



U.S. ELECTION ASSISTANCE COMMISSION

PERFORMANCE AND ACCOUNTABILITY REPORT

September 30, 2008



MESSAGE FROM THE CHAIR

The Election Assistance Commission is an independent bipartisan agency whose mission is to assist in the effective administration of Federal Elections. This is the first time in its 5-year existence that Election Assistance Commission (EAC) is subject to the requirement for an audit of its financial statements. EAC must comply with the requirement because its annual budget surpassed the \$25 million threshold for the Accountability of Tax Dollar Act of 2002.

EAC set the ground work for more effective management, accountability, and control of its financial and program operations during fiscal year 2008. This was a direct result of three significant events. The first was an assessment by the EAC Inspector General that highlighted the need for EAC to implement a strategic plan, improve internal controls, clarify the roles and responsibilities of the Commissioners and senior management, and establish and or document policies and procedures for all program areas. The second was EAC must complete an audit of its fiscal year 2008 financial statements. The third was feedback from the financial statement auditors that EAC had material internal control weaknesses and that the auditors were going to disclaim an opinion on the financial statements.

In response to these events, EAC has:

- Hired key personnel to help implement improvements, including a Chief Operating Officer, Budget Officer, and Contracting Officer.
- Started the search for a Chief Financial Officer.
- Developed a strategic plan.
- Issued policy on the roles and responsibilities of Commissioners and the Executive Director.
- Hired a contractor to help write policies and procedures and to document internal controls.
- Hired professionals to help develop performance-based budgets.
- Contracted with a certified public accounting firm to assist with financial management.
- Initiated efforts to obtain the services of a qualified firm to assist with prioritizing, analyzing, and implementing the audit recommendations to aid with developing a management plan, assuming budgetary resources are available.
- Started to update documentation of current financial management processes and systems.

- Initiated an assessment of training needs for employees to further enhance awareness of financial management.
- Prepare to issue a contract for assistance with the development of a comprehensive corrective action plan to address all material weaknesses.

Notwithstanding its challenges with financial management, fiscal year 2008 was a very productive year for EAC. To assist the election community, the EAC established the following goals:

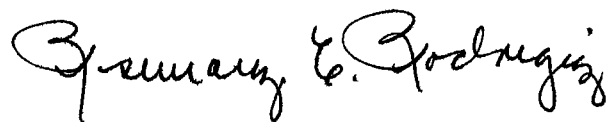
1. Prepare for the 2008 Elections
2. Update the Voluntary Voting System Guidelines (VVSG)
3. Operate a Clearinghouse to Furnish New Information and Guidance on Improving Administration of Elections

Some of EAC's significant accomplishments in response to these goals included:

- Issuing a report entitled *Effective Designs for the Administration of Federal Elections*. It includes best practices for ballot design and polling place signage, as well as a digital library containing hundreds of camera-ready images of ballots and polling place materials.
- Issuing election terminology glossaries in five languages – Chinese, Japanese, Korean, Vietnamese, and Tagalog.
- Issuing the Voting System Test Laboratory Program Manual and the Voting System Testing and Certification Manual.
- Hosting six roundtables to discuss recommended improvements to the VVSG, posting the recommendations for comment, and receiving 3,200 comments.
- Awarding grants of \$2 million each to Pennsylvania, Minnesota, Ohio, Illinois and Wisconsin for the collection of Election Day data.
- Awarding grants totaling \$750,000 to 27 colleges and nonprofit organizations from 18 states.
- Awarding ten grants of about \$20,000 each to educate secondary school students and their parents about the electoral process through mock national elections.
- Issuing a formal report to the Congress on states' use of approximately \$3 billion of election improvement funds.
- Posting nearly a thousand documents on www.eac.gov

In closing, EAC recognizes that adjustments are needed to key financial and management processes. The Commissioners and the Executive Director also recognize the need to modify the management style to ensure a high level of accountability. Because this was the first year EAC was subject to the financial statement audit requirement and because EAC has not finalized a strategic plan, implemented a performance-based budget, or established an internal control review structure, it is not able to present all elements required for its Performance and Accountability Report (PAR) for fiscal year 2008. However, the financial statements which are being submitted, to the best of my knowledge and belief, are accurate and reliable. EAC's goal for fiscal year 2009 is to continue implementing necessary financial management improvements. In 2010, EAC hopes to obtain an unqualified

(clean) opinion on its financial statements and produce an informative PAR in accordance with requirements.

A handwritten signature in black ink, reading "Rosemary E. Rodriguez". The signature is written in a cursive style with a large initial 'R'.

Rosemary E. Rodriguez, Chair
November 17, 2008

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SECTION I

Management Discussion and Analysis

I.A BACKGROUND, MISSION AND ORGANIZATIONAL STRUCTURE

In October 2002, Congress passed the Help America Vote Act (HAVA). The law recognized the need to invest in 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).

About the EAC

EAC is an independent, bipartisan agency. Four full-time commissioners, appointed by the President and confirmed by the U.S. Senate, 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).
- Accredit 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.
- Design and develop requirements for state instructions to the national voter registration form.
- Provide Congress with a bi-annual report to assess the impact of the National Voter Registration Act (NVRA).

HAVA also set up a Standards Board and the Board of Advisors to counsel EAC. In addition, the law established a Technical Guidelines Development Committee (TGDC) to assist 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 will help EAC test, certify, decertify and recertify voting system hardware and software by accredited laboratories. Since fiscal year 2004, EAC's annual appropriations have included funds for NIST support.

Establishment of EAC

The Senate confirmed all four Commissioners in December 2003 and EAC began operations in January 2004, 10 months later than required by HAVA. Its fiscal year 2004 operating budget was about \$1.7 million. At the close of the fiscal year, EAC had a staff of 18, including its statutorily-required General Counsel.

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 approximately \$3.2 billion in fiscal years 2003 and 2004 for payments to states under title I and II of HAVA. States were to use the funds principally to upgrade their voting systems, establish a statewide voter registration data base, train election officials, and educate voters. As EAC did not begin operations until 2004, GSA initially distributed HAVA funds to states in fiscal year 2003.

During fiscal year 2005, EAC appointed its other statutorily-required position, the Executive Director, and an interim Inspector General. EAC efforts in subsequent years were 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. Through fiscal year 2008, EAC has grown to 37 full-time employees, including the four commissioners and their four special assistants. EAC is located in Washington, D.C. and has no field offices.

Funding for EAC

EAC's and related appropriations for fiscal year 2003 through fiscal year 2008 follow:

APPROPRIATIONS FOR ELECTION REFORM PROGRAMS AND PAYMENTS BY FISCAL YEAR						
DESCRIPTION	2003	2004	2005	2006	2007	2008
TO EAC:						
EAC operations	^A \$2,000,000	^B \$1,681,092	\$11,022,400	\$11,286,000	\$11,250,000	\$13,280,000
Transfer NIST	0	0	2,777,600	2,772,000	4,950,000	3,250,000
Title I Pay. to states	0	0	0	0	0	0
Title II Pay. to states	^C	^C 2,330,000,000	0	0	0	115,000,000
Grants	^A 1,500,000	0	0	0	0	10,000,000
Help Am. Vote Found. ^D	^A 1,500,000	0	0	0	0	0
SUBTOTAL						
Less Recession	0	8,857,080	0	0	0	0
TOTAL EAC	<u>5,000,000</u>	<u>2,322,824,012</u>	<u>13,800,000</u>	<u>14,058,000</u>	<u>16,200,000</u>	<u>141,530,000</u>
TO GSA:						
Title I Pay. to states	^E 649,500,000	0	0	0	0	0
Admin. of Pay. distrib.	<u>500,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL GSA	<u>650,000,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>

^AFunds were not used and reverted to the U.S. Treasury.

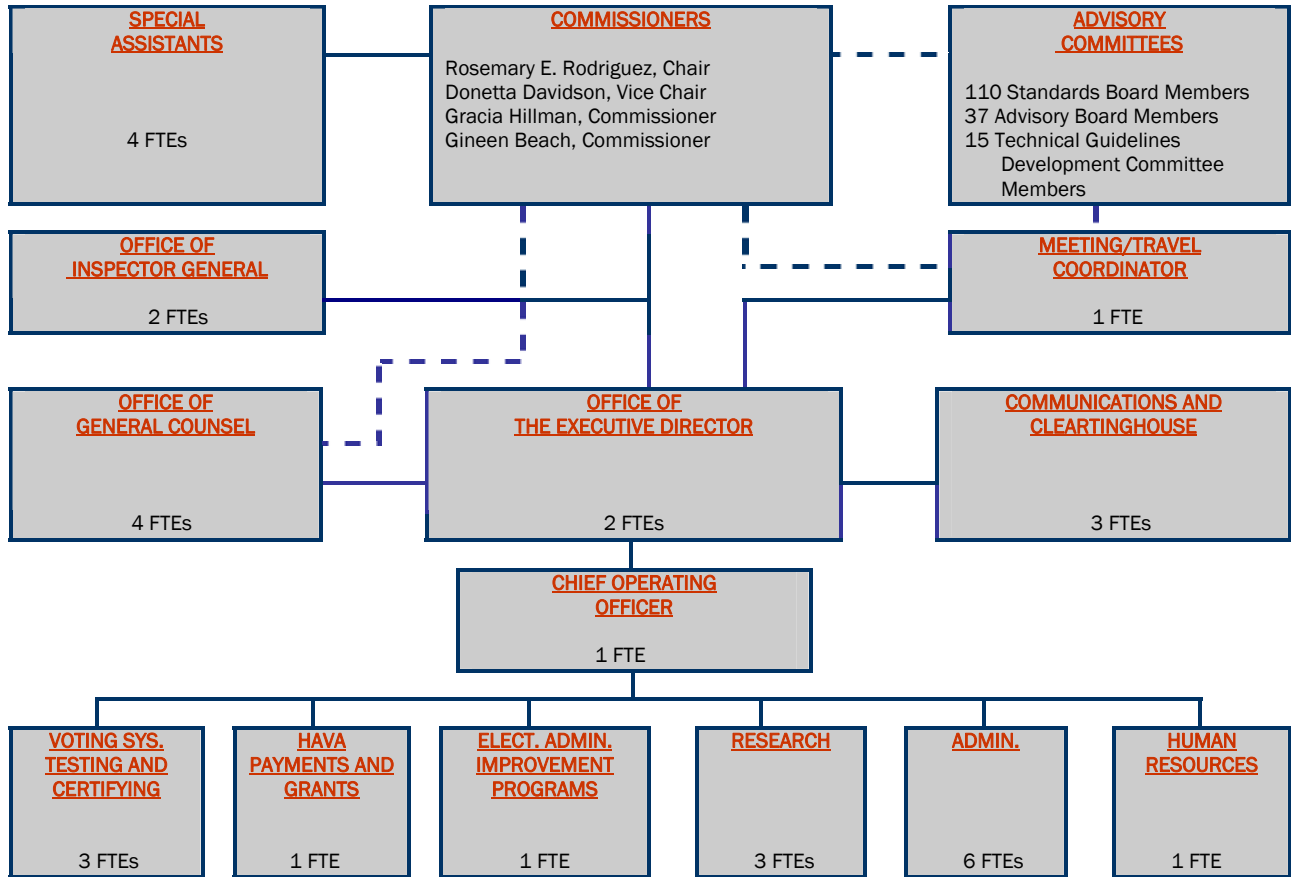
^BConsists of \$1,200,000 appropriated to EAC and \$481,092 transferred from the Federal Election Commission (FEC) from the balance of \$800,000 appropriated to FEC for programs and functions that were transferred to EAC.

