U.S. ELECTION ASSISTANCE COMMISSION
OFFICE OF INSPECTOR GENERAL

INDEPENDENT AUDITORS' REPORT
U.S. ELECTION ASSISTANCE COMMISSION FINANCIAL STATEMENTS FOR FY 2011 AND FY 2010

NO. I-PA-EAC-01-11
NOVEMBER 2011

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

November 15, 2011

To: The Commission

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

Subject: Audit of the U.S. Election Assistance Commission's Fiscal Year 2011 and 2010 Financial Statements.

This memorandum transmits Leon Snead & Co P.C.'s financial statement audit report of the U.S. Election Assistance Commission (EAC) for the Fiscal Years 2011 and 2010.

Results of Independent Audit

The Chief Financial Officer's (CFO) Act of 1990 (P.L. 101-576), as amended, requires EAC Inspector General or an independent external auditor, as determined by the Inspector General, to audit EAC's financial statements. Under a contract monitored by the Office of Inspector General (OIG), Leon Snead & Co. P.C., an independent public accounting firm, performed an audit of EAC's Fiscal Years 2010 and 2009 financial statements. The contract required that the audit be performed in accordance with the Government Auditing Standards issued by the Comptroller General of the United States, and Bulletin 07-04, *Audit Requirements of Federal Financial Statements*, as amended, issued by the United States Office of Management and Budget (OMB).

Leon Snead & Co. P.C. issued an unqualified opinion on EACS's financial statements. In its report, Leon Snead & Co. P.C. identified one material weakness in internal control relating to EAC's monitoring of its service provider processes, and one significant deficiency relating to lack of funds control over continuing resolution funding.

Leon Snead & Co. P.C. reported no instances of material noncompliance with laws and regulations to tested that is required to be reported under Government Auditing Standards and OMB Bulletin 07-04 (as amended).

EAC management's response, dated November 7, 2011, follows Leon Snead & Co. P.C.'s report.

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

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

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

Leon Snead & Co. P.C. is responsible for the attached auditor's report dated November14, 2011, and the conclusions expressed in the report. We do not express any opinion on EAC's financial statements or conclusions on the effectiveness of internal control, or compliance with laws and regulations.

Report Distribution

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

The Office of Inspector General appreciates the courtesies and cooperation EAC extended to Leon Snead & Co. P.C. and the OIG staff during the audit. If you, or your staff, have any questions, please contact me at (202) 566-3125.

Attachment

Copy to: Thomas Wilkey, Executive Director
Annette Lafferty, Chief Financial Officer
Alice Miller, Chief Operating Officer
Mark Robins, General Counsel

U.S. ELECTION ASSISTANCE COMMISSION

Audit of Financial Statements

As of and for the Years Ended
September 30, 2011 and 2010

Submitted By

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

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LEON SNEAD
& COMPANY, P.C.

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

Independent Auditor's Report

We have audited the accompanying balance sheets of the U.S. Election Assistance Commission (EAC), as of September 30, 2011, and 2010, and the related statements of net cost, changes in net position, and budgetary resources (financial statements) for the years then ended. The objective of our audit was to express an opinion on the fair presentation of those financial statements. In connection with our audit, we also considered the EAC's internal controls over financial reporting, and tested the EAC's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on its financial statements.

SUMMARY

As stated in our opinion on the financial statements, we found that the EAC's financial statements, as of and for the years ended September 30, 2011 and 2010, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

Our consideration of internal controls would not necessarily disclose all deficiencies in internal controls over financial reporting that might be material weaknesses under standards issued by the American Institute of Certified Public Accountants (AICPA). However, our testing of internal controls identified one material weakness in internal controls over financial reporting. Because of this weakness, we completed substantial additional audit testing, and performed other auditing procedures, as necessary, to ensure that the financial statements were fairly stated.

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

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

OPINION ON THE FINANCIAL STATEMENTS

We have audited the accompanying balance sheets of the EAC as of September 30, 2011 and 2010, and the related statements of net cost, changes in net position, and budgetary resources for the years then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position, net cost, changes in net position, and budgetary resources of the EAC, as of and for the years ended September 30, 2011 and 2010, in conformity with accounting principles generally accepted in the United States of America.

