

# U.S. ELECTION ASSISTANCE COMMISSION

## INTERIM AGENCY FINANCIAL REPORT

November 15, 2012

**ABOUT THIS REPORT**

For FY 2012 reporting purposes, the U.S. Election Assistance Commission (EAC) has again elected to submit an Agency Financial Report, with an Annual Performance Report and Citizens' Report along with the Congressional Budget Justification. The reports are targeted to the Office of Management and Budget (OMB), the Public, and Congress, respectively. The AFR allows EAC to focus on and lay out its financial position at this time, while providing summary performance data. A Citizen's Report and a combined Annual Performance Report/Congressional Budget Justification will follow on February 15, 2013 per guidance in OMB Circular A-136 *Financial Reporting Requirements*.



November 15, 2012

**MESSAGE FROM THE CHIEF OPERATING OFFICER AND ACTING EXECUTIVE DIRECTOR**

Following is the U.S. Election Assistance Commission (EAC) FY 2012 Annual Financial Report. The report describes EAC's financial results over the past year as it pursued its mission to assist the effective administration of Federal elections. The report highlights efforts to strengthen internal controls and financial management activities. This is the fourth year EAC has undergone a financial statement audit per the Accountability of Tax Dollars Act of 2002, and the third year EAC is participating in the pilot performance reporting project as described in OMB Circular A-136 on Financial Reporting Requirements in place of the Performance and Accountability Report. EAC presents summarized performance data in this report, and will provide detailed data in February in conjunction with the FY 2014 Congressional Justification.

EAC has been without a quorum of commissioners since December 10, 2010 and has been without commissioners since December 2011. The agency has been able to function by following the order of succession in the Roles and Responsibilities document adopted by the Commission in September 2008, and the organization chart in the Strategic Plan 2009-2014 adopted in March of 2009. Under the present structure, if EAC is without an Executive Director or General Counsel, as is the case, the Chief Operating Officer assumes the responsibilities of the Executive Director in an acting capacity. Agency staff is authorized by the Roles and Responsibilities document to perform activities such as managing the voting systems certification/decertification process, and disbursing Requirements Payment grant funds. The agency cannot process second level audit appeals, issue advisory opinions to States on use of Help America Vote Act funds, adopt policy, or hire an Executive Director and General Counsel.

In FY 2012, EAC finalized the human capital handbook. A records management handbook is in draft and is expected to be finalized in FY 2013. Further, once a quorum of the Commissioners is present, EAC will examine remaining policies and procedures related to clearinghouse and communications and public comments regarding the National Mail Voter Registration Form.

During FY 2012, EAC made a great deal of progress in achieving the program area goals described in its Strategic Plan, which is based on the mandates of the Help America Vote Act (HAVA) of 2002:

Communications & Clearinghouse

In Fiscal Year 2012, EAC focused efforts on providing information and best practices to election officials and voters in preparation for the 2012 federal election cycle with the goal of building a community of knowledge and expertise that would save election officials time and money. EAC:

- Hosted a series of public roundtable discussions about topics and initiatives in preparation for 2012 federal election cycle. Questions and comments were taken from the public throughout the live webcasts. The subjects included:
  - Cost-effective procedures and best practices for 2012 Voting System Preparation;
  - EAC's role as a national clearinghouse and resource for election officials around the country;
  - Getting ready for the November 2012 elections; and
  - Ways to improve access to voting for veterans;
- Expanded The EAC Blog to provide periodic election updates and highlight program activities during each week: 1) Election Updates summarize information on upcoming primaries, special elections, and the general election in 2012; 2) Voting System Testing Updates track progress made on EAC voting system certification; and 3) ongoing blog posts cover election related topics to answer frequently asked questions and provide critical or time sensitive information to stakeholders and the media;
- Expanded @EACgov on Twitter to rapidly deliver information and updates to stakeholders and the public about the voting system certification program, EAC activities and election information, communicate with election officials, and build a community of expertise;
- Maintained #BReady2012, is the Twitter hashtag where election officials and the public can gather and discuss preparation for the next Federal election. The number of EAC Twitter followers grew from 250 to over 900 from October 2011 through September 2012;
- Hosted online The Election Official Exchange, a platform to help local election officials connect and leverage their collective knowledge by sharing and exchanging best practices and information expertise; and
- Provided program updates where the public can customize the kind of information and the frequency that it is delivered via EAC's newsletter and automatic program updates;
- Managed EAC's Blog to provide periodic election updates and highlight program activities;
- Managed @EACgov on Twitter to rapidly deliver information and updates about the voting system certification program, communicate with election officials, and build a community of expertise; and
- Maintained #BReady2012, the Twitter hashtag where election officials and the public can gather and discuss preparation for the next Federal election.

Grants Management

In FY 2012, EAC:

- Disbursed requirements payment grants to States certifying compliance from the FY 2008-FY 2011 awards;
- Closed the College Poll Worker and the Mock Election grants awarded in FY 2009;
- Continued to monitor and provide technical assistance to three-year award 2010 College Poll Worker grantees to help them carry out successful programs;
- Continued to monitor and work with the three-year award 2010 Mock Election Program grantees; and
- Monitored and provided technical assistance for the Voting System Pre-Election Logic and Accuracy Testing & Post-Election Audit Initiative grants, and the Accessible Voting Technology Initiative grants. In FY 2012, the latter projects focused on making pre-election information accessible to voters and using a specialized system in the field for elections.

Research, Policy and Programs

Work completed in FY 2012 includes:

*Research:*

- Release of the results of the 2010 Election Administration and Voting Survey (EAVS) to Congress and the public;
- Final draft of a study on the use of Social Security numbers for the purpose of voter registration;
- Final draft of a study on Vote Recounts and Contests describing laws and procedures in each state;
- Award of contracts to perform research on administering elections in urban and rural areas, and to administer and analyze the data for the 2012 EAVS;
- Completion of the process for updating the 2012 Election Administration and Voting Survey;
- Research on new jurisdictions and languages covered by Section 203 of the Voting Rights Act as determined by the 2010 census and consideration of its application to various minority language election resources; and
- Responding to requests from state and local election officials, Congress, the media and the public-at large for copies of Voter's Guides to Elections and Glossaries of Election Terms in various foreign languages, and NVRA registration forms and accompanying state instructions for completing the form; clarification of data reported in the biennial EAVS; assistance on completing the Federal NVRA form; and requests to clarify certain technical aspects of election procedures and processes;

*Policy:*

- Processing of State requests for modifications to the state-specific instructions on the National Mail Voter Registration Form. States include Delaware, Florida, Illinois, Maine, Louisiana, Virginia and Washington State;

*Programs:*

- Conducting presentations and distributing material highlighting EAC educational resources at conferences and workshops around the country. Topics included best practices and tips from EAC research on topics such as poll worker recruitment and training, designing ballots, making contingency plans, voting accessibility, and communicating with the public; and
- Developing and distributing 30,000 copies of “Voting Tips To Enhance Your Voting Experience” to the 55 State election offices.

Voting Systems Testing and Certification

In FY 2012, EAC:

- Certified four voting systems and published a certification timeline for a fifth system;
- Conducted testing campaigns for four systems;
- Drafted and published six Requests for Interpretation (RFIs) to the Voluntary Voting System Guidelines (VVSG);
- Drafted and published two Notices of Clarification to Testing & Certification Program Manuals;
- Published a Final Formal Investigation Report on a voting system;
- Developed and implemented major updates to EAC’s Virtual Review Tool (VRT);
- Audited a voting system manufacturing facility;
- Received a revised version of VVSG 1.1 from NIST, incorporated NIST comments and new RFI’s into the guidelines, and posted the second draft version for Public Comment;
- Performed two laboratory re-accreditation audits, and an EAC and NVLAP initial laboratory audit; and
- Published the Survey of Internet Voting (SIVAR) document on the EAC web site.

Finally, EAC conducted briefings for visiting foreign delegations under the auspices of the U.S. State Department to explain EAC’s role and function as a national clearinghouse, and how EAC's resources and tools serve and support election officials around the country as they prepare for the 2012 election. Delegations included election officials and news media journalists from the following nations: Afghanistan, Burkina Faso, Chad, Korea, Mali, Mauritania, Senegal, Niger, and Russia. Another briefing was conducted for representatives from the Office for Democratic Institutions and Human Rights (ODIHR) in the Organization for Security and Cooperation in Europe (OSCE).

EAC continues to work on improving its programs and operations, and information technology across the agency. Additional information on actions for continued improvement can be found in Section I.E. of the Management Discussion and Analysis which follows.

The financial and performance data in this report is reliable and complete with the exception of issues described in the auditor's report related to internal controls and accounting for advances, receivables and accruals, and the finalization of policies and procedures. The Commission provides a qualified statement of assurance that the internal control and financial management systems meet the objectives of the Federal Managers' Financial Integrity Act. EAC will work in FY 2013 to remediate the issues and finalize policies and procedures.

We look forward to continuing to provide technical assistance to recipients of Help America Vote Act funds, and materials to election officials to assist with the administration of Federal elections.



Alice P. Miller  
Chief Operating Officer and Acting  
Executive Director

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## SECTION I

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### Management Discussion and Analysis

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

#### **IA BACKGROUND, VISION, MISSION AND ORGANIZATIONAL STRUCTURE**

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

EAC is an independent, bipartisan agency. Four full-time Commissioners, appointed by the President and confirmed by the U.S. Senate, and three Federal advisory committees, the Standards Board, Board of Advisors, and Technical Guidelines Development Committee, guide the EAC. Its mission is to provide assistance to State and local election officials 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, periodically review and modify, as necessary, Voluntary Voting System Guidelines (VVSG);
- Accredite voting system test laboratories and certify voting equipment;
- Conduct periodic studies of election administration issues as determined by the Commission;
- Establish best practices and guidelines on election administration for State and local election officials;
- Maintain the national voter registration form developed in accordance with the National Voter Registration Act (NVRA) of 1993;
- Provide Congress with a bi-annual report to assess the impact of the NVRA.

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

In Fiscal Years 2003 and 2004, Congress appropriated nearly \$3 billion in Federal financial assistance for payments to States under Titles I and II of HAVA. States received the funds to upgrade their voting systems, establish a statewide voter registration database, train election officials, and educate voters. In Fiscal Year 2003, General Services Administration (GSA) distributed \$649,500,000 in HAVA funds to the fifty States, Guam, Puerto Rico, the U.S. Virgin Islands, American Samoa and the District of Columbia on EAC's behalf. The funds were distributed for activities to improve the administration of elections (Section 101) and to replace punch card and lever voting machines (Section 102).

The Senate confirmed four Commissioners in December 2003 and EAC began operations in January 2004, within ten months of the date mandated by HAVA. The Agency's Fiscal Year 2004 operating budget was \$1.7 million. At the close of the fiscal year, EAC had a staff of 18. EAC's focus in 2004 was to assemble staff, obtain office space, arrange for administrative support from the GSA, establish a website, start election administration clearinghouse operations, and distribute Federal financial assistance to the States. In FY 2004, EAC also appointed a statutorily-required General Counsel.

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

In FY 2007, Congress recognized the expanding Agency responsibilities and lifted the full-time equivalent staffing ceiling of 24. As of the end of FY 2011, EAC had a full-time staff of 38 employees, including two Commissioners and special assistants. Since its inception, EAC has received \$2,606,150,000 in requirements payments, \$24,350,000 in discretionary grant funds for Poll Workers, Mock Elections, Election Data Collection, Voting Technology Improvement Research and Equipment and Pre-Election Logic and Accuracy Testing and Post-Election Verification and transferred \$24,493,000 to NIST. EAC also tracks and provides technical assistance on the Section 101 funds. The time period for using the Section 102 funds has expired, and EAC is in the process of collecting remaining unused funds.

## EAC Organization by Program

EAC has organized its offices around the goals in the Strategic Plan. Below are brief descriptions of the four offices responsible for implementing the Strategic Plan programmatic goals. Following the descriptions is EAC's organization chart.

