



U.S. ELECTION ASSISTANCE COMMISSION

AGENCY FINANCIAL REPORT

November 15, 2010

ABOUT THIS REPORT

For FY 2010 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, 2011 per guidance in OMB Circular A-136 *Financial Reporting Requirements*.



MESSAGE FROM THE CHAIR

I am pleased to present the U.S. Election Assistance Commission (EAC) FY 2010 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 third year EAC has undergone a financial statement audit per the Accountability of Tax Dollar Act of 2002, and the second 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 2012 Congressional Justification.

During FY 2010, to address issues in the FY 2009 financial statement audit, EAC finalized policies and procedures in the areas of general administration, travel, and information technology. During FY 2011, EAC plans to finalize remaining policies and procedures discussed in this document.

In the program areas during FY 2010, EAC made a great deal of progress in achieving the goals described in its Strategic Plan, which is based on the mandates of the Help America Vote Act (HAVA) of 2002:

Communications & Clearinghouse

- Launched a new website with powerful search and improved navigation tools.
- Posted videos on its website and YouTube on Contingency Planning, Polling Place Management, the EAC Voluntary Voting System Testing and Certification Program, and Making Polling Places Accessible.

Grants Management

- Awarded 8 Mock Election grants that in conjunction with the current active grant portfolio will help educate approximately 850,000 students about the electoral process; awarded 15 Help America Vote College Program grants to recruit students to serve as poll workers; and awarded a \$500,000 Military Heroes grant to improve voting accessibility for recently injured military personnel.
- In coordination with the Testing and Certification division, conducted a roundtable discussion on research, development and implementation of technologies and other assistance to make voting more accessible.
- Adopted Maintenance of Effort Policy to facilitate State compliance with the maintenance of expenditure (MOE) requirement in HAVA of 2002.

Research, Policy and Programs

- Issued Election Management Guideline chapters and Quick Start Guides on Technology in Elections, Elections Office Administration, Accessibility, Building Community Partnerships, Canvassing and Certifying an Election, Communicating with the Public, Conducting a Recount, and Provisional Ballots.
- Released the mandated report Free Postage for the Return of Voted Absentee Ballots.
- Conducted a working group on Administering Elections in Rural and Urban Areas.
- Initiated the public comment process on proposed changes to incorporate HAVA requirements into the National Voter Registration Act regulations.
- Translated the National Mail Voter Registration Form into five Asian languages.
- Expanded the translated versions of the *Voter's Guide to Federal Elections* to include four Native American languages.
- Partnered with the Office of Citizenship within U.S. Citizenship and Immigration Services to make the Voter's Guide available to new citizens in the U.S. naturalization ceremony packet.

Voting Systems Testing and Certification

- Certified a fourth voting system in six months at a cost of less than \$1 million.
- Issued a report to Congress on progress in establishing guidelines for remote electronic voting systems for absentee voters.
- Held a joint workshop with the Federal Voting Assistance Program and the Commerce Department's National Institute of Standards and Technology on Uniformed and Overseas Citizens Absentee Voting Act (UOCAVA) remote electronic absentee voting systems; and jointly completed a UOCAVA Pilot Program Testable Requirements document.
- A revision of the 2005 VVSG Version 1.1 addressing comments received during the public comment period ending September 28, 2009 was completed. The revised version and policy decisions were presented to the Commissioners and discussed at a public meeting in September 2010.

EAC continues to improve its programs and operations, strengthening internal controls, financial management, 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 one material weakness related to the finalization of policies and procedures. The financial statements being submitted in this report are, to the best of my knowledge and belief, accurate and reliable.

In FY 2011, we look forward to awarding grants for voting system logic and accuracy testing and disability research totaling \$5.0 million, improving the quality of technical assistance to recipients of Help America Vote Act funds, improving the agency's

information technology infrastructure, and continuing to provide materials to election officials to assist with the administration of Federal elections.

A handwritten signature in black ink that reads "Donetta Davidson". The signature is written in a cursive style with a large initial "D" and "D".

Donetta Davidson, Chair
November 15, 2010

TABLE OF CONTENTS

SECTION I - Management Discussion and Analysis.....	1
I.A Background, Vision, Mission and Organization Structure.....	1
Funding.....	3
Organization by Program.....	5
Organization Chart.....	7
I.B Performance Goals, Objectives, and Results.....	7
How EAC Assesses Performance.....	8
Strategic Goal Structure.....	8
Performance Data Collection and Validation.....	18
Summary Performance Information.....	18
Program Performance Indicators.....	18
Portfolio Analysis.....	20
I.C. Financial Results.....	20
Budgetary Resources.....	20
Financial Position.....	22
Limitations of the Financial Statements.....	24
I.D. Analysis of Controls, Management Systems, and Legal Compliance.....	24
Federal Manager’s Financial Integrity Act.....	25
Federal Financial Management Improvement Act.....	30
Accountability of Tax Dollars Act of 2002.....	30
Federal Information Security Management Act.....	30
Inspector General Act Amendments of 1988.....	30
Annual Assurance Statement on Internal Control.....	31
SECTION II – Financial Section.....	32
II.A. Message from the Chief Financial Officer.....	32
II.B. Inspector General’s Assessment.....	33
II.C. Independent Auditor’s Report.....	35
II.D. Financial Statements.....	46
II.E. Notes to the Financial Statements.....	50
II.F. Required Supplementary Stewardship Information.....	64
SECTION III - Other Accompanying Information.....	66
III.A. IG Assessment of Most Serious Management Challenges Facing EAC.....	67
III.B. EAC Response to the Most Serious Management Challenges.....	78
III.C. Improper Payments	81
III.D. Summary of Financial Statement Audit and Management Assurances.....	81

SECTION I

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, guidance, and ongoing research. To foster those programs and to promote and enhance voting for United States citizens, HAVA established the Election Assistance Commission (EAC). The vision for EAC, according to the Strategic Plan 2009-2014, adopted March 2009, is to lead election reform that reaffirms the right to vote and to have all eligible votes counted accurately.

