U.S. ELECTION ASSISTANCE COMMISSION
OFFICE OF INSPECTOR GENERAL

INDEPENDENT AUDITORS' REPORT
U.S. ELECTION ASSISTANCE COMMISSION FINANCIAL STATEMENTS FOR FY 2013 AND FY 2012

NO. I-PA-EAC-01-13
DECEMBER 2013

December 16, 2013

Memorandum

To: Ms. Alice Miller
Acting Executive Director

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

Subject: Audit Report of the U.S. Election Assistance Commission's Financial Statements for Fiscal Years 2013 and 2012 (Assignment No. I-PA-EAC-01-13)

Introduction

The Chief Financial Officer's (CFO) Act of 1990 (P.L. 101-576) as amended, requires the Inspector General for the U. S. Election Assistance Commission (EAC) or an independent external auditor, as determined by the Inspector General, to audit EAC's financial statements. The independent public accounting firm of Leon Snead & Company, P.C. (LSC) performed the audit of the EAC's financial statements as of September 30, 2013 and 2012 and for the years then ended. The audit was performed by LSC under a contract that was monitored by the Office of Inspector General (OIG). The contract required that the audit be performed in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and the Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements.*

Results of Audit

In its audit report, LSC issued a disclaimer on EAC's financial statements. LSC identified two material weaknesses in internal control over financial reporting. In addition LSC identified that there were significant and pervasive uncertainties relating to the validity of approximately $2.2 million in grant accruals, as well as, the validity of obligations totaling approximately $900,000 relating to the 2008 requirements payment appropriation and reported in the FY 2013 financial statements. The resolution of the uncertainties which are pending a legal opinion, could result in the agency needing to report an Anti-Deficiency Act violation and an improper payment.

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 and the conclusions expressed in the report. We do not express any opinion on EAC's financial statements or conclusions on the effectiveness of internal control, or compliance with laws and regulations.

Report Distribution

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

The Office of Inspector General appreciates the courtesies and cooperation EAC extended to Leon Snead & Co. P.C. and the OIG staff during the audit. If you, or your staff, have any questions, please contact me at (301) 734-3104.

Attachment

Election Assistance Commission

Audit of Financial Statements

As of and for the Years Ended
September 30, 2013 and 2012

Submitted By

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

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Independent Auditor's Report

Acting Executive Director, Election Assistance Commission
Inspector General, Election Assistance Commission

We were engaged to audit the accompanying financial statements of the U.S. Election Assistance Commission (EAC) which comprise the balance sheet, as of September 30, 2013 and September 30, 2012, the related statements of net cost, changes in net position, and budgetary resources for the years then ended, and the related notes to the financial statements.

SUMMARY

For fiscal years (FY) 2013 and 2012, and as further discussed in the Basis for Disclaimer of Opinion paragraph, we were unable to obtain sufficient appropriate audit evidence on which to base an opinion, and we concluded that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive. Because of the significance of the uncertainties, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion and accordingly, we do not express an opinion on the financial statements.

Our consideration of internal control would not necessarily disclose all deficiencies in internal control over financial reporting that might be material weaknesses under standards issued by the American Institute of Certified Public Accountants. However, our testing of internal control identified two material weaknesses. We also identified a significant deficiency related to financial statement preparation and support.

As discussed further in our Basis for Disclaimer of Opinion paragraph, we identified that there were certain significant transactions that pending a legal decision, and related management determination could result in EAC's noncompliance with certain significant provisions of laws, regulations, contracts and grant agreements that have a material effect on the financial statements.

REPORT ON THE FINANCIAL STATEMENTS

We were engaged to audit the accompanying financial statements of the EAC which comprise the balance sheet, as of September 30, 2013 and September 30, 2012, the related statements of net cost, changes in net position, and budgetary resources for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements.