### Communications and Clearinghouse

The Communications and Clearinghouse division is responsible for external communications and the tools and platforms used to provide information to election officials and the general public. Areas of responsibility include:

- EAC Website and Clearinghouse
- Social media
- Media inquires
- External communications
- Congressional relations
- The Freedom of Information Act
- National Archives and Records Act
- Editorial support: press releases, speeches, and Congressional testimony

The agency's website, [www.eac.gov](http://www.eac.gov), is the primary communications tool. EAC.gov contains thousands of documents and information about voting systems, press releases, informational videos, research, data and program-related information. It also features on-demand webcasts and related information from public meetings, hearings and roundtables.

EAC's award-winning website features a user-driven notification system, allowing visitors to customize how they receive information. Users can customize their online experience by signing up for automatic e-mail alerts on a variety of election topics and events, including public meetings, advisory board meetings, reports, policies and agency news. These alerts can be received in real time on a daily or weekly basis.

### Grants Management

The Grants Management Division:

- Provides technical assistance to the States on administering Federal funds;
- Awards and monitors discretionary grant programs including: Help America Vote College Program, Help America Vote Mock Election Program, Military Heroes Initiative, Voting System Pre-Election Logic and Accuracy Testing and Post-Election Audit Initiative and Accessible Voting Technology Initiative;
- Processes and disburses payments to States and discretionary grant recipients;
- Tracks the submission of and reviews the content of financial and performance reports submitted by States and discretionary grant recipients;
- Reviews audit reports and works with fund recipients on recommendations to resolve audit findings applicable to EAC programs;
- Reviews amended State Plan submissions; and

- Drafts advisory opinions for Commission approval and issuance.

### Research, Policy and Programs

The Research, Policy and Programs division:

- Conducts research on election administration topics as mandated by Congress and at the discretion of the Commission;
- Administers the biennial Election Administration and Voting Survey;
- Administers the National Mail Voter Registration Form as prescribed by the National Voter Registration Act of 1993 (NVRA), also known as “Motor Voter”;
- Administers the Election Management Guidelines and Quick Start Guides Program to help election officials promote secure, efficient, accurate, and accessible elections by providing information on topics such as Ballot Design, Polling Place Management, Voting Accessibility, Communicating with the Public, Contingency Planning, Managing Change in an Election Office, Media and Public Relations, and Developing an Audit Trail for the verification of votes;
- Manages the Language Accessibility Program to provide informational materials on the Federal election process and glossaries of election terminology in languages English and six other languages, translates the National Mail Voter Registration Form into ten languages other than English; and
- Provides materials to voters and election administration officials to facilitate their successful participation in Federal elections such as registering to vote.

Research and reporting is mandated by HAVA on topics such as the impact of the National Voter Registration Act of 1993 and on UOCAVA for military and overseas voters’ participation in federal elections; the feasibility and advisability of establishing free absentee ballot return postage; recounts and contests; the feasibility of alternative voting methods such as electronic voting; the voting experiences of first-time voters who register to vote by mail; administering elections in urban and rural areas; and the feasibility and advisability of identifying voters by Social Security Number.

### Voting System Testing and Certification

Under the Help America Vote Act, EAC accredits voting system test laboratories and certifies voting equipment, marking the first time the Federal government has offered these services to the States. Participation by States in the program is voluntary. Staff works with NIST to evaluate and accredit voting system test laboratories and the management of the voting system certification process.

The Testing and Certification (T&C) division:

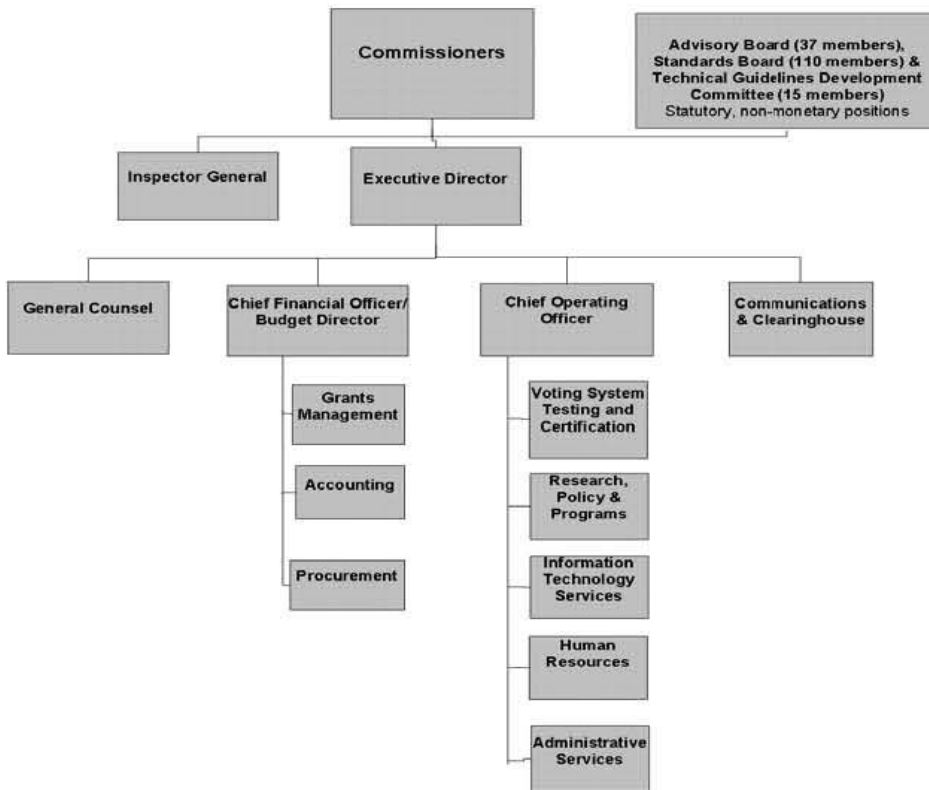
- Assists States with voluntary certification of their systems;
- Supports local elections officials in the areas of acceptance testing and pre-election system verification;

- Promotes quality control in voting system manufacturing through the EAC quality monitoring program;
- Provides procedures to the voting system manufacturers for the testing and certification of voting systems to specified Federal standards consistent with the requirements of HAVA Section 231.

EAC’s voting system certification program establishes accountability through its Quality Monitoring Program which ensures, through various check points, that the voting systems used in the field are the same systems EAC has certified. For instance, under the program, EAC has the ability to conduct site visits to production facilities to determine whether systems produced are consistent with those that have received EAC certification. In addition, EAC collects reports from election officials regarding voting system anomalies. After reviewing the reports, EAC disseminates the information to election officials. Furthermore, upon invitation or with permission from election officials, the EAC conducts reviews of systems that are in use in the field.

More information about EAC’s Voting System Certification and Testing Program is available in EAC’s Frequently Asked Questions on [eac.gov](http://eac.gov).

**ELECTION ASSISTANCE COMMISSION  
ORGANIZATION CHART**



## **I.B. PERFORMANCE GOALS, OBJECTIVES AND RESULTS**

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

### **How EAC Assesses Performance**

EAC has five strategic goals:

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

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

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

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

Goal 1's aim of communication of timely and accurate information is the responsibility of the Communications and Clearinghouse division.

### **Goal 1 FY 2012 Accomplishments**

In Fiscal Year 2012, the Communications and Clearinghouse division focused its efforts on providing information and best practices to election officials and voters in preparation for the 2012 federal election cycle. The goal was to build a community of knowledge and expertise that would save election officials time and money as they faced the challenge of providing more

services to voters with fewer resources and more budget constraints. EAC embraced the tenets of Government 2.0 and established a robust network of information sharing for election officials and professionals.

### **EAC.gov Resources**

- The Election Official Exchange: an online resource built by EAC to help local election officials connect and leverage their collective knowledge by sharing best practices and knowledge. By participating in the Exchange, any U.S. election official can call on a colleague for advice about virtually any administrative task they face, from testing voting equipment and training poll workers to creating an audit trail and conducting a recount.
- Enhanced and improved search tool: based on usability studies and user feedback, EAC's search tool is an intuitive and user friendly way for the public to find information.
- Events finder: a comprehensive presentation of all EAC public events, including meetings, hearings and roundtable discussions.
- Webcasts: public events are offered live. On demand webcasts are available within 24 hours. The meeting agenda accompanies the webcast, and the viewer can select topics of interest. All meeting materials are also available to the public.
- Customized program updates: a listserv for EAC's newsletter and automatic program updates. Users are notified daily or weekly when new documents are posted based on their delivery preferences.

### **Social Media and Stakeholder Updates**

- The EAC Blog: allows EAC to provide periodic election updates and highlight program activities. Weekly Election Updates summarize information on upcoming primaries, special elections, and the general election in 2012. Weekly Voting System Testing Updates track progress made on EAC system certification. Ongoing blog posts cover election related topics to answer frequently asked questions and provide critical or time sensitive information to stakeholders and the media.
- @EACgov on Twitter: another tool used to communicate with stakeholders and the public on EAC activities and election information. The number of EAC Twitter followers grew from 250 to over 900 from October, 2011 through September, 2012.
- #BReady2012: a Twitter hashtag hosted and created by EAC provides an online meeting place for election officials and the public to gather and discuss preparation for the next federal election.
- EAC maintains and emails a public list of election officials and has used the platform to inform thousands of people about program activities. For example, EAC can rapidly deliver information and updates about the voting system certification program across the country. As requests are received from election officials, EAC continues to add more links to state & local election social media sites.

### **Preparing for the 2012 Elections: The Roundtable Series of Public Discussions**

In Fiscal Year 2012, EAC continued hosting a series of public roundtable discussions about topics and initiatives in preparation for 2012 federal election cycle. Four roundtable discussions were webcast live and featured a live Twitterfall. Questions and comments were taken from the

public through the webcasts. Participants included election officials and subject experts who provided real world solutions to the issues facing election officials and voters as we prepare for the 2012 elections. EAC distributed press advisories to national media daybooks and contacts, and to the home state/local media outlets representing roundtable participants

- 2012 Voting System Preparation (Nov. 17, 2011), a discussion on cost-effective procedures and best practices for conducting voting system preparation activities. Topics included ballot preparation, acceptance testing, and logic and accuracy testing.
- EAC Clearinghouse (March 20, 2012) roundtable to highlight and build on EAC's role as a national clearinghouse and resource for election officials around the country. Participants shared ideas and strategies for improving the administration of elections in the U.S.
- Getting Ready for November (June 19, 2012), a discussion on what to expect and how to prepare for November and beyond. Participants shared ideas and strategies about voting system preparation, ballot preparation, voter education, polling places, voter turnout, provisional ballots and more.
- Veterans Voting This November (Sept 13, 2012), a roundtable where participants discussed election operations, procedures and accessibility best practices for improving access to voting for veterans with disabilities.

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

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

Goal 2 is administered by the Grants Management division and the Office of the Inspector General.

**Goal 2 FY 2012 Accomplishments**

**Section 251 Requirements Payments**

Section 251 funds were included in the Election Reform Programs no-year appropriation. Congress appropriated \$115 million in FY 2008, \$100 million in FY 2009 and \$70 million in FY 2010. In FY 2012, EAC disbursed \$575,000 from the FY 2008 appropriation, \$500,000 from the FY 2009 appropriation and \$2,464,199 from the FY 2010 appropriation. EAC also paid \$435,808 from funds made available in FY 2011 that were previously undistributed requirements payments or returned Section 102 funds. These funds were requested by the States by September 30, 2012. The funds are distributed according to a formula based on the voting age population of the State per the last Census and the total voting age population of all States. In order to draw the funds, the States certify that they are in compliance with applicable laws and requirements per HAVA Section 253.



A State may use requirements payments to carry out activities to improve the administration of elections for Federal office outside of the activities listed under HAVA Title III if the State per Section 251 certifies that the State has implemented the requirements of Title III, or the amount it will spend on other activities will not exceed an amount equal to the minimum payment amount applicable to the State under section 252. Title III includes voting system standards, voting information requirements, provisional voting, statewide voter registration lists, and identification requirements for voters who register by mail. States may also use requirements payments to improve the administration of Federal elections.

