knowledge and belief, accurate and reliable.

In FY 2010, we look forward to awarding grants for voting system logic and accuracy testing and disability research totaling \$6.0 million of no-year funds appropriated in FY 2009, improving the quality of technical assistance to recipients of Help America Vote Act funds, improving the agency's information technology infrastructure with the hire of its first Chief Information Officer, analyzing results of user feedback on the quality and usability of our research and training materials, and continuing to provide materials to election officials to assist with the administration of Federal elections.

A handwritten signature in cursive script, appearing to read "Gineen B. Beach", followed by a long horizontal flourish.

Gineen Beach, Chair
November 16, 2009

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SECTION I

Management Discussion and Analysis

Management's Discussion and Analysis (MD&A) is presented in accordance with Statement of Federal Financial Accounting Standards (SFFAS) 15. The MD&A is intended to provide a clear and concise description of the agency's mission and organizational structure; high-level discussion of key performance goals, results and measures; analysis of financial statements; systems, controls, and legal compliance (i.e., Management Assurance signed by the Agency Head); compliance with laws and regulations; and actions taken or planned to address problems. It provides a balanced analytical assessment, with both positive and negative information, of key program and financial performance. The MD&A is a vehicle for communicating insights about the agency, its operations, programs, successes, challenges and future outlook. Contents of this report and the MD&A are in conformance with Office of Management and Budget (OMB) Circular A-136 *Financial Reporting Requirements*.

IA BACKGROUND, VISION, MISSION AND ORGANIZATIONAL STRUCTURE

In October 2002, Congress passed the Help America Vote Act (HAVA). The law recognized the need for States to invest in their election infrastructure and set out a comprehensive program of funding, guidance, and ongoing research. To foster those programs and to promote and enhance voting for United States citizens, HAVA established the Election Assistance Commission (EAC). The vision for EAC, according to the Strategic Plan 2009-2014, adopted March 2009, is to lead election reform that reaffirms the right to vote and to have all eligible votes counted accurately.

EAC is an independent, bipartisan agency. Four full-time Commissioners, appointed by the President and confirmed by the U.S. Senate, and three Federal advisory committees--the Standards Board, Board of Advisors, and the Technical Guidance Development Committee--guide the EAC. Its mission is to assist in the effective administration of Federal elections. EAC is statutorily required to:

- Create a clearinghouse of information for election officials and the public.
- Distribute and monitor HAVA funds to states for election administration improvements.
- Issue, and periodically review and modify, as necessary, Voluntary Voting System Guidelines (VVSG).
- Accredite voting system test labs and certify voting equipment.
- Conduct periodic studies of election administration issues.

- Establish best practices and guidelines on election administration for state and local election officials.
- Maintain the national voter registration form developed in accordance with the National Voter Registration Act (NVRA) of 1993.
- Provide Congress with a bi-annual report to assess the impact of the NVRA.

The Standards Board and the Board of Advisors provide advice and guidance to EAC on Voluntary Voting System Guidelines and other election administration issues. In addition, the Technical Guidelines Development Committee (TGDC) assists EAC in the preparation of the VVSG. The VVSG sets the standards against which voting systems are tested. The Director of the National Institute of Standards and Technology (NIST) serves as the Chair of the TGDC and provides technical support to the Committee. Additionally, HAVA specifies that NIST provide recommendations to EAC regarding voting system test laboratories. Since Fiscal Year 2004, EAC's annual appropriations have included funds for NIST support.

The Senate confirmed four Commissioners in December 2003 and EAC began operations in January 2004, within ten months of the date mandated by HAVA. Its Fiscal Year 2004 operating budget was \$1.7 million. At the close of the fiscal year, EAC had a staff of 18.

EAC's focus in 2004 was to assemble staff, obtain office space, arrange for administrative support from the General Services Administration (GSA), establish a website, start clearinghouse operations, and distribute Federal financial assistance to states. In regard to Federal financial assistance, Congress appropriated nearly \$3 billion in Fiscal Years 2003 and 2004 for payments to States under Titles I and II of HAVA. States received the funds to upgrade their voting systems, establish a statewide voter registration database, train election officials, and educate voters. As EAC did not begin operations until 2004, GSA initially distributed HAVA funds to the fifty States, Guam, Puerto Rico, the U.S. Virgin Islands, American Samoa and the District of Columbia on EAC's behalf in Fiscal Year 2003.

In FY 2004, EAC appointed a statutorily-required General Counsel. During Fiscal Year 2005, EAC appointed its other statutorily-required position, the Executive Director, and an interim Inspector General. EAC focus in subsequent years was on upgrading the VVSG, completing required research to promote effective Federal elections and to present key data on election practices and voting, instituting a voting system testing and certification program, auditing State use of HAVA funds, and providing information on improving elections to its stakeholders.

In FY 2007, the full-time equivalent staffing ceiling of 24 was lifted. As of the end of FY 2009, EAC had a full-time staff of 43 employees, including three Commissioners and their four special assistants. Since its inception, EAC has received \$2.5 billion in requirements payments based on a formula of the number of eligible voters, \$14.7 million in discretionary grant funds for Poll Workers, Mock Elections and Election Data Collection, and transferred \$17.7 million to NIST. EAC is located in Washington, D.C.

Funding

Enacted Appropriations by Fiscal Year									
(dollars in thousands)									
	2003	2004	2005	2006	2007	2008	2009	Total	
EAC									
<i>EAC Salaries & Expenses</i>									
Operations	\$2,000	\$1,674 ¹	\$11,110	\$10,986	\$11,313	\$12,330	\$12,909	\$62,323	
Mock Election Grants						200	300	500	
Poll Worker Grants				300		750	750	1,800	
Transfer to NIST			2,778	2,772	4,950	3,250	4,000	17,750	
<i>Election Reform Programs</i>									
Requirements Payments	830,000 ²	1,489,460				115,000	100,000	2,534,460	
Poll Worker Grants	1,500	746						2,246	
Mock Election Org.		199						199	
Help America Vote Act Foundation	1,500	746						2,246	
Voting Tech. Research							5,000	5,000	
Testing & Verification							1,000	1,000	
<i>Election Data Collection</i>						10,000		10,000	
TOTAL EAC	835,000	1,492,824	13,888	14,058	16,263	141,530	123,959	2,637,524	
GSA									
Section 101& 102 Grants	649,500							649,500	
Administrative Expenses	500							500	
TOTAL GSA	650,000							650,000	
TOTAL EAC & GSA								3,287,524	

1/ Includes \$481,092 transferred from the Federal Election Commission

2/ Carried forward to FY 2005

Status of Help America Vote Act Authorization versus Appropriations
(dollars in thousands)

	Authorized		Appropriated FYs 2003- 2009	Remaining
GSA				
Election Administration Improvement (Section 101)	324,750		324,750	-
Punch Card/Lever Machine Replacement (Section 102)	324,750		324,750	-
Administrative Expenses for 101 and 102	500		500	-
EAC				
Requirements Payments (Section 251)	3,000,000		2,534,460	465,540
Voting Technology Improvement Research Grants (Section 271)	20,000		5,000	15,000
Equipment and Technology Testing Grants (Section 281)	10,000		-	10,000
Pre-Election Logic and Accuracy Testing & Post- Election Verification	1,000	1	1,000	-
Operations (Section 210)	82,373	2	82,373	-
Election Data Collection Grants	10,000	3	10,000	-
National Student and Parent Mock Election Organization (Section 295)	1,400	**	199	1,201
Help America Vote Act Foundation (Section 601)	5,000		2,246	2,754
Poll Worker Grants (Section 501)	5,000	**	2,246	2,754
Total	3,784,773		3,287,524	497,249

1/ Authorized by P.L. 111-8

2/ \$30 million per HAVA, balance per appropriations. Includes \$1.8 million Poll Worker grants, \$500,000 Mock Election Grants

3/ Authorized by P.L. 110-161

**Plus such sums as may be necessary in succeeding years

Note: excludes \$140 million plus such sums authorized for HHS under Disability Access Section 261 and Participation Section 291

State-Reported HAVA Spending as of September 30, 2009		
Description	Amount	Percent
Voting Systems	\$1,604,367,413	71.0
Voter Registration Systems	354,992,541	15.7
Improving to the Administration of Federal Elections*	155,299,936	6.9
Educating Voters, Training Officials and Poll Workers, and Recruiting Poll workers	77,140,039	3.4
Improving Polling Places	29,765,726	1.3
Provisional Voting	3,664,550	0.16
Uncategorized	34,206,688	1.5
Total	<u>2,259,436,893</u>	

*Includes costs associated with preparing state plans, administering the HAVA program, identification for first-time voters, posting voting information at polls, and language assistance. Also, includes additional costs of training, voting equipment, and voter registration systems that was reported collectively.

EAC Organization by Program

EAC has organized around the goals in the Strategic Plan. Below are brief descriptions of the four offices responsible for implementing the Strategic Plan programmatic goals.

Communications

The Communications division is responsible for administration of the agency's website, www.eac.gov which contains over 1,000 documents with information about voting system test plans, agency correspondence, and testimony from EAC monthly Public Meetings and hearings; and external and internal communications such as press releases, informational videotapes on the programs, a monthly newsletter about EAC activities and events to approximately 1,200 subscribers, and a weekly email on internal operations.

Grants Management

In FY 2009, EAC reorganized, creating a Grants Management division. The division is responsible for distributing, monitoring, providing technical assistance to States and grantees on use of funds, and reporting on requirements payments and discretionary grants that improve administration of elections for Federal office. The office negotiates indirect cost rates with grantees and resolves audit findings on use of HAVA funds.

Research, Policy and Programs

The Research, Policy and Programs division administers:

- 1) the Election Management Guidelines Program to provide information on topics such as Ballot Design, Contingency Planning, Managing Change in an Election Office, Media

and Public Relations, and Developing an Audit Trail for the verification of votes, to help election officials promote secure, accurate, and accessible elections;

- 2) the Language Accessibility Program to provide informational materials on the Federal election process and election terminology in languages other than English, translate the national voter registration form, and gather information from working groups to address the election needs of voters with limited or no English proficiency;
- 3) provides materials to voters to facilitate successful participation in Federal elections such as registering to vote; and
- 4) conducts election research on mandated topics.

HAVA mandates that EAC issue studies on the impact of free absentee ballot return postage on voter participation, electronic voting and Uniformed and Overseas Citizens Absentee Voting Act voters, the feasibility of alternative voting methods, the voting experiences of first-time voters who register to vote by mail, and the feasibility and advisability of identifying voters by Social Security Numbers.

Testing and Certification

The division works on EAC's full accreditation and certification program. Staff works with NIST to evaluate and accredit voting system test laboratories and the management of the voting system certification process. The program assists States with voluntary certification of their systems, supports local elections officials in the areas of acceptance testing and pre-election system verification, increases quality control in voting system manufacturing, provides clear procedures to manufacturers for the testing and certification of voting systems to specified Federal standards consistent with the requirements of HAVA Section 231(a)(1).

Election Assistance Commission Organization Chart

Level One

The commissioners: Chair Gineen Bresso Beach; Vice Chair Gracia Hillman; Commissioner Donetta Davidson; and one vacancy

Special assistants report to the commissioners: Sharmili Edwards to Chair Beach; Mary Ann Bradfield to Commissioner Davidson; Maisha Leek to Vice Chair Hillman

Advisory Boards, Standards Board, TGDC

Level Two: Reporting to the Commissioners

Inspector General: Curtis Crider, Juliet Hodgkins and one vacancy

Executive Director: Tom Wilkey and Bert Benavides

Level Three: Reporting to Executive Director

Meeting Coordinator: Emily Jones

General Counsel: Vacancy, vacancy and Tamar Nedzar

Chief Financial Officer: Annette Lafferty

Chief Operating Officer: Alice Miller

Communications and Clearinghouse: Jeannie Layson, Sarah Litton and Bryan Whitener

Level Four: Reporting to Chief Operating Officer

Voting Systems and Certifications: Brian Hancock, vacancy, Matt Masterson, James Long, Josh Franklin and Robin Sargent

Research, Policy and Programs: Karen Lynn-Dyson, Shelly Anderson, vacancy, Juliana Milhofer and Matt Weil

Management Services: Diana Scott, Henry Botchway, LaVeeda Monroe, Beverly Russell and Chere Pennington

Human Resources: Sheila Banks and DeAnna Smith

Level Five: Reporting to Chief Financial Officer

Budget: vacancy

Procurement: Darren Gann

Accounting: Anne Field and Nnenna Nwosu

Grants: Mark Abbott, Devon Romig and vacancy

I.B. PERFORMANCE GOALS, OBJECTIVES AND RESULTS

Recognizing the need to formalize its planning, reporting and execution activities, EAC began development of its first five year Strategic Plan 2009-2014 in March 2008. The plan was reviewed by the Office of Management and Budget, and presented to EAC's Board of Advisors and Standards Board for comment, as required by HAVA. EAC adopted the Plan in March 2009.

How EAC Assesses Performance

EAC has five strategic goals:

1. Communicate timely and accurate information on the effective administration of elections for Federal office and on the operations and services offered by EAC.
2. Deliver and manage Federal funds effectively.
3. Identify and develop information on areas of pressing concern regarding the administration of elections for Federal office, issue recommended improvements, guidance, translations, and best practices as required by HAVA, and carry out responsibilities under the National Voter Registration Act.
4. Build public confidence in elections by testing and certifying voting systems to improve system security, operation, and accessibility.
5. Achieve organizational and management excellence.

The EAC Strategic Plan objectives listed below describe in general terms the results needed to accomplish its Strategic Goals. Outcomes measure the effect program outputs have on their stakeholders. Outputs are quantifiable targets that directly measure the results of a program. A program may have multiple outputs but each output is associated with one program. Performance measures are quantifiable, documentable, representations of a capacity, process or outcome that is relevant to the assessment of performance.

Strategic Plan Goal 1: Communicate timely and accurate information on the effective administration of elections for Federal office and on the operations and services offered by EAC.

Outcome: The Congress, Federal agencies, State and local election officials and the public receive reliable, accurate, and non-partisan information about administering, conducting and participating in Federal elections and how, where, and when Americans vote.

Goal 1's aim of communication of timely and accurate information is the responsibility of the Office of Communications and Clearinghouse. The goal will be achieved via three strategic objectives:

Strategic Objectives

1. Operate the EAC Clearinghouse effectively.

Performance measures:

- Issue clearinghouse policy in six months [from March 2009]
 - Post applicable information on the web-based Clearinghouse within 24 hours of receipt.
 - Distribute at least one email update per month to stakeholders about the web-based clearinghouse.
2. Respond to outside requests about the EAC timely and accurately.
- Performance measures:*
- Issue policies and procedures to process requests from outside the agency by September 2009.
 - Distribute media and Congressional inquiry and response log to EAC staff on a daily basis.
 - Respond to FOIA requests in accordance with requirements.
 - Respond to 75 percent of non-FOIA requests within 72 hours.
3. Convey the results of EAC operations and accomplishments.
- Performance measures:*
- Provide weekly updates about EAC activities and election administration issues to EAC employees.
 - Produce an annual FOIA report to chronicle requests and responses.
 - Issue quarterly press releases summarizing EAC activities.
 - Provide regular briefings regarding EAC activities to Congressional staffers.
 - Produce the annual report of EAC activities to Congress by January 1 of each year for the preceding year ending September 30.
 - Issue at least 12 EAC newsletters per year.

Goal 1 FY 2009 Accomplishments

The Communications division has been instrumental in FY 2009 in improving communication about EAC's voting system Testing and Certification program, ensuring that election officials are getting the information they need. A Testing and Certification Voting System Reports Clearinghouse, where Communications staff post and distribute voting system reports and studies that have been conducted or commissioned by a State or local government. To be considered for posting on the EAC website, a State or local government official submits the report to the EAC Chair or Executive Director and certifies that the report reflects their experience operating voting systems or implementing EAC's voluntary voting systems guidelines. All system test plans, test reports including discrepancies, and certification information are posted to the website.

Using an interagency agreement with the U.S. Department of Agriculture, the division produced poll worker and election official training videos, available on the eac.gov website and on YouTube.

In 2009, in order to accelerate establishment of a Clearinghouse of information on Federal elections and to ensure a cost-effective contract, EAC recompleted its website and Clearinghouse contract. With the new contract, EAC will pursue its goal to become the "go to" place for trusted

source information about elections and election administration. In 2010, EAC intends to connect its stakeholders to a new separately identifiable Clearinghouse on the EAC website. The new Clearinghouse will better disseminate information, data, and reports from outside sources, as well as, EAC published materials for easy access by Federal, State, and local election officials and voters.

Strategic Plan Goal 2: Deliver and manage Federal funds effectively.

Outcome: States and other recipients promptly and accurately receive Federal funds administered by EAC and use the funds appropriately to improve the administration of elections for Federal office.

Strategic Objectives

1. Accurately and timely disburse Federal financial assistance administered by EAC.

Performance Measures:

- Publish program handbook in Fiscal Year 2009.
- Disburse Requirements Payments and award discretionary grants within established timeframes.
- Submit State plans for publication in the Federal Register within 30 days of receipt of each plan.
- Submit payment requests to GSA within 10 days of receipt of acceptable requests/certifications.