The information in the Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America or OMB Circular A-136, *Financial Reporting Requirements*. We have applied certain limited procedures, which consisted principally of inquiries of EAC management regarding the methods of measurement and presentation of the supplementary information. We also ensured that the information was consistent with the financial statements. However, we did not audit the information and express no opinion on it. The Agency Financial Report, except for Management's Discussion and Analysis, is not a required part of the basic financial statements; therefore, such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

We inquired of EAC's management as to its methods for preparing Required Supplementary Stewardship Information (RSSI), and reviewed this information for consistency with the financial statements. The RSSI is not a required part of the basic financial statements and provides information on investments in nonfederal property, and research and development funding. However, our audit was not designed to express an opinion and, accordingly, we do not express an opinion on EAC's RSSI.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements of the EAC, as of and for the years ended September 30, 2011 and 2010, in accordance with auditing standards generally accepted in the Unites States of America, we considered the EAC's internal controls over financial reporting (internal controls) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the EAC's internal controls. Accordingly, we do not express an opinion on the effectiveness of the EAC's internal controls over financial reporting.

Because of inherent limitations in internal controls, including the possibility of management override of controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected. A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or combination of significant deficiencies, in internal controls, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that is less severe than a material weakness, yet important enough to merit attention by those charged with governance of the EAC.

Our consideration of internal controls was for the limited purpose described in the first paragraph in this section of the report, and would not necessarily identify all deficiencies in internal controls that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal controls that we consider to be significant deficiencies. We consider the items related to finding one to be a material weakness.

Findings and Recommendations

1. **EAC Controls over Financial Reporting and Service Provider Processes Impacted 2011 Financial Statements**

   Documentation needed to support the year-end financial statements was not timely provided, and numerous errors were identified in EAC's financial statements and footnotes. We attributed this problem to: (1) operational problems and errors made by the agency's accounting service provider; (2) the departure of a key EAC accounting official; and (3) the need for increased agency oversight over service provider operations. As a result, EAC has reduced assurance that the agency's internal controls over financial reporting are operating effectively. This represents a material weakness in internal controls over financial reporting.

   OMB Circular A-136, *Financial Reporting Requirements,* provides that reporting entities should ensure that information in the financial statements is presented in accordance with generally accepted accounting principles for Federal entities and the requirements of this Circular. The Government Accountability Office, *Standards for Internal Control in the Federal Government*, provides that "…transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from the initiation and authorization through its final classification in summary records. In addition, control activities help to ensure that all transactions are completely and accurately recorded. Internal controls and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination."

Problems identified during our audit of EAC's financial statements are discussed below.

a. <u>Documentation Necessary to Support Financial Statements Not Provided Timely and/or Contained Errors</u>

EAC timely and accurately provided documentation and information to support its financial statements for our interim testing. However, for our tests of year-end financial statements, documentation necessary to support the financial statements and footnotes was frequently not provided timely, and some information provided did not initially support the financial statements or footnotes. Because of these problems, we completed substantial additional audit testing, and performed other auditing procedures, as necessary, to ensure that the financial statements were fairly stated.

EAC's service provider did not provide data critical to the completion of the audit in a timely manner. For example, an audit request for documentation showing how the service provider cross-walked general ledger information to the financial statements and footnotes was only provided after repeated requests and discussions with the Chief Financial Officer (CFO) and the Inspector General. Other data and documents that were not provided or not provided timely included: documentation supporting journal vouchers prepared by the service provider, account relationship tests, and completed, Financial Audit Manual (FAM) checklists that provide assurances that the financial statements were properly prepared. We also noted that some information provided directly by EAC personnel did not fully support certain grant disclosure amounts. For example, supporting grant disbursement records did not agree with the related footnote disclosure.

b. <u>Service Provider Posting Model Errors</u>

We identified posting model[1] errors in the service provider's accounting system that resulted in misclassifying capital assets as an operating expense, errors in posting a transfer of funds to another federal agency, and posting direct entries to equity accounts. We also noted another posting model error dealing with imputed costs that was only corrected after the error was identified by another client of the service provider. We attributed these problems to a weakness in internal controls processes at the service provider concerning review and approval of posting models that impact EAC operations. As a result, if the errors had not been detected by parties other than the service provider, EAC's financial statements could have been misstated.