To date, EAC has awarded 89 grants totaling \$3.1 million to recruit and train college poll workers since the College Program was established in 2004. In FY 2012, EAC closed the College Poll Worker grants awarded in FY2009. EAC continued to monitor and work with the 2010 College Poll Worker grantees to help them carry out successful programs. The grants are three-year awards.

Mock Election Program grants are authorized under HAVA Section 295. To date, EAC has awarded grants totaling \$998,820 to organizations under this program since the Mock Election program was established in 2004. The grants allow students to become familiar with voting processes and technologies so that when they become eligible to vote they will be more comfortable with their civic duties. In FY 2012, EAC closed the Mock Election grants awarded in FY 2009. EAC continued to monitor and work with the 2010 Mock Election Program grantees to help them carry out successful programs. The 2010 grants are three-year awards.

The purpose of the Voting System Pre-Election Logic and Accuracy Testing & Post-Election Audit Initiative is to develop and document processes and best practices for coordinating quality and cost-effective: 1) voting system pre-election logic and accuracy testing (L&A), and 2) post-election audits. Outcomes will include tool kits, guides, best practices, research findings and recommendations that could be disseminated widely within the election community. In FY 2011, EAC awarded \$1,463,074 to 12 award recipients. EAC did not award the remaining \$1,536,926 on no-year funded L&A grants in FY 2012 pending a quorum of the commissioners to approve the Notice of Funding Availability.

The purpose of the Accessible Voting Technology Initiative is to support research and development activities to increase the accessibility of new, existing, and emerging technological solutions in areas such as assistive technologies, interoperability, and the design of voting systems. Funding supports research for: 1) promising technologies and practices; 2) technology testing and adoption; and 3) development of administrative processes and training improvements to increase accessibility of existing voting procedures and election systems.

In FY 2011, EAC awarded \$4,500,000 to Clemson University in Clemson, SC and \$2,500,000 to Information Technology and Innovation Foundation in Washington, DC for the initiative. In FY 2012, the projects focused on making pre-election information accessible to voters and using the Prime III system in the field for elections.

**Strategic Plan Goal 3: Identify and develop information on areas of pressing concern regarding the administration of elections for Federal office and issue recommended**

**improvements, guidance, translations, and best practices as required by HAVA, and carry out responsibilities under the National Voter Registration Act.**

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

Goal 3 is administered by the Research, Policy and Programs division.

**Goal 3 FY 2012 Accomplishments**

*Research:*

- Release of the results of the 2010 Election Administration and Voting Survey to Congress and the general public. This included a data overview and summary, along with a survey FAQ.
- Completed final draft of a study on the use of Social Security numbers for the purpose of voter registration.
- Completed final draft of a study on Vote Recounts and Contests describing laws and procedures in each state.
- Completed statement of work and awarded a contract to perform research on administering elections in urban and rural areas.
- Completed the process for updating the 2012 Election Administration and Voting Survey (EAVS).
- Completed a competitive procurement process and awarded a contract to administer and analyze the data for the 2012 EAVS.
- Conducted research on new jurisdictions and languages covered by Section 203 of the Voting Rights Act as determined by the 2010 census and considered its application to various minority language election resources.

*Policy:*

In accordance with HAVA, EAC has responsibility to implement portions of the National Voter Registration Act of 1993 (NVRA) that relate to the form and content of the national mail voter registration form and include submitting a biennial report to Congress on the impact of the NVRA.

During FY 2012 :

- Staff received and processed State requests for modifications to the state-specific instructions on the National Mail Voter Registration Form from Delaware, Florida, Illinois, Maine, Louisiana, Virginia and Washington State.

- Made a series of minor technical corrections to the NVRA form so that it was 508 Complaint in English and easy to complete (fillable) when downloaded from EAC's website.
- Developed an interim procedure for processing state requests to modify their state-specific instructions on the national mail voter registration form. The procedure was approved by both the General Counsel and the Executive Director. The interim procedure will be used by Staff to process such requests until a quorum is established on the Commission.

### *Programs:*

- EAC program staff conducted a number of presentations and distributed material highlighting its educational resources at conferences and workshops around the country. For example, presentations in Washington, DC, San Diego and Boston highlighted key best practices and tips gathered from EAC research on topics such as poll worker recruitment and training, designing ballots, making contingency plans, ensuring voting accessibility and communicating with the public.
- In recognition of September as Voter Registration month, EAC staff developed a guide "Voting Tips To Enhance Your Voting Experience". In an effort to enhance the November voting experience, EAC distributed 30,000 of these voter's guides to each of the 55 State election offices.
- Program staff assisted in planning and executing a June roundtable discussion on EAC's clearinghouse of educational resource materials and was a regular contributor to EAC blog posts that offered helpful tips and best practices on effective election administration procedures.

Throughout the year and, on a continual basis, RPP division staff respond to requests from state and local election officials, Congress, the media and the public-at large for a range of materials including:

- Voter's Guides to Elections;
- Glossaries of Election Terms in various foreign languages;
- NVRA registration forms and accompanying state instructions for completing the form.

Throughout the year RPP staff has also, on a continuing basis:

- Clarified various data reported in the biennial EAC Election Administration and Voting Survey;
- Provided assistance regarding the completion of the Federal NVRA form;
- Responded to requests to clarify certain technical aspects of election procedures and processes, and;
- Met with numerous foreign delegations in order to explain the American election process and the role of the EAC.

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

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

Goal 4 is administered by the Voting System Testing and Certification (T&C) division.

**Goal 4 FY 2012 Accomplishments**

In FY 2012 in the area of voting system certification, EAC:

- Certified four voting systems;
- Drafted and published six Requests for Interpretation (RFIs) to VVSG;
- Drafted and published two Notices of Clarification to Testing & Certification Program Manuals;
- Published a Final Formal Investigation Report on a voting system;
- Developed and implemented major updates to the EAC's Virtual Review Tool (VRT). EAC is currently rolling out the addition of the ECO Database to the VRT tool to track engineering change orders for all EAC certified voting systems;
- Published the Certification Timeline for ES&S Unity 3.4.0.0 voting system;
- Conducted a Unisyn Manufacturer Facility audit of the manufacturing process;
- Observed the installation and acceptance testing of a voting system in Cuyahoga, Ohio; and
- Observed the acceptance testing of a voting system in Arlington, Virginia.

There are currently four voting systems in active test campaigns.

In the area of Voluntary Voting System Guidelines (VVSG) and Test Suites, in FY 2012, EAC received a new revised version of VVSG 1.1 from NIST. EAC incorporated NIST comments and new RFI's into VVSG 1.1. EAC posted the second draft version of VVSG 1.1 for a 90 day Public Comment period beginning September 6, 2012. Subsequent comments regarding the comment period coinciding with the General election persuaded EAC to revise the Public Comment period to 130 days.

Regarding laboratory accreditation in FY 2012, EAC performed a laboratory re-accreditation audit; an EAC and NVLAP initial laboratory audit; and a lab re-accreditation audit.

Further, in FY 2012, EAC attended meetings with NASED; Election Center; EVN, technical reviewers; manufacturers; Pennsylvania State Election Officials; the Technical Guidelines Development Committee (TGDC); NIST; a voting system manufacturer for the kick-off overview meeting on a new system in Omaha, Nebraska; with election officials in Indianapolis, Indiana on State Certification; and USENIX on voting technology.

Finally, EAC published the Survey of Internet Voting (SIVAR) document on the EAC web site.

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

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

Key Performance Measures	
○	Implement 90 percent of the OIG audit recommendations within agreed upon timeframes.
○	Meet annual performance measures.

Each quarter, EAC reports to the Chair and Ranking Member of the House Subcommittee on Elections, Committee on House Administration on the status of 82 OIG audit recommendations made as of March 2008. To date, only three of the 82 recommendations remain open. Two of the open recommendations require a quorum of the Commission for final resolution.

On the performance measure regarding meeting annual performance measures, management is working to foster a culture of accountability among staff. The agency was successful in improving staff satisfaction ratings on the 2011 annual employee survey. Agency directors responsible for implementation of the EAC Strategic Plan goals report on their division metrics in the Agency Financial Report in November, the Annual Performance Report along with the Congressional Budget Justification in February, and on planned metrics in the OMB Budget Justification each September.

EAC financial staff complete assessable unit risk assessment questionnaires and individual letters of assurance, and the Chief Operating Officer provides a letter of assurance. The letters of assurance are rolled into the CFO's Annual Statement of Assurance.

EAC will continue to focus on resolution of issues identified in audits, setting up sound systems and policies and procedures, working with managers on the relationship between budget and performance, maximizing use of staff and financial resources, and training EAC staff on financial management processes and their responsibilities.

### **Performance Data Collection and Validation**

Managing for results and producing an Annual Performance Plan requires valid, reliable and high-quality performance measures and data. EAC is committed to the continuous improvement of its performance and financial management data. To this end, EAC verifies mandatory source documentation, and documentation of calculation methodology for performance indicators to provide reasonable assurance that the reported programmatic performance data is relevant and reliable.

## Summary Performance Information

By program, summary performance information for FY 2012 is as follows:

### *Communications & Clearinghouse –*

- Maintained The Election Official Exchange;
- Offered a series of public roundtable discussions 2012 Voting System Preparation; EAC Clearinghouse; Getting Ready for November; and Veterans Voting This November;
- Provided Customized program updates so the public can customize the kind of information and the frequency that it is delivered via EAC’s newsletter and automatic program updates; and
- Expanded The EAC Blog, @EACgov on Twitter, and #BReady2012.

### *Grants Management –*

- Disbursed requirements payment grants for States certifying compliance from funds obligated in FYs 2008-2011;
- Closed the College Poll Worker and the Mock Election grants awarded in FY 2009;
- Continued to monitor and provide technical assistance to 2010 College Poll Worker, 2010 Mock Election Program, Voting System Pre-Election Logic and Accuracy Testing & Post-Election Audit Initiative, and Accessible Voting Technology Initiative grantees to help them carry out successful programs. the latter projects focused on making pre-election information accessible to voters and using a specialized system in the field for elections.

### *Research, Policy and Programs –*

- Released the results of the 2010 Election Administration and Voting Survey (EAVS) to Congress and the public, and completed the process for updating the 2012 EAVS;
- Completed final drafts of studies on the use of Social Security numbers for the purpose of voter registration, and on Vote Recounts and Contests describing laws and procedures in each state;
- Awarded contracts to perform research on administering elections in urban and rural areas, and to administer and analyze the data for the 2012 EAVS;
- Researched the new jurisdictions and languages covered by Section 203 of the Voting Rights Act as determined by the 2010 census and analyzed its application to various minority language election resources;
- Processed State requests for modifications to the state-specific instructions on the National Mail Voter Registration Form; and
- Developed and distributed 30,000 copies of “Voting Tips To Enhance Your Voting Experience” to the 55 State election offices.

*Voting Systems Testing and Certification –*

- Certified four voting systems and published a certification timeline for a fifth system, and conducted testing campaigns for four systems;
- Published six Requests for Interpretation (RFIs) to the Voluntary Voting System Guidelines (VVSG); two Notices of Clarification to Testing & Certification Program Manuals; a Final Formal Investigation Report on a voting system; and the Survey of Internet Voting (SIVAR) document;
- Developed and implemented major updates to EAC’s Virtual Review Tool (VRT);
- Performed audits of a voting system manufacturing facility, two labs for re-accreditation, and an EAC and NVLAP initial laboratory audit; and
- Received a revised version of VVSG 1.1 from NIST, incorporated NIST comments and new RFI’s into the guidelines, and posted the second draft version for Public Comment.

**Program Performance Indicators**

The following table presents key EAC FY 2012 program performance data. As much detailed performance information as possible will be presented, and variances discussed, in the FY 2012 Annual Performance Report due February 15, 2013 along with the FY 2014 Congressional Justification.