^CCongress appropriated \$830,000,000 to EAC for Title II requirements payments in 2003 and authorized GSA to make payments on EAC's behalf. GSA, however; did not disburse any requirements payments in 2003. In 2004, Congress extended to 2004, GSA's authority to expend the \$830,000,000. The \$2,330,000,000 includes the \$830,000,000 appropriated in 2003 and carried forward to 2004.

^DCongress appropriated funds for the Foundation only in fiscal year 2004, which were not used; thus the Foundation was not established.

^EGSA distributed the funds but EAC is responsible for oversight of the funds.

Organization Structure



I.B PERFORMANCE GOALS, OBJECTIVES, AND RESULTS

Recognizing that it needed to formalize its planning, reporting and execution activities, EAC began to develop its first 5-year strategic plan in March 2008. The plan has been drafted, 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 anticipates finalizing the plan by the end of December 2008.

Goals and Performance Results

In lieu of a strategic plan, EAC established annual agency goals in its required annual report to the Committee on House Administration of the House of Representatives and the Committee on Rules and Administration of the Senate. The 2008 goals for the EAC and the associated performance results are as follows:

Goal 1 - Prepare for the 2008 Elections

Work to provide election officials the resources and information they will need to conduct accurate, accessible, and secure elections as the Nation approaches the presidential election of 2008. The EAC will focus on its Voting System Testing and Certification Program, ensuring that the public and election officials are notified about all program updates.

Results

To implement the Testing and Certification Program, EAC worked with NIST to accredit laboratories to test voting equipment. Based on the tests of equipment and software conducted by laboratories, EAC will certify, decertify, or recertify voting systems, as appropriate. During 2008, EAC:

- Accredited one laboratory (Wyle Laboratories, Inc), and recommended a lab (CIBER) for the EAC lab accreditation program.
- Issued the Voting System Test Laboratory Program Manual. The Manual provides the procedural requirements of the EAC voting system Laboratory Accreditation Program.
- Issued the Voting System Testing and Certification Manual. The Manual contains comprehensive procedures for the voting system testing and certification program.
- Added Unisyn to the list of registered voting system manufacturers.
- Added Unisyn's OpenElection Voting System and updated versions of two existing voting systems, the Unity 3.0.1.0 and Unity 3.0.1.1 w. ATS 1.3 and the Assure 1.2 to the list of systems applying for certification.
- Posted its first voting system certification test report. The report is for the Premier Assure 1.2.

- Approved test plans for two voting machines: Premier Solutions Assure 1.2 and EMS Voting System v.4.0.0 Test Plan.
- Issued a contract for a voting system risk assessment.

Goal 2 - Update the Voluntary Voting System Guidelines (VMSG)

EAC will issue a draft of the VMSG for a 120-day comment period after considering all comments submitted on the TGDC recommended VMSG. During the public comment period, EAC will conduct public meetings to gather more input from the public, election officials, manufacturers, test laboratories, the disability community, advocacy groups, and other experts. At the conclusion of the public comment period, EAC will consider all comments and work toward a final version, which will be adopted at an EAC public meeting.

Results

EAC worked with its advisory committee and NIST to update its 2005 iteration of the VMSG. During fiscal year 2008, EAC:

- Hosted six public roundtable discussions to talk about recommended improvements to the VMSG and to introduce a high level of transparency and accountability in the update process. The roundtables brought together election officials, voting advocates, usability and accessibility experts, voting system test laboratory representatives and voting system manufacturers.
- Received approximately 3,200 comments on recommended improvements to the VMSG during a public comment period from November 6, 2007 to May 5, 2008. The EAC is currently working with the NIST to address the comments.

Goal 3 - Operate Clearinghouse to Furnish New Information and Guidance on Improving Administration of Elections

EAC will complete and distribute a number of HAVA-mandated studies on the following topics: the impact of free absentee ballot return postage on voter participation; electronic voting and United and Overseas Citizens Absentee Voting Act (UOCAVA) voters; the feasibility of various alternative voting methods; the voting experiences of first-time voters who register by mail; and the feasibility and advisability of identifying voters by social security numbers. The results of these studies will be available at www.eac.gov.

EAC will issue nine new chapters under its Election Management Guidelines Program to promote secure, accurate, and accessible elections:

- Absentee Voting and Vote by Mail
- Acceptance Testing
- Ballot Design
- Contingency Planning and Change Management
- Developing an Audit Trail
- Language Accessibility

- Polling Place and Vote Center Management
- Pre-Election and Parallel Testing
- Uniformed and Overseas Citizens

EAC will also issue two more Quick Start Management guides about serving military and overseas citizens and developing an audit trail for the verification of votes. These materials will be sent to election officials throughout the nation and will also be available under the Election Official Center at www.eac.gov.

EAC plans to produce a glossary of election terms and translate the national voter registration form into Chinese, Japanese, Korean, Tagalog, and Vietnamese. The EAC will also establish working groups to address the election needs of Native Americans and Alaskan natives. The EAC will issue *A Voter's Guide to Federal Elections* in multiple languages. This publication will inform voters about the Federal election process, and provide information about voter registration, polling places, absentee ballots, provisional ballots, poll workers, and similar topics. This brochure will be available initially in English, Spanish, Chinese, Japanese, Korean, Tagalog, and Vietnamese; the EAC will also examine the feasibility of providing this information in audio format to Native American and Alaska Native voters.

Results

EAC distributed through its clearinghouse operations key information developed by its programs to EAC stakeholders. EAC's primary communication tool is its Web site. EAC improved its clearinghouse operations and provided the following information during fiscal year 2008:

- Integrated a *Real Simple Syndication* (RSS) news feed that enables EAC to feature the most current EAC tools, resources and events on its homepage. Most importantly, RSS allows EAC to automatically alert an unlimited number of subscribers of its feed with EAC program and event updates.
- Posted nearly 1,000 documents and Web pages to our site. These documents and pages contain a variety of information, from voting system test plans and correspondence to testimony from EAC public meetings and hearings.
- Sent a monthly newsletter that listed all EAC activities and events to about 1,200 stakeholders who subscribe to an EAC distribution list.
- Issued a report entitled *UOCAVA Voters and the Electronic Transmission of Voting Materials in Four States*. The report presents the results of the experiences of four states with Internet voting and with electronic transmission of absentee ballots to and from UOCAVA voters.
- Released three case studies describing the unique experiences of states with transmitting ballots electronically, sending and accepting ballots electronically, and using internet voting.

- Issued a report titled *Effective Designs for the Administration of Federal Elections*. The report addresses the design planning process, general best practices, implementation insights, limitations and more for the design of ballots and polling place materials. The report also includes a digital library containing hundreds of camera-ready images of ballots and polling place materials that can be easily and affordably customized and used by state and local election officials.
- Issued a report titled *Voter Hotlines*. This study evaluates the effectiveness of different kinds of, and usages for, voter hotlines.
- Issued a report titled *First-Time Voters*. Section 244 of HAVA requires the EAC to study and report on the impact of the law on first-time voters who register to vote by mail and cast their ballots in person. Through case studies and voter focus groups, this research provides insight into the administrative difficulties imposed on election officials by this HAVA requirement and voters' perceptions of its efficacy.
- Issued eight Election Management Guidelines on the following subjects:
 - Acceptance Testing
 - Uniformed and Overseas Citizens
 - Pre-election and Parallel Testing
 - Developing an Audit Trail
 - Contingency Planning and Change Management
 - Ballot Building
 - Absentee Voting and Vote by Mail
 - Polling Place and Vote Center Management
- Issued six Quick Start Guides on the following topics:
 - absentee voting and vote by mail
 - acceptance testing
 - contingency and disaster planning
 - managing change in an election office
 - media and public relations
 - polling places and vote centers
- Issued a Voter's Guide to Federal Elections, a publication designed to provide voters with the information they need to successfully participate in Federal elections, from the essentials of ballot casting such as voter registration to details on resources available to help voters who live overseas or are in the military.
- Conducted six public meetings that were also webcast including workshops on ballot design, contingency planning and voter registration databases.
- Issued election terminology glossaries in five languages – Chinese, Japanese, Korean, Vietnamese, and Tagalog, the most widely spoken Asian language in the United States.

- Convened a meeting of Native Americans and Alaska Natives to discuss their needs for information to help facilitate elections.

Other Accomplishments

In fiscal year 2008, Congress directed EAC to award \$10 million in grants to five states. The purpose of the grants is to measure the costs of improving the collection of election data at the precinct level. Congress also instructed EAC to award grants for training poll workers and for conducting mock elections. In addition, EAC performed its ongoing oversight of state use of funds that were awarded in fiscal years 2003 and 2004 to improve the administration of Federal elections. Relative to these areas, EAC completed the following actions:

- Awarded grants of \$2 million each to Pennsylvania, Minnesota, Ohio, Illinois and Wisconsin for the collection of data related to the upcoming November 2008 general Federal election.
- Awarded grants totaling \$750,000 to 27 colleges and nonprofit organizations from 18 states. The purpose of the grants is to recruit students to serve as poll workers during the November presidential election. Based on the grant proposals, roughly 8,800 additional college students will serve as poll workers.
- Awarded grants of about \$20,000 each to 10 organizations from nine states to educate secondary school students and their parents about the electoral process through mock national elections.
- Issued guidance on the uses of and accounting for HAVA funds as follows:
 - Clarified that states may use HAVA funds to replace voting systems that were previously purchased with HAVA funds.
 - Explained the application of the requirement for maintenance of effort when using funds authorized by Section 251 of HAVA.
 - Clarified the HAVA provision that exempts the U.S. Territories from the matching requirement contained in Section 254 of HAVA.
 - Described how to allocate indirect costs to various HAVA-funded programs.
 - Identified the various voter registration activities that are eligible for HAVA funding.
 - Explained the requirements for the disposition of revenue from the sale of equipment purchased with HAVA funds.
- Negotiated indirect cost rates for Illinois and Michigan State election offices.

- Issued four management decisions to resolve findings in audit reports covering state use of HAVA funds in New Mexico, Delaware, Montana, and South Carolina.
- Issued a formal report to the Congress on states' use of the \$3.2 billion of election improvement funds. The report showed that states have \$1.2 billion remaining consisting of unspent funds and interest earned on fund deposits.

I.C ANALYSIS OF EAC FINANCIAL STATEMENTS

EAC is not able to show changes in its financial position between fiscal years 2007 and 2008 because it did not prepare financial statements in fiscal year 2007. Following is its financial position for 2008.

<u>Financial Condition</u>	<u>2008 (Unaudited)</u>
Assets	\$133,631,663
Liabilities	913,715
Net Position	132,717,948
Net Costs	15,180,494
Budgetary Resources	\$145,516,935

Budgetary resources as represented in the 2008 Statement of Budgetary Resources are comprised of the following:

<u>Budgetary Resources</u>	<u>2008 (Unaudited)</u>
Obligations Incurred - Direct	\$138,174,801
Unobligated Balance - Apportioned	761,585
Unobligated Balance - Not Available	6,580,549
Total Budgetary Resources	\$145,516,935

In fiscal year 2007, EAC's total appropriation was \$16.2 million, including \$4.95 million that it transferred to NIST. In comparison, EAC's budgetary resources for fiscal year 2008 were \$145,516,935 - a huge increase over 2007. The major difference for fiscal year 2008 was the appropriation of \$125 million for Federal financial assistance to states.