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with auditing standards generally accepted in the United States of America. Because of the matters described in the Basis for Disclaimer of Opinion paragraph; we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments in a Federal agency, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing opinions on the effectiveness of the agency's internal control or its compliance with laws, regulations, and significant provisions of contracts. Accordingly, no opinion is expressed.

Basis for Disclaimer of Opinion on the FY 2013 and 2012 Financial Statements

EAC and its service provider made significant efforts to identify and correct errors impacting the FY 2012 financial statements, and to strengthen internal controls during FY 2013; however, internal controls over financial reporting were ineffective in FY 2012. As a result of material weaknesses in internal control, we were unable to obtain sufficient competent evidential support for the restated amounts presented in the balance sheet as of September 30, 2012, and the related restated statements of net cost, changes in net position, and budgetary resources for the year then ended.

During our audit, we were advised by EAC officials that while EAC believed that they had properly presented the FY 2013 financial statements, there were significant and pervasive uncertainties relating to a grant liability accrual, as well as, the validity of remaining obligations reported for a 2008 requirements payments appropriation in the 2013 financial statements. EAC officials advised they were requesting legal counsel to assist in confirming the propriety of an approximately $2.2 million grant accrual made from a FY 2008 requirements payments appropriation to one grantee, as well as, the approximately $900,000 in related open obligations recorded in the FY 2013 financial statements. The EAC's service provider subsequently disbursed the $2.2 million payment to the grantee in October 2013.

Significant uncertainties concerning the final resolution of the issues discussed above and in further detail in the findings and recommendations section of this report existed at the audit's completion. Based upon the existing conditions and available audit evidence, we have concluded that significant uncertainties exist relating to the reporting of expenses and obligations recorded in the fiscal year 2013 financial statements and it is not possible to form an opinion on the financial statements as a whole due to the interaction and possible cumulative effects of the uncertainties.

Disclaimer of Opinion on the 2013 and 2012 Financial Statements

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the FY 2013 and 2012 financial statements.

Restatement of Previously-Issued Financial Statements

In our report dated November 14, 2012, we disclaimed an opinion for FY 2012 financial statements because EAC was unable to provide accurate and timely accounting information from its general ledger, could not support amounts recorded for its grant expenses incurred, advances paid, and open obligations. Due to internal control and other accounting issues we were unable to obtain sufficient competent evidential support for the amounts presented. As described in Note 15, EAC and its service provider reviewed their accounting records, and made adjustments to the general ledger to correct accounting errors impacting fiscal year 2012 and restated its 2012 financial statements. However, due to the material internal control issues discussed in Basis for Disclaimer of Opinion paragraph, and our 2012 audit report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the restated 2012 financial statements. Accordingly, we do not express an opinion on these financial statements.

OTHER MATTERS

Required Supplementary Information and Required Supplementary Stewardship Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and information about investments in non-Federal physical property, and research 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. We have applied certain limited procedures to the required supplementary information and required supplementary stewardship information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance, and due to the uncertainties discussed in the Basis for Disclaimer of Opinion paragraph.

Other Accompanying Information

The performance measures, and other related information 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 the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

OTHER AUDITOR REPORTING REQUIREMENTS

Report on Internal Control

In planning and performing our audit of the financial statements of EAC, as of and for, the years ended September 30, 2013 and 2012, in accordance with auditing standards generally accepted in the United States of America, except as noted in our Disclaimer of Opinion paragraph, we considered the EAC's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

Because of inherent limitations in internal controls, including the possibility of override of controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected. A deficiency in internal control 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 and correct, misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider findings two and three to be material weaknesses.

FINDINGS AND RECOMMENDATIONS

1. **Significant Uncertainties Relating to Transactions Recorded in a FY 2008 Appropriation and Reported in the 2013 Financial Statements**

   As discussed in our Basis for Disclaimer of Opinion paragraph and other pertinent sections of this report, EAC officials advised that while EAC believed that they had properly presented the FY 2013 financial statements, significant uncertainties exist relating to the accrual of an approximately $2.2 million grant payment, as well as the validity of remaining obligations totaling approximately $900,000 reported for a 2008 requirements payments appropriation. The 2008 requirements payments appropriation, among other actions, provided $115 million for requirements payments[1]. Unlike prior and subsequent years the statement "available until expended" was not included in the 2008 requirements payments appropriation language. EAC and its previous and current service providers recorded the appropriation as an annual appropriation, and the funds were all obligated in FY 2008 by operation of law.