**EAC FY 2012 Performance Summary**

Program	Performance Indicator	Type of Indicator	Planned	Actual
<b>Strategic Goal 1: Communicate</b>				
	Issue Clearinghouse policy	Output	Final	In Final Draft (quorum required for final approval)
	Issue Policies/Procedures to process requests from outside EAC	Output	Final	In Final Draft
<b>Strategic Goal 2: Fund and Oversee</b>				
	Award grants within established timeframes	Output	100%	L&A round two pending quorum
	Resolve 100 percent of audit findings within established time frames.	Output	100%	No overdue management decisions as of 9/30/12
	Negotiate indirect cost rates within 30 days of receipt of acceptable indirect cost proposals	Output	100%	Submit requests for negotiation to HHS upon receipt
<b>Strategic Goal 3: Study, Guide, Assist</b>				
	Issue reports to Congress by statutory deadlines	Output	3	3
	Disseminate all completed research project reports to stakeholders	Output	100%	100%
<b>Strategic Goal 4: Test and Certify</b>				
	Produce updates to the VVSG in Fiscal years 2010 and 2013	Output		VVSG Version 1.1 updated
	Conduct at least one review of a manufacturing facility of a registered manufacturer at least once every 4 years.	Output	1	1

Plan to conduct field reviews for at least 50 percent of jurisdictions that volunteer for reviews	Output	50%	100%
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**Portfolio Analysis**

Since 2004, EAC has received funds in three appropriations: Salaries and Expenses, Election Reform Programs, and for FY 2008 only, Election Data Collection Grants. The purpose of the Data Collection grants of \$2.0 million each to five States was to measure the costs of improving the collection of election data at the precinct level during the 2008 Federal election. In FY 2012, the Salaries and Expenses appropriation of \$11.5 million funded a \$2.75 million transfer to NIST, staff salaries and benefits, travel, rent and telecommunications, printing, contracts, supplies and equipment.

**I.C. FINANCIAL RESULTS**

This analysis is intended to help readers understand EAC’s financial results, position and condition as portrayed in the financial statements and notes to the statements. It explains changes in assets, liabilities, costs, revenues, obligations, and outlays; includes comparisons of FY 2012 to FY 2011; and discusses the relevance of balances and amounts in the financial statements and notes. The changes are discussed in the context of whether the year’s activities improved or deteriorated the agency’s financial position.

**Budgetary Resources**

Budgetary resources (Obligations Incurred, apportioned unobligated balances, and unobligated balances not available) are the amounts available to enter into new obligations and to liquidate them. The majority of EAC’s available budgetary resources are for Requirements Payments in the Election Reform Program appropriation. Budgetary resources include new Budget Authority from appropriations and unobligated balances of Budget Authority provided in previous years in the no year Election Reform Program account.

For FY 2012, the available budgetary resources were \$20.8 million, down from \$32.3 million in FY 2011. In FY 2012, EAC’s appropriations totaled \$11.5 million, for salaries and expenses, down from \$16.3 million appropriated in FY 2011.

In FY 2008, EAC recorded \$50.7 million of unspent HAVA Section 102 payments paid to the States in FY 2003 and FY 2004. These funds were originally disbursed by the General Services Administration (GSA) acting as Administrator. Any funds remaining unspent as of November 1, 2011, have returned or are in the process of being returned to EAC to be disbursed as HAVA Section 251 payments.

Obligations Incurred decreased from \$19.8 million in FY 2011 to \$9,153,251 in FY 2012 primarily as a result of the disbursement of FYs 2008-2011 Requirements Payments and the reduction in the annual appropriation. Unobligated Balance – Apportioned decreased from \$5.6 million in FY 2011 to \$3.2 million in FY 2012.



## **Financial Position**

### *Assets*

EAC had \$40.1 million in total assets (Fund Balance with Treasury, Advances and Prepayments, and Other Assets) as of September 30, 2012, down from \$47.9 million in FY 2011. This decrease is largely the result of disbursements of Requirements Payments from FYs 2008-2011.

### *Liabilities*

EAC had total liabilities (accounts payables, accrued payroll and benefits, and unfunded leave) of \$2.2 million as of September 30, 2011 and September 30, 2012. As of September 30, 2012, all Requirements Payments due had been disbursed and no accrual was recorded.

### *Net Position*

Net position (Unexpended Appropriations and Cumulative Results of Operations) decreased in FY 2012 to \$37.9 million from \$45.7 million in FY 2011. Unexpended Appropriations decreased primarily due to expenditure of Requirements Payments.

## **Results of Operations**

EAC, as presented in its Statement of Net Costs, reports its results of operations within four programs: Communications and Clearinghouse, Fund and Oversee, Research, Policy and Programs, and Testing and Certification. Costs specifically identified with each of these programs such as assigned personnel costs and specific program contract costs are allocated to the program directly. The Fund and Oversee program reports the expenditures for the Requirements Payments and the other EAC grants. In years in which EAC receives significant appropriation for these HAVA funds, this program, Fund and Oversee, typically exceeds the other programs in overall costs. Other general agency overhead costs such as rent, human resource costs and financial management costs are allocated on a per employee basis. This methodology is outlined in EAC's Cost Allocation Model and is reviewed by the financial statement auditors each year to ensure the accurate allocation of expenses to each program.

Total Net Cost of Operations (expenses in the salaries and expenses, and grant appropriations) for the EAC was \$14.0 million for Fiscal Year 2012.

## **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 Generally Accepted Accounting Principles (GAAP) for Federal entities and the formats prescribed by the Office of Management and Budget, the statements are in addition to the financial reports that are used to monitor and control budgetary resources, which are prepared from the same books and records.

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

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

### **Internal Control Environment**

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

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

The agency can provide limited assurance that internal controls over financial reporting to ensure that transactions are: executed in accordance with budgetary and financial laws and other requirements, consistent with the purposes authorized, and recorded in accordance with Federal accounting standards. EAC ensures that assets are properly acquired and used, safeguarded to deter theft, accidental loss or unauthorized disposition, and fraud.

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

### **Federal Manager's Financial Integrity Act**

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

During FY 2008, the EAC evaluation was limited to identifying weaknesses disclosed in reports issued by the General Accountability Office and by the EAC Office of the Inspector General, including the weaknesses identified through the year's financial statement audit. During FY 2009, EAC began the process of designing, implementing, and assessing internal controls in full compliance with Office of Management and Budget Circular A-123, *Management's Responsibility for Internal Control*, and FFMA. A-123 requires the managers of Federal agencies to take responsibility for assessing internal controls over financial reporting. EAC contracted for independent review of the key business processes impacting financial operations

and the financial statements, and business processes with no material impact on the financial statements but which have some potential for risk or exposure for the agency.

Since FY 2009, EAC has incorporated the results of self-assessments of financial management internal controls to further demonstrate evaluation of internal controls.

A material weakness was identified by management beginning in FY 2008 concerning EAC's lack of effective written policies and procedures. EAC plans on finalizing records management procedures in FY 2013. EAC plans on adopting Communications and Clearinghouse Policy and National Voter Registration Act revised rules once a quorum is in place.

EAC is working with the new financial services provider to ensure internal controls over financial reporting are strong.

### **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 is essential to minimizing risks of inadvertent or deliberate misuse, fraud or destruction.

During FY 2012, EAC continued work on an information technology (IT) modernization project that began in FY 2011 to enhance the agency's network infrastructure. As part of the agency's effort to improve IT services, EAC replaced aging laptop workstations with high-performance desktop workstations as well as finished upgrading to Microsoft Office 2007 from Office 2003. The agency migrated from LOTUS Notes email messaging to Microsoft Exchange server 2010 with Outlook 2007 as email client and enabled secured online email access for users to manage their emails when teleworking. EAC upgraded servers from Windows 2003 to Windows 2008, and Windows XP workstations to Windows 7.

EAC implemented a self-contained system recovery backup solution at the main office as well as at the Continuity of Operations (COOP) site to protect mission-critical data against system downtime and for disaster recovery purposes. To ensure internal security, EAC applied additional access controls including an intrusion detection appliance.

Further, EAC finished work to upgrade of the telephone system to a menu-driven interactive voice response (IVR) system. The main switch number uses a telephone menu to direct callers to offices and provides voter contact information for State voter information lines during elections. To improve internal and external communication, EAC completed work on unified messaging with a Voice Over IP (VOIP) phone system that allows users to access voicemail via email, a custom auto-attendant, call forwarding and audio conferencing at anytime from any location.

The FY 2012 Federal Information Security Management Act (FISMA) evaluation report found that EAC was in substantial compliance with FISMA requirements. Specifically, it was noted that EAC had established sufficient policies and procedures relating to its IT security program to address identified risks; implemented actions to address prior concerns relating to meeting Privacy Act requirements; established a continuous monitoring program that substantially

addressed all NIST requirements (using Asset management and IT service desk utilities); provided annual security awareness training and specialized training to its IT specialists; developed and tested a contingency plan; and had established required access controls sufficient to meet identified risks.

A recommendation that was made in the report to strengthen the control over servers and perform expanded vulnerability scans. The recommendation was implemented during the course of the audit. The table below summarizes EAC's level of compliance in the FY 2012 FISMA evaluation. There were no findings of "not in substantial compliance." There were no deficiencies for a beginning balance, and no deficiencies were identified in FY 2012.

### **Audit Follow-Up**

EAC's Office of Inspector General (OIG) conducts audits and reviews of the agency's operations. The Office of the Chief Financial Officer (OCFO) works closely with EAC management and the OIG to complete actions necessary to respond to audit findings. OCFO tracks the completion of the audit recommendations in a Quarterly Audit Recommendation Tracking Report. The report is carefully reviewed by EAC and is submitted each month to Congressional Oversight staff. As of September 30, 2012, EAC has three open findings to resolve. EAC made improvements in all Agency management challenges. EAC also considers and responds to recommendations from audits and reviews conducted by the Government Accountability Office.

### **Federal Financial Management Improvement Act**

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

### **Accountability of Tax Dollars Act of 2002**

The Fiscal Year 2012 financial statement audit report identified material weaknesses in internal control over financial reporting.

### **Federal Information Security Management Act**

EAC was in compliance with the Federal Information Security Management Act at the end of FY 2012.

### **Inspector General Act Amendments of 1988**

The EAC Office of the IG audits HAVA funds administered by recipients of HAVA grants and transmits to EAC single audit reports that present findings on HAVA funds. The principal recipients of HAVA grant funds are State governments. In FY 2012, EAC resolved audit reports issued by the IG for Alabama, Utah, Pennsylvania, Illinois, New Jersey, Kansas, Texas, Arizona,

## **Election Assistance Commission**

and Nevada. In FY 2012, EAC also resolved Single Audit Act findings for West Virginia, Virginia, Bullitt County and Parke County.



**U.S. ELECTION ASSISTANCE COMMISSION**

1201 New York Ave. NW – Suite 300  
Washington, DC 20005

November 15, 2012

**Annual Assurance Statement on Internal Control**

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

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

In FY 2012, EAC worked to resolve one material weakness in the effectiveness of its internal control over operations: lack of effective written policies and procedures in the areas of Human Resources, Communications and Clearinghouse, and National Voter Registration Act regulations. EAC finalized Human Resources procedures as of this writing, and will work in FY 2013 to finalize the remaining policies and procedures once there is a quorum of Commissioners.

The auditor's report presented in the Agency Financial Report identifies two material weaknesses in internal control over financial reporting and concludes that a disclaimer of opinion on the statements was required. Due to material weaknesses in internal controls over financial management reporting, the Commission provides a qualified statement of assurance that the internal control and financial management systems meet the objectives of the Federal Managers' Financial Integrity Act. We expect to address the report recommendations in time to obtain an unqualified opinion for FY 2013 as we did initially in FY 2009.

A handwritten signature in blue ink, appearing to read "Alice P. Miller".

Alice P. Miller

## SECTION II

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### Financial Section

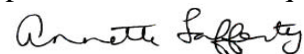
#### II.A. MESSAGE FROM THE CHIEF FINANCIAL OFFICER

EAC's financial statements for FY 2012 are an integral component of the Agency Financial Report (AFR). This is the fifth year in its nine year operational existence that EAC has prepared financial statements and submitted them for audit. This is the fourth year EAC is presenting an AFR in place of the Performance and Accountability Report. EAC presents summarized performance data in this report, and will provide detailed data in February 2013 in conjunction with the Fiscal Year (FY) 2014 Congressional Justification.