2. Effectively monitor Federal financial assistance administered by EAC.

Performance Measures:

- Review financial and performance reports and notify recipients of reporting anomalies or failure to file within 30 days of knowledge of such conditions, in writing in all cases and by telephone as time permits, to offer assistance and answer questions.
- Resolve 100 percent of audit findings within established time frames.
- Conduct site visits to at least three high priority grantees each year.
- Negotiate indirect cost rates within 30 days of receipt of acceptable indirect cost proposals.
- Issue the annual report to Congress on the expenditure of HAVA funds by July 15 of each year.

3. Provide technical assistance and guidance on the management of Federal financial assistance administered by EAC to reduce the risk of inappropriate use of funds and accounting errors.

Performance Measure:

- Offer at least one workshop per year.

Goal 2 is administered by the Grants Management unit and the Office of the Inspector General (OIG).

Goal 2 FY 2009 Accomplishments

In FY 2009, Public Law 111-8 included \$100.0 million in FY 2009 to help States improve the administration of Federal elections. The funds are known as Requirements Payments and are authorized under Section 251 of HAVA. Requirements Payments are used to meet the requirements of Title III of HAVA, including voting system standards, voting information requirements, provisional voting, statewide voter registration lists, and identification requirements for voters who register by mail. States may also use Requirements Payments to improve the administration of Federal elections once they certify that the State has implemented the requirements of Title III or that the State will use only up to the minimum payment amount for the administration of federal elections. Each year, EAC reports to Congress on how the States have spent HAVA funds. EAC distributed \$26.3 million of the \$100.0 million appropriated by the end of September 2009.

South Dakota received a \$500,000 requirements payment in FY 2009. The funds will be used by the State's 66 counties for maintenance of the touch screen voting machines required by HAVA for individuals with visual or other disabilities, insurance and programming.

In FY 2009, EAC awarded grants in two discretionary programs funded by Salaries and Expenses funds: College Poll Worker recruitment and training and high School Mock Elections. Thirteen grants were awarded to colleges, universities, and nonprofit organizations totaling \$750,000 for College Poll Worker grants. One award winning grantee is Salish Kootenai College in Montana. The College is partnering with Flathead Valley Community College, and the Lake and Flathead County elections offices to recruit student workers to assist voters who speak the Salish and Kootenai languages and those voters who are deaf. The program received a \$66,008 grant to recruit and train 200 students using an innovative multi-media recruitment program developed by students.

“This grant program will help us recruit the next generation of poll workers by focusing on recruiting and educating a new generation of Americans about the importance of civic participation on Election Day.”
Paula Robinson, Flathead County Clerk & Recorder

EAC awarded seven Federal Student Mock Election Grants to State and local election offices, and regional and national nonprofit organizations totaling \$300,000. The grants will support efforts to allow students to participate in a simulated election, often using actual voting equipment and realistic ballots. For example, the Miami Date County Elections department will sponsor mock elections reaching over 100,000 students, with 40 targeted high schools serving as precincts and students working as poll workers.

Strategic Plan Goal 3: Identify and develop information on areas of pressing concern regarding the administration of elections for Federal office and issue recommended improvements, guidance, translations, and best practices as required by HAVA, and carry out responsibilities under the National Voter Registration Act.

Outcome: As a result of this goal: 1) the election community and other key stakeholders improve the administration of elections for Federal office on the bases of pertinent, impartial, timely, and high-quality information, recommendations, guides and other tools on election and voting issues and 2) eligible citizens use the mail voter registration application to register to vote, register with a political party, or report a change of name, address, or other information.

Strategic objectives:

1. Complete research on relevant issues that improve the administration of elections for Federal office and expeditiously report on critical administration subjects and election data.

Performance Measures:

- Start 100 percent of planned and funded projects each year.
- Meet milestones for the completion of research projects in accordance with schedules and deliverable each year.
- Disseminate all completed research project reports to stakeholders.

2. Identify and collect required and useful data on election administration practices and on voting methods and demographics and make recommendations for improving the quality of practices, methods, and data.

Performance Measures:

- Establish a baseline in Fiscal Year 2009 on the accuracy and completeness of data reported by States in response to EAC surveys. Increase the accuracy and completeness of reported data in each of the succeeding years.
- Include recommendations to improve election administration and data to the Congress in the annual report on the Election Day survey.
- Issue required reports to Congress by statutory deadlines.

3. Issue guidance and administer programs that provide timely and useful information to election officials and voters.

Performance Measures:

- Complete the “Voters Guide to Federal Elections” in languages currently covered under the minority language provisions of the Voting Rights Act by September 2009.

4. Update and maintain a national mail voter registration application and report to the Congress as required by NVRA.

Performance Measures:

- Issue the biennial report on the impact of NVRA by June 30 of 2009.

Goal 3 FY 2009 Accomplishments

In FY 2009, the Research, Policy and Programs Division developed a listing of potential research projects with timelines to guide staff work through 2012. Progress has been made toward the completion of several projects noted in the research schedule, many of which are mandated by

HAVA and/or authorized by Congress. The list will continue to be revised in accordance with EAC and/or congressional priorities. EAC receives input on scheduling of mandated studies from the Standards Board and from the Research Subcommittee of the Board of Advisors.

Consistent with the list of potential research noted above, the Research Division administered its biennial election survey, and produced and disseminated two congressionally-mandated reports by their statutory deadlines (the Impact of the National Voter Registration Act and the \$10.0 million Election Data Collection Grant Program). A Statutory Overview report on State election laws was developed as well.

The Research Division also initiated an evaluation project to assist with developing a baseline for measuring stakeholder use of EAC educational products to improve the administration of elections for Federal office. Research efforts continue on the HAVA-mandated study, Vote Count/Recount, and work on two others was initiated at the end of FY 2009, on Election Administration in Urban and Rural Settings and the Cost of Elections.

Work completed in FY 2009 includes:

- 2008 Election Administration and Voting Survey
- Impact of the National Voter Registration Act
- Election Data Collection Grant Program report and
- Statutory Overview report.

The Research office continues to identify and collect required and useful data on election administration while making recommendations for improving the quality of data collection. A conference call was held in FY 2009 with State and local election officials to discuss the 2008 survey and garner their input on ways to make future versions of the survey more conducive to their data collection and submission needs. A draft of the 2010 Election Administration and Voting Survey was released for public comment in FY 2009.

The Research Division's Election Management Guidelines program released four Quick Start Management Guides in October 2008 on Serving Voters in Long-Term Care Facilities, Provisional Ballots, Recounts, and Canvassing and Certifying an Election. During the year, staff worked on five Election Management Guidelines chapters. In September 2009, staff conducted three working groups for new chapters and Quick Starts on Technology in Elections, Election Office Management and Accessibility.

The Research Division's Language Accessibility Program has been working to meet its strategic goal of assisting election officials in meeting the needs of language minority proficiency voters. In FY 2009 the Spanish Glossary of Key Election Terminology was redesigned. The new glossary is in line with the design of the five Asian language glossaries. In October 2008, EAC developed "A Voter's Guide to Federal Elections" in English, Spanish, Chinese, Japanese, Korean, Vietnamese, and Tagalog.

EAC's Strategic Plan includes a performance measure of beginning National Voter Registration Act (NVRA) of 1993 rulemaking. A Federal Register Notice transferring the NVRA

Regulations from the Federal Election Commission to EAC was published on July 29, 2009. The transfer became effective, August 28, 2009. An expedited Paperwork Reduction Act clearance request was submitted to the Office of Management and Budget (OMB) on August 28, 2009 for NVRA Regulations for the Voter Registration Application and NVRA Regulations for Data Collection. Both submissions were approved, and OMB Control Numbers were assigned on September 3, 2009.

Strategic Plan Goal 4: Build public confidence in elections by testing and certifying voting systems to improve system security, operation and accessibility.

Outcome: Voting equipment operates more reliably and securely and is more accessible to the disabled. States use EAC testing and certification program to ensure voting systems meet standards.

Strategic objectives:

1. Develop and update the voluntary voting system guidelines.
2. Provide for the accreditation and revocation of accreditation of independent, non-Federal laboratories qualified to test voting systems to Federal standards.

Performance Measures:

- Complete accreditation reviews for all laboratories recommended to EAC by NIST and for all emergency actions within 90 days.
- Test and document the results of the review of compliance with procedures by 100 percent of accredited laboratories every 2 years.

3. Administer the testing, certification, decertification, and recertification of voting system hardware and software by accredited laboratories.

Performance Measures:

- Test 100 percent of systems applying and qualifying for testing each year.
- Respond to requests for interpretations of voting system standards within 45 days.

Goal 4 FY 2009 Accomplishments

In addition to the ongoing work of the Communications Division to make EAC constituents aware of Certification Division activities, the Certification Division began issuing its own monthly email newsletters specifically focusing on the Certification Division in 2009. The newsletter is distributed to approximately 400 State and local election officials, advocacy groups, Voting System Test Laboratories (VSTLs), voting system manufacturers and Congressional staff.

The Certification Division, working with NIST, drafted and updated the current version of the 2005 Voluntary Voting System Guidelines (VVSG) (now entitled 2005 VVSG Version 1.1) in 2009. The draft was published for a 120 day public comment period beginning June 1, 2009 and ending September 28, 2009. Staff are currently reviewing over 300 comments received from the public.

In 2009, the EAC timely re-accredited SysTest Laboratories and iBeta Quality Assurance. In addition to the semi-annual re-accreditation process, both labs underwent a required EAC Policy, Procedures and Practices Review pursuant to the EAC Laboratory Accreditation Program Manual. Wyle Laboratories and Ciber, Inc. will undergo re-accreditation review and the required on-site Policy, Procedures and Practices Review during 2010.

The Certification Division drafted internal Standard Operating Procedures generated by the requirements of the Testing and Certification Program Manual. In addition to certifying three voting systems, EAC approved five test plans for voting systems in 2009. Manufacturing facility reviews will be conducted in early FY 2010, following late FY 2009 receipt of the voting system certifications. Field Reviews will be conducted in FY 2010 for EAC certified voting systems that experience election related anomalies.

Strategic Plan Goal 5 consists of one clear-cut objective: Implement a high performance organization.

In order to achieve the goal, EAC will focus on achieving a clean audit opinion, providing accurate timely information, and moving toward integration of budget and performance as prescribed by the President's Management Agenda.

Performance Measures:

- Implement 90 percent of the OIG audit recommendations within agreed upon timeframes.

Goal 5 is administered by the Commissioners, the Standards Board, the Board of Advisors, the Technical Guidelines Development Committee, Executive Director, Chief Operating Officer and Chief Financial Officer with support from the Offices of the General Counsel and Administration.

Performance Data Collection and Validation

Managing for results and producing an Annual Performance Plan requires valid, reliable and high-quality performance measures and data. EAC is committed to the continuous improvement of its performance and financial management data. To this end, EAC is working on recommendations for a data validation system, mandatory source documentation, and documentation of calculation methodology for estimates. Performance indicators are supported by documentation. An independent reviewer evaluated EAC business processes related to implementation of the four programmatic goals in the Strategic Plan. The reviewer made recommendations on procedures EAC can implement to provide reasonable assurance that the reported performance data is relevant and reliable. The recommendations will be implemented in FY 2010.

Summary Performance Information

EAC made strides in speeding up certification of voting systems: between February and August, three voting systems were certified. In order to improve communications with stakeholders, EAC instituted a Testing and Certification Voting System Reports Clearinghouse on its website.

EAC issued a report on Voter Registration, Quick Start Management guides on administering Federal elections, best practices for voter information web sites; held roundtable discussions on Elections, Election Office Management and Accessibility; and awarded 13 Poll Worker grants and seven Mock Election grants

Program Performance Indicators

The following table presents key EAC FY 2009 performance data. Financial reporting is included to highlight the soundness of EAC's financial systems. As much detailed performance information as possible will be presented, and variances discussed, in the FY 2009 Annual Performance Report due February 15, 2010 along with the FY 2011 Congressional Justification.

EAC FY 2009 Performance Summary

Program	Performance Indicator	Type of Indicator	Planned	Actual
Strategic Goal 1: Communicate				
	Issue Clearinghouse policy	Output	Final	In Final Draft
	Issue Policies/Procedures to process requests from outside EAC	Output	Final	In Final Draft
Strategic Goal 2: Fund and Oversee				
	Publish Grants Program Handbook	Output	Final	Completed
	Issue report on expenditure of HAVA funds	Output	Final	In Draft
Strategic Goal 3: Study, Guide, Assist				
	Complete Voter's Guide to Federal Elections in Voting Rights Act minority languages	Output	Final	Completed Oct. 2008
	Establish baseline on Election Day Survey responses accuracy and completeness	Output	Baseline %	96% response rate
Strategic Goal 4: Test and Certify				
	Test 100 percent of systems qualifying for testing each year (3 systems)	Output	100%	100%
	Respond to requests for interpretations of voting system standards within 45 days	Output	45 days	52.4 days (40% on target)
Strategic Goal 5: Manage				
	Unqualified financial statement audit opinion by FY 2010	Outcome	No	Yes

Portfolio Analysis

Since 2004, EAC has received funds in three appropriations: Salaries and Expenses, Election Reform Programs, and for FY 2008 only, Election Data Collection Grants. The purpose of the Data Collection grants of \$2.0 million each to five States was to measure the costs of improving the collection of election data at the precinct level during the 2008 Federal election. In FY 2009, the Salaries and Expenses appropriation of \$17,959,000 funded the \$4.0 million transfer to NIST, \$750,000 for College Poll Worker recruitment and training grants, \$300,000 for Mock Elections for high school students, salaries, travel, rent and telecommunications, printing, contracts, supplies and equipment.

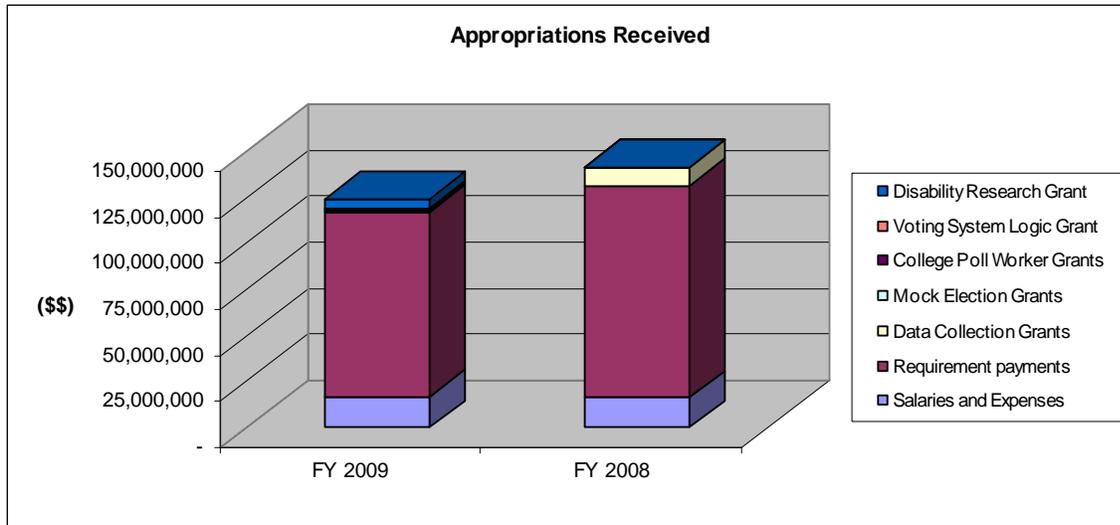
I.C. FINANCIAL RESULTS

This analysis is intended to help readers understand EAC's financial results, position and condition as portrayed in the financial statements and notes to the statements. It explains changes in assets, liabilities, costs, revenues, obligations, and outlays; includes comparisons of FY 2008 to FY 2009; and discusses the relevance of balances and amounts in the financial statements and notes. The changes are discussed in the context of whether the year's activities improved or deteriorated the agency's financial position. Since EAC depends on Congress for its funds, future financial position will be dependent on annual appropriations.

Budgetary Resources

The majority of EAC's available budgetary resources are for Requirements Payments in the Election Reform Program appropriation. Budgetary resources are the amounts available to enter into new obligations and to liquidate them. Budgetary resources include new Budget Authority from appropriations and unobligated balances of Budget Authority provided in previous years in no year Election Reform Program accounts. For FY 2009, the available budgetary resources were \$129.0 million, a drop of 11.5% or \$16.8 million from FY 2008, restated. A decrease in annual appropriations received in FY 2009 as compared to FY 2008 resulted in this change.

Appropriations received for FY 2009 decreased \$17.6 million from FY 2008. In FY 2009 EAC's appropriations totaled \$123.9 million as opposed to \$141.5 million in FY 2008. Requirements Payments appropriations were reduced \$15.0 million and other grant programs were reduced \$3.1 million.



In FY 2008, restated, EAC recorded \$50.7 million of unspent HAVA Section 102 payments paid to the States in FY 2003 and FY 2004. These funds were originally disbursed by the GSA acting as Administrator. Any funds remaining unspent as of November 1, 2010, will return to the EAC to be disbursed as HAVA Section 251 Requirements Payments. Of these amount \$34.7 million remain unspent as of September 30, 2009.

The status of available budgetary resources as represented in the 2009 and 2008 Statement of Budgetary Resources is as follows:

<u>Budgetary Resources</u>	<u>2009</u>	<u>2008</u>
Obligations Incurred	\$114,957,639	\$138,170,196
Unobligated Balance – Apportioned	7,452,047	766,190
Unobligated Balance – Not Available	6,546,853	6,795,762
Total Budgetary Resources	<u>\$128,956,539</u>	<u>\$145,732,148</u>

Obligations Incurred decreased \$23.2 million primarily as a result of the disbursement of FY 2009 Requirements Payments and disbursements of FY 2008 Requirements Payments. Unobligated Balance – Apportioned increased \$6.6 million as an appropriation for a \$5.0 million grant for disability research and an appropriation for a \$1.0 million grant for voting system logic research were not awarded as of September 30, 2009.