I.D 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.E Analysis of Controls, Management Systems, and Legal Compliance

EAC is subject to numerous legislative and regulatory requirements that promote and support effective internal controls. Laws that help EAC improve the management of its financial operations and programs are highlighted below:

Federal Manager's Financial Integrity Act

The Federal Manager's Financial Integrity Act (FMFIA) requires managers of Federal 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, managers must also conduct annual evaluations of the adequacy of internal accounting and administrative controls and annually report on all identified material weaknesses.

During fiscal year 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 this year's financial statement audit.

Material Weaknesses:

In addition to the weaknesses identified by the independent auditors as represented in Table 1 on the next page, the following material weakness was identified by management:

- Lack of effective written policies and procedures in areas covering budget, finance, contracting, property, personnel, travel, grants, information technology, election administration improvement programs, research, and communications.

The actions to be taken to address the material weaknesses are provided in the EAC's response to the recommendations in the internal control report. In addition, the Commission will focus on consolidating these items in a Continuity of Operations Plan (COOP) and Disaster Recovery Plan (DRP) which are currently under development and will include the following corrective actions:

Corrective Actions	Target Completion Date
• Develop an EAC Manual containing all necessary administrative and program procedures.	1/31/09
• Implement a strategic plan	12/31/08
• Implement the applicable requirements of Office of Management and Budget Circular A-123, <i>Management's Responsibility for Internal Control</i> .	09/30/09
• Re-evaluate the current organizational structure and clearly define areas of authority and responsibility, and hierarchy for reporting.	01/15/09

• Review and perform a periodic reconciliation of EAC financial activities with GSA's accounting records.	12/31/08
• Define areas of authority and responsibility, and hierarchy for reporting (including the roles of the Commissioners and the Executive Director).	09/15/09
• Hire staff with federal budgeting experience or provide training to appropriate staff in the Office Administration.	09/30/09

During fiscal year 2009, the EAC hopes to design, implement, and assess internal controls in full compliance with Office of Management and Budget Circular A-123, *Management's Responsibility for Internal Control*, and *FFMIA*.

Table presents the material weaknesses identified by management for FY2008:

TABLE 1

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

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 absolutely essential.

Table 2 identifies the significant deficiencies identified by audit in the Entity-Wide security program:

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.	0	1	0	0	1
2	Lack of an inventory of systems and applications.	0	1	0	0	1
3	Lack of an adequate security management structure	0	1	0	0	1
4	Certification and Accreditation of general support systems has not been performed.	0	1	0	0	1
5	Third party information security examinations and inspections are not monitored for inclusion within the service provider's Plan of Actions and Milestones.	0	1	0	0	1
	TOTAL	0	5	0	0	5

The Commission realizes the importance of these issues and will work towards resolving them in FY2009 by taking the actions presented in the EAC's response to the auditor's recommendations in the internal control report.

Contingency Plan:

The independent auditors also identified deficiencies that could affect EAC's ability to respond to a disruption in business operations as a result of a disaster or other long-term emergency. The Commission will develop a Continuity of Operations Plan (COOP) and Disaster Recovery Plan (DRP) in order to ensure that, if unexpected events occur, critical operations will be able to continue or be promptly resumed without significant interruption.

Financial Management System Requirements:

Table 3 presents the results of management analysis of financial management system requirements for FY2008:

TABLE 3

CONFORMANCE WITH FINANCIAL MANAGEMENT SYSTEM 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	0	1	0	0	1
	TOTAL	0	1	0	0	1



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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 the Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Internal Control*. Internal control is an integral component of the Commission's management that provides reasonable assurance that the following objectives are being achieved: effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations.

The EAC did not complete an assessment of the effectiveness of internal control in accordance with OMB Circular A-123, *Management's Responsibility for Internal Control*. It did, however, conduct an evaluation of weaknesses disclosed in reports issued by the General Accounting Office and by the EAC Office of Inspector General. In addition, management reviewed the material weaknesses identified in the auditor's report on internal control over financial reporting. As a result of these reviews, the EAC identified material weaknesses in its internal control over the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations as of September 30, 2008. These are summarized in Table 1 of this section.

The Commission also considers the lack of an integrated financial management system to be a non-conformance with Section 4 of the FMFIA. Without an integrated financial management system, the Commission cannot easily produce accurate and timely management reports. The independent auditors have identified financial accounting and reporting controls as a material weakness. The Commission recognizes that additional system integration efforts are needed for this weakness to be fully eliminated. The non-conformance is summarized in Table 2 of this section.

Except for the material weaknesses and non-conformance discussed above, the Commission is able to provide a qualified statement of assurance that the internal control and financial management systems meet the objectives of the FMFIA.

This is the first time in its 5-year operational existence that EAC is subject to the requirement for an audit of its financial statements. The EAC's review was based only on the results of audits of its programs and operations which identified material weaknesses that EAC lacked effective written policies and procedures over many program areas and financial management activities.

The EAC believes, however, that it has effective controls over its Testing and Certification Program through the adoption of manuals for laboratory accreditation and for testing and certifying voting systems. The EAC has also drafted a manual covering the payments and grants that have been authorized by HAVA. Further, policies and procedures for other programs and administrative operations are currently being developed and formalized with the assistance of a contractor.

Throughout the financial statement audit it became apparent that the processes in place need to be substantially improved to meet compliance with the high level standard currently set by the FMFIA. The EAC is currently in the process of implementing such improvements.



Rosemary E. Rodriguez
Chair
November 17, 2008

Accountability of Tax Dollars Act of 2002 (Fiscal Year 2008 Financial Statement Audit Report Results)

The fiscal year 2008 financial statement audit report identified four material weaknesses pertaining to financial accounting and reporting, grant accounting, funds control, and implementing and assessing internal controls. In addition, the report identified a significant deficiency in information technology security. The corrective action plan to address these deficiencies is presented in the EAC response to the draft auditors report on internal controls.

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.

Annual Appropriation Law and the Antideficiency Act

The EAC has a balance of \$618,808 in fund 95 X 1650, Election Reform Payments. The fund was the repository of fiscal year 2004 Congressional appropriations of \$2,321,150,000 (net of a rescission of \$8,850,000) for HAVA Title II payments to states. A preliminary analysis of the fund transactions indicates a possibility that funds appropriated for state payments may have been used for other HAVA grant programs and EAC operations. EAC will conduct a review of all related funds and associated transactions to determine whether any violation has occurred. The review will be completed by March 30 2009.

Inspector General Act Amendments of 1988

The Inspector General Act requires management to complete all final actions on audit recommendations within 1 year of the date of the Inspector General's (IG) final audit report. The EAC has no final IG audit reports that have been outstanding for over one year.

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 fiscal year, 2008, EAC resolved audit reports covering state use of HAVA funds in New Mexico, Delaware, Montana, and South Carolina.

SECTION II

Performance Report

II.A PERFORMANCE PURPOSES, OBJECTIVES, AND RESULTS

EAC is not able to present detailed information on performance, in accordance with OMB Circular A-136, for fiscal year 2008 because it has not implemented its 5-year strategic plan or implemented a performance-based budget. The strategic plan, however has been drafted, reviewed by OMB, and sent to EAC's Board of Advisors and Standards Board for review in accordance with the Help America Vote Act. The strategic plan will be completed by the end of December 2008. In addition, EAC is preparing a performance-based budget for fiscal year 2009. Therefore, EAC will be able to fully comply with the requirements for section II of the PAR for fiscal year 2009. EAC's performance results for fiscal year 2008 are presented in section I.B of this report.

SECTION III

Audit Report and Financial Statements

III.A MESSAGE FROM THE EXECUTIVE DIRECTOR

NOVEMBER 13, 2008

I am presenting the EAC's financial statements for fiscal year 2008. Our financial statements are an integral component of the Performance and Accountability Report (PAR), as required under the Accountability and Tax Dollars Act of 2002.

This is the first year in its 5-year operational existence that EAC spent enough money to trigger the requirement for preparing financial statements and submitting them for audit. Consequently, we 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.

The experience, however, was invaluable in helping us understand the steps we need to complete to improve the quality of our financial information and to prepare for future audits. We began those steps last fiscal year by engaging contractors to help us write policies and procedures, identify improvements to internal controls, and upgrade financial reporting; by hiring budgeting and contracting experts; and by starting a search for a chief financial officer (CFO). Much more needs to be done. A principal component of our improvement plan is to hire an experienced Federal financial manager to serve as the CFO for the EAC, and empower the CFO to establish a high-performing financial management unit.

The auditor's report presented in this PAR 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. To address those weaknesses and a reportable condition in information technology security, the auditors presented 25 recommendations. Although we will strive to prepare financial and performance data in accordance with requirements for 2009, we do not believe it is realistic to forecast that we will implement all 25 recommendations in time to produce a PAR that includes an unqualified opinion on our financial statement and the requisite performance data until 2010.

Our detailed actions to correct the material weaknesses are presented in other sections of this report.

Sincerely,



Thomas R. Wilkey,
Executive Director

III.B INDEPENDENT AUDITOR'S REPORT



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

November 17, 2008

To: The Commission
From: Inspector General *Curtis W. Linton*
Subject: Independent Auditor's Reports on the U.S. Election Assistance Commission's Financial Statements for Fiscal year 2008 (Assignment No. I-PA-EAC-01-08)

INTRODUCTION

This memorandum transmits the Independent Auditor's Report and accompanying Independent Auditor's Reports on Compliance and Other Matters and Internal Control issued by Clifton Gunderson LLP (Clifton Gunderson) on its audit of the U.S. Election Assistance Commission's (EAC) financial statements for the fiscal year ending September 30, 2008. The audit was performed by Clifton Gunderson under a contract that was monitored by the Office of Inspector General (OIG). The contract required that the audit be performed in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and the Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*.

RESULTS OF AUDIT

Clifton Gunderson was unable to express an opinion on the EAC's balance sheet as of September 30, 2008 and on the related statements of net cost, changes in net position, and the statement of budgetary resources for the year then ended, because the EAC was unable to provide sufficient appropriate evidence to allow Clifton Gunderson to conduct its audit.

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 identified four material weaknesses and one significant deficiency in internal control, respectively, as follows:

- I. Financial Accounting and Reporting Controls
- II. Lack of Support for Grant Accounting

III. Weak Funds Control

IV. Federal Manager's Financial Integrity Act Compliance and Reporting

V. Information Technology

Because the EAC was unable to provide sufficient appropriate evidence to allow Clifton Gunderson to conduct its audit, Clifton Gunderson was unable to test EAC's compliance with laws and regulations.

EAC CORRECTIVE ACTIONS

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.

EVALUATION OF CLIFTON GUNDERSON PERFORMANCE

To ensure the quality of the audit work performed, the OIG reviewed Clifton Gunderson'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. Clifton Gunderson is responsible for the attached auditor's report dated November 7, 2008 and the conclusions expressed in the report. However, the OIG review disclosed no instances where Clifton Gunderson 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.

Attachments

Cc: Executive Director
Chief Operating Officer
Administrative officer



Independent Auditor's Report

To the Inspector General of the
Election Assistance Commission

We were engaged to audit the balance sheet and accompanying notes of the Election Assistance Commission (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 (hereinafter collectively referred to as financial statements). These financial statements are the responsibility of the EAC's management.