As an example of the problems noted above, our analytical review identified the purchase of capital equipment totaling approximately $121,000 that was

[1] The basic standard posting logic for financial events across the Federal Government.

incorrectly processed by the service provider as an expense. We discussed this matter with EAC officials who advised that the service provider made an error in this posting model when performing some accounting system modifications.

c. Journal Voucher Controls Need Strengthening

Journal vouchers[2] (JV) initiated and processed by the service provider to the general ledger were not provided to EAC officials for review and approval, and/or necessary supporting documentation was not provided to EAC to enable a determination of the appropriateness of the entries. We attributed this problem, primarily, to the breakdown of control processes at the service provider as they were applied to EAC's JVs. As a result, EAC's financial statements and financial reports were at increased risk of misstatements.

We obtained the control procedures for processing JVs used by both the service provider and EAC. The service provider's procedures required that backup documentation be gathered to support the entries, that a supervisor review, initial and date the back-up documentation; and trial balances or queries should be obtained to ensure the journal voucher was processed correctly. None of the vouchers we tested met these control requirements.

Our audit found approximately 25 journal vouchers processed at the end of the fiscal year where EAC did not receive documentation to support the entries made, and did not review and approve the JVs. For the JVs where the EAC had supporting documentation, we selected 6 of 39 journal vouchers for detailed testing. For the JVs where documentation was not provided, we applied other auditing procedures to ensure that the postings met standard general ledger posting models.

For one of the JVs we tested, the entries were posted directly to the cumulative results of operations account. Although the amount of the adjustment was not material to the financial statements, the entry did not follow standard general ledger posting models which prohibit adjustments to equity accounts except during accounting period year-end closings.

We discussed our concerns with the controls over JV processing with the CFO. The CFO stated that due to the departure of the accounting director the week before the end of the fiscal year, an EAC accountant was not available to review and approve JVs proposed by the service provider. The CFO was not aware that the service provider was processing JVs without EAC review during this time period. The CFO further indicated plans to reestablish

[2] Journal vouchers bypass accounting and reporting edits built into the accounting system. Since Treasury-approved posting models are bypassed, any entry included on the journal voucher will be made to the general ledger. Therefore, it is critical that controls are in place over this function.

controls that require the EAC to review and approve the journal voucher prior to processing.

d. <u>Errors Made by Service Provider Impacted EAC's Financial Statements and Financial Reports</u>

The financial statements presented for audit contained errors that if not corrected would have resulted in qualifications to the audit opinion on the 2011 and 2010 financial statements. We attributed these errors to a lack of or ineffective internal controls over financial reporting by EAC's service provider, as they were applied to EAC operations.

The financial statements and footnotes EAC presented for audit contained misstatements, formatting and other presentation errors, and were lacking supporting documentation. Some of the problems we identified during our audit follow:

- The first set of footnotes provided for audit contained numerous and material errors in the 2010 footnotes. The second version of the footnotes corrected most, but not all of the errors. For example, the second version depreciation expense for 2010 (footnote five) was misstated by over $100,000, and footnote twelve contained numerous differences between the 2010 audited amounts and the amounts included in the 2011 financial statements.

- We noted that footnote five did not agree with the consolidated trial balance provided by the service provider. The footnote differed by a nonmaterial amount due to errors made by the service provider in cancelling fiscal year 2006 appropriations.

- Our independent crosswalk identified errors in footnote twelve. The footnote line item *Resources that Finance the Acquisition of Assets* included an amount, while not material, that the SGL did not crosswalk to this footnote section. It appeared the entry was made solely so the footnote balanced with the Statement of Net Cost.

- Information provided by the service provider to support the amount of undelivered orders did not reconcile to the general ledger accounts. We found that the undelivered orders aging report did not include details for paid undelivered orders.

Recommendations:

1. Strengthen the agreement with the service provider to ensure that financial statements and supporting documentation are required to be provided to EAC and its auditors in a timely manner.

Agency Response
EAC will work with the service provider to modify the agreement to help ensure timely submission of statements and documentation. It should be noted that the provider was not asked to provide full support for the audit until near the end of the fiscal year, when EAC found out it was losing its staff accountant as of September 23, 2011. The staff accountant provided the support for the past two fiscal years.

Auditor Comments
EAC agreed to implement the recommendation. Once these actions are completed, EAC will have addressed our audit recommendation.