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

- Create a clearinghouse of information for election officials and the public;
- Distribute and monitor HAVA funds to States for election administration improvements;
- Issue, 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;
- 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 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 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 adopting 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.

Since its inception, EAC has received \$2.6 billion in requirements payments, \$25.9 million 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 \$21.3 million to NIST as illustrated in the following tables.

Election Assistance Commission

Funding

Enacted Appropriations by Fiscal Year											
(dollars in thousands)											
	2003		2004		2005	2006	2007	2008	2009	2010	Total
EAC (FY 2003–2010)											
EAC Salaries & Expenses											
Operations	\$2,000		\$1,674 ¹		\$11,110	\$10,986	\$11,313	\$12,330	\$12,909	\$13,409	\$75,731
Mock Election Grants								200	300	300	800
Poll Worker Grants						300		750	750	750	2,550
Transfer to NIST					2,778	2,772	4,950	3,250	4,000	3,500	21,250
Election Reform Grants											
Requirements Payments	830,000	²	1,491,150					115,000	100,000	70,000	2,606,150
Poll Worker Grants	1,500										1,500
Foundation	1,500										1,500
Voting Tech. Research									5,000	3,000	8,000
Testing & Verification									1,000	2,000	3,000
Election Data Collection								10,000			10,000
TOTAL EAC	835,000		1,492,824		13,888	14,058	16,263	141,530	123,959	92,959	2,730,481
GSA (FY 2003)											
Section 101 and 102	649,500										649,500
Administrative Expenses	500										500
TOTAL GSA	650,000										650,000
TOTAL EAC & GSA											\$3,380,481

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

2/ Carried forward to FY 2005

Election Assistance Commission

Status of Help America Vote Act Authorization versus Appropriations				
(in whole dollars)				
	Authorized		Appropriated FYs 2003-2010	Remaining
GSA (FY 2003)				
Election Administration Improvement (Section 101)	\$324,750,000		\$324,750,000	
Punch Card/Lever Machine Replacement (Section 102)	324,750,000		324,750,000	
Administrative Expenses for 101 and 102	500,000		500,000	
EAC (FY 2003 – 2010)				
Requirements Payments (Section 251)	3,000,000,000	**	2,606,150,000	393,850,000
Voting Technology Improvement Research Grants (Section 271)	20,000,000		8,000,000	12,000,000
Equipment and Technology Testing Pilot Program (Section 281)	10,000,000			10,000,000
Pre-Election Logic and Accuracy Testing & Post-Election Verification	3,000,000	1,4	3,000,000	-
Operations (Section 210)	100,331,108	2	100,331,108	-
Election Data Collection Grants	10,000,000	3	10,000,000	-
National Student and Parent Mock Election Organization (Section 295)	200,000	**		200,000
Poll Worker Grants (Section 501)	5,000,000	**	1,500,000	3,500,000
Help America Vote Foundation (Section 601)	5,000,000	**	1,500,000	3,500,000
Total	\$3,803,531,108		\$3,380,481,108	\$423,050,000

1/ Authorized by P.L. 111-8

2/ \$30 million per HAVA, balance per appropriations. Includes \$2.55 million Poll Worker grants and \$800,000 Mock Election Grants

3/ Authorized by P.L. 110-161

4/ Authorized by appropriations

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

Note: excludes \$140 million plus such sums authorized for HHS under Disability Access Section 261 and Participation Section 291, \$15 million appropriated to GSA in FY 2003 for Title I, and \$5 million plus such sums for the Help America Vote Foundation Section 601

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 primarily responsible for external communications, as well as the tools used to provide information to the public. Areas of responsibility include:

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

The agency's website, www.eac.gov, is the primary communications tool. EAC.gov contains thousands of documents with information about voting system test plans, agency correspondence, testimony from EAC monthly public meetings and hearings, and external and internal communications such as press releases, informational videotapes, research, data and program-related information. EAC's 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:

- Issues guidance and conducts trainings on the administration and use of HAVA funds;
- Provides technical assistance to States on administering Federal funds;
- Awards and monitors discretionary grants programs including: Help American Vote College Program, Help American Vote Mock Election Program, Election Data Collection Grant Program, Military Heroes Initiative, Voting Systems 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 resolves findings applicable to EAC programs;
- Reviews amended State Plan submissions;

- Drafts advisory opinions for Commission approval and issuance.

Research, Policy and Programs

The Research, Policy and Programs division:

- Administers the Election Management Guidelines Program to help election officials promote secure, accurate, and accessible elections by providing information on topics such as Ballot Design, Contingency Planning, Managing Change in an Election Office, Media and Public Relations, and Developing an Audit Trail for the verification of votes;
- Manages the Language Accessibility Program to provide informational materials on the Federal election process and election terminology in languages other than English, translates the National Mail Voter Registration Form, and gathers information from working groups to address the election needs of voters with limited or no English proficiency;
- Provides materials to voters to facilitate successful participation in Federal elections such as registering to vote;
- Conducts election research on mandated topics.

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

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:

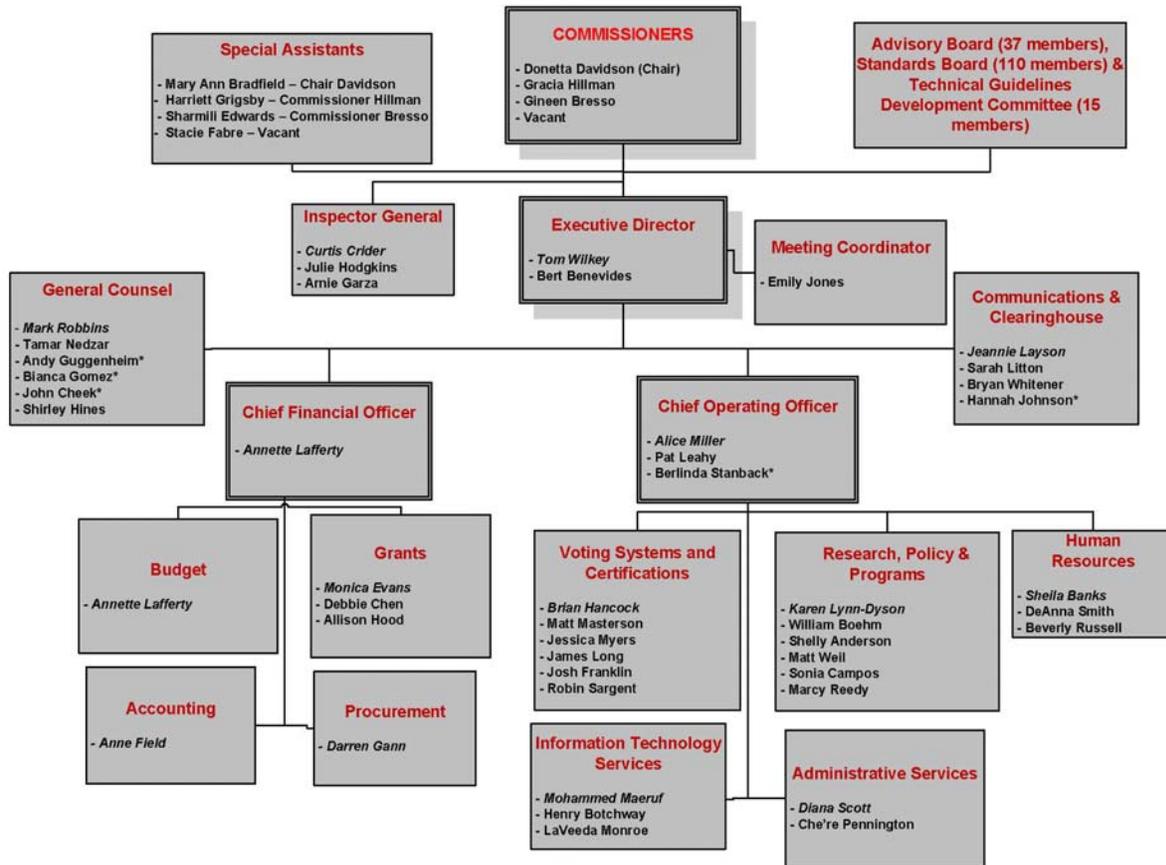
- Assists States with voluntary certification of their systems;
- Supports local elections officials in the areas of acceptance testing and pre-election system verification;
- Promotes quality control in voting system manufacturing;
- Provides procedures to the voting system manufacturers for the testing 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 in fact 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.

**U.S. ELECTION ASSISTANCE COMMISSION
ORGANIZATION CHART**



*Other than full time permanent staff

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 2010 Accomplishments

In 2010, the Communications and Clearinghouse division unveiled a new website enabling EAC to receive more public input and feedback, increase transparency, and add more information than ever about EAC programs and operations. The new website features leading-edge search, navigation and content-delivery tools that transform the site into a more modern, dynamic and transparent source of information for the public and election officials. The new tools enhance users' ability to find information more efficiently through a powerful search device that provides more qualified, relevant results as well as options for sorting and filtering results. Site searches are also enhanced by the new streamlined mouse-over navigation bar, which allows users to quickly scan the contents of the site without clicking through to subsequent pages.

EAC's most commonly requested materials, such as the National Mail Voter Registration Form, voter guides, election management guidelines, and National Voter Registration Act reports are just one click away. The new Election Resource Library now holds all of these materials for easy searching, sorting and browsing.

The site also provides several mechanisms through which the public can provide direct feedback to EAC on agency activities and operations. For instance, the public can rate and comment on nearly 200 EAC reports, policies, manuals and election management guidelines in the Election Resource Library.

The new website will also play a major role in the efforts to deliver information to voters to help them have a successful experience on Election Day during the 2010 Federal election year. The Resources for Voters will provide information on poll worker requirements, registration information, provisional voting requirements, and other election administration information such as early voting deadlines.

In FY 2010, EAC contracted for new educational videos that will provide further information to the public about the EAC. The Communications Division is currently producing four of these videos to inform the public about key election administration procedures. Topics include information for student voters, pre-election and post-election activities, about the EAC and registering to vote.

Communications staff completed a draft Open Government Policy in accordance with Federal requirements and created the companion www.eac.gov/open site to notify the public about EAC's open government initiatives. In addition, EAC's new Public Comment section at eac.gov makes it easier for the public to keep track of draft EAC policies on which the agency is seeking public input. The public may also submit general comments at www.eac.gov/contact.

Also in FY 2010, Communications staff proposed a National Clearinghouse for Elections as the central location for information about elections pursuant to HAVA Section 202 on duties of the Commission and EAC operations and initiatives. The proposal included a recommendation for an initial pilot program to be reviewed in FY 2011. The EAC website, eac.gov, already has the capability to support the National Clearinghouse for Elections.

To further educate the public about EAC's Voting System Testing and Certification Program, Communications staff developed, built and populated a map categorizing States based on state laws regarding voting system certifications, as well as the location of EAC-certified systems. Users will be able to click through for historical records about the voting system, including System Advisory Alerts, draft and final test plans, correspondence and basic information about the voting system manufacturer. (The EAC-certified systems in the field map appear in the Strategic Plan Goal 4 Accomplishments section of this document.)

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 2010 Accomplishments

In FY 2010, Public Law 111-117 included \$70.0 million for HAVA Section 251 payments. 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 a requirements payment 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. Each year, EAC reports to Congress on how the States have spent HAVA funds. EAC paid \$29.7 million of the \$70.0 million awarded in FY 2010, which represents all funds requested by the states by September 30, 2010.

In FY 2010, EAC awarded a total of \$750,000 in College Poll Worker grants to 14 institutions of higher education and one nonprofit organization to recruit students to serve as poll workers in the 2010 Federal election. As of FY 2010, EAC has awarded 89 grants totaling \$3.1 million to recruit and train college poll workers since the College Program was established in 2004.