EAC's accounting records are inadequate for us to obtain sufficient appropriate audit evidence to conduct the audit. As a result, we did not obtain sufficient, appropriate, evidential matter for applying audit procedures necessary to conduct an audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable provision of the Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

Because of the matter 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 EAC's financial statements as of and for the year ended September 30, 2008.

Appendix C of the Technical Amendments to OMB Bulletin No. 07-04 issued on August 25, 2008 is amended to include the EAC as one of the executive agencies in the Accountability for Tax Dollars Act required to prepare financial statements. Fiscal Year 2008 is the first year EAC prepared financial statements.

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 7, 2008 on our consideration of the EAC's internal control over financial reporting, and on our tests of the EAC's compliance with certain provisions of laws and regulations and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of our audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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The information in the Management's Discussion and Analysis is not a required part of the financial statements, but is supplementary information required by accounting principles in the United States of America. However, we did not audit this information and, accordingly, we express no opinion on it.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information in the Message from the Chairwoman, Performance Section, and Other Accompanying Information is presented for purposes of additional analysis and is not required as part of the financial statements. This information has not been subjected to auditing procedures and, accordingly, we express no opinion on it.

Clifton Henderson LLP

Calverton, Maryland
November 7, 2008



Independent Auditor's Report on Internal Control over Financial Reporting

To the Inspector General of the
Election Assistance Commission

We were engaged to audit the financial statements of the Election Assistance Commission (EAC or Commission) as of and for the year ended September 30, 2008, and have issued our report dated November 7, 2008. In that report, we disclaimed our opinion on EAC's financial statements because we did not obtain sufficient, appropriate, evidential matter for applying audit procedures necessary to conduct our audit in accordance with auditing standards generally accepted in the United States of America; and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

The management of EAC is responsible for establishing and maintaining internal control to achieve the objectives of effective and efficient operations, and reliable financial reporting. In planning and performing our audit, we considered EAC's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements and to comply with OMB Bulletin No. 07-04, as amended, but not for the purpose of expressing an opinion on the effectiveness of EAC's internal control over financial reporting. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act (FMFIA) (31 U.S.C. 3512), such as those controls relevant to ensuring efficient operations. Accordingly, we do not express an opinion on the effectiveness of EAC's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and a significant deficiency.

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 more than a 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. We consider the deficiencies described below in information technology to be collectively a significant deficiency in internal control over financial reporting.

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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 the internal control over financial reporting was for the limited purpose described in the second paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, as discussed below, we also identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

MATERIAL WEAKNESSES

I. Financial Accounting and Reporting Controls

The Accountability of Tax Dollars Act (ATDA) of 2002 extends to EAC a requirement to submit to the Congress and the Director of the Office of Management and Budget (OMB) audited financial statements. OMB Circular A-136, *Financial Reporting Requirements*, defines the form and content of financial statements to be prepared by the agency. To accomplish the objective of complying with the ATDA, the agency is required to develop a system to prepare a complete set of financial statements on a timely basis in accordance with generally accepted accounting principles. The statements are to result from an accounting system that is an integral part of a total financial management system containing sufficient structure, effective internal control and reliable data. Financial reporting also consists of policies and procedures related to the processing and summarizing of accounting entries, and the preparation of financial statements. Fiscal Year 2008 is the first year EAC is preparing and submitting audited financial statements.

EAC's accounting records are inadequate for us to obtain sufficient appropriate audit evidence to conduct our audit. Below are detailed descriptions of the control deficiencies related to EAC's financial reporting:

A. Incomplete Performance and Accountability Report (PAR)

Reporting information that helps people assess the performance of the Government's programs is an important objective of Federal financial reporting. For governmental entities, in contrast to profit-seeking entities, the financial result of governmental-type activities is rarely an adequate indicator of performance. To adequately assess performance, people need additional information, such as that required by OMB Circular A-136, *Financial Reporting Requirements*.

OMB Circular A-136 defines the form and content of a Federal agency PAR. The PAR contains four sections:

1. Management's Discussion and Analysis (MD&A) (Section 1)
2. Performance Section (Section 2)
3. Financial Section (Section 3)
4. Other Accompanying Information (Section 4)

MD&A (Section 1)

The MD&A's Performance Goals, Objectives, and Results section did not have performance measures and results (see discussion below related to Performance Section). The Analysis of the Entity's Financial Statements section of the MD&A contains insufficient information to help users understand EAC's financial results, position and condition and assist users in assessing whether that financial position has improved or deteriorated as a result of the year's activities. This section does little more than restate information already provided elsewhere in the report, and does not include a discussion of key financial related measures emphasizing financial trends and assess financial operations.

Performance Section (Section 2)

EAC was unable to prepare the Performance Section. EAC limited the content of this section to the reasons EAC could not present the required detailed information and the actions being taken to meet the requirements for fiscal year 2009. According to management, EAC is unable to prepare the required performance elements of the PAR, because EAC has not finalized a strategic plan or implemented a performance-based budget.

Financial Section (Section 3)

As mentioned above, we disclaimed our opinion on EAC's financial statements.

Recommendations:

1. Establish policies, procedures and mechanisms to comply with the financial reporting requirements in OMB Circular A-136.
2. Finalize a strategic plan, implement a performance based budget and formulate useful performance measures to tie to the budget for fiscal year 2009 financial statements reporting.

B. Insufficient Resources and Personnel with Appropriate Federal Accounting and Reporting Skill Sets

EAC did not have adequate resources and employees with appropriate skill sets to handle financial management accounting and reporting. The financial operations are fragmented within the commission that could potentially result in transactions or activities not being recorded or not recorded timely in the financial system. There is a lack of understanding and clear organizational structure with regards to the responsibilities for internal and external financial reporting requirements. This deficiency is aggravated by the confusion between the EAC and its accounting service provider as to who is responsible for certain activities such as maintaining source documents and reviewing the financial information and reports. Moreover, EAC employees do not seem to be adequately trained to use the accounting service provider's financial systems to generate reports and schedules that it can use for its analysis and for reporting. This deficiency is a key factor in many of the weaknesses in financial reporting as described further in this report.

EAC management advised CG that the financial management organizational structure is being reorganized to include management level positions responsible for

overseeing the commission's financial operations. EAC plans to fill all of these positions in Fiscal Year 2009.

GAO *Standards for Internal Control in the Federal Government* states "People are what make internal control work. The responsibility for good internal controls rests with all managers. Management sets the objectives, puts the control mechanisms and activities in place, and monitors and evaluates the control. However, all personnel in the organization play important roles in making it happen." Moreover, "All personnel need to possess and maintain a level of competence that allows them to accomplish their assigned duties, as well as understand the importance of developing and implementing good internal control. Management needs to identify appropriate knowledge and skills needed for various jobs and provide needed training, as well as candid and constructive counseling, and performance appraisals."

Recommendations:

3. Evaluate the resources and appropriate skills needed to meet the financial operations' responsibilities and implement the results of the evaluation and the recommendations.
4. Ensure that appropriate training is provided to financial staff on federal accounting and reporting, and on the accounting service provider's financial system.
5. Complete changes being made to EAC's organizational structure for financial management.
6. Ensure that the memorandum of agreement (MOU) with the accounting service provider clearly describes each party's responsibilities and provides for timely assistance to meet EAC's financial information needs, such as a list of all the routine financial reports that it needs periodically.

C. Outstanding Accounting Issues

Although EAC prepared the September 30, 2008, financial statements, these statements continue to reflect most of the deficiencies and exceptions in account balances, some listed below, caused by unresolved accounting issues identified during our interim review of the June 30, 2008 financial statements. A number of these issues are material and significant to the EAC's financial statements.

- Grant advances to states and other entities were misclassified as expense (discussed further in Section II of this report).
- Requirements payments to states may be misclassified as expense (discussed further in Section II of this report).
- Federal assistance related liabilities were not accrued (discussed further in Section II of this report).
- Advances made to a service provider were misclassified as expense (discussed further in Section I.G. of this report).
- Federal assistance account receivables were not reported (discussed further in Section II of this report).

- Statement of Net Costs (SNC) presentation of program costs. Currently there is only one program reported in the SNC. However, the president's budget showed EAC's with two programs.
- Leasehold improvements and bulk purchases were not capitalized; and
- Certain liabilities related to goods and services received were not accrued.
- Budgetary accounting related to incurred obligations, undelivered orders and unobligated appropriations may be incorrect (discussed further in Sections II and III of this report).

Recommendation:

7. In order to prepare reliable financial statements for Fiscal Year 2009, EAC must resolve above accounting issues as soon as possible. For complex issues such as the accounting for requirements payments, it may need to consult with authoritative bodies such as the OMB or the U.S. Treasury.

D. Lack of an Integrated Financial Management System

EAC utilizes the general ledger and core financial management system (general ledger system) of its accounting service provider. The general ledger system is not capable of generating most user reports for data analysis on a real time basis. Users have to request from the accounting service provider some basic reports which are generated by another software application not accessible to EAC. Also, other financial management systems used at EAC include the property management system and grant database spreadsheets. None of these EAC financial management systems are interfaced with the general ledger system.

OMB Circular No. A-127, *Financial Management Systems*, requires that each agency establish and maintain a single integrated financial management system. Without a single integrated financial management system to ensure timely and accurate financial data, poor policy decisions may occur due to inaccurate or untimely information. Managers are less likely to be able to report accurately to the President, Congress, and the public on Government operations in a timely manner. And, scarce resources are more likely to be directed toward the collection of information rather than to delivery of the intended programs.

Having a single, integrated financial management system does not necessarily mean having only one software application within each agency covering all financial management system needs. Also, it does not mean that all information is physically located in the same database. Rather, a single, integrated financial management system is a unified set of financial systems linked together electronically in an efficient and effective manner to provide agency-wide financial system support. Integration means that the user is able to have one view into systems such that, at whatever level the individual is using the system, he or she can obtain needed information efficiently and effectively through electronic means. Interfaces are acceptable as long as the supporting detail is maintained and accessible to managers. Interface linkages must be electronic unless the number of transactions is so small that it is not cost beneficial to automate the interface. Easy reconciliations

between systems, where interface linkages are appropriate, must be maintained to ensure data accuracy.

Recommendation:

8. In conjunction with the recommendation no. 6 related to the service provider's memorandum of agreement, EAC should decide to either interface its standalone financial systems with the service provider's system or to utilize the service provider's subsystems, if available.

E. Ineffective Financial Statement Preparation

EAC was not ready for a financial statements audit in fiscal year 2008. It does not have policies and procedures related to the financial reporting which will include periodic (at least quarterly) financial statements preparation, review and submission. Its financial system is not able to provide financial information in a timely and useful manner. This is one of the many reasons why EAC was not able to meet agreed-upon milestone dates, provide schedules and reports timely, provide complete responses to audit requests, and produce auditable financial statements. This inability to provide adequate accounting schedules and reports were pervasive and prohibited us from completing our audit.

Pursuant to OMB A-136, *Financial Reporting Requirements*, preparation of the annual financial statements is the responsibility of the agency's management. In carrying out this responsibility, each agency chief financial officer (CFO) should prepare a policy bulletin or guidance memorandum that guides the agency's fiscal and management personnel in the preparation of the annual financial statements. The existence of written procedures will provide structure and accountability for the financial statement preparation and review processes. They also help ensure activities are carried out in accordance with management directives. EAC did not have a comprehensive policy bulletin or guidance memorandum to this effect.

Recommendation:

9. Develop and implement policy and procedures for the financial reporting process and responsibilities including preparation of the financial statements. The procedures should include, among others, financial statements review process and submission/completion milestones. Internal milestones should be established and updated annually as part of the financial statement preparation process.