2. Develop specific information requirements and checklists that the service provider must complete and provide to EAC to support interim and year-end financial statements.

   Agency Response
   EAC will work with the service provider on specific requirements and checklists to support interim and year-end financial statements. The starting point will be for EAC to ask the provider to use existing requirements and checklists in EAC's Accounting Manual.

   Auditor Comments
   EAC agreed to implement the recommendation. Once the actions are completed, EAC will have addressed our audit recommendation.

3. Obtain assurances from the service provider that necessary controls are in place and operating effectively concerning the validation of posting models and changes made to the posting models.

   Agency Response
   EAC will request assurances from the service provider and follow up that necessary changes are made.

   Auditor Comments
   EAC agreed to implement the recommendation. Once the actions are completed, EAC will have addressed our audit recommendation.

4. Review all 2011 fiscal year JVs that have not been approved by EAC to ensure that the entries are proper. Require the service provider to provide documentation that supports it meets published control procedures relating to preparation of JVs.

   Agency Response
   The service provider indicated that FY 2011 Journal Vouchers (JVs) were approved either orally or in writing with EAC prior to entry in the financial

system. EAC staff will request JVs not yet approved by the agency from the service provider and confirm that we agree that the entries are proper. Staff will remind the service provider about procedures established in August 2009 requiring that all JVs be reviewed and approved for accuracy by EAC management prior to entry into the financial system.

Auditor Comments
EAC agreed to implement the recommendation. Once the actions are completed, EAC will have addressed our audit recommendation.

5. Ensure that the service provider corrects the problem with its undelivered order aging report.

   Agency Response
   EAC has requested that the service provider modify the aging report to include all obligations (including paid undelivered orders), rather than open obligations only, in the past. We will make the request again.

   Auditor Comments
   EAC agreed to implement the recommendation. Once the actions are completed, EAC will have addressed our audit recommendation.

6. Ensure that EAC's internal controls over financial reporting, including strengthened oversight over its accounting service provider, are re-established.

   Agency Response
   EAC will work with the current or an alternative service provider to ensure internal controls over financial reporting are strong in spite of loss of accounting staff during an agency hiring freeze.

   Auditor Comments
   EAC agreed to implement the recommendation. Once the actions are completed, EAC will have addressed our audit recommendation.

2. NIST Transfer – FY 2011

EAC processed an approximately $613,000 transfer to the National Institute of Standards and Technology (NIST) in early December 2010. Because errors were made by the service provider and EAC did not follow its own control procedures, EAC's general ledger records showed it did not have sufficient funds available to make this transfer. Without appropriate internal controls in place and operating effectively, EAC is at increased risk that its financial reports and financial statements could be misstated.

OMB Bulletin 10-03, *Apportionment of the Continuing Resolution(s) for Fiscal Year 2011*, and OMB Circular A-11, *Preparation, Submission, and Execution of the*

Budget, provide guidance on the processes to be followed when determining apportionments for continuing resolutions.

During our audit, we noted incorrect postings were made to EAC's general ledger relating to a December 2010 transfer to NIST. Based upon our review of accounting documents, discussions with EAC officials, and review of budgetary guidance, we obtained an understanding of the events surrounding the NIST transfer. We found that EAC accounting personnel initially became aware of an accounting problem with the December 2010 transfer to NIST when a routine review of financial information showed SGL accounts with abnormal or unusual balances.

Our review of the accounting for the transfer showed that in addition to creating abnormal balances in the general ledger the entry did not follow Standard General Ledger (SGL) posting models. For example, we found that the service provider posted the entry to SGL account 3101[3], Unexpended Appropriations – Appropriations Received, instead of SGL account 3103, Unexpended Appropriation – Transfers Out. Service provider personnel advised that the error was made because of an incorrect posting model in the accounting system.

We discussed funds controls in the accounting system with EAC officials to determine why controls did not prevent the transfer since there was insufficient funding available. We were advised by the CFO that there are fund controls in the accounting system within the budget module that will not allow a client to disburse more funds than they have. However, during Continuing Resolution (CR) periods, the CR amounts are not entered into the budget module, but instead the CR apportionments are entered via JVs and monitored by the service provider accountants.