FY 2010 College Poll Worker Grant Recipients

Alverno College, Milwaukee, Wisconsin
Benedictine University, Lisle, Illinois
Central Connecticut State University, Hartford, Connecticut
College of the Canyons, Santa Clarita, California
Harris-Stowe State University, St. Louis, Missouri
Keystone College, La Plume, Pennsylvania
Kids Voting of Central Ohio, Columbus, Ohio
Kutztown University, Kutztown, Pennsylvania
Lourdes College, Sylvania, Ohio
Marshall-Wythe Law School Foundation, Williamsburg, Virginia
Morehouse College, Atlanta, Georgia
Southern Utah University, Cedar City, Utah
Suffolk University, Boston, Massachusetts
University of Tennessee, Knoxville, Tennessee
University of Rochester, Rochester, New York

In FY 2010, EAC awarded eight Mock Election Program grants totaling \$300,000 to six government agencies, one civic group and one nonprofit organization with the grants aimed at operating programs of simulated elections for high school students, with voting equipment, ballots and poll workers. The Mock Election Program grants are authorized under HAVA Section 295. As of fiscal year 2010, 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. The 2010 winners, chosen from a highly competitive pool of 34 applicants that sought a combined \$1.2 million, will use a wide range of creative approaches to engage high school students. EAC was particularly interested in funding opportunities that promote the use of voting machines through partnerships with local election officials. The schools are located in rural areas, including American Indian reservations, as well as urban locales.

The grants will support mock elections in 14 States and territories and along with the continuing grants will educate more than 850,000 students about the electoral process during the 2010 mid-term election cycle. The competition was open to State and local election offices, and regional and national nonprofit organizations, including faith-based, community-based, and tribal organizations. Winners were selected through an independent review process that examined each applicant's level of experience, and their management and conceptual approaches for meeting program goals.

FY 2010 Mock Election Grant Recipients

*Office of the Secretary of State of the Commonwealth of Kentucky,
Franklin, Kentucky*

Polk County Auditor's Office, Des Moines, Iowa

Office of the Washington Secretary of State, Olympia, WA

State of Montana Secretary of State, Helena, Montana

League of Women Voters of Oregon Education Fund, Salem, OR

State of Rhode Island and Providence Plantations, Providence, RI

Michigan Government Television, Lansing, Michigan

Seminole County Supervisor of Elections, Sanford, Florida

In November 2009, EAC provided training via a webinar to States on using the Standard Form 425 *Federal Financial Report*. The webinar is available on eac.gov. On February 1, 2010, the division released the EAC Annual Report on Grant programs as of September 30, 2008. The Report was released along with the FY 2011 Congressional Budget Justification and FY 2009 Annual Performance Report.

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 2010 Accomplishments

In FY 2010, the Research, Policy and Programs (RPP) division developed a listing of potential research projects, policy and program initiatives including timelines, to guide staff work through 2012. Progress has been made toward completing several projects noted in the research schedule, many of which are mandated by HAVA and/or authorized by Congress. The list will continue to be revised in accordance with EAC and/or Congressional priorities.

Research efforts continued on the HAVA-mandated study “Recounts and Contests”, and a working group convened and preliminary research began on a study of “Election Administration in Urban and Rural Settings”.

Research work completed in FY 2010 includes:

- Reports to Congress on the findings of the 2008 Election Administration and Voting Survey and the Uniformed and Overseas Citizens Absentee Voting Act (UOCAVA).
- The three-year National Academy of Sciences study on Statewide Voter Registration Databases.
- A study evaluating stakeholder use of EAC educational products designed to improve the administration of elections for Federal office.
- A report to Congress on the study of use of Free or Reduced Postage for the Return of Voted Absentee Ballots.
- Selecting a contractor to collect and analyze data for the 2010 Election Administration and Voting Survey.

EAC’s Strategic Plan includes reissuing regulations pertaining to the National Voter Registration Act (NVRA) of 1993. A Notice of Proposed Rulemaking related to NVRA was developed and subsequently published in the *Federal Register* on August 9, 2010. The Notice proposes the incorporation of HAVA requirements into the NVRA regulations and asks for public comment on these proposals, and on other proposals related to the National Mail Voter Registration Form. The period for commenting on the proposed rules ends in November 2010. EAC has held three public hearings on the Notice of Proposed rulemaking in Orlando, FL, Washington, DC and Pasadena, CA.

The Policy Department of RPP completed research on a compendium of State laws applicable to provisional voting and began work on voluntary guidance related to provisional voting that will be provided to the States in early 2011.

The RPP Program Department's Election Management Guidelines program released three new Quick Start Management Guides in 2010 on Technology in Elections, Elections Office Administration, and Accessibility. In addition, the Department created and released eight new Election Management Guidelines chapters:

- Building Community Partnerships
- Canvassing and Certifying an Election
- Communicating with the Public
- Conducting a Recount
- Provisional Voting
- Technology in Elections
- Elections Office Administration and
- Accessibility.

The Quick Starts and chapters were sent to over 5,000 election officials across the country.

The Program Department's Language Accessibility Program has worked to meet its strategic goal of assisting election officials in meeting the needs of language minority voters by translating glossaries of election terms into four Native American languages and by broadly distributing the "Voter's Guide to Federal Elections". The glossaries and the Voter's Guide were translated into Navajo, Cherokee, Dakota, and Yu'Pik. The Office of Citizenship of the U.S. Citizenship and Immigration Services distributed over 700,000 copies of the Voter's Guide to new citizens. Finally, the National Mail Voter Registration Form has been translated into five Asian languages: Chinese, Japanese, Korean, Tagalog and Vietnamese.

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 2010 Accomplishments

In 2009, Congress passed the Military and Overseas Voters Empowerment Act (MOVE) instructing the Federal Voting Assistance Program (FVAP) to run pilot programs to test the ability of new or emerging technology to better serve uniformed and overseas citizens. (The Director of FVAP administers the Uniformed and Overseas Citizens Absentee Voting Act (UOCAVA) on behalf of the Secretary of Defense.) MOVE goes on to mandate that should FVAP choose to run a pilot program, EAC and the National Institute of Standards and Technology (NIST) are to help support FVAP by providing best practices or standards to support the projects. Further, MOVE reiterated the 2004 mandate from Congress requiring EAC to create guidelines for FVAP to follow in the development of a remote electronic voting system. EAC submitted a mandated report to Congress on MOVE Act implementation in April 2010.