F. Lack of Reconciliation and Analysis

A major objective of internal control is to ensure the integrity of the underlying accounting data supporting the financial statements. An important control in this regard is the reconciliation of EAC accounting data. An adequate reconciliation provides the assurance that processed transactions are properly and timely recorded in the accounting records and financial statements, which then allows management the ability to analyze its financial condition and results of operations on a routine basis.

Account analysis and reconciliations for accounts such as Fund Balance with Treasury (FBWT), Accounts Payable, Undelivered Orders, Unfunded Leave and Accrued Funded Payroll and Benefits were not performed periodically by EAC. Reconciliations that were performed were in response to our audit request (June 2008 FBWT) or only during the fourth quarter of the fiscal year (Undelivered Orders) due to limited resources. As a result, several journal entries prepared as part of a general account "clean-up" for the year-end were identified and posted. Regular financial statements preparation and analysis on a monthly or quarterly basis may eliminate the need for adjustments during the year-end closing process and reduce the risk that material errors or irregularities in the financial statements will not be detected and resolved.

For example, to perform the UDO reconciliation the individual UDO balances in the general ledger system are downloaded to a spreadsheet application. Finance office personnel then queried the subsidiary system for each obligation reported in the general ledger system download. Corrective actions to resolve variances between the two systems were denoted in the general ledger system download. Our audit revealed the following deficiencies related to this process:

- The process is manually intensive and time consuming increasing the risk of error;
- The reconciliation is not fully documented. Most notable exclusion is the subsidiary balance to the general ledger balance reconciliation is not documented;
- Control is not properly designed to ensure obligations are recorded in the general ledger; and
- Accounting records for grant obligations are maintained by the program offices. A separate and less detailed process is performed to reconcile grant UDO balances. This process oftentimes required considerable time and effort by both the finance office and program office to determine the validity of the balances recorded in general ledger system.

An agency's ability to achieve its control objectives is highly dependent on the nature and extent of its control activities. Control activities include the policies, procedures, techniques and mechanisms in place to help ensure these objectives are met. Our audit revealed management had not established controls over its financial operations or controls in place were not properly designed or effective in meeting the agency's control objectives.

Recommendations:

10. Prepare and analyze monthly reconciliations of subsidiary and summary accounts balances. Consider a "formal closing" of all accounts at an interim dates which will reduce the level of accounting activity and analysis required at year-end. This "formal interim closing" entails ensuring that all transactions are recorded in the proper period through the month-end.
11. Evaluate the most efficient way of obtaining financial data from the general ledger system or the service provider.

12. Ensure that supervisory reviews are applied to the monthly reconciliations and its supporting documents are maintained and reviews documented.

G. Accounting Error

EAC hires a service provider to act as the contracting officer for certain EAC contracts. Budget authority to fund these contracts and the service provider's fee are advanced to the service provider prior to the award of the contract and/or completion of work by the contractor. The advance is recorded as expenditure in the accounting system.

SFFAS No. 1 requires agencies to record advance payments as an asset. Due to timing constraints and limited resources, EAC was unable to resolve the error prior to issuing the financial statements as of September 30, 2008.

Recommendations:

13. Analyze all contracts and prepare correcting entries.
14. Ensure that the accounting entries for this type of transactions are recorded in accordance with United States Standard General Ledger requirements.

II. Lack of Support for Grant Accounting

Grant transactions may not be recorded in accordance with generally accepted accounting principles.

Grant Programs

EAC controls were not properly designed to prevent or detect the incorrect accounting treatment applied to grants payments. Since inception EAC has administered several grant programs. EAC authorizes its service provider to disburse amounts awarded to grant recipients by way of a transmittal memorandum. Attached to the memorandum is the SF 270 *Request for Advance or Reimbursement* form denoting whether the disbursement is for reimbursement of claimed costs or an advance. However, the service provider's policy is to record all payments in the accounting system as grant expense without regard to whether the payment was for cost reimbursement or an advance. The service provider explained that this policy was adopted because the transmittal does not indicate the nature of the payment and the SF 270 form was deemed an unreliable source for this information. EAC became aware of the error during the audit process. EAC has identified one payment for \$2 million that is misclassified in the FY 2008 financial statements. However, EAC must perform additional analysis to determine the full amount the financial statements are misstated.

HAVA Section 101, 102 and 251 Payments to the States

The Help America Voters Act (HAVA) authorized EAC to disburse approximately \$3 billion in payments to States for Federal election administration improvements. During 2003 and 2004, the U.S. General Services Administration (on behalf of EAC) sent the following payments to the states.

- a. Section 101 (\$349,182,262) – Payments to states for activities to improve the administration of elections
- b. Section 102 (\$300,317,738) – Payments to states for replacement of punch card and lever voting machines.
- c. Section 251 (\$2,319,360,617) – Requirement payments to the states

Congress authorized an additional \$115 million in Section 251 funds to be disbursed to the states through the Consolidated Appropriations Act, 2008. Approximately \$2.3 million of these payments were disbursed as of September 30, 2008. These payments to the states are oftentimes made in advance of the recipient incurring any costs. EAC records these payments as grant expenditures in the accounting system at the time of disbursements.

As of September 30, 2008, there were still outstanding issues as follows:

- Unused funds from the disbursements made to the states in 2003 and 2004 that have not been expended by the states.
- Section 102 payments require the states to return payments made by EAC if replacement of punch card and lever voting machines were not made within an established period of time. EAC has not determined all the states that would be required to return the funds and the amounts to be returned.
- Results from the Office of Inspector General's HAVA audits may require the states to return funds to the general fund of the U.S. Treasury. EAC does not have policies and procedures to guide the treatment of these types of transactions.

We requested from EAC a position paper to support the grant accounting treatment, but did not receive the requested documentation.

SFFAS No. 1, *Accounting for Selected Assets and Liabilities*, paragraph 57 states that "Advances are 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 or as advance payments for the cost of goods and services the entity acquires. Examples include travel advances disbursed to employees prior to business trips, and cash or other assets disbursed under a contract, grant, or cooperative agreement before services or goods are provided by the contractor or grantee." Paragraph 59 states, "Advances and prepayments should be recorded as assets". EAC did not provide sufficient evidential matter to support their accounting treatment.

SFFAS No. 1, paragraph 41 states that "A receivable should be recognized when a federal entity establishes a claim to cash or other assets against other entities, either based on legal provisions, such as payment due date, or goods or services provided."

Recommendations:

15. Consult with OMB and/or U.S. Treasury on to the appropriate accounting for the Section 251 requirements payments. Prepare a position paper to document the authoritative decisions to support the accounting treatment.
16. Develop procedures for the return of the Section 102 funds from the States. The procedures should include determining States that are required to return the funds, the amounts to be returned, and the process to obtain the funds. Also,

ensure that the accounting for these funds is properly recorded and supported by adequate documentation.

17. Develop policies and procedures for the funds identified by the Office of Inspector General audits.

III. Weak Funds Control

EAC does not have adequate funds control to monitor expenditures to ensure compliance with Anti-Deficiency Act and Purpose Statute. The following matters illustrate the weakness in the funds control that potentially violates Anti-Deficiency Act and the Purpose Statute:

- In Fiscal Year 2008, there were instances where EAC obtained goods and services without creating an obligation in their accounting system, and awarded contract where funds were not initially available. EAC deobligated other existing obligations recorded in the accounting system to pay for invoices that were received for the procurement and to obligate the contract awarded. Due to non-receipt of documentation from EAC, we were unable to perform sufficient testing to satisfy ourselves that the deobligations were not made to bona-fide obligations of the Commission.
- An analysis of the transactions charged against the Election Reform Payments (ERP) fund (TFS 95 X 1651) revealed potential non-compliance with the Anti-Deficiency Act and Purpose Statute violation. EAC's analysis of these and other transactions charged to the agency's funds is on-going. We were unable to perform sufficient testing procedures to determine whether or not any actual violations of the Act had occurred. Following are some of the issues related to the on-going analysis being made by EAC. We were notified of other issues, which are not clear at the time of this report, that are still being investigated.
 - Mock Election grants for \$198,820 were disbursed from the fund based on language in the conference report. Appropriation law did not authorize payments.
 - Poll Worker grants for \$627,000 were disbursed from the fund based on language in the conference report. Appropriation law did not authorize grant.
 - EAC operating costs for \$512,654 were disbursed from the ERP fund when Salaries and Expense fund should have been charged. Preliminary analyses performed by EAC indicate there is not enough fund available to charge the Salaries and Expense fund.

Recommendations:

18. Establish and implement policy and procedures for funds control.
19. Resolve the potential Anti-Deficiency Act and Purpose Statute violation issues as soon as possible. EAC may need to reconstruct the transactions in order to determine proper accounting and use of the funds.

IV. Federal Managers' Financial Integrity Act Compliance and Reporting

As required by OMB Bulletin No. 07-04, as amended, we compared the material weaknesses disclosed during the audit with those material weaknesses reported in the EAC's FMFIA report that relate to the financial statements. Although EAC reported the material weaknesses and significant deficiency identified in this report, EAC does not have a process in place to assess its internal control. EAC has not performed a risk assessment. The EAC's management assurance statement under the FMFIA acknowledged the need to perform internal control assessment in accordance with OMB Circular No. A-123, *Management's Responsibility for Internal Control*. We consider the failure to perform internal control assessment a material weakness.

SIGNIFICANT DEFICIENCY

V. Information Technology

The Federal Information System Controls Audit Manual (FISCAM), issued by the Government Accountability Office (GAO), formed the basis of our review, and was supplemented by the OMB Circular Nos. A-127 and A-130, the National Institute of Standards and Technology (NIST) Special Publication (SP) 800-53, Federal Information Processing Standards (FIPS) PUBs, and applicable EAC policies.

A. Entity-Wide Security Program

Effective information security management is critical to EAC's ability to ensure the confidentiality, integrity, and availability of its information assets, and thus its ability to perform its mission. If effective information security practices are not in place, EAC's data and systems are at risk of inadvertent or deliberate misuse, fraud, improper disclosure, or destruction—possibly without detection.

An entity-wide security management program should be in place to establish a framework and continuing cycle of activity to manage security risk, develop security policies, assign responsibilities, and monitor the adequacy of computer security related controls. It should also represent the foundation for an entity's security control structure and a reflection of senior management's commitment to addressing security risks. OMB Circular No. A-130, Appendix III Security of Federal Automated Information Resources, requires agencies to implement and maintain a program to assure that adequate security is provided for all agency information collected, processed, transmitted, stored, or disseminated in general support systems and major applications.