EAC officials advised us that they have discussed the posting model problem with the service provider, and reviewed all other NIST transfers to ensure that the accounting was appropriate. EAC officials advised that the agency has completed its review of NIST transfers for 2011, and all accounts are now correct. EAC has also discussed with the service provider the need to establish funds controls over CR apportionments, including establishment of a new budget activity specifically for the transfer.

Recommendations:

1. Require the service provider to correct this posting model error, and identify and correct all transactions processed under this posting model during this fiscal year.

[3] This account reflects the amount of new appropriations received during the fiscal year.

Agency Response
It is our understanding that this posting model error has been corrected. The FY 2011 NIST transfers were reviewed and accounts are correct.

Auditor Comments
The agency has taken action to implement the recommendation.

2. Require the service provider to establish automated funds controls over apportionments made through a continuing resolution. Until this change is made to the accounting system, ensure compensating controls at the service provider and EAC are developed.

   Agency Response
   Service provider staff indicated that they are investigating an appropriate automatic control in the accounting system. EAC will follow-up on this during FY 2012. In the meantime, compensating controls were established. First, exception apportionments during CRs are to be recorded as both JV and A1 documents, versus the JV only recording in the past. Second, a new budget activity specifically for the NIST transfer was established, and is currently being used for FY 2012 CRs.

   Auditor Comments
   EAC agreed to implement the recommendation. Once the actions are completed, EAC will have addressed our audit recommendation.

3. Review the control breakdowns that occurred within EAC and develop additional controls or processes, as appropriate, to ensure that transactions are reviewed and approved by all required individuals.

   Agency Response
   EAC worked with the Office of Management and Budget to apportion the NIST funds under CRs—even though the funds are apportioned automatically and do not fall under the CR formulas, which are based on obligations rather than non-expenditure interagency transfer of funds—so that the funds cannot co-mingled accidentally. Internally, EAC ensures that NIST transfer funds are apportioned under CRs before requesting that GSA initiate any transfers of the funds.

   Auditor Comments
   The agency has described actions that it has taken to address various issues dealing with the NIST transfer. However, EAC did not address the recommendation that transactions be reviewed and approved by all required parties, as discussed in the EAC accounting manual.

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

COMPLIANCE WITH LAWS AND REGULATIONS

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

RESPONSIBILITIES

Management Responsibilities

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

Auditor Responsibilities

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin 07-04, *Audit Requirements for Federal Financial Statements* (as amended). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

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

As required by OMB Bulletin 07-04 (as amended), with respect to internal controls related to performance measures determined to be key and reported in Management's Discussion and Analysis, we made inquiries of management concerning the methods of preparing the information, including whether it was measured and presented within prescribed guidelines; changes in the methods of measurement or presentation from those used in the prior period(s) and the reasons for any such changes; and significant assumptions or interpretations underlying the measurement or presentation. We also evaluated the consistency of Management's Discussion and Analysis with management's responses to the foregoing inquiries, audited financial statements, and other audit evidence obtained during the examination of the financial statements. Our procedures were not designed to provide assurance on internal controls over reported performance measures, and, accordingly, we do not provide an opinion thereon.

We inquired of EAC's management as to its methods for preparing Required Supplementary Stewardship Information (RSSI), and reviewed this information for consistency with the financial statements. The RSSI is not a required part of the basic financial statements. However, our audit was not designed to express an opinion and, accordingly, we do not express an opinion on EAC's RSSI.

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

DISTRIBUTION

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

Leon Snead & Company, P.C.

Leon Snead & Company, P.C.
November 14, 2011

Appendix 1

Status of Prior Year Findings

Issue	Prior Year Condition	Status as of September 30, 2010
1.	**Material Noncompliance:** EAC did not have adequate funds control to ensure compliance with Antideficiency Act and purpose statute.	EAC issued required notifications to address Antideficiency Act reporting requirements.

U. S. ELECTION ASSISTANCE COMMISSION
OFFICE OF THE EXECUTIVE DIRECTOR
1201 New York Avenue, NW, Suite 300
Washington, DC. 20005

November 7, 2011

To: Arnie Garza
Assistant Inspector General for Audit

From: Tom Wilkey
Executive Director

Subject: Election Assistance Commission Response to Independent Audit Report on the U.S. Election Assistance Commission's Financial Statements for Fiscal Years 2011 and 2010 (Assignment No. I-PA-EAC-01-11)

The Election Assistance Commission (EAC) resolved an FY 2010 material noncompliance related to funds control and compliance with the Antideficiency Act in FY 2010. During FY 2011, the agency continued sound financial management practices and obtained an unqualified audit opinion on the Fiscal year 2011 financial statements.