   The significant uncertainties surrounding the financial events recorded in the 2013 financial statements relate to whether the 2008 requirements payments appropriation: (1) should be cancelled as required by 31 USC § 1552 which provides that "On September 30th of the 5th fiscal year after the period of availability for obligation of a fixed appropriation account ends, the account shall be closed and any remaining balance (whether obligated or unobligated) in the account shall be canceled and thereafter shall not be available for obligation or expenditure for any purpose"; or (2) obligations remain available until disbursed regardless of the fiscal year.

   In discussions with EAC officials, we were advised that a legal opinion was needed to provide additional authoritative guidance to EAC officials to assist in resolving significant uncertainties about the propriety of the grant accrual, as well as related obligations recorded in the FY 2013 financial statements for the 2008 requirements payments appropriation.

   The conflicting information obtained about the propriety of the reporting of the 2008 requirements payments appropriation in the 2013 financial statements varies significantly, as discussed below.

[1] The Help America Vote Act of 2002 established the EAC to assist in the administration of federal elections and charged the EAC with distributing payments to states under its authorized funding programs. HAVA authorizes payments to states for certain enumerated purposes, including meeting the requirements of Title III of HAVA. These payments are called "requirements payments." HAVA provides that EAC shall make requirements payments in an amount determined by a specified allocation formula to each state that meets the statutory preconditions for the receipt of the requirements payments. For fiscal year 2008, Congress appropriated $115,000,000 for requirements payments under part 1 of subtitle D of title II of the Help America Vote Act of 2002.

- In a June 26, 2008, legal opinion, EAC General Counsel (GC) officials stated the following:

  > "While the 2008 requirements payments are obligated by operation of law, as an annual appropriation its availability is limited. Federal statute mandates that "On September 30th of the 5th fiscal year after the period of availability for obligation of a fixed appropriation account ends, the account shall be closed and any remaining balance (whether obligated or unobligated) in the account shall be cancelled and thereafter shall not be available for obligation or expenditure for any purpose." 31 U.S.C. §1552. Like all annual appropriations, the 2008 requirements payments will only remain available for a period of five years after the period of availability (Fiscal Year 2008). Thus, any funding not disbursed to states after this five year period will be returned the Treasury."

  Under this opinion, if still valid, the approximately $900,000 in obligations reported for the 2008 requirements payments appropriation, as well as, the approximately $2.2 million in grant expenses included in these statements would be improper, and would result in numerous line items in the financial statements being materially misstated.

- In discussions with EAC officials, review of available records and documents concerning the 2008 requirements payments appropriation, we noted the following.

  - The agency's service provider cancelled the 2008 requirements payments appropriation, and the general ledger trial balances reflected these funds as cancelled. The agency's FACTS I and FACTS II reports were filed on November 8, 2013, reflecting the 2008 requirements payments appropriation as cancelled without the approximately $2.2 million disbursement having been made.

  - EAC officials forwarded documents authorizing the approximately $2.2 million grant disbursement to its service provider in mid-October 2013, immediately after the government shutdown ended, and noted that its service provider should use available obligations in the 2008 requirements payments appropriation. EAC's service provider disbursed these funds to the grantee shortly after the grant documentation was provided to it by EAC.

  - The 2013 financial statements presented for audit on December 2, 2013, included as "topside" adjustments to the general ledger entries to record the accrual of the approximately $2.2 million accounts payable (and related entries), and entries to record the approximately $900,000 in undelivered orders remaining in the 2008 requirements payments appropriation. This supports that the 2008 requirements payments appropriation should not have been and was not cancelled.