In addition to participation in implementation of the MOVE Act, EAC is actively involved with efforts to facilitate military and overseas voting. UOCAVA requires that the States, the District of Columbia and territories allow U.S. citizens living abroad to register and vote absentee in elections for Federal office. The EAC led a working group that included representatives of FVAP, NIST, the EAC advisory board and manufacturers in August 2010 to explore the technical issues associated with remote electronic absentee voting systems for military and overseas voters. This group completed a UOCAVA Pilot Program Testable Requirements document, which was approved by tally vote of the Commissioners in September 2010. Further, EAC staff developed an EAC Pilot Program Certification Manual which went out for public comment in April 2010.

Regarding EAC work with the voting system test laboratories, T&C completed an on-site laboratory assessment of Wyle Labs. In addition to the semi-annual re-accreditation process, labs undergo a required EAC Policy, Procedures and Practices Review pursuant to the EAC Laboratory Accreditation Program Manual. The T&C Director approved the ES&S request to transfer testing of Unity 5.0 from iBeta to Wyle because of capacity issues at iBeta. EAC was able to close out audit recommendations made in GAO Audit Report 08-770, *Voting System Test Laboratory Accreditation*. GAO staff made a “Closed-Implemented” recommendation in August 2010 following the latest round of T&C responses.

In FY 2010, T&C completed internal Standard Operating Procedures for both the Certification Program and the Laboratory Accreditation Program. The procedures were generated from the T&C Program Manual. Further, T&C, working with NIST, drafted and updated the current version of the 2005 Voluntary Voting System Guidelines (VVSG) (now entitled 2005 VVSG Version 1.1) in 2009. The draft was published for a 120-day public comment period beginning June 1, 2009 and ending September 28, 2009. Staff reviewed over 300 comments received from the public. In FY 2010, a revision of the 2005 VVSG addressing comments was completed and policy decisions were presented to the Commissioners. The Commission discussed the proposed changes to the 2005 Voluntary Voting System Guidelines at a public meeting on September 21, 2010. The VVSGs are mandated by HAVA. They comprise a set of specifications that voting systems, voting devices, and software must meet to receive a certification from EAC. EAC-accredited laboratories test voting systems, voting devices, and software against these guidelines. Under HAVA, NIST is directed to assist EAC with the certification program through its National Voluntary Laboratory Accreditation Program (NVLAP), and to provide recommendations to EAC regarding laboratory accreditation. EAC makes the final decision to accredit laboratories.

Participation by the states for EAC's Voting System Testing and Certification Program is voluntary. States use varying approaches for both the type of testing required and the language used to require testing. The following four categories illustrate the diverse approaches taken by each state (as of April 30, 2009), including the degree states have mandated (through statutes or administrative regulations) the use of EAC's Testing and Certification Program. These varying state requirements, as well as the location of EAC-certified systems, are available via an interactive map on EAC.gov.

- **Twenty states have no federal requirements:** Relevant state statutes and/or regulations make no mention of any Federal agency, certification program, laboratory, or standard.
- **Ten states require testing to federal standards:** Relevant state statutes and/or rules require testing to Federal voting system standards. (States reference standards drafted by

the Federal Election Commission (FEC), National Institute of Standards and Technology, or the EAC).

- **Thirteen states require testing by a federally accredited laboratory:** Relevant state statutes and/or regulations require testing by a federally or nationally accredited laboratory to Federal standards.
- **Twelve states require federal certification:** Relevant state statutes and/or rules require that voting systems be certified by a federal agency.

Also in FY 2010, EAC accepted the final work product for the Elections Operations Assessment. The assessment was conducted to produce a scientifically-founded risk assessment tool that will facilitate informed decision-making by EAC and its Technical Guidelines Development Committee (TGDC) when developing voluntary voting system guidelines. The tool will provide EAC with information needed to conduct a cost-benefit analysis of a comprehensive list of risks associated with voting systems.

EAC and the TGDC will use the Elections Operations Assessment risk assessment tool to further improve Federal voluntary voting system guidelines. EAC staff will use the tool to conduct a scientifically-based cost benefit analysis of voting systems risks and requirements. It will also help the agency develop voting system requirements that can help mitigate risk. Examples of risks include software bugs, equipment failures, power failures, natural disasters, terrorist attacks, or fraudulent acts or errors committed by persons involved in the elections process.