For FYs 2009 through 2011, EAC had unqualified audited financial statement opinions. From April 2009 through late September 2011, EAC had a full-time staff accountant. However, as you will see in the independent auditor's report and the agency's response, the auditors were unable to opine on the FY 2012 financial statements. This was due primarily to transfer of financial services from one federal agency to another late in the fiscal year and running out of time to complete the conversion before end-of-year financial statements were due. Had the transfer of data between the providers been timely, the internal controls used by the providers been compatible, and the new provider not been upgrading its financial system at the time we transferred, we believe that the audit opinion for FY 2012 would have been unqualified.

During FY 2012, EAC was in a position where we had to take the risk of changing financial services to another federal agency as a condition for obtaining procurement services via memorandum of understanding with another federal agency. EAC's former procurement services provider was no longer able to provide support due to staffing constraints, and no other agency contacted was able to provide established procurement services for the same reason. The decisions to outsource procurement services and not hire a full-time staff accountant were made: 1) to increase efficiency by tapping into administrative services provided by other agencies; 2) in response to long-standing criticism that EAC has too many administrative staff at the expense of program staff; and 3) to potential elimination or dismantling of the agency and proposed large cuts to the agency's operations budget.

Efficiency increased in FY 2012 with automation of travel, procurement and purchase card systems for the first time, but it became apparent that even though EAC is a micro-agency, a full-time staff accountant with knowledge of agency programs and operations is critical to our success. We will hire a full-time accountant and develop an action plan to address audit findings and restore our internal controls to the level we operated under when we had a full-time staff accountant. The action plan will include detailed procedures and training related to advances, accruals, and accounts receivable; and a review of accounting treatment for FY 2012 financial entries. We expect that issues described in the auditors' report will be resolved quickly.



Annette Lafferty  
November 15, 2012

II.B. INSPECTOR GENERAL'S ASSESSMENT



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

November 14, 2012

To: Ms. Alice Miller,  
Acting Executive Director

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

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

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

**Results of Independent Audit**

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

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



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

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

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

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

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

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

Leon Snead & Co. P.C. is responsible for the attached auditor's report dated November 14, 2012, and the conclusions expressed in the report. We do not express any opinion on EAC's financial statements or conclusions on the effectiveness of internal control, or compliance with laws and regulations.

#### **Report Distribution**

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

## Election Assistance Commission

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

Attachment

Copy to: Annette Lafferty, Chief Financial Officer

**II.C. INDEPENDENT AUDITORS' REPORT**

**U. S. ELECTION ASSISTANCE COMMISSION**

**Financial Statements**

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

**Submitted By**

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

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LEON SNEAD  
& COMPANY, P.C.

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

#### INDEPENDENT AUDITOR'S REPORT

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

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

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

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

**REPORT ON THE FINANCIAL STATEMENTS**

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

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

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

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

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

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and information about non-Federal physical property, and research development be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board (FASAB) who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. This information has not been subjected to auditing procedures, and accordingly, we do not express an opinion or provide any assurance on the information contained in this document.

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

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

## RESPONSIBILITIES

### Management Responsibilities

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

### Auditor Responsibilities

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

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

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

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

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

#### **INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

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

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

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



**Findings and Recommendations**

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

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

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

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

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

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

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

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

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

Based upon our analysis, we proposed and EAC made adjustments to the general ledger totaling approximately \$1.13<sup>2</sup> million dollars.

- Undelivered orders<sup>3</sup> (UDO) subsidiary records were out-of balance, in absolute values, approximately \$2.1 million with corresponding general ledger accounts. This was due, in part, to incorrectly posted grant advances by the prior service provider. We also reported a problem with UDO in our 2011 financial statement audit. The table below shows the differences we noted between the subsidiary undelivered orders records and the general ledger.

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

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

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

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

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

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

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

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

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

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

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

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

**Recommendations:**

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

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

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

**2. Errors and Lack of Controls over Journal Vouchers Continue**

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

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

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

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

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

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

**Recommendations:**

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

**COMPLIANCE WITH LAWS AND REGULATIONS**

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

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

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

**AGENCY RESPONSE AND AUDITOR COMMENTS**

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

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

**DISTRIBUTION**

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

*Leon Snead & Company, P.C.*

November 14, 2012

Status of 2011 Audit Findings and Recommendations

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

<sup>4</sup> All discussions in this table refer to the EAC's prior service provider.



Attachment 1

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



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

November 8, 2012

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

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

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

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

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

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

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

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

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

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

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

**Recommendation 2.:** Develop a detailed operating procedure that provides guidance on the preparation, review and approval of agency financial statements, and requires supporting documentation to be compiled reviewed, and approved for all financial statement line items and footnotes prior to submission for audit.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

November 14, 2012

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

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

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

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

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

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

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

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

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

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

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

**Recommendation 2.:** Develop a detailed operating procedure that provides guidance on the preparation, review and approval of agency financial statements, and requires supporting documentation to be compiled reviewed, and approved for all financial statement line items and footnotes prior to submission for audit.

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

**II.D. FINANCIAL STATEMENTS (UNAUDITED)**

The Balance Sheet presents information as of September 30, 2012, amounts of future economic benefits owned or managed by EAC (i.e., assets), amounts owed by EAC (i.e., liabilities), and amounts that comprise the difference (i.e., net position).

ELECTION ASSISTANCE COMMISSION  
BALANCE SHEET  
AS OF SEPTEMBER 30, 2012 AND 2011  
(In Dollars)

	2012 (Unaudited)	2011
<b>Assets:</b>		
Intragovernmental		
Fund Balance With Treasury (Note 2)	\$ 38,450,929	\$ 45,153,024
Accounts Receivable (Note 3)	20,000	-
Other (Note 4)	392,039	612,994
<b>Total Intragovernmental</b>	<b>38,862,968</b>	<b>45,766,018</b>
Accounts Receivable, Net (Note 3)	304,919	326
Property, Equipment, and Software, Net (Note 5)	939,539	1,343,191
Other (Note 4)	1,093	793,395
<b>Total Assets</b>	<b>\$ 40,108,519</b>	<b>\$ 47,902,930</b>
<b>Liabilities:</b>		
Intragovernmental		
Accounts Payable	\$ 587,024	\$ 135,960
Other (Note 7)	249,127	19,911
<b>Total Intragovernmental</b>	<b>836,151</b>	<b>155,871</b>
Accounts Payable	560,807	1,647,251
Other (Note 7)	775,965	401,096
<b>Total Liabilities</b>	<b>\$ 2,172,923</b>	<b>\$ 2,204,218</b>
<b>Net Position:</b>		
Unexpended Appropriations	\$ 37,214,571	\$ 44,650,213
Cumulative Results of Operations	721,025	1,048,499
<b>Total Net Position</b>	<b>\$ 37,935,596</b>	<b>\$ 45,698,712</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 40,108,519</b>	<b>\$ 47,902,930</b>

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

ELECTION ASSISTANCE COMMISSION  
 STATEMENT OF NET COST  
 FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011  
 (In Dollars)

	2012 (Unaudited)	2011
<b>Program Costs:</b>		
<i>Communications and Clearinghouse</i>		
Gross Costs	\$ 670,935	\$ 2,011,063
Less: Earned Revenue	-	-
<b>Net Program Costs</b>	<b>\$ 670,935</b>	<b>\$ 2,011,063</b>
<i>Fund and Oversee</i>		
Gross Costs	8,576,715	100,376,323
<i>Research, Policy, and Programs</i>		
Gross Costs	1,764,214	2,971,090
<i>Testing and Certification</i>		
Gross Costs	3,031,344	3,255,161
<b>Net Cost of Operations</b>	<b>\$ 14,043,208</b>	<b>\$ 108,613,637</b>

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

ELECTION ASSISTANCE COMMISSION  
STATEMENT OF CHANGES IN NET POSITION  
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011  
(In Dollars)

	2012 (Unaudited)	2011
<b>Cumulative Results of Operations:</b>		
Beginning Balances	\$ 1,048,499	\$ 845,767
Adjustments		
Corrections of Errors	-	428
Beginning Balances, as Adjusted	1,048,499	846,195
<b>Budgetary Financing Sources:</b>		
Appropriations Used	13,483,885	108,463,104
<b>Other Financing Sources (Non-Exchange):</b>		
Imputed Financing Sources	231,849	352,837
Total Financing Sources	13,715,734	108,815,941
Net Cost of Operations	(14,043,208)	(108,613,637)
Net Change	(327,474)	202,304
Cumulative Results of Operations	\$ 721,025	\$ 1,048,499
<b>Unexpended Appropriations:</b>		
Beginning Balances	\$ 44,650,213	\$ 141,834,143
<b>Budgetary Financing Sources:</b>		
Appropriations Received	11,500,000	16,300,000
Appropriations Transferred In/Out	(2,750,000)	(3,243,500)
Other Adjustments	(2,701,757)	(1,777,326)
Appropriations Used	(13,483,885)	(108,463,104)
Total Budgetary Financing Sources	(7,435,642)	(97,183,930)
Total Unexpended Appropriations	\$ 37,214,571	\$ 44,650,213
Net Position	\$ 37,935,596	\$ 45,698,712

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

ELECTION ASSISTANCE COMMISSION  
 STATEMENT OF BUDGETARY RESOURCES  
 FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011  
 (In Dollars)

	2012 (Unaudited)	2011
<b>Budgetary Resources:</b>		
Unobligated Balance Brought Forward, October 1	\$ 12,425,038	\$ 17,293,724
Recoveries of Prior Year Unpaid Obligations	1,738,635	2,549,790
Other changes in unobligated balance	(2,701,757)	(1,777,326)
Unobligated balance from prior year budget authority, net	11,461,916	18,066,188
Appropriations	8,750,000	13,056,500
Spending authority from offsetting collections	616,423	1,136,128
<b>Total Budgetary Resources</b>	<b>\$ 20,828,339</b>	<b>\$ 32,258,816</b>
<b>Status of Budgetary Resources:</b>		
Obligations Incurred	\$ 9,153,251	\$ 19,833,778
Unobligated balance, end of year:		
Apportioned	3,181,236	5,636,700
Unapportioned	8,493,852	6,788,338
Total unobligated balance, end of year	11,675,088	12,425,038
<b>Total Budgetary Resources</b>	<b>\$ 20,828,339</b>	<b>\$ 32,258,816</b>
<b>Change in Obligated Balance:</b>		
Unpaid Obligations, Brought Forward, October 1	\$ 32,727,986	\$ 122,406,204
Obligations Incurred	9,153,251	19,833,778
Outlays (gross)	(13,346,761)	(106,962,206)
Recoveries of Prior Year Unpaid	(1,738,635)	(2,549,790)
Obligated balance, end of year		
Unpaid obligations, end of year	26,795,841	32,727,986
Uncollected customer payments from Federal sources, end of ye.	(20,000)	-
<b>Obligated balance, end of year</b>	<b>\$ 26,775,841</b>	<b>\$ 32,727,986</b>
<b>Budget Authority and Outlays, Net:</b>		
Budget authority, gross	\$ 9,366,423	\$ 14,192,628
Actual offsetting collections	(596,423)	(1,134,450)
Change in uncollected customer payments from Federal sources	(20,000)	-
<b>Budget Authority, net</b>	<b>\$ 8,750,000</b>	<b>\$ 13,058,178</b>
Outlays, gross	\$ 13,346,761	\$ 106,962,206
Actual offsetting collections	(596,423)	(1,134,450)
<b>Agency outlays, net</b>	<b>\$ 12,750,338</b>	<b>\$ 105,827,756</b>

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

## II.E NOTES TO THE FINANCIAL STATEMENTS (Unaudited)

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Reporting Entity

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

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

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

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

The EAC reporting entity is comprised of General Funds.

General Funds are accounts used to record financial transactions arising under congressional appropriations or other authorizations to spend general revenues. EAC manages Operations and Facilities, Engineering and Development General Fund accounts.