Financial Position

The EAC underwent its first financial statement audit in FY 2008, receiving a disclaimer. During FY 2009, EAC completed actions to address most of the issues raised in the FY 2008 financial audit. As a result of this process, EAC found misstatements in the agency’s 2008 financial reports and have restated them for the 2009 Annual Financial Report. The changes made to the FY 2008 financial reports and the processes leading to those changes have been

reviewed by management and are detailed in Note 15 in the Notes to the Financial Statements. The restated FY 2008 Financial Statements are presented and discussed throughout this report.

Assets

The EAC had \$195.3 million in total assets as of September 30, 2009. This is an increase of \$5.8 million. Fund Balance with Treasury increased \$24.4 million largely as a result of the net increase from new appropriations and disbursements for Requirements Payments from years FY 2008 and FY 2009. EAC received \$100,000,000 in FY 2009 appropriations for Requirements Payments of which \$26.3 million were disbursed. In addition, \$57.0 million in FY 2008 Requirements Payments were disbursed in the current year. The EAC also has \$7.0 million in FY 2009 grant appropriations that have not been disbursed.

Advances and Prepayments decreased \$18.4 million in FY 2009 with a balance of \$36.8 million as of September 30, 2009. In FY 2008, EAC recorded \$50.7 million in HAVA Section 102 Advances with the States still unspent as of September 30, 2008. In FY 2009, the States reported as having spent \$16.0 million of these funds. Accordingly, EAC reduced outstanding advances on the Balance Sheet and recorded \$16.0 million in program operating expense on the Statement of Net Costs. Summary asset data is presented below:

Assets				
	<u>FY 2009</u>	<u>FY 2008</u>	<u>Difference</u>	<u>% Change</u>
Fund Balance with Treasury	\$157,884,882	\$ 133,466,533	\$24,418,349	18.30%
Advances and Prepayments	36,790,142	55,210,405	(18,420,263)	-33.36%
Other Assets	618,266	824,583	(206,317)	-25.02%
	<u>\$ 195,293,290</u>	<u>\$ 189,501,521</u>	<u>\$ 5,791,569</u>	<u>3.05%</u>

Liabilities

EAC had total liabilities of \$8.9 million as of September 30, 2009. This is a \$7.3 million increase. Accounts Payables increased \$7.2 million in FY 2009. As of September 30, 2009, EAC had received two completed certifications from the States for Requirements Payments. These payments had not yet been disbursed as of September 30, 2009 and were therefore accrued. They totaled \$6.5 million.

Liabilities				
	<u>FY 2009</u>	<u>FY 2008</u>	<u>Difference</u>	<u>% Change</u>
Accounts Payables	\$ 8,332,010	\$ 1,159,670	\$ 7,172,340	618.48%
Accrued Payroll and Benefits	290,035	267,713	22,322	8.34%
Unfunded Leave	261,880	185,889	75,991	40.88%
	<u>\$ 8,883,925</u>	<u>\$ 1,613,272</u>	<u>\$ 7,270,653</u>	<u>450.68%</u>

Net Position

Net position, which is the sum of Unexpended Appropriations and Cumulative Results of Operations decreased in FY 2009 \$1.5 million. Cumulative Results of Operations of \$7,765 as of September 30, 2009 is the accumulated difference between expenditures and financing sources since the inception of the agency. Unexpended Appropriations decreased \$1.2 million. The appropriations used in FY 2009, including obligated funds from prior years and the transfer to the National Institute of Standards and Technology of \$4.0 million, exceeded the appropriations received for FY 2009.

Net Position				
	<u>FY 2009</u>	<u>FY 2008</u>	<u>Difference</u>	<u>% Change</u>
Unexpended Appropriations	\$ 186,401,600	\$ 187,595,489	\$(1,193,889)	-0.64%
Cumulative Results of Operations	7,765	292,760	(284,995)	-97.30%
	<u>\$ 186,409,365</u>	<u>\$ 187,888,249</u>	<u>\$(1,478,884)</u>	-0.79%

Results of Operations

The EAC, as presented in its Statement of Net Costs, reports its results of operations within four programs: Communications, Fund and Oversee, Research, Policy and Programs and Testing and Certification. Costs specifically identified with each of these programs such as assigned personnel costs and specific program contract costs are allocated to the program directly. Other general agency overhead costs such as rent, human resource costs and financial management costs are allocated on either a per employee basis or a percent of overall costs method. This methodology is outlined in the EAC's Cost Allocation Model and is reviewed each year to ensure the accurate allocation of expenses to each program.

The Fund and Oversee program reports the expenditures for the Requirements Payments and the other EAC grants. In years in which EAC receives significant appropriation for these HAVA funds, this program, Fund and Oversee, typically exceeds the other programs in overall costs. The results of operations for FY 2009 of \$121.6 million increased from FY 2008 by \$108.4 million, primarily reflecting the costs of the Requirements Payments and costs of the FY 2008 Data Collection grant program. Collectively, FY 2008 and FY 2009 Requirements Payments reflected in the FY 2009 results of operations total \$84.9 million. Data Collection grant payments for FY 2009 were \$6.6 million. In addition, the EAC recognized as program expenses \$16.0 million of HAVA Section 102 expenditures made by the States in FY 2009. General salaries and other expenses totaled \$13.4 million in FY 2009 and \$10.4 million in FY 2008 an increase of \$3.0 million.

Results of Operations by Program				
	<u>FY 2009</u>	<u>FY 2008</u>	<u>Difference</u>	<u>% Change</u>
Communications	\$ 1,994,125	\$ 1,543,834	\$ 450,291	29.17%
Fund and Oversee	113,042,449	6,598,961	106,443,488	1613.03%
Research, Policy and Programs	2,972,123	2,300,992	671,131	29.17%
Testing and Certification	3,578,173	2,770,190	807,983	29.17%
	<u>\$ 121,586,870</u>	<u>\$ 13,213,977</u>	<u>\$ 108,372,893</u>	820.14%

Limitations of the Financial Statements

The principal financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 U.S.C. 3515 (b). While the statements have been prepared from the books and records of the entity in accordance with GAAP for Federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports that are used to monitor and control budgetary resources, which are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

I.D. ANALYSIS OF CONTROLS, MANAGEMENT SYSTEMS, AND LEGAL COMPLIANCE

Internal Control Environment

EAC is subject to numerous legislative and regulatory requirements that promote and support effective internal controls. EAC believes that maintaining integrity and accountability in its programs and operations is critical for good government, demonstrates responsible stewardship over assets and resources, ensures high-quality, responsible leadership, ensures the effective delivery of services to customers, and maximizes desired program outcomes.

EAC has developed and implemented management, administrative and financial system controls that reasonably ensure: 1) programs and operations achieve intended results efficiently and effectively; 2) resources are used in accordance with the mission of the agency; 3) programs and resources are protected from waste, fraud and abuse; 4) program and operations activities are in compliance with laws and regulations; and 5) reliable, complete and timely data are maintained and used for decision-making.

The agency, during FY 2009, with the hiring of a CFO/Budget Director and Director of Accounting who is a CPA, and adoption of a five year Strategic Plan, implemented controls that ensure that transactions are executed in accordance with budgetary and financial laws and other requirements, consistent with the purposes authorized, and are recorded in accordance with Federal accounting standards. EAC was able, by the end of the fiscal year, to ensure that assets are properly acquired and used, safeguarded to deter theft, accidental loss or unauthorized

disposition, and fraud. Where the agency has work to do, taking into consideration the newly adopted Strategic Plan, is collecting performance data and ensuring that it is adequately supported. To this end, EAC contracted for an independent review of: 1) its strategic plan performance measures and systems to collect the data and 2) risk levels associated with providing inaccurate information for internal decision-making.

During FY 2010, EAC will work on implementing internal control actions described in its new Internal Control Procedures. Each manager will be familiar with internal control requirements and responsibilities and be able to sign statements of assurance that controls are in place and functioning.

Laws that help EAC improve the management of its financial operations and programs are as follows:

Federal Manager's Financial Integrity Act

The Federal Manager's Financial Integrity Act (FMFIA) of 1982 requires Executive Branch agencies to establish, maintain, and assess internal controls to ensure that agency program and financial operations are performed effectively and efficiently. To help ensure that controls have been identified and implemented, the heads of agencies must annually evaluate and report on the effectiveness of the internal control (FMFIA Section 2) and financial management systems (FMFIA Section 4) that protect the integrity of Federal programs.

During FY 2008, the EAC evaluation was limited to identifying weaknesses disclosed in reports issued by the General Accountability Office and by the EAC Office of Inspector General, including the weaknesses identified through the year's financial statement audit. In FY 2009, EAC also used the results of self-assessments of financial management internal controls.

A material weakness was identified by management in FY 2008 concerning EAC's lack of effective written policies and procedures in the areas of property, personnel, travel, information technology, research, and communications. The pertinent policies and procedures are in draft and in legal review. The following chart shows FY 2008 planned corrective actions compared to actual completion dates.

Corrective Actions	Target Completion Date	Actual Completion Date
Develop an EAC Manual containing all necessary administrative and program procedures.	1/31/09	Pending
Implement a strategic plan	12/31/08	03/09/09
Implement the applicable requirements of Office of Management and Budget Circular A-123, <i>Management's Responsibility for Internal Controls</i> .	09/30/09	Pending Quarter 1 FY 2010
Re-evaluate the current organizational structure and clearly define areas of authority and responsibility, and hierarchy for reporting.	01/15/09	03/09/09
Review and perform a periodic reconciliation of EAC financial activities with GSA's accounting records.	12/31/08	06/30/09
Define areas of authority and responsibility, and hierarchy for reporting (including the roles of the Commissioners and the Executive Director).	09/15/09	09/18/08
Hire staff with federal budgeting experience or provide training to appropriate staff in the Office of Administration.	09/30/09	11/10/08

On September 18, 2008, EAC adopted a Roles and Responsibilities document clearly defining the roles of the Commissioners and the Executive Director. On March 9, 2009, EAC adopted its Strategic Plan covering the period of FY 2009 through FY 2014. The Plan includes an organization chart which clearly defines areas of authority and responsibility and the hierarchy for reporting. With the hire of a Budget Director who started on November 10, 2008 and an Accounting Director on April 13, 2009, EAC was able to work on developing and finalizing financial management policies and procedures. By June 30, 2009, EAC was able to produce reliable financial statements and implement a schedule of periodic reconciliations.

Corrective actions remaining to be taken include: 1) finalization of non-financial program and administrative policies and procedures, and 2) implementation of all applicable internal control requirements. Implementation of an internal control program is discussed below.

Table 1 presents the material weaknesses identified by management for FY 2008 as beginning balances. Ending balances reflect status after resolution of findings as of September 30, 2009.

TABLE 1

EFFECTIVENESS OF INTERNAL CONTROL OVER OPERATIONS (FMFIA § 2)						
Statement of Assurance		Unqualified				
No.	Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
1	Lack of Policies & Procedures	1	0	0	0	1
2	Incomplete Performance and Accountability Report (PAR)	1	0	1	0	0
3	Insufficient Resources and Personnel with Appropriate Federal Accounting and Reporting Skills	1	0	1	0	0
4	Outstanding Accounting Issues	1	0	1	0	0
5	Lack of an Integrated Financial Management System	1	0	1	0	0
6	Ineffective Financial Statement Preparation	1	0	1	0	0
7	Lack of Reconciliation and Analysis	1	0	1	0	0
8	Accounting Error Related to Advance Payments	1	0	1	0	0
9	Lack of Support for Grant Accounting	1	0	1	0	0
10	Weak Funds Control	1	0	1	0	0
11	Lack of Federal Managers' Financial Integrity Act Compliance and Reporting	1	0	0	0	1
	TOTAL WEAKNESSES	11	0	9	0	2

During FY 2009, EAC made tremendous progress in resolving findings from its first financial statement audit in FY 2008:

- Financial management policies and procedures were finalized;
- Performance measures in the Strategic Plan are addressed in the Agency Financial Report for FY 2009;
- Financial operations were realigned and a Chief Financial Officer department was established with experienced financial management staff, including a CPA;
- All outstanding accounting issues were resolved, including potential Anti-Deficiency Act and Purpose Statute violations;
- Financial statements were produced in conformance with generally-accepted accounting principles;
- A schedule of reconciliations was established and followed;
- Funds control measures were implemented;
- Risks in financial management were assessed; and

- Revenues and expenditures were properly recorded and accounted for to permit the preparation of reliable financial reports and to maintain accountability over assets.

Challenges for FY 2010 include: 1) finalizing effective written policies and procedures in the areas of property, personnel, travel, information technology, research, and communications (as mentioned above); 2) implementing a robust internal control program; and 3) providing monthly status of funds reports to directors.

During FY 2009, EAC began the process of designing, implementing, and assessing internal controls in full compliance with Office of Management and Budget Circular A-123, *Management's Responsibility for Internal Control*, and FFMIA. A-123 requires the managers of Federal agencies to take responsibility for assessing internal controls over financial reporting. EAC contracted for independent review of the key business processes impacting financial operations and the financial statements, and business processes with no material impact on the financial statements but which have some potential for risk or exposure for the agency.

In November and December 2009, EAC plans on conducting agency-wide internal control training, emphasizing identification of risks to accomplishment of the agency's mission and program results. Each agency director will be responsible for risk assessment for their assessable unit, and for remediation activities for identified risks, in conjunction with CFO staff. As mentioned earlier, performance measurement systems were independently assessed. The assessment revealed that existing performance measures are good indicators as to whether programs and operations achieve intended results. Recommendations from the assessment, including control activities needed to achieve program objectives and control activities that will improve accuracy of performance data, will be implemented in FY 2010 so that EAC's performance metric reports are reliable and measure the right activities.

A challenge exists in providing financial reports to EAC directors on a monthly basis. Since GSA records financial transactions on EAC's behalf, there is a lag between when financial documents are signed and submitted to GSA and when they are recorded in Pegasys. During FY 2009, EAC established office- and program-specific location codes in place of a single code for the agency. The agency then underwent a lengthy and labor-intensive effort to recode financial documents to the new codes. Once the recode was complete, all financial documents were checked to ensure they were coded to the correct location and program. A report to account for the recording lag was developed. We expect to be able to provide regular financial reports at the office location level, rather than at the agency level and on-demand, in FY 2010.

Management is working to foster a culture of accountability among staff. The agency is seeking to improve staff satisfaction ratings and achieve management excellence through improved internal controls and human resource initiatives.

Entity-Wide Security Program:

EAC recognizes that effective security management is critical to EAC's mission. The ability to ensure confidentiality, integrity, and availability of its information assets in order to minimize risks of inadvertent or deliberate misuse, fraud or destruction is essential.

Table 2 identifies the significant deficiencies identified in the FY 2008 audit of the Entity-Wide Security Program. The ending balances provide status of the deficiencies as of September 30, 2009:

TABLE 2

SIGNIFICANT DEFICIENCIES IN ENTERPRISE-WIDE SECURITY PROGRAM						
No.	Significant Deficiency	Beginning Balance	New	Resolved	Consolidated	Ending Balance
1	Lack of an internally developed agency-wide information security program.	1	0	0	0	1
2	Lack of an inventory of systems and applications.	1	0	1	0	0
3	Lack of an adequate security management structure	1	0	0	0	1
4	Certification and Accreditation of general support systems has not been performed.	1	0	1	0	0
5	Third party information security examinations and inspections are not monitored for inclusion within the service provider's Plan of Actions and Milestones.	1	0	1	0	0
	TOTAL	5	0	3	0	2

During FY 2009, EAC conducted an inventory of systems and applications, received Certification and Accreditation of general support systems from the General Services Administration, and monitored the EAC website and GSA-provided IT services as part of the annual FISMA audit. The lack of an internally developed agency-wide information security program and of an adequate security management structure will be resolved with implementation of policies and procedures currently under review and the hiring of a Chief Information Officer (CIO). EAC expects to hire a CIO in the first quarter of FY 2010.

The FY 2009 Federal Information Security Management Act (FISMA) evaluation report found that EAC has taken actions to address many of the serious problems noted in the FY 2008 FISMA evaluation report. Table 3 below summarizes EAC's level of compliance in each FISMA control area in the FY 2009 FISMA evaluation. **SC** means substantial compliance, **PC** represents partial compliance, and **NSC** means not in substantial compliance.

TABLE 3

CONTROL REQUIREMENT	Compliance Determination (SC, PC, NSC)
Access Control	NSC
Awareness and Training	SC
Audit and Accountability	PC
Certification, Accreditation, and Security Assessments	PC
Configuration Management	SC
Contingency Planning	NSC
Identification and Authentication	PC
Incident Response	SC
Maintenance	SC
Media Protection	SC
Physical and Environmental Protection	SC
Planning	PC
Personnel Security	SC
Risk Assessment	PC
System and Services Acquisition	SC
System and Communications Protection	PC
System and Information Integrity	SC

The FY 2009 report found that weaknesses in four areas had been resolved, weaknesses in two areas had been partially resolved, and one weakness had not yet been addressed. Since EAC is not in substantial compliance in every FISMA control area, the FY 2009 financial audit will report FISMA compliance as a significant deficiency.