- During our audit, we were advised by officials from EAC's service provider, and obtained documentation indicating some EAC personnel concurred that the 2008 requirements payments appropriation was available, and did not need to be cancelled. In addition, we were advised by EAC's service provider that OMB, at some point, believed that the 2008 requirements payments appropriations remained available to EAC.

- During our audit, we were also advised by other EAC officials and officials from EAC's service provider that the 2008 requirements payments appropriation was no longer available, that funds could not be disbursed from this appropriation after the end of fiscal year 2013, and that undelivered orders were no longer valid. We have also been advised that OMB officials believed that the 2008 requirements payments appropriation should have been cancelled at the end of the 2013 fiscal year.

If the final definitive, authoritative decision by EAC management is that the 2008 requirements payments appropriation remains available to EAC, the 2013 financial statements properly present the transactions occurring for this appropriation. However, if it is determined that the 2008 requirements payments appropriation should have been cancelled, the 2013 financial statements presented for audit are materially misstated, and the agency potentially must report the approximately $2.2 million disbursement as an Anti-Deficiency Act (ADA)[2] violation and as an improper payment. This payment was disbursed in mid-October 2013.

We have concluded that there are pervasive and significant uncertainties surrounding the propriety of the approximately $2.2 million accrual, and the approximately $900,000 in obligations included in the 2013 financial statements concerning the 2008 requirements payments appropriation. Because of these uncertainties, it is not possible to form an opinion on the financial statements as a whole due to the

[2] Once it is determined that there has been a violation of 31 U.S.C. §§ 1341(a), 1342, or 1517(a), the agency head "shall report immediately to the President and Congress all relevant facts and a statement of actions taken." 31 U.S.C. §§ 1351, 1517(b). The reports are to be signed by the agency head. The report to the President is to be forwarded through the Director of OMB. In addition, the heads of executive branch agencies and the Mayor of the District of Columbia shall also transmit "[a] copy of each report . . . to the Comptroller General on the same date the report is transmitted to the President and Congress." 31 U.S.C. §§ 1351, 1517(b), as amended by the Consolidated Appropriations Act, 2005, Pub. L. No. 108-447, div. G, title II, § 1401, 118 Stat. 2809, 3192 (Dec. 8, 2004).

OMB has issued further instructions on preparing the reports, which may be found in OMB Circular No. A-11, Preparation, Submission, and Execution of the Budget, § 145 (June 21, 2005). The report is to include all pertinent facts and a statement of all actions taken to address and correct the Antideficiency Act violation (such as administrative discipline imposed, referral to the Justice Department where appropriate, and new safeguards imposed). An agency also should include a request for a supplemental or deficiency appropriation when needed.

interaction and possible cumulative effects of the uncertainties. Accordingly, we do not express an opinion on the 2013 financial statements.

Recommendations

1. Fully document all interim decisions made concerning the accrual and subsequent disbursement of the approximately $2.2 million payment made to one grantee from 2008 requirements payments appropriations. Based upon an assessment of this documentation, strengthen internal control processes at EAC and, as appropriate, request internal controls at the service provider be further strengthened in this area.

2. Take action, if EAC management officials determine, based upon authoritative legal guidance, that the 2008 requirements payments appropriation should have been cancelled, to meet the reporting requirements of the ADA and OMB Circular A-136.

2. Interim Financial Statements Were Materially Misstated

The 2013 interim financial statements and footnotes provided to us for testing, and submitted to the Office of Management and Budget (OMB), as required by OMB Circular A-136, *Financial Reporting Requirements,* contained material misstatements. EAC and its service provider needed to strengthen their oversight and review of transactions processed in the General Ledger, and internal controls over financial reporting. Had EAC's internal controls over financial reporting been in place and operating effectively, the errors we identified would have been detected and corrected in the financial statements and budgetary reports. As a result, EAC's interim financial statements and the FACTS II (SF-133 Report on Budget Execution and Budgetary Resources) submissions to OMB were materially misstated for the first three quarters of FY 2013.