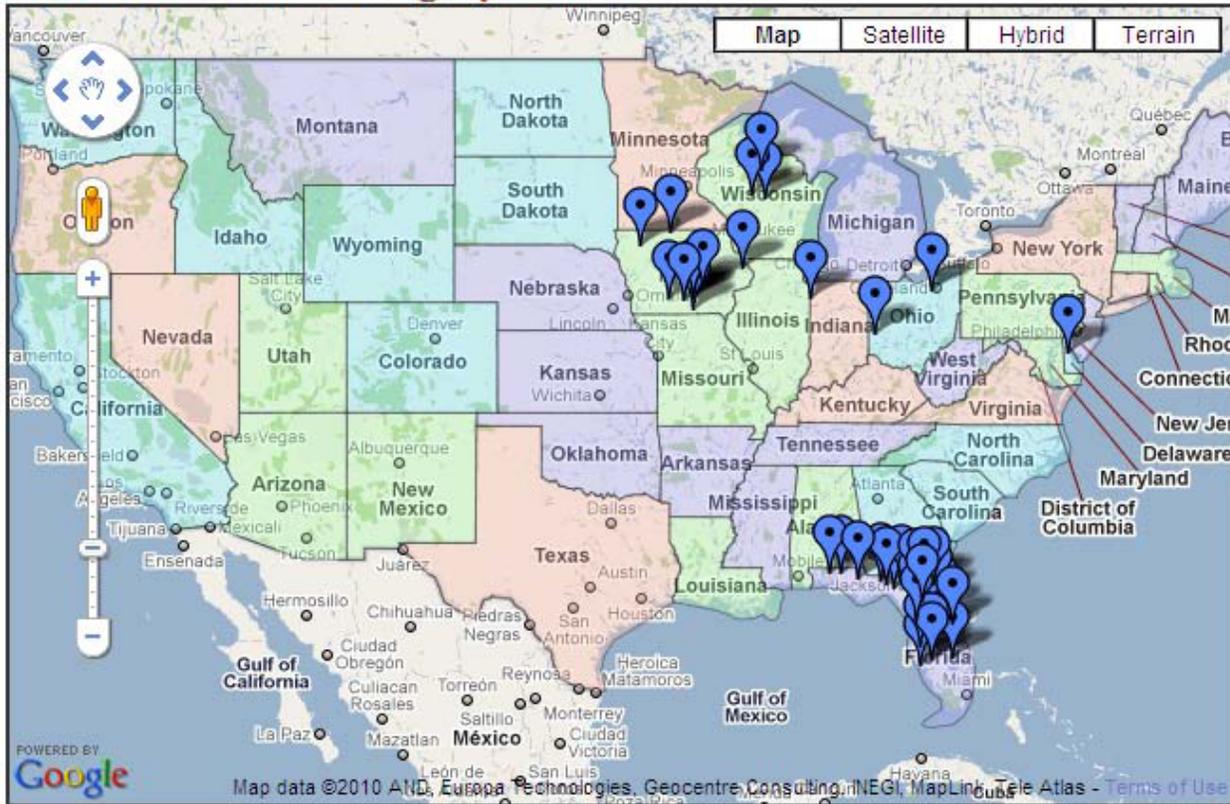
In 2010, T&C continued to make progress in certifying voting systems and working with voting system manufacturers. Unisyn Open Elect System received Final EAC Certification on January 12, 2010. ES&S Unity 3.2.0.0 received an initial decision on certification. The MicroVote EMS 4.0B Modification was certified on August 23, 2010. EAC staff and technical reviewers conducted Manufacturer Facility Inspections for Unisyn and ES&S as required by Section 8.5 of Testing and Certification Program Manual on May 10-13, 2010. EAC published a System Advisory on the ES&S Unity 3.2.0.0 DS200 freeze/lock-up issue reported by Cuyahoga County, Ohio. The System Advisories alert jurisdictions across the country about reported voting system anomalies. EAC works with jurisdictions experiencing problems and with the manufacturers on resolving the issues.

The following map shows the location of EAC-certified voting systems being used during the 2010 Federal election cycle. The EAC Certified Voting System Map allows users to quickly access key information about EAC-certified voting systems, including the county in which the systems are used and test reports issued during the certification process. The interactive map makes it easy to track advisory alerts that EAC has issued about a system, a critical component of EAC's Quality Monitoring Program. As part of the Program, EAC notifies the public about potential Federally-certified voting systems performance issues, including anomalies.

The map also depicts State requirements for voting system certification. Twelve States require Federal certification; ten States require testing to Federal standards; and thirteen States require testing by a Federally-accredited laboratory. Twenty States have no Federal requirement.

The Certified Voting Systems Map represents the most recent enhancement to the nation’s Clearinghouse on election administration information, eac.gov, which features numerous reports, in-depth research and State-specific data on the election administration process.

EAC Certified Voting Systems



- No Federal Requirements:** Relevant state statutes and/or regulations make no mention of any federal agency, certification program, laboratory, or standard.
- Requires Testing to Federal Standards:** Relevant state statutes and/or rules require testing to federal voting system standards. (States reference standards drafted by the Federal Election Commission, National Institute of Standards and Technology, or the Election Assistance Commission).
- Requires Testing by a Federally Accredited Laboratory:** Relevant state statutes and/or regulations require testing by a federally or nationally accredited laboratory to federal standards.
- Requires Federal Certification:** Relevant state statutes and/or rules require that voting systems be certified by a federal agency.

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.

The performance measure on implementing 90 percent of OIG audit recommendations with agreed upon timeframes has been affected by the need for Federal Information Security Management Act (FISMA) resolution and a small number of remaining policies and procedures that must be put in place. Now that a Chief Information Officer is on board and with the assistance of a contractor experienced in FISMA compliance, FISMA recommendations were resolved rapidly, and only two remain open. Further, each month, EAC’s Chair 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 four of the 82 recommendations remain open. With the exception of a recommendation related to the National Voter Registration Act rulemaking process, the open recommendations are expected to be resolved in FY 2011.

On the performance measure regarding meeting annual performance measures, management is working to foster a culture of accountability among staff. The agency is seeking to improve staff satisfaction ratings and achieve management excellence through improved internal controls and human resource initiatives. 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. In addition, in FY 2010 EAC started quarterly strategic planning meetings to discuss implementation of strategic goals.

EAC plans on independently verifying the reported programmatic (non-financial) metrics data. To provide further assurance, EAC will implement programmatic internal control procedures as part of the Agency Financial Report process. This will include sending the program managers assessable unit risk assessment questionnaires and having the managers provide individual letters of assurance for signature per EAC Internal Control Procedures. The directors’ letters of assurance will be rolled into the CFO’s Annual Statement of Assurance.

One of the keys to management excellence is a strong internal control program. EAC staff was offered internal control training onsite in two sessions during FY 2010. The agency is working towards an integrated internal control evaluation process to evaluate program performance, control activities and assessments, and formal monitoring of the effectiveness of programmatic activities on a periodic basis. 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 is working on recommendations for a data validation system, mandatory source documentation, and documentation of calculation methodology for estimates. Performance indicators are supported by documentation. An independent reviewer evaluated EAC business processes related to implementation of the four programmatic goals in the Strategic Plan. The reviewer made recommendations on procedures EAC can implement to provide reasonable assurance that the reported programmatic performance data is relevant and reliable. EAC plans on having a system of continuous improvement beginning in FY 2011.

Summary Performance Information

By program, summary performance information for FY 2010 is as follows:

Communications & Clearinghouse -- launched a new website with powerful search and improved navigation tools; posted videos on its website and YouTube on Contingency Planning, Polling Place Management, the EAC Voluntary Voting System Testing and Certification Program, and Making Polling Places Accessible.