The one issue remaining to be addressed is development of a Continuity of Operations Plan (COOP)/Disaster Recovery Plan (DRP)/Business Impact Analysis (BIA). Without the plans, EAC's ability to respond to a disruption in business operations as a result of a disaster or other long-term emergency could be affected. EAC will develop a COOP and DRP in order to ensure that, if unexpected events occur, critical operations can continue or be promptly resumed without significant interruption. Per EAC's FY 2009 Plan of Action and Milestones (POA&M), the agency will develop and test a COOP in FY 2010 based on cost-effective strategies identified in the final FY 2009 FISMA risk assessment.

The FY 2009 FISMA evaluation report includes specific recommendations for ensuring substantial compliance in different control areas. These recommendations and other key information security tasks are included in EAC's high-level FY2009 FISMA POA&M. Once the items in the POA&M are implemented in FY 2010, EAC will be substantially compliant in every FISMA control area.

OMB Circular A-127 Financial Management Systems Requirements:

Table 4 presents the results of management analysis of financial management systems requirements. The beginning balance reflects the results for FY 2008. The ending balance reflects the status of the non-conformance as of September 30, 2009.

TABLE 4

CONFORMANCE WITH FINANCIAL MANAGEMENT SYSTEMS REQUIREMENTS (FMFIA § 4)						
Statement of Assurance		Systems do not fully conform to financial management system requirements				
No.	Non-Conformance	Beginning Balance	New	Resolved	Consolidated	Ending Balance
1	Integrated Financial Management System	1	0	1	0	0
	TOTAL	1	0	1	0	0

The Financial Managers Financial Integrity Act (FMFIA) Section 4 on accounting system requirements is interpreted by OMB Circular A-127 *Financial Management Systems*. OMB revised A-127 on January 9, 2009, eliminating the integrated financial management systems subsections. The integration issue is no longer a finding on the FY 2009 audit checklist.

That said, EAC takes the recommendation made in the FY 2008 internal control report seriously. The recommendation was to “either interface its standalone financial systems with the service provider’s system or utilize the service provider’s subsystems, if available.” During FY 2009, EAC contracted for an independent assessment of and recommendations to remediate the finding as regards to a grants interface. Essentially, the recommendation was to use the U.S. Department of Health and Human Services Payment Management System (PMS).

Since GSA is unwilling and would not be expected to support the interface between PMS and the GSA core financial system (Pegasys) for a single client agency, EAC remediates the finding using information provided by recipients of HAVA funds on Standard Form (SF) 425 *Federal Financial Report* and advance accounting methodology. Based on the information reported on the SF-425, EAC periodically adjusts the advance accounts and records grant expenditures by submitting adjusting entries to GSA for entry into Pegasys. The result is a record of actual grant activity and balances at the grantee level and information for periodic monitoring of grantee financial activity.

Additionally, at the end of FY 2009, GSA made a capital asset module available to client agencies, which EAC is using.

Audit Follow-Up

EAC's Office of Inspector General (OIG) conducts audits and reviews of the agency's operations. The Office of the Chief Financial Officer (OCFO) works closely with EAC management and the OIG to complete actions necessary to respond to audit findings. OCFO tracks the completion of the audit recommendations in a Monthly Audit Recommendation Tracking Report. The report is carefully reviewed by EAC and is submitted each month to Congressional Oversight staff. Of the 82 recommendations, EAC closed 50, consolidated 13 as being repetitive, and has 19 open findings to resolve—a 77 percent improvement. EAC made improvements in all Agency management challenges. Financial internal control has substantially improved through the remediation of audit recommendations made by the independent auditor in the annual financial statement audit. EAC also considers and responds to recommendations from audits and reviews conducted by the Government Accountability Office.

Federal Financial Management Improvement Act

Per OMB Bulletin No. 07-04 "Audit Requirements for Federal Financial Statements," EAC as an Accountability of Tax Dollars Act of 2002-covered agency, is not subject to the requirements of the Federal Financial Management Improvement Act.

Accountability of Tax Dollars Act of 2002

The Fiscal Year 2009 financial statement audit report identified a material weakness pertaining to five accounting errors. The errors were corrected by the end of FY 2009.

Federal Information Security Management Act

EAC is not in compliance with the Federal Information Security Management Act. Actions necessary to bring EAC into compliance are identified in the EAC response to the draft internal control report.

Inspector General Act Amendments of 1988

The Inspector General Act requires management to complete all final actions on audit recommendations within one year of the date of the Inspector General's (IG) final audit report. The IG also audits HAVA funds administered by recipients of HAVA grants and transmits to EAC single audit reports that present findings on HAVA funds. The principal recipients of HAVA grant funds are state governments. In FY 2009, EAC resolved audit reports covering State use of HAVA funds in Illinois, New Jersey, Ohio, and South Carolina.



U.S. ELECTION ASSISTANCE COMMISSION
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Washington, DC 20005

Annual Assurance Statement on Internal Control

The management of the Election Assistance Commission (EAC) is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA) and Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Internal Control*. Internal control is an integral component of EAC's management that provides reasonable assurance the following objectives are being achieved: effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations.

The EAC's assessment of internal controls for ensuring the effectiveness and efficiency of operations focused on assessing controls for ensuring the reliability of information associated with the performance measures presented in its strategic plan, and on self-assessments in the Office of the Chief Financial Officer (OCFO). With respect to assessing internal control designed to ensure the reliability of financial reporting, EAC is not required by OMB Circular A-123 to perform a separate assessment. EAC relied upon the evaluation of internal controls over financial reporting conducted by its independent auditors, on reports issued by the Inspector General, and on OCFO departmental risk assessments and letters of assurance over the accounting, budget, grants, procurement and overall OCFO functions. With respect to internal controls to ensure compliance with laws and regulations, the EAC relied upon the evaluation conducted by its independent auditors and the Inspector General.

The independent auditors identified a material weakness in internal controls over financial reporting involving five accounting errors in FY 2009. The errors were resolved by September 30, 2009. Further the auditors identified two significant deficiencies, one regarding controls over journal vouchers and one involving the need to determine the collectability of a non-material receivable. In FY 2010, EAC will implement policies and procedures for journal vouchers, and will resolve the receivable issue as quickly as possible.

In FY 2009, EAC focused efforts on resolving material weaknesses and strengthening internal controls. By the end of FY 2009, management identified two material weaknesses in the effectiveness of its internal control over operations: lack of effective written policies and procedures in the areas of property, personnel, travel, information technology, research, and communications; and full compliance with the requirements of FMFIA. Except for these two material weaknesses and the two significant deficiencies described above, the Commission provides a qualified statement of assurance that the internal control and financial management systems meet the objectives of the Federal Managers' Financial Integrity Act.

EAC will work in FY 2010 to finalize the effective policies and procedures listed above, strengthen its processes and systems, and establish a robust internal control program.

A handwritten signature in black ink, appearing to read "Gineen Beach", with a long horizontal flourish extending to the right.

Gineen Beach
Chair
November 9, 2009

SECTION II FINANCIAL SECTION

II.A. MESSAGE FROM THE CHIEF FINANCIAL OFFICER

I am pleased to present EAC's financial statements for FY 2009. Our financial statements are an integral component of the Agency Financial Report (AFR).

This is the second year in its six year operational existence that EAC has prepared financial statements and submitted them for audit. Prior to establishment of an Office of the Chief Financial Officer (OCFO) in the Spring of 2009, EAC did not have the systems, controls, processes, and staff expertise necessary to comply with the Office of Management and Budget guidance for financial and performance reporting and received a disclaimer opinion on last year's financial statement audit.

To improve the quality of our financial information and to prepare for future audits, we began taking necessary steps at the end of FY 2008 by engaging contractors to help EAC draft policies and procedures, identify improvements to internal controls, and upgrade financial reporting; and by hiring a staff of budgeting, accounting, grants and contracting experts. The agency now has an exceptional, albeit small, OCFO team in place. EAC has worked diligently toward an unqualified opinion on our financial statements.

This is the first year EAC is participating in the pilot performance reporting project as described in OMB Circular A-136 on Financial Reporting Requirements, presenting an Agency Financial Report in place of the Performance and Accountability Report. EAC presents summarized performance data in this report, and plans on providing as much detailed data as possible in February 2010 in conjunction with the FY 2011 Congressional Justification.

During FY 2009, to address issues in the FY 2008 financial statement audit, EAC:

- Reorganized, to both align organizational structure and metrics with the Strategic Plan 2009-2014 adopted in March and establish its first Office of the Chief Financial Officer consisting of experienced grants, budget, accounting and procurement staff;
- Finalized financial management policies and procedures;
- Submitted a FY 2010 Congressional Budget Justification and FY 2011 OMB Budget Justification in a performance-based format; and
- Closed out many outstanding recommendations from operational audits and the FY 2008 financial statement audit.

The auditor's report presented in last year's Performance and Accountability Report identified material weaknesses in Financial Accounting and Reporting, Grant Accounting, Funds Control, and in implementing the internal control structure required by the Federal Manager's Financial Integrity Act. This year's reported material weakness included five accounting errors which were resolved by the end of FY 2009.

In FY 2009, EAC focused on cleaning our financial house and resolving audit findings. I look forward to the new fiscal year, where efforts will be focused on establishing a robust internal control program and reliable performance measurement and reporting.

Annette Lafferty
Chief Financial Officer
November 16, 2009



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

November 12, 2009

To: The Commission

From: Inspector General *Curtis W. Linder*

Subject: Independent Auditor's Reports on the U.S. Election Assistance Commission's Financial Statements for Fiscal Year 2009 (Assignment No. I-PA-EAC-01-09)

INTRODUCTION

The independent public accounting firm of Leon Snead & Co. (Leon Snead) performed the audit of the U.S. Election Assistance Commission's (EAC) financial statements as of September 30, 2009 and 2008 and for the years then ended. The audit was performed by Leon Snead under a contract that was issued by the EAC and 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 and the Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*.

RESULTS OF AUDIT

Leon Snead found that EAC's financial statements, as of and for the year ended September 30, 2009, were presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. However, EAC's accounting records and internal controls for 2008 were not sufficient, and Leon Snead was not able to apply other auditing procedures to satisfy themselves as to the completeness and accuracy of those amounts. Accordingly, the scope of their work was not sufficient to enable them to express an opinion on the 2008 financial statements.

In connection with the audit, EAC's internal controls over financial reporting and compliance with certain provisions of applicable laws and regulations were considered. The audit found that the EAC has made substantial progress in correcting weaknesses in its financial management and reporting that were identified in prior reports. However, the audit identified one material weakness and two significant deficiencies in internal control, respectively, as follows:

- Accounting Processes not in Accordance with Generally Accepted Accounting Principles
- Controls Over Journal Vouchers
- Information Technology Controls

The results of Leon Snead's test of compliance with laws and regulations described in the audit report disclosed no instances of noncompliance with laws and regulations that are required to be reported under *Government Auditing Standards* or OMB Bulletin 07-04.

OTHER MATTERS

The OIG has submitted two requests for opinion to the Government Accountability Office (GAO). The requests cover two issues related to appropriations given to the EAC in FY 2004, 2005 and 2009. The first request relates to the EAC's use of funds appropriated for requirements payments in FY 2004 to fund two other grant programs, the College Poll Worker Program and Parent Student Mock Election, in keeping with the language of the conference report associated with the FY 2004 appropriation. This issue involves a potential violation of the Anti-deficiency Act.

The second issue relates to the EAC's recording obligations based upon the appropriation of requirements payments under continuing resolutions in FY 2005 and FY 2009. In light of the GAO's previous opinion that requirements payments are obligated by operation of law, the question is whether the EAC has binding obligations in favor of the states in the aggregate amount of the requirements payments appropriated under the FY 2005 and FY 2009 continuing resolutions. The additional obligations to the states could be in excess of \$500 million.

OMB and the EAC do not agree with the OIG that there is a potential Anti-deficiency Act violation nor do they agree that there is any additional obligation to the states as a result of the requirements payments appropriated in the respective continuing resolutions.

We expect to receive the opinions from GAO during the first part of calendar year 2010.

EAC RESPONSE

The report on internal control contains recommendations to address the weaknesses identified in the report. Management was provided a draft copy of the report for comment and generally concurred with the findings. The OIG will monitor the implementation of the recommendations.

EVALUATION OF LEON SNEAD PERFORMANCE

To ensure the quality of the audit work performed, the OIG reviewed Leon Snead's report and related documentation and inquired of its representatives. The OIG's review, as differentiated from an audit in accordance with U.S. generally

accepted government auditing standards (GAGAS), was not intended to enable us to express, and we do not express, opinions on the EAC's financial statements or internal control or on the EAC's compliance with laws and regulations. Leon Snead is responsible for the attached auditor's report dated November 10, 2009 and the conclusions expressed in the report. The OIG review did not disclose any instances where Leon Snead did not comply, in all material respects, with GAGAS.

REPORT DISTRIBUTION

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

We appreciate the cooperation and assistance of EAC personnel during the audit. If you or your staff has any questions, please contact me at (202) 566-3125.

Attachment

Cc: Executive Director

ELECTION ASSISTANCE COMMISSION

Audit of Financial Statements

**As of and for the Years Ended
September 30, 2009 and 2008**

Submitted By

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

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The Commission and Inspector General
U.S. Election Assistance Commission

Independent Auditor's Report

We have audited the accompanying balance sheet of the U.S. Election Assistance Commission (EAC), as of September 30, 2009, and the related statements of net cost, changes in net position, and budgetary resources (financial statements) for the year then ended. We were engaged to audit the accompanying balance sheet of EAC, as of September 30, 2008, and the related statements of net cost, changes in net position, and budgetary resources for the year then ended.

In connection with our audit, we also considered the EAC's internal control over financial reporting and tested the EAC's compliance with certain provisions of applicable laws and regulations that could have a direct and material effect on its financial statements.

SUMMARY

As stated in our opinion on the financial statements, we found that EAC's financial statements, as of and for the year ended September 30, 2009, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. EAC's accounting records and internal controls for 2008 were not sufficient, and we were not able to apply other auditing procedures to satisfy ourselves as to the completeness and accuracy of those amounts. Accordingly, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the 2008 financial statements.

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 identified a material weakness in internal controls over financial reporting dealing with accounting processes established by EAC that were not in accordance with generally accepted accounting principles.

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).

The following sections discuss in more detail our opinion on the EAC's financial statements, our consideration of the EAC's internal control over financial reporting, our tests of the EAC's compliance with certain provisions of applicable laws and regulations, and management's and our responsibilities.

OPINION ON THE FINANCIAL STATEMENTS

Except as explained in the following paragraph, we conducted our audits of the accompanying balance sheets of the EAC, as of September 30, 2009 and 2008, and the related statements of net cost, changes in net position, and budgetary resources for the years then ended in accordance with auditing standards generally accepted in the United States of America.

Our audit identified weaknesses in EAC's internal control over financial reporting that raised significant concerns about the ability to audit EAC's 2008 financial statements. EAC was unable to provide sufficient evidential matter to support certain transactions and account balances presented in the 2008 financial statements. As discussed in footnote 15, EAC restated the 2008 financial statements to account for errors made that impacted the 2009 opening balances. However, EAC was unable to quantify the impact of these and other errors may have had on the 2008 financial statements. Since the accounting records were not sufficient to support amounts reported in the financial statements, it was impractical to extend our procedures to determine the extent, if any, to which EAC financial statements may have been affected by the matters discussed above.

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 of the EAC, as of September 30, 2008, and the related statements of net cost, changes in net position, and budgetary resources for the year then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position, net cost, changes in net position, and budgetary resources of the EAC, as of and for the year ended September 30, 2009, in conformity with accounting principles generally accepted in the United States of America.

The information in the Management's Discussion and Analysis section is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America or OMB Circular A-136, *Financial Reporting Requirements*. The EAC is also required to report, as supplementary information, the annual investment in non-federal property funded through the agency's grant programs. Except as discussed below, we have applied

certain limited procedures, which consisted principally of inquiries of EAC management regarding the methods of measurement and presentation of the supplementary information and analysis of the information for consistency with the financial statements. However, we did not audit the information and express no opinion on it.

The EAC has not presented required supplementary information required by GAAP relating to the annual investment in non-federal property that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements of the EAC as of and for the year ended September 30, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the EAC's internal control over financial reporting (internal control) 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 significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is a more than remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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 significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies. We consider finding number one to be a material weakness.

1. Accounting Processes not in Accordance with GAAP

Accounting errors resulting from accounting processes that did not meet generally accepted accounting principles (GAAP) and material weaknesses in internal

controls over financial reporting impacted EAC's 2008 financial statements and continued in the 2009 interim financial statements. As a result, EAC's 2009 interim financial statements were materially misstated. However, for the September 30, 2009, financial statements, EAC officials strengthened internal controls over financial reporting, and adopted accounting processes that were in accordance with GAAP. Details of the problems noted are discussed below.

- EAC did not follow GAAP when accounting for advances made to grantees. EAC accounted for all funds disbursed to grantees as an expense in the year that the funds were disbursed. However, GAAP requires that cash outlays made by a federal entity to its employees, contractors, grantees, or others to cover a part or all of the recipients' anticipated expenses shall be recorded as an advance. These advances totaled approximately \$34 million as of the end of fiscal year 2009.