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, "Internal control should generally be designed to assure that ongoing monitoring occurs in the course of normal operations. It is performed continually and is ingrained in the agency's operations. It includes regular management and supervisory activities, comparisons, reconciliations, and other actions people take in performing their duties."

Office of Management and Budget (OMB) Circular No. A-123, *Management's Responsibility for Internal Control*, states "The agency head must establish controls that reasonably ensure that obligations and costs are in compliance with applicable laws; funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports..."

OMB Circular A-136, Section 11.4.1 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.

Until September 2013, prior year errors made in the general ledger postings of accounts payable accruals, and errors in the balance of outstanding undelivered orders remained uncorrected, and resulted in the 2013 interim financial statements and reports being materially misstated. In addition, EAC and its service provider processed journal voucher (JV) entries that were not in accordance with the United States Standard General Ledger (USSGL) causing additional material misstatements.

The following paragraphs provide details of the problems noted.

- We first reported problems with undelivered orders in our 2011 audit report, and continued to report significant out of balance conditions between the general ledger and subsidiary ledgers in our 2012 financial statement audit report. This problem contributed to the reporting of material internal control weaknesses and to the disclaimer of opinion on the financial statements for 2012. EAC and its service provider have been working to correct this long-standing problem since late in fiscal year 2012 when EAC moved their accounting operations to this service provider. EAC and the current service provider believe they have processed entries to correct this problem.

- Shortly after we initiated our testing of the June 30, 2013, interim financial statements, we determined that the FY 2013 statements contained errors resulting from the incorrect posting of EAC FY 2012 accounts payable accruals. This problem began during conversion of data from the previous service provider when accruals were incorrectly recorded as a standard payable, meaning that the amount would not be reversed the next accounting period. EAC's service provider had detected this error in June 2013, but erroneously posted JV to reverse these accruals to current year expenses. Therefore, this material error resulted in an approximately $700,000 overstatement of FY 2012 accounts payable and expenses, and understated undelivered orders, and subsequently misstated FY 2013 accounts payable and expenses, and undelivered orders.

- We have reported in prior years that numerous JVs were either improper or were not supported resulting in a material internal control weakness. During our interim testing of the June 30, 2013, financial statements, we reviewed JVs, and noted that improvements were made in documentation supporting JVs. However, we continued to find that material errors were being made in the posting models used for these JVs. Details follow:

- A $201,230 adjustment was incorrectly made to reduce current year expenses to correct a prior year error. When we questioned this entry, it was later determined that the account payable was valid, and this entry was reversed.

- When grant funds were refunded to EAC in FY 2013, an adjusting JV did not contain a posting to GL 4802, as required by the USSGL, to remove the prepaid obligation remaining in the account from FY 2012 and totaling approximately $302,000 causing an overstatement of obligations incurred in FY 2013. The agency agreed with us, and posted a correcting JV.

- The permanent reduction of about $440,000 required by the sequestration legislation had neither been recorded, as required by authoritative guidance, to the EAC general ledger, nor properly presented in the June 30, 2013, interim financial statements. We determined that the EAC had properly calculated this reduction and had operational plans to make necessary budgetary adjustments; however, agency and service provider accounting personnel elected to not record the accounting entries without receiving a negative warrant. This error resulted in material misstatements to the agency's June 30, 2013, third quarter FACTS II reports, and several financial statement line items by about $440,000.

- Documentation provided to support the breakout of governmental and public accounts payable line items on the balance sheet, and the Statement of Net Cost (SNC) footnote did not contain sufficient information to enable us to determine whether the information was correct, or did not support the financial statement presentations. Also, the spreadsheet used to allocate costs to the agency's responsibility segments to support the SNC footnote was not updated to reflect the current staffing levels, and since staffing levels are used to allocate material costs between the responsibility segments this error was significant.