The Independent Auditor's Report, submitted by Leon Snead & Company, Inc., identified one material weakness in internal control over financial reporting and one significant deficiency. Overall, EAC agrees with the findings in the report.

Our responses to the audit recommendations regarding the material weakness and to the significant deficiency are presented below.

<u>EAC Controls over Financial Reporting and Service Provider Processes impacted 2011 Financial Statements</u>

1. **Strengthen the agreement with the service provider to ensure that financial statements and supporting documentation are required to be provided to EAC and its auditors in a timely manner.**

   EAC will work with the service provider to modify the agreement to help ensure timely submission of statements and documentation. It should be noted that the provider was not asked to provide full support for the audit until near the end of the fiscal year, when EAC found out it was losing its staff accountant as of September 23, 2011. The staff accountant provided the support for the past two fiscal years.

2. **Develop specific information requirements and checklists that the service provider must complete and provide to EAC to support interim and year-end financial statements.**

EAC will work with the service provider on specific requirements and checklists to support interim and year-end financial statements. The starting point will be for EAC to ask the provider to use existing requirements and checklists in EAC's Accounting Manual.

3. **Obtain assurances from the service provider that necessary controls are in place and operating effectively concerning the validation of posting models and changes made to the posting models.**

   EAC will request assurances from the service provider and follow up that necessary changes are made.

4. **Review all 2011 fiscal year JVs that have not been approved by EAC to ensure that the entries are proper. Require the service provider to provide documentation that supports it meet published control procedures relating to preparation of JVs.**

   The service provider indicated that FY 2011 Journal Vouchers (JVs) were approved either orally or in writing with EAC prior to entry in the financial system. EAC staff will request JVs not yet approved by the agency from the service provider and confirm that we agree that the entries are proper. Staff will remind the service provider about procedures established in August 2009 requiring that all JVs be reviewed and approved for accuracy by EAC management prior to entry into the financial system.

5. **Ensure that the service provider corrects the problem with its undelivered order aging report.**

   EAC has requested that the service provider modify the aging report to include all obligations (including paid undelivered orders), rather than open obligations only, in the past. We will make the request again.

6. **Ensure that EAC's internal controls over financial reporting, including strengthened oversight over its accounting service provider, are re-established.**

   EAC will work with the current or an alternative service provider to ensure internal controls over financial reporting are strong in spite of loss of accounting staff during an agency hiring freeze.

<u>NIST Transfer – FY 2011</u>

1. **Require the service provider to correct this posting model error, and identify and correct all transactions processed under this posting model during this fiscal year.**

   It is our understanding that this posting model error has been corrected. The FY 2011 NIST transfers were reviewed and accounts are correct.

2. **Require the service provider to establish automated funds controls over apportionments made through a continuing resolution. Until this change is made to**

the accounting system, ensure compensating controls at the service provider and EAC are developed.

Service provider staff indicated that they are investigating an appropriate automatic control in the accounting system. EAC will follow-up on this during FY 2012. In the meantime, compensating controls were established. First, exception apportionments during CRs are to be recorded as both JV and A1 documents, versus the JV only recording in the past. Second, a new budget activity specifically for the NIST transfer was established, and is currently being used for FY 2012 CRs.

3. **Review the control breakdowns that occurred within EAC and develop additional controls or processes, as appropriate, to ensure that transactions are reviewed and approved by all required individuals.**

EAC worked with the Office of Management and Budget to apportion the NIST funds under CRs—even though the funds are apportioned automatically and do not fall under the CR formulas, which are based on obligations rather than non-expenditure interagency transfer of funds—so that the funds cannot co-mingled accidentally. Internally, EAC ensures that NIST transfer funds are apportioned under CRs before requesting that GSA initiate any transfers of the funds.

Cc: Gineen Bresso, Commissioner
Donetta Davidson, Commissioner
Mark Robbins, General Counsel
Curtis Crider, Inspector General
Alice Miller, Chief Operating Officer
Annette Lafferty, Chief Financial Officer

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