EAC implemented actions to correct this problem beginning with the June 30, 2009, interim financial statements. In these financial statements, EAC recorded certain cash outlays made to contractors and grantees to cover a part or all of the recipients' anticipated expenses as an advance. However, EAC did not adopt the same accounting policies for advances provided under another program that EAC administers. EAC fully corrected this problem for the agency's September 30, 2009, financial statements.

- EAC's 2009 interim Statement of Net Cost (SNC) was neither presented in accordance with the requirements of OMB Circular A-136, nor met the cost accounting standards of SFFAS No. 4. As a result of these errors, the agency's interim SNC's were misstated.

EAC recorded its salaries and operating expenses as a program on its SNC instead of allocating these costs to its major programs, as required. We also determined that the EAC did not have a documented and acceptable cost accounting method to allocate costs to the agency's programs, or to provide reports to management based upon appropriate cost accounting methodologies.

OMB Circular A-136 requires that the reporting entity should report the full cost of each program's output, which consists of: (a) both direct and indirect costs of the output; and (b) the costs of identifiable supporting services provided by other segments within the reporting entity and by other reporting entities.

EAC corrected this problem, and developed a costing methodology that allocated salaries and expenses to its responsibility segments for the agency's September 30, 2009, financial statements. Our tests of the costing methodology established by EAC determined that it met the requirements of SFFAS No. 4 in all material respects.

- Account receivables totaling approximately \$330,000, and representing amounts grantees owed EAC for grant funds that were not expended and should be returned to the Federal government were not recorded on EAC's financial records. EAC officials have corrected this problem and have recorded these amounts in its 2009 year-end financial statements.

SFFAS No. 1 requires recognition of a receivable when a federal entity establishes a claim to cash or other assets against other entities based on legal provisions, or when goods or services are provided. If an exact amount of a receivable is unknown, a reasonable estimate must be made.

- Capital assets were not properly accounted for by EAC until the agency prepared its June 30, 2009 financial statements. EAC completed its review of prior year accounting records, and was able to record these assets in its 2009 year-end financial statements in accordance with GAAP.

EAC officials took action during fiscal year 2009 to hire financial management officials with necessary skill sets to develop and implement required accounting policies and controls to address the problems that impacted its past financial management operations. EAC has developed required financial management policies and procedures in many areas and has other policies related to EAC internal controls either planned or under development.

Recommendation

Implement financial management policies and internal controls, and finalize other policies and procedures that are under development or planned.

Agency Response

The Chair, U.S. Election Assistance Commission in a response dated November 9, 2009, advised us that in fiscal year 2009, EAC began the process of designing, implementing and assessing internal controls in compliance with Office of Management and Budget Circular A-123. EAC will implement in fiscal year 2010 control activities needed to achieve program objectives and control activities. The Chair also advised that EAC will work towards finalizing draft operational policies and procedures and will continue to refine the already completed financial management policies and procedures.

2. Controls over Journal Vouchers

Journal vouchers processed by EAC's service provider to EAC's general ledger were not sufficiently supported. EAC officials had not established controls to ensure that financial management personnel reviewed and approved the journal vouchers proposed by EAC's service provider. As a result, there was reduced assurance that errors that may impact financial reports would be detected.

We obtained from EAC's service provider a copy of its journal voucher processing controls. Our review of this document showed that, if the controls/processes were placed in operation, the controls would provide reasonable assurance that risks of errors would be reduced to reasonable levels. However, we found that for the journal vouchers we tested the service provider had not effectively implemented the control procedures. The service provider's procedures require that backup documentation be gathered to support the entries, and that a supervisor review, initial and date the back-up documentation. Trial balances or queries should be obtained to ensure the journal voucher processed correctly.

We selected five journal vouchers for review and obtained "documentation" from the service provider to support the journal vouchers. For three of the five journal vouchers provided, we could not determine that the entries processed were appropriate. We subsequently obtained from EAC sufficient documentation to support the journal vouchers questioned above. When our testing was performed, EAC had not established controls to review and approve journal vouchers processed by the agency's service provider. EAC established internal controls that address this problem after we discussed this issue with them.

Recommendation

Implement procedures that require EAC accounting personnel to review and approve journal vouchers posted to the agency's records.

Agency Response

The Chair advised that in August 2009, EAC management implemented procedures with the General Service Administration (GSA) requiring all journal vouchers be reviewed and approved by the EAC's management prior to entry into the financial system.

3. Information Technology Security Controls

EAC has begun to take actions to address the IT security deficiencies that were reported in the 2008 FISMA report. While many corrective actions are underway or planned, EAC has not fully corrected all weaknesses that impact its IT security program. We attributed this condition, in part, to the absence of management officials with IT security program expertise. As a result, EAC is not in full compliance with the requirements of the Financial Information Systems Management Act (FISMA), which could impact EAC’s financial management operations.

We assessed whether EAC’s agency-wide IT security program was in substantial compliance with each of the security control areas established by Federal Information Processing Standards (FIPS) 200, *Minimum Security Requirements for Federal Information and Information System*. For each control area, we determined whether the EAC was either in substantial compliance (SC), partial compliance (PC), or not in substantial compliance (NSC). The table below shows our determinations.

CONTROL REQUIREMENT	Compliance Determination (SC, PC, NSC)
Access Control	NSC
Awareness and Training	SC
Audit and Accountability	PC
Certification, Accreditation, and Security Assessments	PC
Configuration Management	SC
Contingency Planning	NSC
Identification and Authentication	PC
Incident Response	SC
Maintenance	SC
Media Protection	SC
Physical and Environmental Protection	SC
Planning	PC
Personnel Security	SC
Risk Assessment	PC
System and Services Acquisition	SC
System and Communications Protection	PC
System and Information Integrity	SC

FIPS 199, *Standards for Security Categorization of Federal Information and Information System*, provides that policies and procedures play an important role in the effective implementation of an enterprise-wide information security program, and the success of the resulting security measures employed to protect an agency’s information and information systems. FIPS 199 provides that organizations must develop and promulgate formal, documented policies and procedures governing the

minimum security requirements set forth in this standard, and must ensure their effective implementation.

NIST Special Publication (SP) 800-53, *Recommended Security Controls for Federal Information Systems and Organizations*, provides that agencies must categorize their information and information systems under the requirements of FIPS 199. Security categorization is accomplished as an organization-wide activity with the involvement of senior-level organizational officials. As required by FIPS 200, organizations use the security categorization results to designate information systems as low-impact, moderate-impact, or high-impact systems. For each information system, the agency must meet recommended minimum security controls, as applicable to their operations.

EAC in response to the IT security weaknesses developed a detailed Plan of Action and Milestone (POA&M) to address each problem area. We have issued recommendations to EAC in a separate report; therefore, we are not making any recommendations in this report.

Agency Response

The Chair advised that the EAC has developed a detailed Plan of Action and Milestone (POA&M) to address each problem area. Once the items in the POA&M are implemented in fiscal year 2010, EAC will be substantially compliant in every FISMA control area.

Management of EAC reported the aforementioned material weakness 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.

We noted other control deficiencies over financial reporting and its operation that we have reported to the management of the EAC and those charged with governance in a separate letter dated November 10, 2009.

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.

Under OMB Bulletin 07-04, auditors are generally required to report whether the agency's financial management systems substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level specified in the Federal Financial Management Improvement Act (FFMIA). The Accountability of Tax Dollars Act, which requires the EAC to prepare and submit audited financial

statements to Congress and the Director of OMB, did not extend to EAC the requirement to comply with FFMIA.

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 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

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin 07-04, *Audit Requirements for Federal Financial Statements*. Those standards 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 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 required by OMB Bulletin 07-04, with respect to internal control related to performance measures determined to be key and reported in Management's Discussion and Analysis, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions and determined whether they had

been placed in operation. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion thereon.

As part of obtaining reasonable assurance about whether the agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and significant provisions of contracts, 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. 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 was not an objective of our audit and, accordingly, we do not express such an opinion.

AGENCY COMMENTS AND AUDITOR EVALUATION

We have incorporated the agency's comments to our audit recommendations in the report, and have attached a copy of the response, in its entirety, as Attachment 2 to this report.

The EAC's written response to the significant deficiencies and material weaknesses identified in our audit has not been 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 Commissioners, 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.
Leon Snead & Company, P.C.

November 10, 2009

Status of Prior Year Findings

No.	Prior Year Condition	Status As Of September 30, 2009
1a	Material Weakness: EAC's Performance and Accountability Report did not meet OMB A-136 requirements	EAC officials took action to correct this problem.
1b	Material Weakness: EAC did not have adequate resources and employees with appropriate skill sets to handle financial management accounting and reporting. The financial operations were fragmented, and there was a lack of organizational structure relating to internal and external financial reporting requirements.	EAC officials took action to correct this problem.
1c	Material Weakness: Deficiencies in accounting materially impacted EAC's 2008 financial statements, including: <ul style="list-style-type: none"> • Grant advances were misclassified as expenses. • Certain requirement payments may have been misclassified as expense. • Advances made to a Federal service provider were misclassified as expense. • Federal assistance receivables were not reported. • Statement of Net Costs had presentation errors. • Leasehold improvements and certain purchases were not capitalized. • Certain liabilities were not accrued. • Certain budgetary accounting may have been incorrect. 	EAC officials took action to correct these problems.
1d	Material Weakness: EAC's financial management system did not meet OMB Circular A-127 requirements.	EAC officials took action to correct this problem.
1e	Material Weakness: EAC did not have necessary financial management policies and procedures to enable the agency to timely and properly prepare financial statements.	EAC officials have finalized financial policies and procedures, and other policies and procedures for many operational processes are in review or planned. However, the condition has not been fully corrected.
1f	Material Weakness: EAC did not prepare necessary accounting reconciliations.	EAC officials took action to correct this problem.
1g	Material Weakness: Advances made to a Federal service provider were recorded as expense.	EAC officials took action to correct this problem.

2	Material Weakness: Grant transactions were not prepared in accordance with generally accepted accounting principles.	EAC officials took action to correct this problem.
3	Material Weakness: EAC did not have adequate funds control to ensure compliance with antideficiency act and purpose statute.	The EAC OIG has requested a formal opinion from the GAO to determine if the issues reported constitute a violation. GAO has not made a formal determination in this area. As a result, this issue remains open.
4	Material Weakness: EAC did not have a process in place to assess its internal controls.	EAC officials took action to correct this problem.
5	Significant Deficiency: EAC did not have an agency-wide IT security program.	EAC has addressed many of the problems with its IT security program. However, EAC has not corrected all weaknesses identified in the report. As a result, this issue remains open.



U.S. ELECTION ASSISTANCE COMMISSION
 1225 NEW YORK AVENUE, N.W., SUITE 1100
 WASHINGTON, D.C. 20005

November 9, 2009

Memorandum

To: Curtis Crider
 Inspector General

From: Gineen Bresso Beach 
 Chair, U.S. Election Assistance Commission

Subject: Election Assistance Commission Response to Independent Audit Report on the
 U.S. Election Assistance Commission's Financial Statements for Fiscal Year
 2009 (Assignment No. I-PA-EAC-01-09)

During Fiscal Year 2009, the Election Assistance Commission (EAC) took action to address the problems that impacted its Fiscal Year 2008 financial management reports. This action included resolving all but three of its prior year findings, implementing sound financial management practices and obtaining an unqualified audit opinion on the Fiscal Year 2009 financial statements.

The EAC recognizes that FY 2010 brings new challenges and the opportunity to resolve one remaining FY 2008 deficiency and Fiscal Year 2009 deficiencies. Overall EAC agrees with the one material weakness and two significant deficiencies identified by the audit.

Our response to each audit recommendation is presented below.

1. Implement financial management policies and internal controls, and finalize other policies and procedures that are under development or planned.

In Fiscal Year 2009, EAC began the process of designing, implementing and assessing internal controls in compliance with Office of Management and Budget Circular A-123, *Management's Responsibility for Internal Control*, and Federal Manager's Financial Integrity Act. In response to recommendations obtained from an independent assessment, EAC will implement in FY 2010 control activities needed to achieve program objectives and control activities that will improve accuracy of performance data. This will ensure that EAC's performance metric reports are reliable and measure the right activities.

EAC will work towards finalizing draft operational policies and procedures and will continue to refine the already completed financial management policies and procedures.

2. Implement procedures that require EAC accounting personnel to review and approve journal vouchers posted to the agency's records.

In August 2009, EAC Management implemented procedures with the General Service Administration (GSA) requiring all journal vouchers be reviewed and approved by the EAC's management prior to entry into the financial system. Upon entry, GSA forwards the EAC journal voucher entry number, providing management the opportunity to review the entry for accuracy in the financial records.

3. Information Technology Security Controls

The FY 2009 Federal Information Security Management Act (FISMA) evaluation report found that EAC has taken actions to address many of the serious problems noted in the FY 2008 FISMA evaluation report. The FY 2009 report found that four weaknesses had been resolved, two weaknesses had been partially resolved and one weakness had not yet been addressed.

EAC has developed a detailed Plan of Action and Milestone (POA&M) to address each problem area. Once the items in the POA&M are implemented in FY 2010, EAC will be substantially compliant in every FISMA control area. Detailed information on the results of the evaluation and managements responses can be found in the document "*U.S. Election Assistance Commission Evaluation of Compliance with the Requirements of the Federal Information Security Management Act Fiscal Year 2009 (Assignment No. I-EV-EAC-02-09)*."

ELECTION ASSISTANCE COMMISSION

BALANCE SHEET

As of September 30, 2009 and 2008 (In Dollars)

Assets	2009	Restated 2008
Intragovernmental:		
Fund balance with Treasury (Note 2)	\$ 157,884,882	\$ 133,466,533
Advances and Prepayments (Note 4)	<u>2,097,844</u>	<u>2,961,010</u>
Total intragovernmental assets	159,982,726	136,427,543
With public:		
Accounts receivable, net (Note 3)	349,146	346,948
Advances and prepayments (Note 4)	<u>34,692,298</u>	<u>52,249,395</u>
Total asset with public	35,041,444	52,596,343
General property and equipment, net (Note 5)	<u>269,120</u>	<u>477,635</u>
Total assets	<u>\$ 195,293,290</u>	<u>\$ 189,501,521</u>
Liabilities		
Intragovernmental:		
Accounts payable (Note 6)	\$ 348,958	\$ 512,984
Employer contribution and payroll taxes payable (Note 6)	<u>48,157</u>	<u>40,645</u>
Total intragovernmental	397,115	553,629
With the public:		
Accounts payable (Note 6)	7,983,052	646,686
Accrued payroll and benefits (Note 6)	241,878	227,068
Unfunded leave (Note 6)	<u>261,880</u>	<u>185,889</u>
Total liabilities	<u>8,883,925</u>	<u>1,613,272</u>
Net position		
Unexpended appropriations	186,401,600	187,595,489
Cumulative results of operations	<u>7,765</u>	<u>292,760</u>
Total net position	<u>186,409,365</u>	<u>187,888,249</u>
Total liabilities and net position	<u>\$ 195,293,290</u>	<u>\$ 189,501,521</u>

The accompanying notes are an integral part of these financial statements.

ELECTION ASSISTANCE COMMISSION

STATEMENT OF NET COST

For Years Ended September 30, 2009 and 2008 (In Dollars)

	<u>2009</u>	<u>Restated 2008</u>
Program Costs:		
Communications	\$ 1,994,125	\$ 1,543,834
Fund and Oversee	113,042,449	6,598,961
Research, Policy and Programs	2,972,123	2,300,992
Testing and Certification	<u>3,578,173</u>	<u>2,770,190</u>
Net cost of operations (Note 8)	<u>\$ 121,586,870</u>	<u>\$ 13,213,977</u>

The accompanying notes are an integral part of these financial statements.

ELECTION ASSISTANCE COMMISSION
STATEMENT OF CHANGES IN NET POSITION
For The Years Ended September 30, 2009 and 2008 (In Dollars)

	2009	Restated 2008
Cumulative results of operations:		
Beginning balance	\$ 292,760	\$ (292,114)
Beginning balance, as adjusted	292,760	(292,114)
Budgetary financing sources:		
Appropriations used	121,087,642	13,653,058
Other financing sources (non-exchange):		
Imputed financing from costs absorbed from others	214,233	145,793
Total financing sources:	121,301,874	13,798,851
Net cost of operations	(121,586,870)	(13,213,977)
Net change	(284,995)	584,874
Cumulative results of operations:	7,765	292,760
Unexpended appropriations:		
Beginning balance	187,595,489	62,968,547
Prior period adjustments due to correction of errors	0	-
Beginning balance, as adjusted	187,595,489	62,968,547
Budgetary financing sources:		
Appropriations received	123,959,000	141,530,000
Appropriations transferred in/out (+/-)	(4,000,000)	(3,250,000)
Other adjustments	(65,247)	-
Appropriations used	(121,087,642)	(13,653,058)
Total budgetary financing sources	(1,193,889)	124,626,942
Total unexpended appropriations	186,401,600	187,595,489
Net position	\$ 186,409,365	\$ 187,888,249

The accompanying notes are an integral part of these financial statements.