- Errors were identified with the plant, property and equipment line item and related footnote. The depreciation schedule for two property items showed the agency and service provider made errors in calculating depreciation. For example, our audit tests showed that one property item was put in service in July 2011 while the agency showed the property was placed in service about 14 months later. This resulted in understatement of accumulated depreciation and an overstatement of plant, property and equipment.

- GL 4450, Unapportioned Authority, contained an unexplained balance of about $234,000.

Recommendations

3. Ensure a comprehensive analysis of JVs is completed prior to approving JVs prepared by the service provider. Analyze the problems reported with JVs

processed during 2013, and strengthen controls to preclude these errors from recurring.

4. Develop specific information requirements and financial statement preparation checklists that the service provider and EAC must complete, including affirmation that documentation is sufficient and supports all financial statements and footnotes, prior to submitting financial statements to OMB and for audit.

5. Strengthen internal controls to ensure that necessary supporting documentation for all financial statement line items and footnotes is compiled, reviewed, and approved by EAC personnel before submitting the financial statements for audit and to OMB.

6. Strengthen the quality control process used by EAC to ensure that financial statements and reports presented to OMB and for audit are fairly stated in all material respects, and in accordance with FASAB, USSGL, and A-136.

3. Restatement of Fiscal Year 2012 Financial Statements

In our report dated November 14, 2012, we disclaimed an opinion for fiscal year 2012 financial statements. This was because EAC and its service provider were 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 because of material internal control weaknesses, and other accounting issues. Therefore, we were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we did not express an opinion on the FY 2012 financial statements.

EAC and its service provider worked throughout most of fiscal year 2013 to review accounting records and detailed supporting information in order to determine the financial impact of the problems we reported, and determine what adjustments to the general ledger were necessary. As a result of these efforts, EAC restated its 2012 financial statements. The value of the adjustments made to the 2012 financial statement line items total approximately $5.2 million. We tested the actions taken by the EAC and its service provider, and concurred in the valuation and recording of these adjustments. However, due to the extent of material internal control issues reported, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the restated 2012 financial statements.

As required by OMB Circular A-136, EAC must report this restatement as a material internal control weakness over financial reporting in the agency's Federal Mangers Financial Integrity Act (FMFIA) management assurance report for fiscal year 2013. We determined that the EAC has reported this material weakness in its FMFIA report.

Since we included audit recommendations to address the material internal control weaknesses in our 2012 financial statement audit report, we are making no recommendations on this matter in this report.

Management of EAC reported the aforementioned 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.

Report on Compliance

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 the OMB audit bulletin. 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.

As discussed in detail in Finding No. 1, during our audit, we obtained information from EAC officials that there were significant and pervasive uncertainties relating to the validity of approximately $2.2 million in grant accruals, as well as, the validity of obligations totaling approximately $900,000 relating to the 2008 requirements payment appropriation and reported in the FY 2013 financial statements. The resolution of these uncertainties which are pending a legal opinion could result in the agency needing to report an ADA violation and an improper payment.

Because of these significant and pervasive uncertainties, we were unable to determine whether the EAC complied with applicable laws, regulations, or significant provisions of laws, regulations, contracts and grant agreements that have a material effect on the financial statements insofar as they relate to accounting matters.

Purpose of the Other Reporting Required by Government Auditing Standards

The purpose of the communication provided in the Other Reporting Required by Government Auditing Standards section is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the agency's internal control or on compliance. This communication is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering internal control and compliance with provisions of laws, regulations, contracts, and grant agreements that have a material effect on the financial statements. Accordingly, this communication is not suitable for any other purpose.

Agency Response

In a memorandum dated December 13, 2013, EAC officials generally concurred with the report's findings and recommendations. In addition, EAC officials provided specific actions that they agency planned to take to address the recommendations in this report. A copy of management's response is included, in its entirety, as Attachment 2.

Auditor Comments

Since EAC officials general agreed with the recommendations, and provided the actions the agency plans to take, we have no additional comments.