Grants Management -- awarded 8 Mock Election grants that along with the continuing grants will help educate approximately 850,000 students about the electoral process, 15 Help America Vote College Program grants to recruit students to serve as poll workers, and a \$500,000 Military Heroes grant to improve voting accessibility for recently injured military personnel; and adopted Maintenance of Effort Policy to facilitate State compliance with the maintenance of expenditure requirement in HAVA.

Research, Policy and Programs -- issued Election Management Guideline chapters and Quick Start Guides on Technology in Elections, Elections Office Administration, Accessibility, Building Community Partnerships, Canvassing and Certifying an Election, Communicating with the Public, Conducting a Recount, and Provisional Ballots; and the mandated Free or Reduced Postage for the Return of Voted Absentee Ballots Report.

Voting Systems Testing and Certification -- certified a fourth voting system, issued a report to Congress on our progress in establishing guidelines for remote electronic voting systems for absentee voters, jointly with FVAP and NIST completed a UOCAVA Pilot Program Testable Requirements document, and reworked for presentation to the Commissioners and discussion at a public meeting the 2005 VVSG Version 1.1 following the public comment period.

Program Performance Indicators

The following table presents key EAC FY 2010 program performance data. As much detailed performance information as possible will be presented, and variances discussed, in the FY 2010 Annual Performance Report due February 15, 2011 along with the FY 2012 Congressional Justification.

EAC FY 2010 Performance Summary

Program	Performance Indicator	Type of Indicator	Planned	Actual
Strategic Goal 1: Communicate				
	Issue Clearinghouse policy	Output	Final	In Final Draft
	Issue Policies/Procedures to process requests from outside EAC	Output	Final	In Final Draft
Strategic Goal 2: Fund and Oversee				
	Award grants within established timeframes.	Output	100%	100% of requirements payments & one year grants, 33% of no year discretionary grants
	Resolve 100 percent of audit findings within established time frames.	Output	100%	No overdue management decisions as of 9/30/10
	Negotiate indirect cost rates within 30 days of receipt of acceptable indirect cost proposals.	Output	100%	Signed Memo of Understanding with HHS July 2010 for negotiation services
Strategic Goal 3: Study, Guide, Assist				
	Establish, in Fiscal Year 2010, a baseline for measuring stakeholder use of EAC research and educational products to improve the administration of elections for Federal office. In subsequent years, increase the percentage of stakeholder use of EAC research products.	Output	Baseline	Baseline established at 50% usage
	Disseminate all completed research project reports to stakeholders.	Output	100%	100%
Strategic Goal 4: Test and Certify				
	Produce updates to the VVSG in Fiscal Years 2010 and 2013.	Output	Complete VVSG update in FY 2010	Revised in FY 2010 Commissioners need to accept.
	Conduct at least one review of a manufacturing facility of a registered manufacturer at least once every 4 years.	Output	1 review	2 reviews

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 2010, the Salaries and Expenses appropriation of \$17,959,000 funded the \$3.5 million transfer to NIST, \$750,000 for College Poll Worker recruitment and training grants, \$300,000 for Mock Elections for high school students, salaries, travel, rent and telecommunications, printing, contracts, supplies and equipment.

I.C. FINANCIAL RESULTS

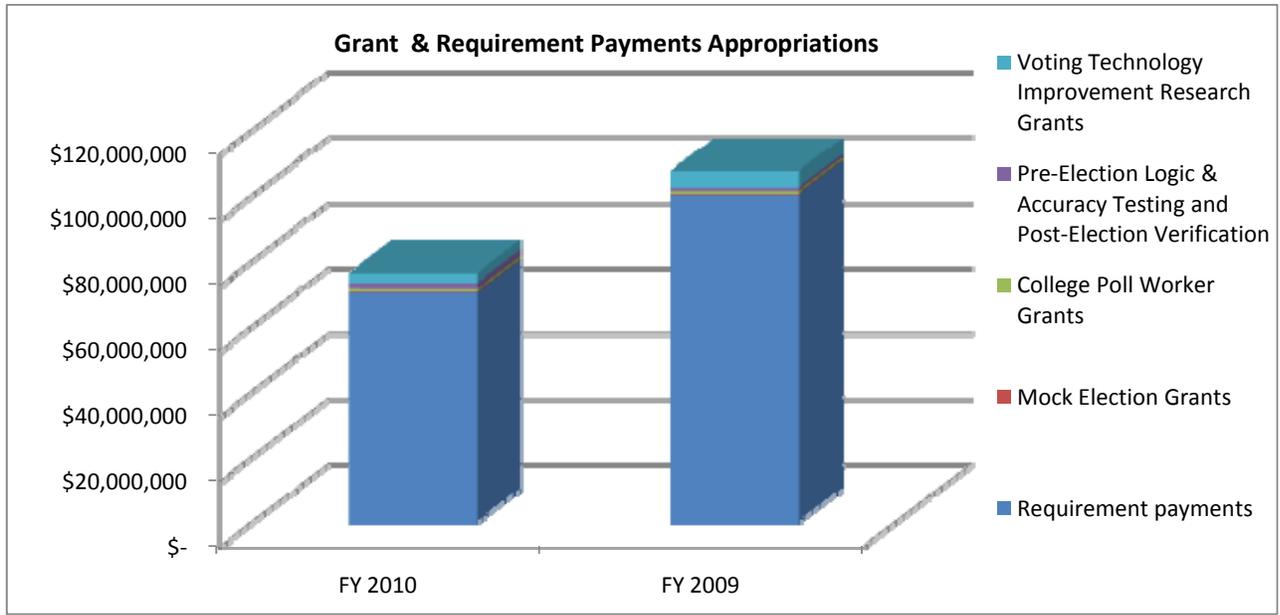
This analysis is intended to help readers understand EAC's financial results, position and condition as portrayed in the financial statements and notes to the statements. It explains changes in assets, liabilities, costs, revenues, obligations, and outlays; includes comparisons of FY 2010 to FY 2009; and discusses the relevance of balances and amounts in the financial statements and notes. The changes are discussed in the context of whether the year's activities improved or deteriorated the agency's financial position. Since EAC depends on Congress for its funds, future financial position will be dependent on annual appropriations.