ELECTION ASSISTANCE COMMISSION
STATEMENT OF BUDGETARY RESOURCES
For The Years Ended September 30, 2009 and 2008 (In Dollars)

	<u>2009</u>	<u>Restated 2008</u>
Budgetary resources:		
Unobligated balance, brought forward (Note 11)	\$ 7,561,952	\$ 6,918,986
Recoveries of prior year obligations (Note 11)	662,985	513,671
Budget authority:		
Appropriations received	123,959,000	141,530,000
Spending authority from offsetting collections:		
Collected (Note 11)	837,849	19,491
Nonexpenditure transfers, net, anticipated and actual	(4,000,000)	(3,250,000)
Permanently not available	(65,247)	-
Total budgetary resources (Note 9)	<u>\$ 128,956,539</u>	<u>\$ 145,732,148</u>
Status of budgetary resources:		
Obligations incurred: (Note 9 & Note 11)	\$ 114,957,639	\$ 138,170,196
Unobligated balance - apportioned	7,452,047	766,190
Unobligated balance not available (Note 11)	6,546,853	6,795,762
Total status of budgetary resources (Note 9)	<u>\$ 128,956,539</u>	<u>\$ 145,732,148</u>
Change in obligated balance:		
Obligated balance, net		
Unpaid obligations, brought forward (Note 11)	\$ 125,904,580	\$ 3,431,129
Obligations incurred, net	114,957,639	138,170,196
Less: gross outlays (Note 11)	(96,313,253)	(15,183,074)
Less: recoveries of prior year unpaid obligations, actual	(662,985)	(513,671)
Total, unpaid obligated balance, end of period forward (Note 12)	<u>\$ 143,885,981</u>	<u>\$ 125,904,580</u>
Net outlays:		
Gross outlays	\$ 96,313,253	\$ 15,183,074
Less: offsetting collections	(837,849)	(19,491)
Net outlays (Note 9)	<u>\$ 95,475,404</u>	<u>\$ 15,163,583</u>

The accompanying notes are an integral part of these financial statements.

Note 1 – Summary of Significant Accounting Policies

Reporting Entity

U.S. Election Assistance Commission (EAC) is an independent, bipartisan commission charged with developing guidance to meet the Help America Vote Act (HAVA) requirements, adopting voluntary voting system guidelines, and serving as a national clearinghouse of information about election administration. EAC also accredits testing laboratories and certifies voting systems, as well as audits the use of HAVA funds.

Other responsibilities include distributing and monitoring HAVA funds provided to States and other grantees; and maintaining the national mail voter registration form developed in accordance with the National Voter Registration Act of 1993.

HAVA established the Standards Board and the Board of Advisors to advise EAC. The law also established the Technical Guidelines Development Committee to assist EAC in the development of voluntary voting system guidelines.

The four EAC commissioners are appointed by the president and confirmed by the United States Senate. EAC is required to submit an annual report to Congress as well as testify periodically about HAVA progress and related issues. The commission also holds public meetings and hearings to inform the public about its progress and activities.

Basis of Accounting and Presentation

As required by the *Accountability of Tax Dollars Act of 2002 (ATDA)*, the accompanying financial statements present the financial position, net cost of operations, changes in net position, and budgetary resources of the EAC. While these financial statements have been prepared from the books and records of the EAC in accordance with United States generally accepted accounting principles (GAAP) and in accordance with the form and content for entity financial statements specified by the Office of Management and Budget (OMB) in Circular A-136, as revised, *Financial Reporting Requirements*, as well as the accounting policies of the EAC, the statements may differ from other financial reports submitted pursuant to OMB directives for the purpose of monitoring and controlling the use of the EAC's budgetary resources. GAAP for federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), which is the official body for setting the accounting standards of the federal government.

These financial statements reflect both accrual and budgetary accounting transactions. Under the accrual method of accounting, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting is designed to recognize the obligation of funds according to legal requirements. Budgetary accounting is

essential for compliance with legal constraints and controls over the use of Federal funds.

Throughout these financial statements, assets, liabilities, revenues, and costs have been classified according to the type of entity with which the transactions are associated. Intragovernmental assets and liabilities are those from or to other federal entities. Intragovernmental earned revenues are collections or accruals of revenue from other federal entities and intragovernmental costs are payments or accruals to other federal entities. These statements should be read with the understanding that they are for a component of the U.S. Government, a sovereign entity.

Assets

Assets that an entity is authorized to use in its operations are termed entity assets, while assets that are held by an entity and are not available for the entity's use are termed non-entity assets. All of the EAC's assets are entity assets and are available to carry out the mission of the EAC, as appropriated by Congress.

Fund Balance with Treasury

EAC does not maintain cash in commercial bank accounts. The U.S. Treasury processes cash receipts and disbursements. Funds with the U.S. Treasury consist of appropriated funds. These funds are available to pay current liabilities and finance authorized purchase commitments.

Accounts Receivable

EAC's accounts receivable represents claims from associates and amounts due from the States and grant recipients. The amounts due from current and separated employees result from payroll adjustments and/or court ordered actions. The amounts from the States and grant recipients result from audits and examinations performed by the EAC on the proper use of funds under the Help America Vote Act of 2002, Section 101, 102 and 251 payments and Section 102 funds unspent by the States that did not file the extension waiver.

The EAC establishes an allowance for the loss on accounts receivable that are deemed uncollectible accounts, which is included in Accounts Receivable, net on the balance sheet. After an account or portion thereof is deemed delinquent an accounts receivable allowance will be established in the financial records. The allowance will be based on known historical collection rates and a review of circumstances particular to the debtor.

Advances and Prepayments

On occasion the EAC prepays amounts in anticipation of receiving future benefits. Although a payment has been made, an expense is not recorded until goods have

been received or services have been performed. The EAC has prepayments and advances with non-governmental, as well as governmental vendors.

Total prepayments and advances to non-governmental entities as of September 30, 2009 were \$34,692,299. These include primarily HAVA Section 102 disbursements unspent by the States as of September 30, 2009. The prepayments and advances to governmental entities were \$2,097,844 as of September 30, 2009. These included deposit accounts with the Department of Interior, Acquisition Services Directorate to provide acquisition support services to the EAC.

General Property and Equipment

General property and equipment (PP&E) is reported at acquisition cost.

The capitalization threshold is established at \$10,000 for assets with a useful life of 2 or more years. The bulk purchase policy requires that all items will be capitalized when the individual useful lives are at least two years and have an aggregate value of \$100,000 or more.

Acquisitions of PP&E that do not meet the capitalization criteria are recorded as operating expenses. General PP&E consists of items that are used by EAC to support its mission.

Depreciation on these assets is calculated using the straight-line method with no salvage value. Depreciation begins the month after the asset is placed in service. Useful lives are 5 years for equipment and 5 years for furniture.

Maintenance, repairs and minor renovations are expensed as incurred. Expenditures that materially increase values, change capacities or extend useful lives are capitalized.

The headquarters building in which the EAC operates is leased through the General Services Administration (GSA) under an occupancy agreement, which manages the lease agreement between the Federal government and the commercial entity. EAC is billed on a monthly basis by GSA for the leased premises. The cost of the leasehold improvements to the headquarters building has been capitalized. Any costs of leasehold improvements financed with EAC appropriated funds are capitalized if the total cost exceeds \$25,000. Any construction costs will be accumulated as "construction in-progress" until completion and then transferred and capitalized as a "leasehold improvements" over 7 years or the remainder of the lease, whichever is less.

Currently, EAC has no internal use software. In future years, any internal use software development and acquisition costs of \$25,000 will be capitalized as software development in progress until the development stage is completed and the software successfully tested. At acceptance, software development-in-progress costs will be reclassified as internal use software costs and amortized using the straight-line

method over an estimated useful life of 5 years. Purchased commercial software that does not meet the capitalization criteria will be expensed. Enhancements which do not add significant new capability or functionality will be expensed.

The estimated useful lives and corresponding capitalization thresholds are as follows:

<u>Type</u>	<u>Lives</u>	<u>Threshold</u>
Equipment	5 years	\$ 10,000
Furniture	5 years	10,000
Vehicles	5 years	10,000
Leasehold Improvements	7 years	25,000
Software	5 years	25,000

Liabilities

Liabilities represent amounts that are likely to be paid by the EAC as the result of transactions or events that have already occurred; however, no liabilities are paid by the EAC without an appropriation. Intragovernmental liabilities arise from transactions with other Federal entities. Liabilities classified as not covered by budgetary resources are liabilities for which appropriations have not been enacted (e.g., annual leave benefits and actuarial liability under the Federal Employees Compensation Act).

Accounts Payable

Accounts payable consist of liabilities to commercial vendors and contractors and other federal agencies for amounts owed for goods, services, and other expenses received but not yet paid at the end of the fiscal year. Accounts payable also consist of disbursements in transit recorded by EAC but not paid by the U.S. Treasury.

Accrued Payroll and Benefits

Accrued payroll and benefits represents salaries, wages and benefits earned by employees, but not disbursed as of September 30, 2009. Accrued payroll and benefits are payable to employees and are therefore not classified as intragovernmental.

Annual, Sick and Other Leave

Annual leave is recorded as a liability when it is earned; the liability is reduced as leave is taken. Each pay period, the balance in the accrued leave account is adjusted to reflect the current leave balances and pay rates. Accrued annual leave is paid from future funding sources and accordingly is reflected as a liability not covered by budgetary resources. Sick leave and other types of non-vested leave are expensed as taken.

Federal Employee Benefits

A liability is recorded for estimated and actual future payments to be made for worker's compensation pursuant to the Federal Employees Compensation Act (FECA). EAC's did have a FECA liability at the end of the reporting period for claims filed for the period July 1, 2009 through September 30, 2009. Accordingly, EAC recorded a liability for estimated payments to be made for workers' compensation pursuant to the Act.

Employee Retirement Plans

EAC employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS), which became effective on January 1, 1987. Most EAC employees are covered by FERS and social security.

For employees covered by CSRS, the EAC withheld 7.0 percent of base pay earnings. The EAC matches this withholding, and the sum of the withholding and the matching funds is transferred to the Civil Service Retirement System. FERS contributions made by employer agencies and covered employees are comparable to the U.S. Government's estimated service costs.

For FERS covered employees, the EAC made contributions of 12.3 percent of basic pay. Employees participating in FERS are covered under the *Federal Insurance Contribution Act (FICA)* for which the EAC contributes a matching amount to the Social Security Administration.

Thrift Savings Plan (TSP)

The Thrift Savings Plan (TSP) is a retirement savings and investment plan for employees covered by either CSRS or FERS. The TSP is administered by the Federal Retirement Thrift Investment Board on behalf of Federal agencies. For employees belonging to FERS, the EAC automatically contributes one percent of base pay to their account and matches contributions up to an additional four percent. For employees belonging to CSRS, there is no governmental matching contribution.

The EAC does not report on its financial statements CSRS and FERS assets, accumulated plan benefits, or unfunded liabilities, if any, which may be applicable to EAC employees. Reporting such amounts is the responsibility of the Office of Personnel Management. The portion of the current and estimated future outlays for CSRS not paid by EAC is, in accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 5, *Accounting for Liabilities of the Federal Government*, included in EAC's financial statements as an imputed financing source.

Commitments and Contingencies

Commitments are contractual agreements involving financial obligations. EAC is committed for goods and services that have been ordered, but have not yet been received.

A contingency is an existing condition, situation, or set of circumstances involving uncertainty as to possible gain or loss. The uncertainty will ultimately be resolved when one or more future events occur or fail to occur. A contingency liability is recognized when a past event or exchange transaction has occurred, and future outflow or other sacrifice of resources is measurable and probable. A contingency is not disclosed when any of the conditions for liability recognition are met but the chance of the future event or events' occurring is remote. A contingency is disclosed when any of the conditions for liability recognition are not met and the chance of the future confirming event or events occurring is more than remote but less than probable.

Revenues and Other Financing Sources

Annual Appropriation

EAC receives its funding through an annual appropriation as provided by Congress.

Imputed Financing Sources

In accordance with OMB Circular A-136, all expenses should be reported by agencies whether or not these expenses would be paid by the agency that incurs the expense. The amounts for certain expenses of the EAC, which will be paid by other Federal agencies, are recorded in the Statement of Net Cost. A corresponding amount is recognized in the "Statement of Changes in Net Position" as an "Imputed Financing Source." These imputed financing sources primarily represent unfunded pension costs of EAC employees, as described above.

Statement of Net Cost

Net cost of operations is the difference between the EAC's expenses and its earned revenue. For Fiscal year 2008 and 2009, the EAC has four programs; Communicate, Fund and Oversee, Study, Guide & Assist, and Test & Certify. The cost for each program is a sum of the direct costs of the program and an allocation of the agency's other overhead costs such as rent, telephone, administrative and financial support staff. All grants and requirement payments are included in the Fund and Oversee program.

Grants

The EAC administers and oversees the grant making process in connection with federal Requirements Payments and grants made to recipient organizations under the HAVA. As Requirements Payments and grants are awarded, they are recorded as

obligations and represent uses of budgetary resources. Payments made under the grant awards for expenditures already incurred by the recipients are fully expended and are included in the statement of net costs. Grants awards made to grantees in advance of expenditures are recorded as advances and are included in the balance sheet.

Net Position

Net position is the residual difference between asset and liabilities and is comprised of unexpended appropriations and cumulative results of operations. Unexpended appropriations represent appropriated spending authority that is unobligated and has not been withdrawn by the U.S. Treasury along with obligations that have not been paid. Unobligated balances associated with appropriations that expire at the end of the fiscal year remain available for obligation adjustments, but not for new obligations, until that account is closed, five years after the appropriations expire. Cumulative results of operations represent the excess of financing sources over expenses since inception.

Use of Estimates

The preparation of the accompanying financial statements in accordance with accounting principles generally accepted in the United States requires management where necessary, to make certain estimates and assumptions that directly affect the reported amounts of assets, liabilities, revenues, and expenses. Actual results could differ from these estimates.

Note 2 – Fund Balance with Treasury

Fund balances with Treasury are contained within six annual funds (FY2005 through FY2009) and two no-year funds. The total of fund balances with treasury consisted of the following at September 30, 2009 and September 30, 2008:

	FY 2009	Restated FY 2008
Fund Balance with Treasury		
Appropriated Funds	\$ 157,884,882	\$133,466,533
Status of Fund Balance with Treasury:		
Unobligated Balance		
Available	7,452,047	766,191
Unavailable	6,546,853	6,795,762
Obligated Balance not yet Disbursed	143,885,982	125,904,580
Total	\$ 157,884,882	\$ 133,466,533

Available unobligated balances represent amounts that are apportioned for obligation in the current fiscal year. Unavailable unobligated balances represent amounts that are not apportioned for obligation during the current fiscal year along with expired appropriations that are no longer available to incur new obligations. Obligated balances not yet disbursed include undelivered orders unpaid and expended authority-unpaid.

Note 3 – Accounts Receivable, net

Accounts receivable, net comprised of claims from associates consists of the following as of September 30, 2009 and September 30, 2008:

	<u>FY 2009</u>	<u>Restated FY 2008</u>
Accounts Receivable, net		
Claims from Associates	\$ 18,449	\$ 16,251
Due from States	330,697	330,697
	<u>\$ 349,146</u>	<u>\$ 346,948</u>

Note 4 – Advances and Prepayments

Advances and prepayments with non-governmental and governmental entities consist of the following as of September 30, 2009 and September 30, 2008:

	<u>FY 2009</u>	<u>Restated FY 2008</u>
Advances and Prepayments		
With Governmental Entities	\$ 2,097,844	\$ 2,961,010
With Non-governmental Entities	34,692,298	52,249,395
Total	<u>\$ 36,790,144</u>	<u>\$ 55,210,405</u>

Note 5 – General Property and Equipment, Net

The general components of capitalized property and equipment, net of accumulated depreciation, consist of the following as of September 30, 2009 and September 30, 2008:

Asset Class	Service Life (years)	2009		Net Book value
		Acquisition Value	Accumulated Depreciation	
Office Equipment	5	\$ 113,943	\$ 61,256	\$ 52,686
Furniture	5	303,613	125,851	177,762
Leasehold Improvements	7	551,387	512,716	38,671
Total		<u>\$ 968,943</u>	<u>\$ 699,823</u>	<u>\$ 269,120</u>

Asset Class	Service Life (years)	Restated 2008		Net Book value
		Acquisition Value	Accumulated Depreciation	
Office Equipment	5	\$ 84,546	\$ 41,355	\$ 43,191
Furniture	5	303,613	65,198	238,415
Leasehold Improvements	7	551,387	355,358	196,029
Total		<u>\$ 939,546</u>	<u>\$ 461,911</u>	<u>\$ 477,635</u>

Depreciation expense was \$237,912 for the period ending September 30, 2009 and \$214,588 for the period ending September 30, 2008.

Note 6 – Liabilities

Liabilities Not Covered by Budgetary Resources

Liabilities Not Covered by Budgetary Resources result from the receipt of goods and services, or the occurrence of events, for which appropriations, revenues, or other financing sources necessary to pay the liabilities have not yet been made available through Congressional appropriation.