EAC has rights and ownership of all assets reported in these financial statements. EAC does not possess any non-entity assets.

#### B. Basis of Presentation

The financial statements have been prepared to report the financial position and results of operations of EAC. The Balance Sheet presents the financial position of the agency. The Statement of Net Cost presents the agency's operating results; the Statement of Changes in Net Position displays the changes in the agency's equity accounts. The Statement of Budgetary Resources presents the sources, status, and uses of the agency's resources and follows the rules for the Budget of the United States Government.

The statements are a requirement of the Chief Financial Officers Act of 1990, the Government Management Reform Act of 1994 and the Accountability of Tax Dollars Act of 2002. They have been prepared from, and are fully supported by, the books and records of EAC in accordance with the hierarchy of accounting principles generally accepted in the United States of America, standards issued by the Federal Accounting Standards Advisory Board (FASAB), Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*, as

amended, and EAC accounting policies which are summarized in this note. These statements, with the exception of the Statement of Budgetary Resources, are different from financial management reports, which are also prepared pursuant to OMB directives that are used to monitor and control EAC's use of budgetary resources. The financial statements and associated notes are presented on a comparative basis. Unless specified otherwise, all amounts are presented in dollars.

### **C. Basis of Accounting**

Transactions are recorded on both an accrual accounting basis and a budgetary basis. Under the accrual method, revenues are recognized when earned, and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal requirements on the use of federal funds.

### **D. Fund Balance with Treasury**

Fund Balance with Treasury is the aggregate amount of EAC's funds with Treasury in expenditure accounts. Appropriated funds recorded in expenditure accounts are available to pay current liabilities and finance authorized purchases.

EAC does not maintain bank accounts of its own, has no disbursing authority, and does not maintain cash held outside of Treasury. Treasury disburses funds for the agency on demand.

### **E. Accounts Receivable**

Accounts receivable consists of amounts owed to EAC by other Federal agencies and the general public. EAC has made advance payments for services from other Federal Agencies. When the period of performance for these services expires without fulfillment of the contract, a receivable is recorded. EAC has also made advance grant payments to the states for the primary purpose of replacing punch card or lever voting machines. The period of use of this grant money has expired. All unused funds that have not been returned have been recorded as a receivable. Amounts due from Federal agencies are considered fully collectible.

Accounts receivable from the public include reimbursements from employees. An allowance for uncollectible accounts receivable from the public is established when, based upon a review of outstanding accounts and the failure of all collection efforts, management determines that collection is unlikely to occur considering the debtor's ability to pay.

### **F. Property, Equipment, and Software**

Property, equipment and software represent furniture, fixtures, equipment, and information technology hardware and software which are recorded at original acquisition cost and are depreciated or amortized using the straight-line method over their estimated useful lives. Major alterations and renovations are capitalized, while maintenance and repair costs are expensed as incurred. EAC's capitalization threshold varies based on the property classification for assets with a useful life of 2 or more years. For general property and equipment, the capitalization

threshold is \$10,000 with a bulk purchase policy of \$100,000. For leasehold improvements and software, the capitalization threshold is \$25,000.

Property, equipment, and software acquisitions that do not meet the capitalization criteria are expensed upon receipt. Applicable standard governmental guidelines regulate the disposal and convertibility of agency property, equipment, and software. The useful life classifications for capitalized assets are as follows:

<u>Description</u>	<u>Useful Life (years)</u>
Leasehold Improvements	4 - 7
Office Furniture	5
Computer Equipment	5
Office Equipment	5
Software	5

**G. Advances and Prepaid Charges**

On occasion, EAC prepays amounts in anticipation of receiving future benefits. Although a payment has been made, an expense is not recorded until goods have been received or services have been performed. The EAC has prepayments and advances with non-governmental, as well as governmental, vendors.

Total prepayments and advances to non-governmental entities as of September 30, 2012 were \$1,093. The prepayments and advances to governmental entities were \$392,040 as of September 30, 2012. These included deposited accounts with the Department of Interior, Acquisition Services Directorate to provide acquisition support services to EAC.

**H. Liabilities**

Liabilities represent the amount of funds likely to be paid by the EAC as a result of transactions or events that have already occurred.

EAC reports its liabilities under two categories, Intragovernmental and With the Public. Intragovernmental liabilities represent funds owed to another government agency. Liabilities With the Public represents funds owed to any entity or person that is not a federal agency, including private sector firms and federal employees. Each of these categories may include liabilities that are covered by budgetary resources and liabilities not covered by budgetary resources.

Liabilities covered by budgetary resources are liabilities funded by a current appropriation or other funding source. These consist of accounts payable and accrued payroll and benefits. Accounts payable represent amounts owed to another entity for goods ordered and received and for services rendered except for employees. Accrued payroll and benefits represent payroll costs earned by employees during the fiscal year which are not paid until the next fiscal year. EAC



also accrues liabilities for Section 251 grants, research and development grants for such items as improving voting technology and processes for injured military personnel, and logic and accuracy testing grants. See the required supplemental information for a more detailed explanation of the grants.

Liabilities not covered by budgetary resources are liabilities that are not funded by any current appropriation or other funding source. These liabilities consist of accrued annual leave.

### **I. Annual, Sick, and Other Leave**

Annual leave is accrued as it is earned, and the accrual is reduced as leave is taken. The balance in the accrued leave account is adjusted to reflect current pay rates. Liabilities associated with other types of vested leave, including compensatory, restored leave, and sick leave in certain circumstances, are accrued at year-end, based on latest pay rates and unused hours of leave. Funding will be obtained from future financing sources to the extent that current or prior year appropriations are not available to fund annual and other types of vested leave earned but not taken. Nonvested leave is expensed when used. Any liability for sick leave that is accrued but not taken by a Civil Service Retirement System (CSRS)-covered employee is transferred to the Office of Personnel Management (OPM) upon the retirement of that individual. Credit is given for sick leave balances in the computation of annuities upon the retirement of Federal Employees Retirement System (FERS)-covered employees effective at 50% beginning FY 2010 and 100% in 2014.

### **J. Accrued and Actuarial Workers' Compensation**

The Federal Employees' Compensation Act (FECA) administered by the U.S. Department of Labor (DOL) addresses all claims brought by EAC employees for on-the-job injuries. The DOL bills each agency annually as its claims are paid, but payment of these bills is deferred for two years to allow for funding through the budget process. Similarly, employees that EAC terminates without cause may receive unemployment compensation benefits under the unemployment insurance program also administered by DOL, which bills each agency quarterly for paid claims. Future appropriations will be used for the reimbursement to DOL.

### **K. Retirement Plans**

EAC employees participate in either the CSRS or the FERS. The employees who participate in CSRS are beneficiaries of EAC matching contribution, equal to seven percent of pay, distributed to their annuity account in the Civil Service Retirement and Disability Fund.

Prior to December 31, 1983, all employees were covered under the CSRS program. From January 1, 1984 through December 31, 1986, employees had the option of remaining under CSRS or joining FERS and Social Security. Employees hired as of January 1, 1987 are automatically covered by the FERS program. Both CSRS and FERS employees may participate in the federal Thrift Savings Plan (TSP). FERS employees receive an automatic agency contribution equal to one percent of pay and EAC matches any employee contribution up to an additional four percent of pay. For FERS participants, EAC also contributes the employer's matching share of Social Security.

FERS employees and certain CSRS reinstatement employees are eligible to participate in the Social Security program after retirement. In these instances, EAC remits the employer's share of the required contribution.

EAC recognizes the imputed cost of pension and other retirement benefits during the employees' active years of service. OPM actuaries determine pension cost factors by calculating the value of pension benefits expected to be paid in the future and communicate these factors to EAC for current period expense reporting. OPM also provides information regarding the full cost of health and life insurance benefits. EAC recognized the offsetting revenue as imputed financing sources to the extent these expenses will be paid by OPM.

EAC does not report on its financial statements information pertaining to the retirement plans covering its employees. Reporting amounts such as plan assets, accumulated plan benefits, and related unfunded liabilities, if any, is the responsibility of the OPM, as the administrator.

#### **L. Other Post-Employment Benefits**

EAC employees eligible to participate in the Federal Employees' Health Benefits Plan (FEHBP) and the Federal Employees' Group Life Insurance Program (FEGSIP) may continue to participate in these programs after their retirement. The OPM has provided the EAC with certain cost factors that estimate the true cost of providing the post-retirement benefit to current employees. EAC recognizes a current cost for these and Other Retirement Benefits (ORB) at the time the employee's services are rendered. The ORB expense is financed by OPM, and offset by EAC through the recognition of an imputed financing source.

#### **M. Use of Estimates**

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

#### **N. Imputed Costs/Financing Sources**

Federal Government entities often receive goods and services from other Federal Government entities without reimbursing the providing entity for all the related costs. In addition, Federal Government entities also incur costs that are paid in total or in part by other entities. An imputed financing source is recognized by the receiving entity for costs that are paid by other entities. EAC recognized imputed costs and financing sources in fiscal years 2012 and 2011 to the extent directed by accounting standards.

#### **O. Grants**

EAC administers and oversees the grant making process in connection with federal Requirement Payments and grants made to recipient organizations and the HAVA. As Requirement Payments and grants are awarded, they are recorded as obligations and represent uses of budgetary

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

**NOTE 2. FUND BALANCE WITH TREASURY**

Fund balance with Treasury account balances as of September 30, 2012 and 2011, were as follows:

	2012 (Unaudited)	2011
<b>Fund Balances:</b>		
Appropriated Funds	\$ 38,450,929	\$ 45,153,024
<b>Total</b>	<b>\$ 38,450,929</b>	<b>\$ 45,153,024</b>
<b>Status of Fund Balance with Treasury:</b>		
Unobligated Balance		
Available	\$ 3,181,236	\$ 5,636,700
Unavailable	8,493,852	6,788,338
Obligated Balance Not Yet Disbursed	26,775,841	32,727,986
<b>Total</b>	<b>\$ 38,450,929</b>	<b>\$ 45,153,024</b>

No discrepancies exist between the Fund Balance reflected on the Balance Sheet and the balances in the Treasury accounts.

The available unobligated fund balances represent the current-period amount available for obligation or commitment.

The unavailable unobligated fund balances represent the amount of appropriations for which the period of availability for obligation has expired. These balances are available for upward adjustments of obligations incurred only during the period for which the appropriation was available for obligation or for paying claims attributable to the appropriations.

The obligated balance not yet disbursed includes accounts payable, accrued expenses, and undelivered orders that have reduced unexpended appropriations but have not yet decreased the fund balance on hand (see also Note 12).

**NOTE 3. ACCOUNTS RECEIVABLE**

Accounts receivable balances as of September 30, 2012 and 2011, were as follows:

**Election Assistance Commission**

	2012 (Unaudited)	2011
Intragovernmental		
Accounts Receivable	\$ 20,000	\$ -
<b>Total Intragovernmental Accounts Receivable</b>	<b>\$ 20,000</b>	<b>\$ -</b>
With the Public		
Section 102 Grants	\$ 302,096	\$ -
Employee Receivables	2,823	326
<b>Total Public Accounts Receivable</b>	<b>\$ 304,919</b>	<b>\$ 326</b>
<b>Total Accounts Receivable</b>	<b>\$ 324,919</b>	<b>\$ 326</b>

The accounts receivable is primarily made up of moneys due from the states for unused Section 102 grants and funds that had been advanced for services that were not used.

Historical experience has indicated that the majority of the receivables are collectible. There are no material uncollectible accounts as of September 30, 2012 and 2011.