Weaknesses that currently exist in EAC's information security program include the following:

- Although per the terms of the Memorandum of Understanding (MOU) between EAC and the service provider, the service provider procedures will prevail where there are no guiding policies provided by the EAC organization. EAC has not internally developed and adopted an agency-wide information security program

in compliance with Federal Information Systems Management Act (FISMA) which includes the following:

- Periodic assessments of risk, including the magnitude of harm that could result from the unauthorized access, use, disclosure, disruption, modification, or destruction of information and information systems that support the operations and assets of the agency;
 - Policies and procedures that are based on risk assessments, to cost-effectively reduce information security risks to an acceptable level, and ensure that information security is addressed throughout the life cycle of each agency information system;
 - Subordinate plans for providing adequate information security for networks, facilities, information systems, or groups of information systems, as appropriate;
 - Periodic testing and evaluation of the effectiveness of information security policies, procedures, practices, and security controls to be performed with a frequency depending on risk, but no less than annually;
 - A process for planning, implementing, evaluating, and documenting remedial actions to address any deficiencies in the information security policies, procedures, and practices of the agency;
 - Procedures for detecting, reporting, and responding to security incidents; and
 - Plans and procedures to ensure continuity of operations for information systems that support the operations and assets of the agency.
- EAC does not have an inventory of all the systems/applications used by the service provider to support the operations of EAC. The service provider utilizes a suite of applications for the various services it provides EAC, such as the Comprehensive Human Resources Information System (CHRIS) for Human Resources (HR) management and Pegasys®, a commercial-off-the-shelf product for financial management and reporting.
 - EAC has not implemented a security management structure with adequate independence, authority, and expertise which is assigned in writing. However, EAC has authorized an on site IT specialist to work with the service provider to address information security issues.
 - EAC has not performed Certification and Accreditation (C&A) of its general support systems. The EAC Local Area Network (LAN) is supported by the service provider and the EAC Website is supported by a contracted company.
 - EAC does not monitor results of independent third party information security examinations and inspections of the service provider for inclusion within the service provider's Plan of Actions and Milestones (POA&M).

Recommendations:

20. Develop and implement information system policies and procedures to meet compliance with OMB Circular No. A-130, NIST special Publication 800-18 and FISMA requirements and guidelines.

21. Request and review a copy of the service provider systems review rotation plan, noting which EAC support systems are covered. For fiscal years where EAC systems are not covered, EAC should obtain access from the service provider to review these systems to comply with FISMA Section 3544.
22. Assign responsibility for the security management function to an individual with the oversight responsibility and authority over the security management structure. The individual should have the expertise and independence to enforce security policies.
23. Continue with ongoing efforts and complete a certification and accreditation, risk assessment, security plan and system test and evaluation of EAC's general support systems.
24. Obtain, review and follow up on identified security weaknesses within (1) the service provider's POA&M (2) the Statement of Auditing Standards (SAS) 70 review of the Heartland Finance Center; (3) the service provider's OIG's 2008 FISMA Report and (4) any other security-related reviews it may have performed on EAC support systems.

B. Contingency Plan

Losing the capability to process and protect information maintained on EAC's computer systems can significantly impact EAC's ability to accomplish its mission to serve the public. The purpose of service continuity controls is to ensure that, when unexpected events occur, critical operations continue without significant interruption or are promptly resumed.

To achieve this objective, EAC should have procedures in place to protect information resources and minimize the risk of unplanned interruptions and a plan to recover critical operations should interruptions occur. These plans should consider activities performed at EAC's general support facilities (e.g. EAC's *Local Area Network* (LAN), *Wide Area Network* (WAN), and telecommunications facilities), as well as the activities performed by users of specific applications. To determine whether the disaster recovery plans will work as intended, EAC should establish and periodically test the capability to perform its functions in disaster simulation exercises. EAC should develop and structure disaster recovery plans and continuity of operation plans in accordance with *Homeland Security Presidential Directive* (HSPD) 7, 51 and 20 and *Federal Continuity Directive* (FCD) 1, and NIST SP 800-34, *Contingency Planning Guide for Information Technology Systems*.

Our review of EAC's service continuity controls identified deficiencies that could affect EAC's ability to respond to a disruption in business operations as a result of a disaster or other long-term emergency. Although in case of a disaster, EAC would defer to the service provider's contingency plan (for service provider hosted systems). EAC has not developed a Continuity of Operations Plan (COOP), Disaster Recovery Plan (DRP) or Business Impact Assessment (BIA).

Recommendation:

25. Develop EAC's own COOP, DRP, and BIA which maps to applicable service provider's plans and consider implementing the recovery of non-service provider supported systems, business processes, personnel and interfaces.

These deficiencies in internal control may adversely affect any decision by management that is based, in whole or in part, on information that is inaccurate because of the deficiencies. Unaudited financial information reported by EAC, including budget information, also may contain misstatements resulting from these deficiencies.

EAC management's response to the material weaknesses and significant deficiency identified in our report is included as Attachment to this report. We did not audit EAC's response and, accordingly, we express no opinion on it.

In addition to the material weaknesses and significant deficiency described above, we noted certain matters involving internal control and its operation that we reported to management of EAC in a separate letter dated November 7, 2008.

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

Clifton Henderson LLP

Calverton, Maryland
November 7, 2008



Independent Auditor's Report on Compliance and Other Matters

To the Inspector General of the
Election Assistance Commission

We were engaged to audit the balance sheet and accompanying notes of the Election Assistance Commission (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 (hereinafter collectively referred to as financial statements) and have issued our report thereon dated November 7, 2008. In that report, we disclaimed our opinion on EAC's financial statements because we did not obtain sufficient, appropriate evidential matter for applying audit procedures necessary to conduct our audit in accordance with auditing standards generally accepted in the United States of America; and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

The management of EAC is responsible for complying with laws and regulations, and government-wide policies applicable to EAC. We were unable to test EAC's compliance with laws and regulations, and government-wide policies because of limitations on the scope of our work as explained above. Providing an opinion on compliance with certain provisions of laws and regulations, and government-wide policies was not an objective of our audit, and, accordingly, we do not express such an opinion.

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

Clifton Gunderson LLP

Calverton, Maryland
November 7, 2008

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Offices in 17 states and Washington, DC



Attachment



November 12, 2008

Memorandum

To: Curtis Crider
Inspector General

From: Rosemary E. Rodriguez
Chair

A handwritten signature in blue ink that reads "Rosemary E. Rodriguez".

Subject: Election Assistance Commission Response to the Draft Internal Control Report Pertaining to the Audit of the Commission's Fiscal Year 2008 Financial Statements

For the first time in the Election Assistance Commission's (EAC) five-year existence, the Commission was subject to a performance and accountability report (PAR) in accordance with Office of Management and Budget (OMB). The material weaknesses in internal controls identified by the audit have heightened EAC's resolve to hire qualified financial management staff, implement effective accounting controls, and improve internal controls. The EAC recognized that it would be a challenge for the agency to produce auditable financial statements this year. Overall, EAC agrees with the four material weaknesses and significant deficiencies identified by the audit.

The EAC has already hired a budget officer, developed a strategic plan and hired contractors to help write policies and procedures, document internal controls, and assist with financial management. Next steps include:

- Hire a chief financial officer (CFO)
- Evaluate the existing financial system and correct accounting data
- Restructure accounting operations
- Implement performance-based budgeting

Attachment

EAC estimates that a realistic target for producing a PAR in full compliance with Federal requirements is FY2010.

Two months ago, the EAC launched a search for a CFO who is a certified public accountant with Federal government experience to immediately implement these corrective actions. However, EAC's ability to recruit a CFO is impaired by the current salary cap (\$139,600) in the Help America Vote Act.

I assure you that our top priority is the establishment of strict and transparent financial controls. Our response to each audit recommendation is presented in the attachment to this memorandum. Please contact me if you have any questions about our reply.

Attachment

Attachment

U.S. ELECTION ASSISTANCE COMMISSION RESPONSE TO RECOMMENDATIONS IN THE DRAFT INTERNAL CONTROL REPORT

Reference/Recommendation	Actions	Milestones	Responsible Official
MATERIAL WEAKNESS			
I. Financial Accounting and Reporting Controls			
A. Incomplete Performance and Accountability Report (PAR)			
1. Establish policies, procedures and mechanisms to comply with the financial reporting requirements in OMB Circular A-136.	This recommendation encompasses other recommendations made in the auditor's internal control report. Specifically, recommendations 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, and 18. Therefore, see responses to those recommendations		
2. Finalize a strategic plan, implement a performance based budget and formulate useful performance measures to tie to the budget for fiscal year 2009 financial statement reporting.	The strategic plan will be finalized by December 31, 2008. However, because of the budget cycles, EAC will not implement performance-based budgeting until the 2010 budget.	07/31/09	Executive Director
B. Insufficient Resources and Personnel with Appropriate Federal Accounting Experience			
3. Evaluate resources and appropriate skills needed to meet the financial operations responsibilities and implement the results of the evaluation and the recommendations	A chief financial officer (CFO) will be recruited and placed in charge of financial management and reporting. The CFO will be authorized to determine staffing needs, assess skill sets, and make staffing adjustments as necessary. The milestone date is for hiring a CFO only.	01/30/09	Executive Director
4. Ensure that appropriate training is provided to financial staff on federal accounting and reporting, and on the accounting service provider's financial system.	The CFO will determine staff training needs after organizing the new Division of Management Services. Individual annual training plans will be established.	03/30/09	CFO
5. Complete changes being made to EAC's organizational structure for financial management.	A new organization structure for the EAC is under consideration and will be presented to the Commissioners.	01/16/09	Executive Director
6. Ensure that the memorandum of agreement (MOU) with the accounting service provider clearly describes each party's responsibilities and provides for timely assistance to meet EAC's financial information needs, such as a list of all the routine financial reports that it needs periodically.	Applicable MOU's covering accounting services and information technology security responsibilities; and defining roles and responsibilities of EAC and GSA staff will be negotiated. If appropriate, a single MOU will be put in place. However, completion of the agreement (s) will be delayed until a new CFO is hired and assesses the capability of GSA to provide all necessary financial management services. (See recommendation no. 8). In the meantime, EAC will develop	03/30/09	CFO

Attachment

U.S. ELECTION ASSISTANCE COMMISSION RESPONSE TO RECOMMENDATIONS IN THE DRAFT INTERNAL CONTROL REPORT

	interim agreements with GSA.		
C. Outstanding Accounting Issues			
7. To prepare reliable financial statements for Fiscal Year 2009, EAC must resolve outstanding accounting issues as soon as possible. For complex issues such as the accounting for requirements payments, it may need to consult with authoritative bodies such as GAO, OMB and/or the U.S. Treasury. In addition, it may be necessary to retain assistance from an outside CPA firm.	Issues concerning (1) treatment of grant advances to states, (2) treatment of requirements payments, (3) accruing grant payment liabilities and other liabilities related to goods and services received, (4) treatment of advances to the Department of Interior's National Business Center, (5) establishing receivables for state repayment of Section 102 payments, (6) capitalization of leasehold improvements and bulk purchases, (7) treatment of obligations and undelivered orders, and (8) presentation of Statement of Net Costs will be addressed.	06/30/09	Executive Director/CFO
D. Lack of an Integrated Financial Management System			
8. In conjunction with the recommendation 6 related to the service provider's memorandum of agreement, EAC should decide to either interface its standalone financial systems with the service provider's system or utilize the service provider's subsystems, if available.	The financial management system will be evaluated in connection with requirements of OMB, best practices, and cost vs. benefits with respect to financial management systems integration appropriate to agencies similar to the EAC.	06/30/09	CFO
E. Ineffective Financial Statement Preparation			
9. Develop and implement policy and procedures for the financial reporting process and responsibilities including preparation of the financial statements.	Policy will be developed.	05/30/09	CFO
F. Lack of Reconciliation and Analysis			
10. Prepare and analyze monthly reconciliations of subsidiary and summary accounts balances. Consider a "formal closing" of all accounts at an interim date which will reduce the level of accounting activity and analysis required a year-end.	Breath of implementation of this recommendation is contingent upon EAC's evaluation of the accounting system. Once required recommendations are implemented, the need for reconciliations will be determined and conducted.	04/30/09	CFO
11. Evaluate the most efficient way of obtaining financial data from the general ledger system or the service provider.	Contingent upon implementation of recommendations nos. 6 and 8.	03/30/09	CFO
12. Ensure that supervisory	See recommendation no. 10.		CFO