This report is intended solely for the information and use of the management, the EAC, 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.
Rockville, Maryland
December 16, 2013

Status of Prior Year Findings

Finding No.	Rec Nos.	FY 2012 Recommendations	Status
1	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.	**Closed.**
	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.	**Open.** While the problem has been reduced significantly, we continued to note that necessary supporting documentation was not always provided.
	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.	**Closed.**
	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.	**Closed.**
	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.	**Closed.**
	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.	**Closed.**
	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.	**Closed**.
	8	Strengthen EAC's subsidiary grant records to ensure that accurate and complete information is maintained on grant advances, disbursements, and other required information.	**Closed.**

Finding No.	Rec Nos.	FY 2012 Recommendations	Status
	9	Strengthen EAC policies and procedures for identifying the amount that should be accrued for grant and non-grant liabilities.	**Closed.**
2	1	Implement an internal control process that provides appropriate agency oversight over the JVs processed by the current service provider.	**Open.** Significant issues continue in this area.
	2	Provide training to EAC accounting personnel to ensure that they have the skills to provide adequate oversight of this area.	**Open.** Problems in posting JVs during 2013 continue.
Finding No.	**Rec Nos.**	**FY 2011 Recommendations[3]**	**Status**
1a	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.	**Closed.**
	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.	**Closed.**
1b	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.	**Closed.**
1d	5	Ensure that the service provider corrects the problem with its undelivered order aging report.	**Closed.**
	6	Ensure that EAC's internal controls over financial reporting, including strengthened oversight over its accounting service provider, are re-established.	**Closed.**

[3] The following information relates to the FY 2011 audit recommendations that were still considered open when the 2012 audit was released.

Attachment 2

U.S. Election Assistance Commission
1335 East-West Highway, Suite 4-100
Silver Spring, MD 20910
www.eac.gov

To: Curtis W. Crider, Inspector General

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

Date: December 13, 2013

Subject: Election Assistance Commission Response to the Draft Audit Report of the U.S. Election Assistance Commission's Financial Statements for Fiscal Years 2013 and 2012 (Assignment No. I-PA-EAC-01-13)

The Election Assistance Commission (EAC) went into Fiscal Year (FY) 2013 with relatively new agency staff and a financial service provider with another federal agency via memorandum of understanding. As you know, EAC changed financial service providers on July 1, 2012. Further, two agency program staff members and the agency accountant with experience in presenting information to its financial statement auditors left the agency by September 2011. Due to a commitment made in October 2010, EAC has been limiting staff replacement in an effort to improve efficiencies. Subsequently, after the loss of staff involved with financial statement audits, existing staff were reassigned and a new CPA staff member was hired in February 2013. The action plan created to address FY 2012 audit findings was implemented in FY 2013.

In the audit report, Leon Snead & Company, P.C. (LSC) issued a disclaimer on the agency's FY 2013 financial statements. The agency generally concurs with facts stated in the report, where one significant deficiency and two material weaknesses were identified (one related to restatement of the FY 2012 statements). In addition, there were uncertainties relating to the validity of approximately $2.2 million in a grant accrual and disbursement from the 2008 requirements payment appropriation that canceled on September 30, 2013. As of this writing, there appears to be a serious internal control issue with the agency's contractual disbursing officer, EAC's financial service provider. At this time, the agency is working with the U.S. Department of Treasury to clarify the appropriateness of disbursement of funds approved for payment by EAC prior to the end of FY 2013 issue.

Our next steps will be to obtain a legal opinion or decision on 2008 Help America Vote Act (HAVA) Section 251 requirements payments as described in the audit report, and issue a management decision on the propriety of the $2.2 million disbursement. Subsequent to further analysis and appropriate evaluation of the disbursement by OMB, Treasury, and EAC management and counsel, management may issue a written notice to meet federal reporting requirements. EAC will create a corrective action plan to address findings in the audit report, and determine if additional or alternative accounting resources in FY 2014 will effectively assist in improving controls and timeliness.