**NOTE 4. ADVANCES AND PREPAYMENTS**

	2012 (Unaudited)	2011
Intragovernmental		
Advances and Prepayments	\$ 392,039	\$ 612,994
<b>Total Intragovernmental</b>	<b>\$ 392,039</b>	<b>\$ 612,994</b>
With the Public		
Advances and Prepayments	\$ 1,093	\$ 793,395
<b>Total Public</b>	<b>\$ 1,093</b>	<b>\$ 793,395</b>
<b>Total Advances &amp; Prepayments</b>	<b>\$ 393,132</b>	<b>\$ 1,406,389</b>

**NOTE 5. PROPERTY, EQUIPMENT, AND SOFTWARE**

Schedule of Property, Equipment, and Software as of September 30, 2012 (Unaudited):

**Election Assistance Commission**

Major Class	Acquisition Cost	Accumulated Amortization/ Depreciation	Net Book Value
Leasehold Improvements	675,216	422,010	\$ 253,206
Furniture & Equipment	1,230,518	686,910	543,608
Software	172,721	58,831	113,890
Software Under Development	28,835	-	28,835
<b>Total</b>	<b>\$ 2,107,290</b>	<b>\$ 1,167,751</b>	<b>\$ 939,539</b>

Schedule of Property, Equipment, and Software as of September 30, 2011:

Major Class	Acquisition Cost	Accumulated Amortization/ Depreciation	Net Book Value
Leasehold Improvements	675,216	261,647	\$ 413,569
Furniture & Equipment	1,230,518	485,191	745,327
Software	172,721	17,261	155,460
Software Under Development	28,835	-	28,835
<b>Total</b>	<b>\$ 2,107,290</b>	<b>\$ 764,099</b>	<b>\$ 1,343,191</b>

Depreciation expense was \$403,652 and \$399,514 for fiscal years 2012 and 2011, respectively.

**NOTE 6. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES**

The liabilities for EAC as of September 30, 2012 and 2011 include liabilities not covered by budgetary resources. Congressional action is needed before budgetary resources can be provided. Although future appropriations to fund these liabilities are likely and anticipated, it is not certain that appropriations will be enacted to fund these liabilities.

	2012 (Unaudited)	2011
Intragovernmental – FECA	\$ 1,057	\$ 1,057
Unfunded Leave	220,039	293,961
<b>Total Liabilities Not Covered by Budgetary Resources</b>	<b>\$ 221,096</b>	<b>\$ 295,018</b>
<b>Total Liabilities Covered by Budgetary Resources</b>	<b>1,951,827</b>	<b>1,909,200</b>
<b>Total Liabilities</b>	<b>\$ 2,172,923</b>	<b>\$ 2,204,218</b>

FECA and the Unemployment Insurance liabilities represent the unfunded liability for actual workers compensation claims and unemployment benefits paid on EAC’s behalf and payable to the DOL.

Unfunded leave represents a liability for earned leave and is reduced when leave is taken. The balance in the accrued annual leave account is reviewed quarterly and adjusted as needed to accurately reflect the liability at current pay rates and leave balances. Accrued annual leave is paid from future funding sources and, accordingly, is reflected as a liability not covered by budgetary resources. Sick and other leave is expensed as taken.

**NOTE 7. OTHER LIABILITIES**

Other liabilities account balances as of September 30, 2012 (Unaudited) were as follows:

Current Year:

	Current	Non Current	Total
<b>Intragovernmental</b>			
Other Payroll Liabilities	\$ 13,983	\$ -	\$ 13,983
Payroll Taxes Payable	235,144	-	235,144
<b>Total Intragovernmental Other Liabilities</b>	<b>\$ 249,127</b>	<b>\$ -</b>	<b>\$ 249,127</b>

With the Public

Payroll Taxes Payable	\$ 32,693	\$ -	\$ 32,693
Accrued Funded Payroll and Leave	169,489	-	169,489
Unfunded Leave	220,039	-	220,039
Grants	353,744	-	353,744
<b>Total Public Other Liabilities</b>	<b>\$ 775,965</b>	<b>\$ -</b>	<b>\$ 775,965</b>

Other liabilities account balances as of September 30, 2011 were as follows:

Prior Year:

	Current	Non Current	Total
<b>Intragovernmental</b>			
Other Payroll Liabilities	\$ 1,057	\$ -	\$ 1,057
Payroll Taxes Payable	18,854	-	18,854
<b>Total Intragovernmental Other Liabilities</b>	<b>\$ 19,911</b>	<b>\$ -</b>	<b>\$ 19,911</b>

With the Public

Accrued Funded Payroll and Leave	83,138	-	83,138
Unfunded Leave	293,961	-	293,961
Unemployment	22,258	-	22,258
Payroll Taxes Payable	1,739	-	1,739
<b>Total Public Other Liabilities</b>	<b>\$ 401,096</b>	<b>\$ -</b>	<b>\$ 401,096</b>

**NOTE 8. LEASES**

EAC has no capital leases. EAC occupies office space under a lease agreement that is accounted for as an operating lease. EAC has a lease for the headquarters office located at 1201 New York Avenue, NW, Suite 300 Washington, DC which expires on March 31, 2014. EAC also has a

lease for additional space located at 1225 New York Ave, NW, Washington, DC which also expires on March 31, 2014. Below is a schedule of future payments for the term of the lease.

Operating Lease:

Washington, DC

Fiscal Year	Building	Totals
2013	\$ 1,043,565	\$ 1,043,565
2014	528,059	528,059
<b>Total Future Payments</b>	<b>\$ 1,571,624</b>	<b>\$ 1,571,624</b>

The operating lease amount does not include estimated payments for leases with annual renewal options.

**NOTE 9. INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE**

Intragovernmental costs and revenue represent exchange transactions between EAC and other federal government entities, and are in contrast to those with non-federal entities (the public). Such costs and revenue are summarized as follows:

	2012 (Unaudited)	2011
<b>Communications and Clearinghouse</b>		
Intragovernmental Costs	\$ 146,768	\$ 600,452
Public Costs	524,167	1,410,611
<b>Total Costs</b>	<b>670,935</b>	<b>2,011,063</b>
<b>Fund and Oversee</b>		
Intragovernmental Costs	1,876,169	1,143,629
Public Costs	6,700,546	99,232,694
<b>Total Costs</b>	<b>8,576,715</b>	<b>100,376,323</b>
<b>Research, Policy, and Programs</b>		
Intragovernmental Costs	385,924	887,091
Public Costs	1,378,290	2,083,999
<b>Total Costs</b>	<b>1,764,214</b>	<b>2,971,090</b>
<b>Testing and Certification</b>		
Intragovernmental Costs	663,111	971,908
Public Costs	2,368,233	2,283,253
<b>Total Costs</b>	<b>3,031,344</b>	<b>3,255,161</b>
<b>Net Program Costs</b>	<b>\$ 14,043,208</b>	<b>\$ 108,613,637</b>

**NOTE 10. BUDGETARY RESOURCE COMPARISONS TO THE BUDGET OF THE UNITED STATES GOVERNMENT**

The President's Budget that will include fiscal year 2012 actual budgetary execution information has not yet been published. The President's Budget is scheduled for publication in February 2013 and can be found at the OMB Web site: <http://www.whitehouse.gov/omb/>. The 2013 Budget of the United States Government, with the "Actual" column completed for 2011, has been reconciled to the Statement of Budgetary Resources and there were no material differences.

The budget that includes the fiscal year 2011 actual execution information is as follows:

FY2011	Budgetary Resources	Obligations Incurred	Net Outlays
Statement of Budgetary Resources	\$32,258,816	\$19,833,778	\$105,827,756
Spending Authority from Offsetting			
Collections	(1,136,128)		
Unobligated Balance Not Available	(6,788,338)		
Rounding	1,665,650	1,166,222	172,244
<b>Budget of the U.S. Government</b>	<b>\$26,000,000</b>	<b>\$21,000,000</b>	<b>\$106,000,000</b>

**NOTE 11. APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED**

Obligations incurred and reported in the Statement of Budgetary Resources in 2012 and 2011 consisted of the following:

	2012 (Unaudited)	2011
Direct Obligations, Category B	\$9,153,251	\$19,833,778
<b>Net Obligations Incurred</b>	<b>\$9,153,251</b>	<b>\$19,833,778</b>

Category B apportionments typically distribute budgetary resources by activities, projects, objects or a combination of these categories.

**NOTE 12. UNDELIVERED ORDERS AT THE END OF THE PERIOD**

For the fiscal years ended September 30, 2012 and 2011, budgetary resources obligated for undelivered orders amounted to \$25,559,241 and \$30,818,786, respectively.

**NOTE 13. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET**

EAC has reconciled its budgetary obligations and non-budgetary resources available to its net cost of operations:



**Election Assistance Commission**

	2012 (Unaudited)	2011
<b>Resources Used to Finance Activities:</b>		
Budgetary Resources Obligated		
Obligations Incurred	\$ 9,153,251	\$ 19,832,101
Spending Authority From Offsetting Collections and Recoveries	(2,355,058)	(3,684,241)
Net Obligations	6,798,193	16,147,860
Other Resources		
Imputed Financing From Costs Absorbed By Others	231,849	352,837
Other Resources	(93)	-
Net Other Resources Used to Finance Activities	231,756	352,837
Total Resources Used to Finance Activities	7,029,949	16,500,697
Resources Used to Finance Items Not Part of the Net Cost of Oper:	6,683,529	91,745,784
Total Resources Used to Finance the Net Cost of Operations	13,713,478	108,246,481
Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period:		
	329,730	367,156
<b>Net Cost of Operations</b>	<b>\$ 14,043,208</b>	<b>\$ 108,613,637</b>

**II.F. REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION (Unaudited)**

**Non-Federal Physical Property**

Stewardship investments are substantial investments made by the Federal Government for the benefit of the nation but are not physical assets owned by the Federal Government. When incurred, they are treated as expenses in determining the net cost of operations. However, these items merit special treatment so that users of Federal financial reports know the extent of investments that are made for long-term benefit. Such investments are measured in terms of expenses incurred for non-Federal physical property, human capital, and research and development. In October 2002, Congress passed the Help America Vote Act (HAVA). The law recognized the need for States to invest in their election infrastructure. A major provision of HAVA, Title III *Uniform and Nondiscriminatory Election Technology and Administration Requirements*, sets forth requirements for each voting system used in an election for Federal office.

	Fiscal Year 2008	Fiscal Year 2009	Fiscal Year 2010	Fiscal Year 2011	Fiscal Year 2012
<b>Section 102 Funds</b>	\$ 2,103,632	\$ 19,905,709	\$36,853,333	-	-
<b>Section 251 Funds</b>	358,536,246	262,018,224	105,865,616	78,575,556	3,285,126
<b>Data Collection Grants</b>	-	447,650	188	-	-
<b>Total</b>	<b>\$360,639,878</b>	<b>\$282,371,583</b>	<b>\$142,719,137</b>	<b>\$78,575,556</b>	<b>\$3,285,126</b>

**Section 102 Funds.** Section 102 funds were disbursed to States for the primary purpose of replacing punch card or lever voting machines. As such, Section 102 funds have been used to purchase physical property. These funds will be converted to Section 251 requirement payments and redistributed to the states.

**Section 251 Funds.** Section 251 requirements payments are to be used only to meet the requirements of Title III *Uniform and Nondiscriminatory Election Technology and Administration Requirements*. As such, Requirements Payments have been used in part to purchase physical property but also to provide funds to States to carry out other activities to improve administration of elections.

**Data Collection Grants.** In Fiscal Year 2008, EAC awarded \$10.0 million in Election Data Collection Grants to five States. These funds were to be used to improve the collection of precinct-level data relating to the November 2008 elections. Based on budgetary information supplied by each State, Federal physical property purchased with these funds is presented above.

**Research and Development**

The EAC has three research and development initiatives. These initiatives provide funds to support the search for new or improved election voting technology that increases the accessibility and accuracy of voting for all citizens. Costs incurred on these initiatives are included in the calculation of net costs.

<b>Initiative</b>	<b>Fiscal Year 2012</b>
Military Heroes	\$220,507
Accessible Voting Disability Technology	1,409,969
Logic and Accuracy	275,040
<b>Total</b>	<b>\$1,905,516</b>

**Military Heroes Initiative**

The U.S. Election Assistance Commission has made available up to \$500,000 in funds for a two-year grant focused on research to improve voting technology and processes for recently injured military personnel. The purpose of this grant is to enable better understanding of the needs of injured military personnel in major hospital, recovery and rehabilitation facilities related to election processes, including; 1) documentation of current practices associated with voting activities at these facilities; 2) identification of barriers that may prevent this population from voting privately and independently; and 3) reviews and assessments of new and innovative technologies for assisting military personnel’s ability to participate in the electoral process.