Attachment

U.S. ELECTION ASSISTANCE COMMISSION RESPONSE TO RECOMMENDATIONS IN THE DRAFT INTERNAL CONTROL REPORT

reviews are applied to the monthly reconciliations and its supporting documents are maintained and reviews documented.			
G. Accounting Error			
13. Analyze all contracts and prepare correcting entries.	See recommendation no. 7.		Executive Director/CFO
14. Ensure that the accounting entries for this type of transactions (advances to Nat'l Business Ctr.) are recorded in accordance with United States Standard General Ledger requirements.	See recommendation no. 7. Also, EAC began conducting its procurements in-house in fiscal year 2008 and will not be using a contract service provider in fiscal year 2009.	03/30/09	Executive Director
II. LACK OF SUPPORT FOR GRANT ACCOUNTING			
15. Consult with OMB or Treasury on the appropriate accounting for Section 251 requirements payments. Prepare a position paper to document the authoritative decisions to support the accounting treatment.	See recommendation no. 7.	03/30/09	
16. Develop procedures for the return of the Section 102 funds from States. The procedures should include determining States that are required to return the funds, and the process to obtain the funds. Also, ensure that the accounting for these funds is properly recorded and supported by adequate documentation.	Procedures have been drafted and will soon be implemented	12/12/08	Acting Director of HAVA Payments and Grants and Executive Director.
17. Develop policies and procedures for the collection of funds identified by the Office of Inspector audits.	Procedures will be developed.	01/30/09	Executive Director
III. WEAK FUNDS CONTROL			
18. Establish policies and procedures for fund control.	Procedures will be developed	04/30/09	CFO
19. Resolve the potential Anti-Deficiency Act and Purpose Statute violation issues as soon as possible.	Contractor will be hired to complete the necessary analysis.	03/30/09	Executive Director
IV. FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT COMPLIANCE AND REPORTING			
SIGNIFICANT DEFICIENCIES			

U.S. ELECTION ASSISTANCE COMMISSION RESPONSE TO RECOMMENDATIONS IN THE DRAFT INTERNAL CONTROL REPORT

V. INFORMATION TECHNOLOGY			
<i>A. Entity-Wide Security Program</i>			
20. Develop and implement information system policies and procedures to meet compliance with OMB A-130, NIST Special Publication 800-18 and FISMA requirements and guidelines.	EAC has procured a contractor to assist with the agency's strategies to become compliant with OMB A-130, NIST special Publication 800-18 and FISMA. These measures include completion of a certification and accreditation of support systems, System Security Plans and practices and procedural guides and documentation to address key areas.	06/30/09	Executive Director/CFO
21. Request and review a copy of the service provider systems review rotation plan, noting which EAC support systems are covered. For fiscal years where EAC systems are not covered. EAC should obtain access from the service provider to review these systems to comply with FISMA Section 3544.	EAC will request and review a copy of the service provider systems review rotational plan. However, it is impractical to believe that GSA will permit EAC access to GSA systems for the purpose of testing system security. We will rely on GSA processes (to the extent EAC continues to use GSA).	03/30/09	Executive Director/CFO
22. Assign responsibility for the security management function to an individual with the oversight responsibility and authority over the security management structure. The individual should have the expertise and independence to enforce security policies.	This will be done in accordance with implementation of the revised EAC organization structure.	03/30/09	Executive Director/CFO
23. Continue with ongoing efforts and complete a certification and accreditation, risk assessment, security plan and system test and evaluation of EAC's general support systems.	EAC will proceed to procure a contractor to assist with the completion of a C&A of the EAC LAN.	06/30/09	Executive Director/CFO
24. Obtain, review, and follow up on identified security weaknesses within the (1) the service providers POA&M, (2) the Statement of Auditing standards (SAS) 70 review of the Heartland Finance Center, (3) the service provider's OIG 2008 FISMA Report and (4) any other security-related reviews it may have performed on EAC support systems.	EAC will request and review the GSA POA&M, the SAS 70 review, and the GSA FISMA report. However, it is impractical to believe that EAC can impact the operation/modification of systems operated by GSA.	03/30/09	Executive Director/CFO
<i>B. Contingency Plan</i>			
25. Develop EAC's own COOP, DRP, and BIA with maps to applicable service provider's plan	EAC will procure a contractor to assist with policies and procedures to ensure continuity of operations.	04/30/09	Executive Director/CFO

Attachment

**U.S. ELECTION ASSISTANCE COMMISSION RESPONSE TO RECOMMENDATIONS IN
THE DRAFT INTERNAL CONTROL REPORT**

and consider should they implement recovery of non-service provider supported systems, business processes, personnel and interfaces.			
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III.C FINANCIAL STATEMENTS

ELECTION ASSISTANCE COMMISSION
BALANCE SHEET
As of September 30, 2008 (In Dollars)
(Unaudited)

Assets	<u>2008</u>
Intragovernmental:	
Fund balance with Treasury (Note 2)	\$133,466,531
Total Intragovernmental Assets	133,466,531
Accounts receivable, net (Note 3)	16,251
General property and equipment (Note 4)	148,881
Total assets	<u>\$133,631,663</u>
Liabilities (Note 5)	
Intragovernmental:	
Accounts payable	\$215,213
Employer contribution and payroll taxes payable	40,645
Total Intragovernmental	255,858
With the public:	
Accounts payable	244,900
Accrued payroll and benefits (Note 5)	227,068
Unfunded leave (Note 5)	185,889
Total liabilities	<u>913,715</u>
Net Position	
Unexpended appropriations	132,803,165
Cumulative results of operations	(85,217)
Total Net Position	<u>132,717,948</u>
Total liabilities and net position	<u>\$133,631,663</u>

The accompanying notes are an integral part of these statements

ELECTION ASSISTANCE COMMISSION
STATEMENT OF NET COST
For the Year-ended September 30, 2008 (In Dollars)
(Unaudited)

	<u>2008</u>
Program Costs:	
Administering the HAVA	\$15,180,494
Less: Earned Revenue	--
	<u> </u>
Net cost of operations (Note 8)	<u><u>\$15,180,494</u></u>

The accompanying notes are an integral part of these statements.

ELECTION ASSISTANCE COMMISSION
STATEMENT OF CHANGES IN NET POSITION
For the Year-ended September 30, 2008 (In Dollars)
(Unaudited)

	<u>2008 Consolidated Total</u>
Cumulative Results of Operations:	
Beginning balance	<u>(\$156,930)</u>
Beginning balance, as adjusted	(156,930)
Budgetary Financing Sources:	
Appropriations used	15,106,414
Other Financing Sources (Non-Exchange):	
Imputed financing from costs absorbed by others	<u>145,793</u>
Total Financing Sources:	15,252,207
Net Cost of Operations	<u>(15,180,494)</u>
Net Change	<u>71,713</u>
Cumulative Results of Operations	(85,217)
Unexpended Appropriations:	
Beginning Balance	<u>9,629,579</u>
Beginning Balance, as adjusted	9,629,579
Budgetary Financing Sources:	
Appropriations received	141,530,000
Appropriations transferred in/out (+/-)	(3,250,000)
Appropriations used	<u>(15,106,414)</u>
Total Budgetary Financing Sources	<u>123,173,586</u>
Total Unexpended Appropriations	<u>132,803,165</u>
Net Position	<u><u>132,717,948</u></u>

ELECTION ASSISTANCE COMMISSION
STATEMENT OF BUDGETARY RESOURCES
For the Year-ended September 30, 2008 (In Dollars)
(Unaudited)

	<u>2008</u>
Budgetary Resources:	
Unobligated balance brought forward	\$6,918,986
Recoveries of prior year obligations	298,458
Budget authority:	
Appropriations received	141,530,000
Spending authority from offsetting collections:	
Collected	19,491
Nonexpenditure transfers, net, anticipated and actual	<u>(3,250,000)</u>
Total Budgetary Resources	<u><u>\$145,516,935</u></u>
Status of Budgetary Resources:	
Obligations Incurred – Direct (Note 8)	\$138,174,801
Unobligated Balance – Apportioned	761,585
Unobligated balance not available	<u>6,580,549</u>
Total status of budgetary resources	<u><u>\$145,516,935</u></u>
Change in Obligated Balance:	
Unpaid obligations, brought forward	\$3,431,129
Obligations incurred, net	138,174,801
Less: Gross outlays	(15,183,075)
Less: Recoveries of prior year unpaid obligations, actual	<u>(298,458)</u>
Total, unpaid obligated balance, end of period forward	<u><u>126,124,397</u></u>
Net Outlays:	
Gross outlays	15,183,075
Less: Offsetting collections	<u>(19,491)</u>
Net outlays	<u><u>\$15,163,584</u></u>

The accompanying notes are an integral part of these statements

III.D NOTES TO FINANCIAL STATEMENTS (Unaudited)

Note 1 – Summary of Significant Accounting Policies

Reporting Entity

EAC is an independent, bipartisan commission charged with developing guidance to meet 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 U.S. 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 U.S. 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. Generally Accepted Accounting Principles 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.

Fiscal year 2008 is the first year that EAC is required to file financial statements under the ATDA. Accordingly, comparative statements are not presented.

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. These are amounts due from current and separated employees resulting from payroll adjustments and/or court ordered actions. The direct write-off method is used for uncollectible receivables.

General Property and Equipment

General property and equipment (P&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. Beginning in fiscal year 2009, a bulk purchase policy will be adopted. Under this policy, 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 P&E that do not meet the capitalization criteria are recorded as operating expenses. General P&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 headquarters building is not capitalized. As of 2008, no leasehold improvements have been recorded. Starting in fiscal year 2009, any costs of any leasehold improvements financed with EAC appropriated funds will be 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.

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 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, 2008. 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 quarter, the balance in the leave 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

Liability under the Federal Employees Compensation Act (FECA) is not considered to be material to EAC's financial statements. Accordingly, EAC does not record a liability for estimated and actual future 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.

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 11.2 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 expenditures and its earned revenue. All EAC program activities are contained within one program line called "Administering the HAVA."

Grants

The EAC administers and oversees the grant making process in connection with federal grants made to recipient organizations under the HAVA. Grants awarded are recorded as obligations and represent uses of budgetary resources. Payments made under the grant awards are fully expended and are included in the statement of net costs. The EAC is evaluating alternate accounting treatments of grant awards and will change its method of accounting if determined to be appropriate.

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. Cumulative results of operations represents 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 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 five annual funds (FY2004 through FY2008) and two no-year funds. The total of fund balances with treasury consisted of the following at September 30, 2008:

	FY 2008
Fund Balance with Treasury:	
Appropriated Funds	\$ 133,466,531
Status of Fund Balance with Treasury:	
Unobligated Balance	
Available	\$ 761,585
Unavailable	6,580,549
Obligated Balance not yet Disbursed	126,124,397
Total	\$ 133,466,531

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, 2008:

	FY 2008
Accounts receivable, net	
Claims from associates	\$ 16,251

Note 4 – General Property and Equipment, Net

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

Asset Class	Service Life (years)	Acquisition Value	Accumulated Depreciation	Net Book Value
Furniture	5	\$ 59,143	\$ 4,291	\$ 54,852
Computers	5	152,124	58,095	94,029
Total		\$ 211,267	\$ 62,386	\$ 148,881

Depreciation expense was \$37,742 for the period ending September 30, 2008.