Liabilities Not Covered by Budgetary Resources consisted of the following as of September 30, 2009 and September 30, 2008:

	FY 2009	Restated FY 2008
With the Public		
Unfunded Annual Leave	\$ 261,880	\$ 185,889
FECA Liability	441	0
	<u>\$ 262,321</u>	<u>\$ 185,889</u>

Liabilities Covered by Budgetary Resources

Liabilities covered by budgetary resources consist of the following as of September 30, 2009 and September 30, 2008:

	FY 2009	Restated FY 2008
	<u> </u>	<u> </u>

Intragovernmental		
Accounts payable	\$ 348,958	\$ 512,984
Employer contributions and payroll taxes payable	47,716	40,645
Total intragovernmental	<u>396,674</u>	<u>553,629</u>
With the public		
Accounts payable	7,983,052	646,686
Accrued payroll and benefits	241,878	227,068
Total with the public	<u>8,224,930</u>	<u>873,754</u>
Total liabilities covered by budgetary resources	<u>\$ 8,621,604</u>	<u>\$ 1,427,383</u>

Note 7 – Leases

EAC has no capital leases. The EAC has a current operating lease for the headquarters office space located at 1225 New York Avenue, NW, Washington DC which has been extended through July 31, 2009. The EAC entered into two new operating leases on May 18, 2009 which extended the lease for the current headquarters' office space and provided for the occupancy for a future space located at 1201 New York Avenue, Washington DC which is scheduled to be occupied in early 2010. These leases extend through March 31, 2014 or 56 months and commence on August 1, 2009.

The EAC also has an operating lease for additional space located at 1440 New York Avenue, NW, Washington, DC which commenced August 5, 2008 with an original completion date of December 5, 2008. This lease has been extended through January 2010 to coincide with the occupation of the new space as 1201 New York Avenue, N.W. Washington, DC.

Future lease payments due under these leases through March 31, 2014 are:

Future Operating Lease Payments Fiscal Year	FY 2009 Lease Payment
2010	\$ 833,676
2011	921,702
2012	929,627
2013	937,790
2014	477,588
2015 and thereafter	0
Total future lease payments	\$ 4,100,383

Future Operating Lease Payments	Restated FY 2008
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<u>Fiscal Year</u>	<u>Lease Payment</u>
2009	\$ 268,860
2010	0
2011	0
2012	0
2013	0
2014 and thereafter	0
Total future lease payments	\$ 268,860

Note 8 – Statement of Net Cost

For Fiscal year 2008 and 2009, the EAC has four programs; Communicate, Fund and Oversee, Study, Guide & Assist, and Test & Certify. The cost for each program is a sum of the direct costs of the program and an allocation of the agency's other overhead costs such as rent, telephone, administrative and financial support staff. All grants and requirement payments are included in the Fund and Oversee program. The total cost of operations for the periods ended September 30, 2009 and September 30, 2008 is as follows:

<u>Programs</u>	Fiscal Year 2009		
	<u>Intragovernmental</u>	<u>With the Public</u>	<u>Total</u>
Communications	\$ 268,849	\$ 1,725,276	\$ 1,994,125
Fund & Oversee	658,522	112,383,927	113,042,449
Research, Policy & Program	400,703	2,571,420	2,972,123
Testing and Certification	482,411	3,095,762	3,578,173
Total	\$ 1,810,485	\$119,776,385	\$121,586,870

<u>Programs</u>	Restated Fiscal Year 2008		
	<u>Intragovernmental</u>	<u>With the Public</u>	<u>Total</u>
Communications	\$ 431,952	\$ 1,111,882	\$ 1,543,834
Fund & Oversee	1,058,028	5,540,933	6,598,961
Research, Policy & Program	643,798	1,657,194	2,300,992
Testing and Certification	1,995,116	775,074	2,770,190
Total	\$ 4,128,894	\$ 9,085,083	\$ 13,213,977

In accordance with OMB Circular A-136, costs incurred for goods and services provided by other federal entities are reported in the full costs of EAC's programs and are identified as "intragovernmental." All other costs are identified as "with the public."

Note 9 – Statement of Budgetary Resources

The Statement of Budgetary Resources (SBR) compares budgetary resources with the status of those resources. As of September 30, 2009, budgetary resources were \$128,956,539 and net outlays were \$95,475,404. As of September 30, 2008, restated, budgetary resources were \$145,732,148 and net outlays were \$15,163,583.

Apportionment Categories of Obligations Received

EAC receives apportionments of its resources from OMB. These are “Category B” apportionments which are for resources that can be obligated in compliance with legislation underlying programs for which the resources were made available.

For the periods ended September 30, 2009 and September 30, 2008, restated, direct obligations incurred amounted to \$114,957,639 and \$138,170,196.

Note 10 - Comparison to the *Budget of the United States Government*

SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, requires an explanation of material differences between budgetary resources available, the status of those resources and outlays as presented in the Statement of Budgetary Resources to the related actual balances published in the *Budget of the United States Government (Budget)*. The *Budget* that will include FY 2009 actual budgetary execution information is scheduled for publication in February 2011, which will be available through OMB’s website at <http://www.whitehouse.gov/omb>. Accordingly, information required for such disclosure for FY 2009 is not available at the time of publication of these financial statements.

The Budget that includes the FY 2008 actual budgetary execution information was published May 7, 2009. There are no differences between budgetary resources available, the status of those resources and outlay as presented in the Statement of Budgetary Resources for FY 2008 and the published *Budget of the United States Government (Budget)*,

Note 11 – Comparison of Statement of Budgetary Resources to Standard Form 133

The 2008 Statement of Budgetary Resources has been restated to reflect the correction of prior years accounting errors. As a result of these corrections, the 2009 SF-133 Report of Budget Execution and the Statement of Budgetary Resources differ. These differences were due to the inclusion of these corrections as 2009 activity in the SF-133 Report of Budget Execution, and as prior year activity in the 2009 and 2008 Statements of Budgetary Resources. The following table details the differences for each line item.

DIFFERENCES	Statement of Budgetary Resources	SF-133 Period Ended 9/30/09	Differences
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Unobligated Balance Brought Forward	\$7,561,952	\$ 7,342,134	\$219,818
Recoveries of Prior Year Obligations	662,985	882,803	(219,818)
Appropriations Received	123,959,000	123,959,000	-
Collections	837,849	54,522,217	(53,684,368)
Non-Expenditure Transfers	(4,000,000)	(4,000,000)	-
Permanently Not Available	(65,247)	(65,247)	-
Total Budgetary Resources	128,956,539	182,640,907	(53,684,368)
Obligations Incurred	114,957,639	168,422,189	(53,464,550)
Unobligated Balance - apportioned	7,452,047	7,452,047	-
Unobligated Balance - Not Available	6,546,853	6,766,671	(219,818)
Status of Budgetary Resources	128,956,539	182,640,907	(53,684,368)
Unpaid Obligations, Brought Forward	125,904,580	126,124,398	(219,818)
Obligations Incurred, Net	114,957,639	168,422,189	(53,464,550)
Less: Gross Outlays	(96,313,253)	(149,997,621)	53,684,368
Less: Recoveries of Prior Year Obligations	(662,985)	(882,803)	219,818
Total, unpaid obligated balance, EOY	143,885,981	143,666,163	219,818
Gross Outlays	96,313,253	149,997,621	(53,684,368)
Less: Offsetting Collections	(837,849)	(54,522,217)	53,684,368
Net Outlays	\$95,475,404	\$ 95,475,404	\$ -

Note 12 - Unpaid Obligated Balance, net

Unpaid obligated balance, net consists of undelivered orders and accounts payable. Undelivered orders represent obligations for which goods and services have not yet been received. Accounts payable includes goods and services which have been received but not yet paid for. The total unpaid obligated balance, net as of September 30, 2009 and September 30, 2008 was as follows:

	<u>FY 2009</u>	<u>Restated FY 2008</u>
Undelivered Orders	\$135,264,377	\$124,477,197
Accounts Payable	<u>8,621,604</u>	<u>1,427,383</u>
Unpaid obligated balance, net	<u>\$143,885,981</u>	<u>\$125,904,580</u>

Note 13: Reconciliation of Net Cost of Operations to Budget

The purpose of this note is to detail the differences between budgetary and financial (proprietary) accounting. This is accomplished by means of a reconciliation of

budgetary obligations and non-budgetary resources available to the reporting entity with its net cost of operations.

<i>Resources Used to Finance Activities</i>	<u>FY 2009</u>	<u>Restated FY 2008</u>
Budgetary Resources Obligated		
Obligations Incurred	\$114,957,639	\$138,170,196
Less: Spending authority from offsetting collections and recoveries	(1,500,835)	(533,162)
Net Obligations	<u>113,456,804</u>	<u>137,637,034</u>
Other Resources		
Imputed financing from costs absorbed by others	214,233	145,793
Net other resources used to finance activities	<u>214,233</u>	<u>145,793</u>
Total Resources Used to Finance Activities	<u>113,671,037</u>	<u>137,782,827</u>
<i>Resources Used to Finance Items not Part of the Net Cost of Operations</i>		
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided	(7,633,082)	123,982,925
Resources that finance the acquisition of assets	29,397	878,693
Total Resources Used to Finance Items no Part of the Net Cost of Operations	<u>(7,603,685)</u>	<u>124,861,618</u>
<i>Total Resources Used to Finance the Net Cost of Operations</i>	<u>121,274,722</u>	<u>12,921,209</u>
<i>Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period</i>		
Components Requiring or Generating Resources in Future Periods:		
Increases in annual leave liability	76,432	78,180
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	<u>76,432</u>	<u>78,180</u>
Components not Requiring or Generating Resources:		
Depreciation and amortization	237,913	214,588
Other	(2,197)	0
Total Components of Net Cost of Operations that will not Require or Generate Resources	<u>235,716</u>	<u>214,588</u>
Total Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period	<u>312,148</u>	<u>292,768</u>
<i>Net Cost of Operations</i>	<u>\$121,586,870</u>	<u>\$13,213,977</u>

The "Other" amount of \$(2,197) shown in "Components not Requiring or Generating Resources" in Fiscal Year 2009 represents the net change in accounts receivable from employees for the year.

Note 14 Requirements Payments and Grant Programs

The EAC Requirements Payments and grant programs are funded through annual appropriations. The largest of the grant programs is the Title III of the Help America Vote Act (HAVA) Section 251 Requirements Payments for states to help them meet

HAVA requirements. The EAC periodically receives additional grant money to fund grant programs such as Research of Voting Technology Improvements, College Poll Worker and Mock Election grants. Reflected in the Statement of Net Costs for periods ending September 30, 2009 and September 30, 2008, are the following requirements and grant program payments:

	<u>FY 2009</u>	<u>Restated FY 2008</u>
FY 2008 Section 251 Requirement Payments	\$ 56,958,220	\$2,270,345
FY 2009 Section 251 Requirement Payments	44,003,519	-
FY 2008 Data Collection Grants	6,592,164	335,464
College Poll Worker Grants	490,952	142,360
Mock Election Grants	113,157	70,305
	<u>\$108,158,012</u>	<u>\$ 2,818,474</u>

Note 15 Restatement

EAC's Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position and Statement of Budgetary Resources have been restated to correct the financial reporting for the following items:

1. At the end of FY 2008, EAC did not capitalize and depreciate leasehold improvements completed within the currently occupied office space. EAC capitalized and depreciated furniture and equipment that did not meet EAC's established capitalization thresholds and EAC did not capitalize and depreciate certain furniture and equipment that did meet EAC's established capitalization thresholds. This resulted in a net change to General Property and Equipment of \$328,754 and an increase in Accounts Payable of \$511,195.
2. EAC recognized as program expenses on the Statement of Net Costs, certain advances made to grantees and vendors for \$55,210,405. These expenses were reclassified as Advances. These included \$52,249,395 for EAC's FY 2008 Data Collection, Mock Election and College Poll worker grant programs and unspent Section 102 payments to States and \$2,961,010 for payments to the Department of Interior's Acquisition Services Directorate (AQD). The Section 102 payments were originally disbursed by the General Services Administration.
3. EAC did not recognize \$253,506 as program expenses expenditures made by grantees under the EAC grant programs and vendor expenses of \$150,069 not correctly accrued less vendor expenses of \$215,213 that were improperly accrued.
4. The EAC recorded \$330,697 in Accounts Receivable for Section 102 funds unspent by States that did not file the extension waiver as required by

HAVA. These funds were originally disbursed by the General Services Administration.

5. The EAC reduced Unexpended Appropriations and Expended Appropriations by \$49,221 for transactions occurring in prior years that were not recorded in these accounts.

The results of these changes are reflected in the table below:

Balance Sheet	Unaudited FY 2008 Reported	Effect of Restatement	FY 2008 Restated
Accounts receivable, net	\$ 16,251	\$ 330,697	\$ 346,948
Advances and prepayments			
Intragovernmental	-	2,961,010	2,961,010
With public	-	52,249,395	52,249,395
General property and equipment, net	148,881	328,754	477,635
Accounts payable			
Intragovernmental	215,213	297,771	512,984
With public	244,900	401,786	646,686
Unexpended appropriations	132,803,165	54,792,324	187,595,489
Cumulative results of operations	(85,217)	377,977	292,760
<u>Statement of Net Costs: Program Costs</u>	15,180,494	(1,966,517)	13,213,977
<u>Statement of Changes in Net Position</u>			
Beginning Balance	(156,930)	(135,184)	(292,114)
Appropriations used	15,106,414	(1,453,356)	13,653,058
Unexpended Appropriations	9,629,579	53,338,967	62,968,547
<u>Statement of Budgetary Resources</u>			
Recoveries of prior year obligations	298,458	215,213	513,671
Status of Budgetary Resources			
Obligations incurred, net	138,174,801	(4,605)	138,170,196
Unobligated Balance - Apportioned	761,585	4,605	766,190
Unobligated Balance - Not Available	6,580,549	215,213	6,795,762
Change in Obligated Balance:			
Less: Recoveries of PY unpaid obligation	(298,458)	(215,213)	(513,671)



U.S. ELECTION ASSISTANCE COMMISSION
1225 New York Ave. NW – Suite 1100
Washington, DC 20005

October 15, 2009

Memorandum

To: Gineen Bresso Beach
Chair, U.S. Election Assistance Commission

From: Curtis W. Crider *Curtis W. Crider*
Inspector General

Subject: Inspector General's Statement Summarizing the Major Management and Performance Challenges Facing the U.S. Election Assistance Commission

In accordance with the Reports Consolidation Act of 2000, I am submitting our annual statement summarizing what the Office of Inspector General (OIG) considers to be the most serious management and performance challenges facing the U.S. Election Assistance Commission (EAC). We have compiled this list based upon our audit, inspection and evaluation work; general knowledge of the agency's operations; and the reports of others such as the Government Accountability Office (GAO).

This year's management challenges fall into four categories: (1) performance management and accountability; (2) financial management and performance; (3) information technology management and security; and (4) human capital management. Of these challenges, two were present in the prior year and two are new. We have noted the progress that EAC has made on each of the challenges identified.

If you have any questions or need additional information, please call me at 202-566-3125.

Attachment

EAC MANAGEMENT AND PERFORMANCE CHALLENGES FISCAL YEAR 2009

The U.S. Election Assistance Commission's (EAC) FY 20089 Top Management Challenges identified by the Office of Inspector General (OIG) are below. The OIG assessed the EAC's progress in these areas and continues to review and monitor how these issues are addressed.

- Performance Management and Accountability
- Financial Management and Performance
- Information Technology Management and Security
- Human Capital Management

CHALLENGE 1: PERFORMANCE MANAGEMENT AND ACCOUNTABILITY

In fiscal year 2008, the OIG issued the following management challenge:

Effective management and accountability are integral to any operation and must start with senior management. At the EAC, senior management consists of four full-time commissioners and an executive director. However, confusion over the roles and responsibilities of the commissioners and the executive director has resulted in a lack of leadership, a failure to hold people accountable, and a decline in staff morale. EAC has recently delineated the roles and responsibilities of the commissioners and the executive director.

In February of 2008, the OIG issued a report that identified long-standing and overarching weaknesses related to the operations of the EAC that need to be addressed immediately. The assessment disclosed that the EAC needs to establish:

- Short and long-term strategic plans, performance goals and measurements to guide the organization and staff.
- An organizational structure that clearly defines areas of responsibility and an effective hierarchy for reporting.
- Appropriate and effective internal controls based on risk assessments.
- Policies and procedures in all program areas to document governance and accountability structure and practices in place. It is imperative that the Commissioners define their roles and responsibilities in relationship to the daily operations of the EAC and to assume the appropriate leadership role.

Actions to improve EAC operations are being accomplished; however, a significant amount of work still needs to be done. Without effective management and accountability, the ability of the EAC to meet its mission is substantially diminished.

Performance management and accountability continues to be a challenge for EAC in fiscal year 2009 and beyond, as EAC has not adopted and implemented the needed policies and procedures to define the performance plans and measurements for the various EAC programs, identify the reporting relationships beyond the executive director and commissioners, and establish effective internal controls. The EAC has completed draft policies and procedures for some of its programs, but has not adopted or implemented them. In the current environment of increased transparency and accountability, it is critical that EAC have these goals, measures, policies and procedures in place. EAC is accountable to the American public as to whether its programs and activities mirror its goals and objectives, as well as whether the programs and activities are ultimately successful in comparison to the established goals and measures.

EAC's Progress

EAC has made some progress toward the development of a strategic plan or direction for the agency as well as the implementing policies and procedures that flow from the strategic plan. The following is a listing of the activities that EAC has completed:

- Adopted an agency-wide strategic plan in March 2009
- Adopted a roles and responsibilities document that delineates responsibilities between the commissioners and the executive director in September 2008

In addition, EAC is in the process of developing strategic planning tools for each of its divisions or programs, including the policies and procedures needed to implement the programs' strategic direction. The EAC anticipated having this work completed on or before June 30, 2009. EAC has not, however, implemented those policies and procedures.