**Accessible Voting Disability Technology Initiative**

The U.S. Election Assistance Commission has made available up to \$7,000,000 in grant funds for a three-year grant to fund research to identify and develop technological and administrative solutions that help ensure all citizens can vote privately and independently, a requirement of the Help America Vote Act (HAVA) of 2002 (42 U.S.C. §15441). This initiative will support

research and development activities to increase the accessibility of new, existing, and emerging technological solutions in such areas as assistive technologies, interoperability, and design of voting systems.

**Pre-Election Logic and Accuracy and Post-Election Audit Initiative**

The U.S. Election Assistance Commission has awarded \$1.4 million in grant funds to develop and document processes and best practices for coordinating quality and cost-effective A) voting system pre-election logic and accuracy testing (L&A) and B) post-election audits. Funds will support the research, development, documentation, and dissemination of a range of procedures and processes used in managing and conducting high-quality L&A testing and post-election audit activities by type of voting method, vendor-specific equipment, jurisdiction size, or other ways. An additional \$1.5 million will be available to state and local entities that currently lack adequate funding or capacity for conducting pre-election logic and accuracy testing and post-election audits to support the implementation of pilot programs funded under this funding notice.

## SECTION III

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### Other Accompanying Information

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



U.S. ELECTION ASSISTANCE COMMISSION  
1201 New York Ave. NW – Suite 300  
Washington, DC 20005

October 11, 2012

Memorandum

To:

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

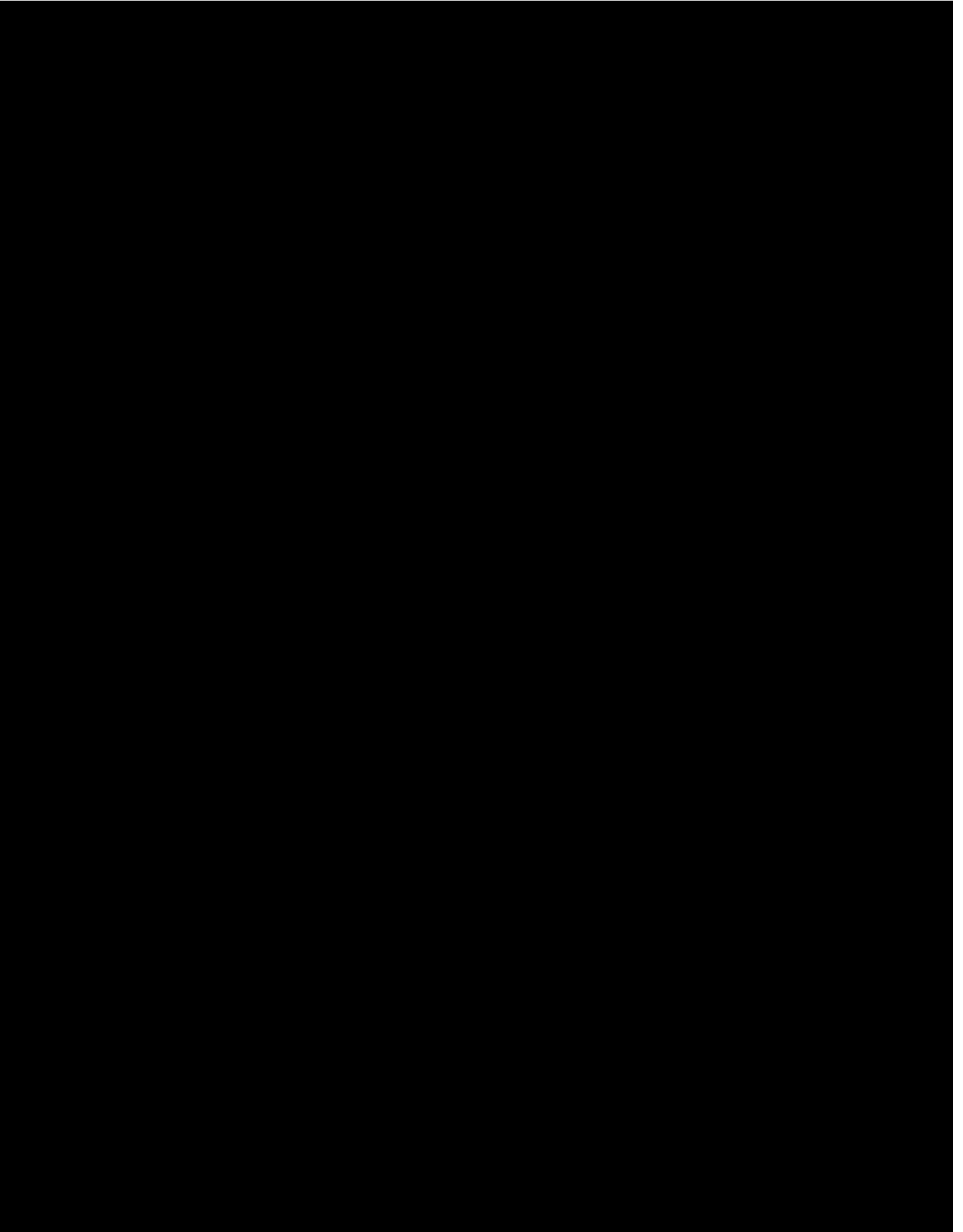
Subject: Inspector General's Statement Summarizing the Major Management and Performance Challenges Facing the U.S. Election Assistance Commission

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

This year's management challenges fall into three categories: (1) performance management and accountability; (2) human capital management; and (3) records management. We have noted the progress that EAC has made on each of the challenges identified. In addition, we have designated the management challenge involving human capital management as resolved due to the remedial measures taken by the EAC to correct prior problems.

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

Attachment







## CHALLENGE 2: HUMAN CAPITAL MANAGEMENT

In FY 2009, the OIG issued the following management challenge:

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

For the past two years, EAC has participated in the government's annual employee survey. The results of these surveys identify critical weaknesses in EAC's human capital management efforts. The EAC employees have consistently expressed their dissatisfaction with ability of EAC leadership to generate high levels of motivation, to review and evaluate the organization's progress toward meeting goals and objectives, and to communicate the organization's goals and priorities. Employees did not report a sense of involvement in the decisions that impact their work, the policies and practices of the senior leaders, or that management shares information about what goes on the organization. Employees also do not believe that promotions and rewards are merit based or reflect how well the employee performs his/her job. Perhaps the most disturbing of the survey questions reports that the percentage of employees that feel that they can report a violation of law, rule or regulation without fear of reprisal fell from 55.6% in 2007 to 36.3% in 2008. The results of this survey show that EAC does not operate an employee-friendly work place and that its efforts to empower and include employees have fallen short. EAC must evaluate its personnel management strategy and its successes



**U.S. ELECTION ASSISTANCE COMMISSION  
MANAGEMENT AND PERFORMANCE CHALLENGES  
FISCAL YEAR 2012**

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and failures to develop an approach toward human capital management that will ensure a qualified, satisfied work force is available to do the work necessary to fulfill its mission.

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

***EAC's Progress-Resolved***

The EAC has developed human resource policies and procedures. The policies and procedures were adopted on October 24, 2011.

**CHALLENGE 3: RECORDS MANAGEMENT**

In FY 2010, the OIG issued the following management challenge:

Maintaining complete and accurate records of the operations, policy, procedure and practice of an agency are critical to the effective operation of the agency. Without these records, the agency cannot retain an institutional knowledge. The EAC, like many other federal government agencies, has seen turn over in its staff and leaders. Since its inception, the EAC has had seven Commissioners. Likewise, program directors have come and gone. Furthermore, retention of government records is mandated by federal law.

The EAC does not have an approved records retention schedule. Similarly, there are no procedures for management and retention of records being uniformly implemented at the EAC.





**U.S. ELECTION ASSISTANCE COMMISSION  
MANAGEMENT AND PERFORMANCE CHALLENGES  
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The OIG first noted the EAC's lack of a records management system in 2008, when it issued the Assessment of EAC's Program and Financial Operations. Since that time, the OIG has conducted several audits and evaluations of EAC and its programs that have revealed a continuing problem with maintaining records. Most recently, in 2010, the OIG audited a grant distributed by the EAC. EAC staff was unable to locate the file related to that grant. Furthermore, even after repeated requests for records related to the grant, the EAC failed to provide even a single email from the previous grants director under whose administration the grant was awarded. The EAC disbursed payment on that grant without records of whether and to what extent the grantee had performed services commensurate with the grant proposal and award.

The continued failure to adopt and implement an approved system for records retention at the very least leaves the EAC vulnerable to suit by information requesters and at worst susceptible to waste, fraud, or abuse of its resources and the intentional destruction of government records in violation of federal law. The EAC must take immediate steps to adopt a records management system, obtain approval of that system from the National Archives and Records Administration (NARA), and train its staff on the proper retention of federal government records.

***EAC's Progress***

The EAC is making progress in addressing this management challenge. The proposed records retention schedule for the Chief Financial Officer and Office of Human Resources has been developed. They are being reviewed before submission to NARA. The OIG proposed records retention schedule has been submitted to NARA for approval. In addition, a draft EAC Records Management Standard Operating Procedure (SOP) document has been developed and is being circulated for comments before submission for formal approval. Training is being provided to EAC personnel on records management.

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



U.S. Election Assistance Commission  
1201 New York Avenue, NW, Suite 300  
Washington, DC 20005  
[www.eac.gov](http://www.eac.gov)

**MEMORANDUM**

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

**From:** *Alice Miller* Chief Operating Officer and Acting Executive Director

**Date:** November 5, 2012

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

The U.S. Election Assistance Commission (EAC) concurs with your statement dated October 11, 2012 that in the area of performance management and accountability, there are two outstanding items to resolve. Also as you noted, the outstanding policies – the Communications and Clearinghouse handbook and National Voter Registration Act policy and procedures – are drafted and ready for adoption by a quorum of Commissioners, which EAC does not have at this time.

The second outstanding major challenge is a records retention schedule for EAC. As noted, three of the thirteen schedules are completed. Five additional schedules are in progress. We expect to complete all thirteen by the end of Fiscal Year 2013.

**III.C. IMPROPER PAYMENTS**

The Improper Payments Act requires each Federal agency to assess all programs and identify which, if any, may be subject to high risk with respect to improper payments. For fiscal year 2011, EAC does not believe that it has any programs where the erroneous payments could exceed 2.5 percent of program payments or \$10.0 million threshold (set in OMB Guidance) to trigger further agency action.

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

<b>SUMMARY OF FISCAL YEAR 2012 FINANCIAL STATEMENT AUDIT</b>						
<b>Audit Opinion</b>		<b>Disclaimer</b>				
<b>Restatement</b>		<b>None</b>				
<b>Material Weaknesses</b>		<b>Beginning Balance</b>	<b>New</b>	<b>Resolved</b>	<b>Consolidated</b>	<b>Ending Balance</b>
<b>Financial Accounting &amp; Reporting</b>		<b>0</b>	<b>2</b>	<b>0</b>	<b>0</b>	<b>2</b>
<b>Total Material Weaknesses</b>		<b>0</b>	<b>2</b>	<b>0</b>	<b>0</b>	<b>2</b>
<b>Summary of Management Assurances</b>						
<b>Statement of Assurance (FMFIA§ 2)</b>		<b>Qualified</b>				
<b>Material Weaknesses (FMFIA§ 4)</b>		<b>Systems conform to financial management system requirements</b>				
<b>No.</b>	<b>Summary</b>	<b>Beginning Balance</b>	<b>New</b>	<b>Resolved</b>	<b>Consolidated</b>	<b>Ending Balance</b>
<b>1</b>	<b>Material Weaknesses (FMFIA§ 2)</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1</b>
	<b>Total</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1</b>