Note 5 – 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, 2008:

	2008
With the Public:	
Unfunded leave	\$ 185,889
Total liabilities not covered by budgetary resources	185,889
Total liabilities covered by budgetary resources	727,826
Total Liabilities	\$ 913,715

Liabilities covered by budgetary resources included in the schedule above consist of the following as of September 30, 2008:

	FY 2008
Intragovernmental	
Accounts payable	\$ 215,213
Employer contributions and payroll taxes payable	40,645
Total Intragovernmental	<u>255,858</u>
With the Public:	
Accounts payable	244,900
Accrued payroll and benefits	227,068
Total With the Public	<u>471,968</u>
Total liabilities covered by budgetary resources	<u>\$ 727,826</u>

Note 6 – Commitments and Contingencies

In the opinion of EAC management and legal counsel, EAC is not a party to any legal actions which are likely to result in a material liability. Accordingly, no provision for loss is included in the financial statements.

Note 7 – Leases

EAC has no capital leases. The EAC has a commitment under an operating lease for its headquarters office space which extends to March 2009. Future payments due under the lease are \$271,110.

Note 8 – Statement of Net Cost

EAC's costs are consolidated into one program, "Administering the HAVA." Total cost of operations includes intragovernmental costs which represent goods and/or services purchased from a federal entity. The total cost of operations for the fiscal year ended September 30, 2008 is as follows:

	FY 2008
Intragovernmental gross costs	\$ 4,011,148
Intragovernmental net costs	4,011,148
Gross costs with the public	11,169,346
Net costs with the public	11,169,346
Net Cost of Operations	<u>\$ 15,180,494</u>

Note 9 – Statement of Budgetary Resources

The Statement of Budgetary Resources (SBR) compares budgetary resources with the status of those resources. For the year-ended September 30, 2008, budgetary resources were \$145,516,935 and net outlays were \$15,163,584.

Appropriations Received

EAC received its appropriations under Public Law 110-161 and consist of the following for the year-ended September 30, 2008:

	FY 2008
For necessary expenses to carry out the Help America Vote Act of 2002	\$ 16,350,000
For necessary expenses to carry out programs under the Help America Vote Act of 2002 (Public Law 107-252), for requirements payments under part 1 of subtitle D of title II of the Act	115,000,000
For necessary expenses to carry out an election data collection grants program under section 501 of the Act, which shall remain available until expended	10,000,000
Total appropriations received	141,350,000
Less amount transferred to NIST	(3,250,000)
Net available to EAC	<u>\$138,100,000</u>

Budgetary and proprietary activity from amounts transferred to NIST is not included in EAC's financial statements.

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 FY 2008, direct obligations incurred amounted to \$138,174.

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 2008 actual budgetary execution information is scheduled for

publication in February 2009, which will be available through OMB's website at <http://www.whitehouse.gov/omb>. Accordingly, information required for such disclosure is not available at the time of publication of these financial statements.

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, 2008 was as follows:

	FY 2008	
Undelivered orders	\$ 125,396,571	
Accounts payable	727,826	
Unpaid obligated balance, net	<u>\$ 126,124,397</u>	

Note 10: 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.

			FY 2008	
<i>Resources Used to Finance Activities</i>				
Budgetary Resources Obligated				
	Obligations incurred		\$ 138,174,801	
	Less: Spending authority from offsetting collections and recoveries		(317,949)	
	Net Obligations		137,856,852	
Other Resources				
	Imputed financing from costs absorbed by others		145,793	
	Net other resources used to finance activities		145,793	
	Total Resources Used to Finance Activities		138,002,645	
<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		122,749,383	
	Resources that finance the acquisition of assets		63,999	
	Total Resources Used to Finance Items not Part of the Net Cost of Operations		122,813,382	
	Total Resources Used to Finance the Net Cost of Operations		15,189,263	
<i>Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period</i>				
Components Requiring or Generating Resources in Future Periods:				
	Increase in annual leave liability		78,180	
	Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods		78,180	
Components not Requiring or Generating Resources:				
	Depreciation and amortization		31,742	
	Other		(118,691)	
	Total Components of Net Cost of Operations that will not Require or Generate Resources		(86,949)	
	Total Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period		(8,769)	
	Net Cost of Operations		\$ 15,180,494	

The "Other" amount of \$118,691 shown in "Components not Requiring or Generating Resources" represents the net book value of assets from fiscal years FY2005 through FY2007 which were recorded in fiscal year 2008.

SECTION IV

Other Accompanying Information

IV.A MOST SERIOUS MANAGEMENT CHALLENGES FACING EAC ACCORDING TO THE INSPECTOR GENERAL



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

October 22, 2008

MEMORANDUM

TO: Chair, U.S. Election Assistance Commission

FROM: Inspector General *Curtis W. Linton*

SUBJECT: Inspector General Statement on the U.S. Election Assistance
Commission's Top Management and Performance Challenges

The Inspector General is required to provide an annual statement summarizing the current assessment of the most serious management and performance challenges facing the U.S. Election Assistance Commission (Commission). The requirement is contained in the Reports Consolidation Act of 2000 (Public Law 106-531), an amendment to the Chief Financial Officers (CFO) Act of 1990. According to the Office of Management and Budget Circular A-136, Financial Reporting Requirements, the challenges must be included in the U.S. Election Assistance Commission's Performance and Accountability Report (PAR) for Fiscal Year 2008. The management challenges we are reporting this year include the following:

- Management and accountability, and
- Financial management.

The Office of Inspector General (OIG) assessment is based on information derived from a combination of several sources; including OIG audit and evaluation work, Commission reports, and a general knowledge of the Commission's programs and activities.

The attached document provides the OIG's annual statement on the Commission's top management challenges. Public Law 106-531 permits an agency to comment on the Inspector General's statement. Agency comments, if applicable, are to be included in the PAR that is due on November 17, 2008.

Attachment

cc: Commissioners Hillman, Davidson and Beach
Executive Director

Attachment

EAC MANAGEMENT AND PERFORMANCE CHALLENGES
FISCAL YEAR 2008 AND BEYOND

Management and Accountability:

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 its 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 programs 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.

Financial Management:

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 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.


IV.B EAC'S RESPONSE TO THE MOST SERIOUS MANAGEMENT CHALLENGES FACING EAC ACCORDING TO THE INSPECTOR GENERAL



November 13, 2008

Memorandum

To: Curtis Crider
Inspector General

 From: Tom Wilkey
Executive Director

Subject: Election Assistance Commission Response to the Management and Performance Challenges Fiscal Year 2008 and Beyond

The U.S. Election Assistance Commission (EAC) has had a unique five-year existence. The Help America Vote Act (HAVA) included specific deadlines, including the distribution of the more than \$3 billion appropriated to the states to make election improvements. In fact, these deadlines were so firm that the General Services Administration (GSA) had to begin the process of distributing the funds, as the EAC commissioners were not appointed until December 2003 and the Commission's fiscal year 2004 budget was only \$1.2 million.

Another HAVA deadline was the creation of the next iteration of the voluntary voting system guidelines, a huge undertaking that involved coordination with the National Institute of Standards and Technology (NIST), as well as the establishment of the federal government's first voting system testing and certification program. Most of the research projects required by HAVA also had firm deadlines.

In addition to the budget and start-up conditions, until February 2007 the EAC also had an employee cap of 23, which included the four commissioners. Part-time employees and interns also counted against the cap.

These unique circumstances put the Commission in the unenviable position of meeting its HAVA mandates and concurrently establishing procedures and

policies required for federal agencies. The bottom line is that the Commission did not have the luxury of building a strong foundation before delivering funds, research and establishing programs. The EAC had to do all tasks at the same time, and with budget and employee constraints. Ironically, even our Office of Inspector General continues to be impacted by the same constraints.

The Congress recognized our limitations and challenges by removing the employee cap and providing much needed funding.

Despite these challenges, in only three years the EAC has achieved most of what HAVA required and produced an astonishing amount of material, including:

- Distributed more than \$2.3 billion to the states to make election administration improvements
- Adopted the 2005 Voluntary Voting System Guidelines
- Completed the first draft of the next iteration of voting system guidelines
- Established the Voting System Testing and Certification Program
- Completed nearly all of the HAVA-mandated research
- Established Election Management Guidelines program and distributed materials to election officials throughout the nation
- Provided language assistance materials in six languages

Management and Accountability

The EAC has already implemented a new management structure to ensure future productivity. The Commission has developed a strategic plan, hired contractors to help write policies and procedures, document internal controls and assist with financial management. The EAC also hired a meetings coordinator, who is GSA-trained in Federal Travel Regulations (FTR).

In addition, the Commission adopted a Roles and Responsibilities structure, which will certainly address any confusion about the appropriate role of everyone, including the executive director and the commissioners.

Financial Management

The EAC still has a long way to solidify its internal processes and procedures, but we've already taken steps to make improvements. The Commission has already hired a budget officer, and future budgets will be developed in coordination with the strategic plan. Next steps include:

- Hire a chief financial officer (CFO) - vacancy announcement to be posted next week
- Evaluate the existing financial system and correct accounting data
- Restructure accounting operations
- Implement performance-based budgeting

Two months ago, the EAC launched a search for a CFO who is a certified public accountant with Federal government experience to immediately implement these corrective actions. EAC's ability to recruit a highly qualified, experienced CFO is impaired by the current salary cap (\$139,600) in HAVA

Despite the work ahead of us to improve internal operations, I am very proud of the EAC staff. They have produced time and again in unfavorable and difficult situations. Staff took creative approaches to address shortfalls, such as using technology to communicate, sharing responsibilities to help colleagues and never wavering in their shared commitment to improving elections. They deserve a structure and management hierarchy that will support them, and it is management's top priority to improve the Commission on their behalf.

IV.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 2008, EAC does not believe, that it has any programs where the erroneous payments could exceed 2.5 percent of program payments or \$10 million thresholds (set in OMB Guidance) to trigger further agency action.

IV.D SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

SUMMARY OF FISCAL YEAR 2008 FINANCIAL STATEMENT AUDIT					
Audit Opinion	Disclaimer				
Restatement	No				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Financial Accounting & Reporting	0	1	0	0	1
Support for Grant Accounting	0	1	0	0	1
Funds Control	0	1	0	0	1
FMFIA Compliance & Reporting	0	1	0	0	1
TOTAL WEAKNESSES	0	4	0	0	4

SUMMARY OF MANAGEMENT ASSURANCES						
Statement of Assurance (FMFIA§ 2)		Qualified				
Financial Management System Assurance (FMFIA§ 4)		Systems do not fully conform to financial management system requirements				
No.	Summary	Beginning Balance	New	Resolved	Consolidated	Ending Balance
1	Material Weaknesses (FMFIA§ 2)	0	11	0	0	11
2	Non-conformances (FMFIA§ 4)	0	1	0	0	1
	TOTAL	0	1	0	0	12

RECONCILIATION OF MATERIAL WEAKNESSES

The independent auditors identified four material weaknesses, whereas management has identified 11. One of the weaknesses identified by the auditors, "Financial Accounting and Reporting" contained 7 different subsections. EAC considers these separate subsections to

be individual material weaknesses for the sake of clarity and tracking improvement. In addition, EAC identified an additional weakness with respect to policies and procedures.

Material Weaknesses	Per Auditors	Per EAC	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
TOTAL MATERIAL WEAKNESSES	4	11	7