CHALLENGE 2: FINANCIAL MANAGEMENT AND PERFORMANCE

In fiscal year 2008, the OIG issued the following management challenge:

EAC lacks the ability to effectively manage its financial operations. In fiscal year 2007, poor control over its budget and expenditures resulted in the organization returning about \$2.4 million to the U.S. Treasury despite the need for additional staff and systems to deliver services and complete statutory tasks. In fiscal year 2008, problems persisted. EAC did not set up an operating budget for its divisions or a sufficient system to determine the status of its appropriations. Furthermore, it was not until a contractor was brought on in July 2008 that the EAC determined how much operating money it had spent and how much it had left.

More recently, the independent auditors, Clifton Gunderson LLP (CG), under contract with the OIG, were unable to complete an audit of the EAC's financial statements for fiscal year 2008 due to management's inability to provide timely financial information and material weaknesses in internal controls. In regards to controls, management was not able to assure that it had identified, implemented, and tested internal controls over its financial or program operations. Congress established management's responsibility for internal controls in the Federal Managers Financial Integrity Act of 1982 (FMFIA). The Office of Management and Budget (OMB) issued implementing instructions to Federal agencies in Circular No. A-123. The Circular requires agencies to issue an annual statement to OMB on whether the Agency's financial, management, and automated information security system controls conform to the government-wide standards. The EAC however, does not have a process to make such a determination.

ACTIONS NEEDED

To move forward, the Commissioners must put someone in place that has the responsibility and authority to manage the daily operations of the agency. Simultaneously, the EAC must develop and implement a comprehensive strategy that addresses the need for qualified and capable financial management staff; and corrects inconsistent and flawed business processes, unreliable financial information, and non-existent FMFIA process.

The OIG's 2008 Assessment Report identified weaknesses that related to seven findings that directly impact the EAC's financial management function. According to EAC's follow-up report, only one of those five of those findings remains open. However, the EAC must adequately implement internal controls and procedures to ensure that funds are reported and expended properly. Furthermore, it must complete a risk assessment to identify internal and external risks so as to identify and implement internal controls to mitigate those risks.

EAC's Progress

EAC has made progress toward the development of policies and procedures and implementation of additional personnel and financial resources to remedy the weaknesses identified in the OIG's 2008 Assessment Report. The following is a listing of the activities that EAC has completed:

- Hired a CFO/Budget Officer
- Hired an Accounting Director
- Reconstructed accounts to adequately record most obligations and expenditures
- Developed a list of financial laws and regulations that apply to EAC
- Adopted a strategic plan which included a new organizational structure for the Administrative Division
- Implemented monthly fund control reviews
- Developed policies and procedures to implement audit follow-up

CHALLENGE 3: INFORMATION TECHNOLOGY MANAGEMENT AND SECURITY

The Federal Information Security Management Act (FISMA) requires each federal agency to develop, document and implement an agency-wide program to provide information security and develop a comprehensive framework to protect the government’s information, operations and assets. To ensure the adequacy and effectiveness of information security controls, the OIG annually assesses the EAC’s efforts to safeguard data processed by its computer systems and networks. Our reviews have found that the EAC is not in compliance with FISMA or in pertinent part with the Privacy Act. For EAC, managing and securing information is a significant deficiency.

EAC’s Progress

The most recent FISMA review found that the EAC has made significant efforts to improve its information technology security and to protect its sensitive data; however, there is still work to be done to bring EAC into compliance with FISMA and OMB requirements. The following are the current findings related to information technology and data security:

Finding Number	Title
FY09-01	Establish an overall comprehensive plan of action and milestone (POA&M) document, with target dates for completion of corrective actions, to address the problems noted in this report. Assure that the plan is monitored on a monthly basis and updates provided to the commissioners.
FY09-02	Provide sufficient specialized training to EAC personnel to enable EAC to develop and maintain a risk-based IT security program that meets FISMA requirements, or hire an official that has experience managing an agency-wide IT security program.
FY09-03	Establish a continuous monitoring program to address the NIST 800-53 requirements.
FY09-04	Finalize the EAC IT security handbook, and establish a process to identify and document necessary operational processes to enable personnel to meet the control requirements contained in the handbook, and applicable NIST control requirements.
FY09-05	Assign a high priority to the completion of required contingency plans and COOP documents.
FY09-06	Implement the minimum password settings for the network. Ensure that other FDCC mandatory configuration settings are established as soon as possible.

Finding Number	Title
FY09-07	Implement access controls required by FISMA, including controls over all remote access methods, and OMB guidance on securing PII data.
FY09-08	Finalize the risk assessment, and ensure it is used to develop risk-based controls, and as a starting point for development of contingency plans and COOP documents.
FY09-09	Monitor ongoing actions to ensure that compliance with OMB PII guidance and Privacy Act requirements are completed expeditiously.
FY09-10	Establish controls over the audit logs maintained to ensure that the system is capable of providing required alerts. Ensure that periodic reviews are made of the logs to identify any unusual activity, other concerns or problems.
FY09-11	Ensure that access controls are implemented for all EAC network devices.

CHALLENGE 4: HUMAN CAPITAL MANAGEMENT

The Government Accountability Office (GAO) has designated strategic human capital management as a high risk area across the federal government since 2001. According to GAO, human capital management is a government wide problem that is eroding the ability of many agencies to economically, efficiently, and effectively perform their missions. GAO recognized that an agency’s workforce is its most important organizational asset. Agencies alter the organization’s performance by the way that they treat and manage their staffs and build commitment and accountability by involving and empowering their employees. GAO provided a framework for improving human capital management across the federal government which included recruiting, hiring, developing and retaining employees with the skills needed for mission accomplishment; creating an employee-friendly work place; and empowering and motivating employees while ensuring accountability and fairness in the workplace.

For the past two years, EAC has participated in the government’s annual employee survey. The results of these surveys identify critical weaknesses in EAC’s human capital management efforts. The EAC employees have consistently expressed their dissatisfaction with ability of EAC leadership to generate high levels of motivation, to review and evaluate the organization’s progress toward meeting goals and objectives, and to communicate the organization’s goals and priorities. Employees did not report a sense of involvement in the decisions that impact their work, the policies and practices of the senior leaders, or that management shares information about what goes on the organization. Employees also do not believe that promotions and rewards are merit based or reflect how well the employee performs his/her job. Perhaps the most disturbing of the survey questions reports that the percentage of employees that feel that they can report a violation of law, rule or regulation without fear of reprisal fell from 55.6% in 2007 to

36.3% in 2008. The results of this survey show that EAC does not operate an employee-friendly work place and that its efforts to empower and include employees have fallen short. EAC must evaluate its personnel management strategy and its successes and failures to develop an approach toward human capital management that will ensure a qualified, satisfied work force is available to do the work necessary to fulfill its mission.

Likewise, EAC must ensure that it has trained, experienced personnel assigned to critical functions. The OIG assessed EAC operations in 2008 and determined that there were significant gaps in qualified personnel to perform critical financial and administrative functions. While some progress has been made to increase the number of employees in critical functions that have federal government experience, there are still functions that either have not been assigned or are currently assigned to untrained, inexperienced personnel. EAC must evaluate its critical administrative and programmatic functions to determine its personnel needs. Those needs should be compared to its personnel resources. Functions should be assigned to persons who are trained and experienced in the activity or persons should be recruited to fill those posts.

EAC's Progress

EAC has made some progress, mostly in the area of hiring additional personnel to staff the accounting and financial management function. The EAC has hired a contracting officer, a CFO/Budget Officer, and an Accounting Director. EAC also reports having completed a skills inventory of all EAC programs. The assessment was conducted in conjunction with the Office of Personnel Management (OPM). However, it is unclear whether the assessment focused on what skill sets are available at EAC or what skill sets are needed at EAC. The OIG encourages EAC to assess both sides of that coin: what is needed and what assets are present.

November 9, 2009

Memorandum

To: Curtis W. Crider
Inspector General

From: Gineen Bresso Beach
Chair, U.S. Election Assistance Commission

Subject: Election Assistance Commission Response to the Inspector General's
Statement Summarizing the Major Management and Performance Challenges

The Election Assistance Commission (EAC) over the past year pursued its mission to assist the effective administration of Federal elections. This response to the Inspector General's Statement Summarizing the Major Management and Performance Challenges highlights efforts to the strengthen management of its programs and operations. Specifics associated with each of the identified major management challenges are discussed below.

Performance Management and Accountability

During FY 2009, to address issues in the FY 2008 financial statement audit, EAC:

- Adopted its first Strategic Plan in March 2009, covering 2009 through 2014, which identified the reporting relationships beyond the Executive Director and Commissioners in an organization chart, and which allows the agency to begin the process of reporting on formal performance metrics contained in the Plan;
- Reorganized overall structure and established its first Chief Financial Officer department consisting of experienced grants, budget, accounting and procurement staff;
- Finalized financial management policies and procedures;
- Submitted a FY 2010 Congressional Budget Justification and FY 2011 OMB Budget Justification in a performance based format; and
- Closed out many outstanding recommendations from operational audits and the FY 2008 financial statement audit.

The agency has made tremendous progress in the program areas during FY 2009. EAC:

- Made strides in certifying voting systems: between February and August, three voting systems were certified;

- Improved communications with stakeholders by instituting a Testing and Certification Voting System Reports Clearinghouse on its website;
- Issued best practices for voter information web sites, Quick Start Management guides on administering Federal elections, and a report on the Impact of the National Voter Registration Act on Federal Elections, 2007-2008
- Held working groups on UOCAVA, Elections, Technology & Accessibility, and Election Office Management.
- Awarded 13 Poll Worker grants totaling \$750,000, and seven Mock Election grants totaling \$300,000.

EAC's plans for FY 2010 are in line with actions identified by the Inspector General for completing the process of "developing and implementing strategic planning tools for each of its divisions or programs." Part of this process has been an independent review of EAC performance measures, how well the measures capture information useful to accomplishing agency goals, and how well the data collection systems produce reliable results. EAC will implement a robust internal control program and reliable and useful performance measurement systems, based on independent recommendations. Internal control training for staff is planned for the first quarter of FY 2010. The training will emphasize the importance of identifying risk.

EAC will work to finalize and implement remaining policies and procedures-- Communications, Clearinghouse, Research and updated administrative in FY 2010.

Financial Management and Performance

Policies and procedures for Grants Management, Testing and Certification, and Financial Management have been finalized. Financial management policies and procedures developed during the second half of the fiscal year upon set up of the CFO department, are currently being implemented.

As mentioned above, an independent assessment of EAC's risks was conducted, using the reliability of performance measures in the Strategic Plan as a guide.

Information Technology Management and Security

As noted by the Federal Information Security Management Act (FISMA) of 2002 independent evaluation in FY 2009, EAC made significant efforts to improve information security. Nevertheless, there is still work to be done to bring EAC in full compliance with FISMA requirements. To facilitate this effort, EAC has developed an overall security Plan of Action and Milestones (POA&M), which included target dates for completion of key corrective actions. EAC is working with a contractor to implement several corrective actions. The contractor will be required to keep EAC management closely informed of all progress on these actions.

Once the items in the POA&M are implemented, the agency will be in full compliance with requirements in every FISMA control area.

The key areas of effort are summarized below, and more detail is available in both the management response to the FISMA evaluation and the overall EAC POA&M. The numbers below match the Finding Numbers in the OIG report; i.e., item 3 below matches item FY-09-03 in the OIG report, and so on. Key FISMA efforts scheduled for FY 2010 include:

1. EAC management will monitor progress on implementation of the EAC FISMA POA&M.
2. EAC will initiate a search for a full-time Chief Information Officer (CIO), who may also serve as Senior Agency Information Security Officer (SAISO), Chief Privacy Officer, and information security proponent. EAC will finalize information security roles and responsibilities across the organization once the CIO position has been filled.
3. All operational procedures developed for information security at EAC will facilitate continuous monitoring of EAC information systems and security controls. This process will use automatic monitoring procedures such as automated system alerts using periodic review by qualified staff to ensure that procedures remain appropriate and relevant. In particular, procedures for change management, configuration management, audit log monitoring, network monitoring, patch management, risk management, and vulnerability scanning will facilitate continuous monitoring.
4. EAC will finalize and disseminate the provisional information security policies handbook to agency staff. In particular, key policies concerning privacy will be included in the 2010 employee information security awareness training. EAC information owners and information technology (IT) staff will develop, implement, and periodically review written operational procedures that specify how to implement the required controls to satisfy EAC's information security policy objectives in every FISMA control area.
5. EAC will develop a Business Impact Analysis (BIA), Disaster Recovery Plan (DRP), and a Continuity of Operations Plan (COOP), once the information owners review the current risk assessment, and major policies, procedures, and controls have been finalized and implemented.
6. Minimum password settings for the network have already been implemented and are now fully compliant with Federal Desktop Core Configuration standards (FDCC). At the appropriate time, EAC will develop a re-imaging schedule, present this schedule to appropriate supervisors, and then re-image computers as per this schedule.
7. EAC will work with the General Services Administration (GSA) to disable dialup remote access or, at a minimum, grant dialup access only on an as-required and/or contingency basis. EAC will re-initiate conversations with GSA and develop a timeline for the implementation of two-factor authentication for securing remote

8. EAC's FISMA contractor will work with EAC information owners to review, refine, and finalize the provisional risk assessment. This will include a comprehensive review of threats and vulnerabilities, and a review of the National Institute of Standards and Technology (NIST) Special Publication 800-53 *Recommended Security Controls for Federal Information Systems* security controls baseline already developed. Finally, a separation of controls into common and system-specific controls will be completed.
9. The EAC Privacy Officer has already taken inventory of PII systems and developed several draft policies and procedures related to protection of PII and privacy-related incident response. The FY 2009 EAC FISMA evaluation provides detailed guidance on areas in which EAC is still only partially compliant with PII and Privacy Act requirements, and EAC will formally adopt the PII recommendations from the FISMA evaluation as a guide to complete compliance. In particular, key PII policies will be included in the 2010 employee Privacy Act awareness training.
10. EAC IT staff will create a written itemization of every audit log type in use, will work with GSA to both identify and implement appropriate action on audit failures, and will develop a procedure to review these log files monthly and report errors to appropriate supervisors.
11. EAC will implement either a separate, limited-access "visitor" virtual local area network (VLAN) segment on the EAC network, or else create a completely isolated wireless network for visitor access. In either case, there will be no visitor access to any resources on the EAC network, including network devices such as printers, scanners, and copiers.

Human Capital Management

In the management area, EAC provided a process for independent assessment and analysis of Human Capital Management in line with the Inspector General's management challenge. Management is addressing issues identified in the agency's second employee survey, through staff teambuilding efforts, staff focus groups, and employee retreats. A professional facilitating team was retained to provide guidance, assistance and evaluation of the overall issues identified in the Human Capital Survey.

EAC committed resources and time to move from a disclaimer opinion on our financial statements to an unqualified (clean) opinion in the second half of FY 2009. EAC continues to improve its programs and operations, strengthening internal controls, financial management, and information technology across the agency.

III.C. IMPROPER PAYMENTS

The Improper Payments Act requires each Federal agency to assess all programs and identify which, if any, may be subject to high risk with respect to improper payments. For fiscal year 2009, EAC does not believe, that it has any programs where the erroneous payments could exceed 2.5 percent of program payments or \$10.0 million threshold (set in OMB Guidance) to trigger further agency action.

III.D. SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

SUMMARY OF FISCAL YEAR 2009 FINANCIAL STATEMENT AUDIT						
Audit Opinion	Unqualified					
Restatement	Yes					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance	
Financial Accounting & Reporting	1	0	0	0	1	
Support for Grant Accounting	1	0	1	0	0	
Funds Control	1	0	1	0	0	
FMFIA Compliance & Reporting	1	0	1	0	0	
Accounting Processes not in Accordance with GAAP	0	1	1	0	0	
<i>TOTAL WEAKNESSES</i>	4	1	4	0	1	
SUMMARY OF MANAGEMENT ASSURANCES						
Statement of Assurance (FMFIA§ 2)	Qualified					
Financial Management System Assurance (FMFIA§ 4)	Systems conform to financial management system requirements					
No.	Summary	Beginning Balance	New	Resolved	Consolidated	Ending Balance
1	Material Weaknesses (FMFIA§ 2)	11	1	10	0	2
2	Non-conformances (FMFIA§ 4)	1	0	1	0	0
	TOTAL	12	1	11	0	2

RECONCILIATION OF MATERIAL WEAKNESSES

For the “Beginning Balances”, in FY 2008, the independent auditors identified four material weaknesses. One of the weaknesses identified by the auditors, “Financial Accounting and Reporting” contained 7 different subsections. EAC considered these separate subsections to be individual material weaknesses for the sake of clarity and tracking improvement. In addition, in FY 2008 EAC identified an additional weakness with respect to policies and procedures. For year ending September 30, 2009, the independent auditors identified one material weakness. The weaknesses identified by the auditors, “Accounting Processes not in Accordance with GAAP” contained five different subsections. This material weakness was resolved prior to the preparation of the financial statements dated September 30, 2009.

Material Weaknesses	Per Auditors FY 08	Per Auditors FY 09	Per EAC FY 08	Per EAC FY 09	Difference
Financial Accounting & Reporting	1	--	7	--	6
Support for Grant Accounting	1	--	1	--	0
Funds Control	1	--	1	--	0
FMFIA Compliance & Reporting	1	--	1	--	0
Lack of Policies and Procedures	0	--	1	--	1
Accounting Processes not in Accordance with GAAP	--	1	--	1	0
TOTAL MATERIAL WEAKNESSES	4	1	11	1	7