Following, please find the EAC responses to recommendations made in the Draft Audit Report for FYs 2013 and 2012.

Recommendation 1: Fully document all interim decisions made concerning the accrual and subsequent disbursement of the approximately $2.2 million payment made to one grantee from 2008 appropriations. Based upon an assessment of this documentation, strengthen internal control processes at EAC and, as appropriate, request internal controls at the service provider be further strengthened in this area.

Management Response: *EAC will document all actions taken regarding the accrual and disbursement of the payment from 2008 funds, and will review and reconcile the agency record of events with timeline information provided by the service provider. The agency will develop written procedures to strengthen internal controls such as ensuring that any and all agency and service provider staff involved is familiar with and follow practices and mandates for accounting entries and payments. Further, EAC will request a corrective action plan from its service provider on its processes and internal controls.*

Recommendation 2: Take action, if EAC management officials determine, based upon authoritative legal guidance, that the 2008 appropriation should have been cancelled, to meet the reporting requirements of the ADA and OMB Circular A-136.

Management Response: *EAC will take action to comply with ADA and A-136 if a legal opinion or decision indicates a violation occurred.*

Recommendation 3: Ensure a comprehensive analysis of JVs is completed prior to approving JVs prepared by the service provider. Analyze the problems reported with JVs processed during 2013, and strengthen controls to preclude these errors from recurring.

Management Response: *EAC agrees 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 fully documented at the time of the entry, and they are clear, correct, and agreed upon. Further, EAC will analyze FY 2013 JVs, discover what recurring issues if any occurred, and will strengthen internal controls needed such as level of staff involved in approving the entries, and ensure that there is sufficient time available for review and approval prior to entry both internally and with the current and any future service providers.*

Recommendation 4: Develop specific information requirements and financial statement preparation checklists that the service provider and EAC must complete, including affirmation that documentation is sufficient and supports all financial statements and footnotes, prior to submitting financial statements to OMB and for audit.

Management Response: *EAC agrees that a checklist is important to ensure that all necessary steps are taken, and plans on developing one based on EAC's extensive Accounting Manual and in conjunction with its service provider and possibly consultants. Further, the agency will work with its current service provider regarding an apparent lack of staff to provide quarterly financial statements in time to allow the agency sufficient time to thoroughly review financial statement information before OMB quarterly deadlines, and to meet agreed upon deadlines for providing information required for financial statement audit in time for agency and then auditor review timely.*

Recommendation 5: Strengthen internal controls to ensure that necessary supporting documentation for all financial statement line items and footnotes is compiled, reviewed, and approved by EAC personnel before submitting the financial statement for audit and to OMB.

Management Response: *With both EAC's previous and current financial services provider, there has been a pattern of receiving financial statements for review on the day or very close to the day the statements are due to OMB. This appears to be due to insufficient provider staff to meet federal reporting deadlines for numerous client agencies.*

Further, in order to meet the federal reporting deadlines for numerous client agencies, the service provider staff is unavailable to work on client agency Provided by Client (PBC) audit response work. Subsequently, audit response deadlines are continually pushed back. The changes in dates often do not allow for thorough agency and auditor review during the annual financial statement audit process.

EAC will examine this recurring pattern of service provider last minute completion of statements and repeated agreed upon date changes for and delays in PBC responses with its financial services provider, and work with the service provider on resolution of this issue.

Recommendation 6: Strengthen the quality control process used by EAC to ensure that financial statements and reports presented to OMB and for audit are fairly stated in all material respects, and in monitoring of internal controls to ensure that controls are operating effectively. Document the actions taken to strengthen controls.

Management Response: *EAC plans on writing more extensive procedures and controls identifying roles and responsibilities in its Accounting Manual for each step in the process. In conjunction with its service provider, the agency will detail what constitutes adequate supporting documentation for all statement line items and notes, and staff levels of approval required at the agency and service provider.*

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Inspector General

U.S. Election Assistance Commission