Budgetary Resources

Budgetary resources 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 2010, the available budgetary resources were \$103.6 million, a drop of 19.7% or \$25.4 million from FY 2009. A decrease in appropriations received in FY 2010 resulted in this change.

Appropriations received for FY 2010 decreased \$31.0 million from FY 2009. In FY 2010 EAC's appropriations totaled \$93.0 million as opposed to \$124.0 million in FY 2009. Requirements Payments appropriations were reduced \$30.0 million and other grant programs were reduced \$1.0 million.

Election Assistance Commission



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, will return to EAC to be disbursed as HAVA Section 251 payments. Of these amounts, \$1.0 million remain unspent as of September 30, 2010, a decrease of \$33.6 million from last year. The State of New York, the largest holder of unspent HAVA Section 102 funds in the amount of \$33.6 million as of September 30, 2009 expended all of their funds in FY 2010.

The status of available budgetary resources as represented in the 2010 and 2009 Statement of Budgetary Resources is as follows:

Budgetary Resources	2010	2009	Difference	% Change
Obligations Incurred	\$ 86,303,814	\$114,957,639	(\$28,653,825)	-24.92%
Unobligated Balance – Apportioned	12,046,897	7,452,047	4,594,850	61.66%
Unobligated Balance – Not Available	5,246,828	6,546,853	(1,300,025)	-19.86%
Total Budgetary Resources	<u>\$103,597,539</u>	<u>\$128,956,539</u>	<u>(\$25,359,000)</u>	<u>-18.25%</u>

Obligations Incurred decreased \$28.7 million primarily as a result of the disbursement of FYs 2008-2010 Requirements Payments and the reduction in the annual appropriation for Requirements Payments in FY 2010. Unobligated Balance – Apportioned increased \$4.6 million as appropriations for a \$3.0 million grant for disability research and for a \$2.0 million grant for pre-election logic and accuracy testing and post-election verification were not awarded as of September 30, 2010. EAC awarded in the current year a \$500,000 Military Hero’s grant from the Election Reform Program funds.

Financial Position

Assets

EAC had \$144.5 million in total assets as of September 30, 2010. This is a decrease of \$50.8 million. Fund Balance with Treasury decreased \$18.2 million largely as a result of the net increase from new appropriations offset by disbursements for Requirements Payments from FYs 2008-2010. EAC received \$70.0 million in FY 2010 appropriations for Requirements Payments, of which \$29.7 million were disbursed as of September 30, 2010. In addition, \$30.4 million in FY 2009 Requirements Payments and \$22.0 million in FY 2008 Requirements Payments were disbursed in the current year. EAC has \$5.0 million in FY 2010 and \$5.5 million in FY 2009 grant appropriations that have not yet been disbursed or awarded.

Advances and Prepayments decreased \$33.4 million in FY 2010 with a balance of \$3.4 million as of September 30, 2010. In FY 2008, EAC recorded \$50.7 million in HAVA Section 102 Advances with the States still unspent as of September 30, 2008, and an unspent balance of \$34.7 million as of September 30, 2009. In FY 2010, the States reported as having spent \$33.6 million of the remaining funds. Accordingly, EAC reduced outstanding advances on the Balance Sheet and recorded \$33.6 million in program operating expense on the Statement of Net Costs. Summary asset data is presented below:

Assets				
	<u>FY 2010</u>	<u>FY 2009</u>	<u>Difference</u>	<u>% Change</u>
Fund Balance with Treasury	\$139,699,928	\$ 157,884,882	(\$18,184,954)	-11.52%
Advances and Prepayments	3,375,688	36,790,142	(33,414,454)	-90.82%
Other Assets	1,401,329	618,266	783,063	126.65%
	<u>\$ 144,476,945</u>	<u>\$ 195,293,290</u>	<u>(\$50,816,345)</u>	<u>-26.02%</u>

Liabilities

EAC had total liabilities of \$1.8 million as of September 30, 2010. This is a \$7.1 million decrease from FY 2009. Accounts Payables decreased \$7.2 million in FY 2010. As of September 30, 2009, EAC had received two completed certifications from the States for Requirements Payments. These payments had not yet been disbursed as of September 30, 2009 and were therefore accrued. They totaled \$6.5 million. All Requirements Payments due as of September 30, 2010 had been disbursed and no accrual was recorded.

Liabilities				
	<u>FY 2010</u>	<u>FY 2009</u>	<u>Difference</u>	<u>% Change</u>
Accounts Payables	\$ 1,087,876	\$ 8,332,010	(\$7,244,134)	-86.94%
Accrued Payroll and Benefits	380,928	290,035	90,893	31.34%
Unfunded Leave	327,803	261,880	65,923	25.17%
	<u>\$ 1,796,607</u>	<u>\$ 8,883,925</u>	<u>\$ 7,087,318</u>	<u>-79.78%</u>

Net Position

Net position, which is the sum of Unexpended Appropriations and Cumulative Results of Operations, decreased in FY 2010 by \$43.7 million. Cumulative Results of Operations of \$846,195 as of September 30, 2010 is the accumulated difference between expenditures and financing sources since the inception of the agency. Unexpended Appropriations decreased \$44.6 million. The appropriations used in FY 2010, including obligated funds from prior years and the transfer to the National Institute of Standards and Technology of \$3.5 million, exceeded the appropriations received for FY 2010. In addition, EAC expended \$82.1 million in Requirements Payments and \$33.6 million in HAVA Section 102 expenditures.

Net Position				
	<u>FY 2010</u>	<u>FY 2009</u>	<u>Difference</u>	<u>% Change</u>
Unexpended Appropriations	\$ 141,834,143	\$ 186,401,600	\$(44,567,457)	-23.91%
Cumulative Results of Operations	846,195	7,765	838,430	10,797.55%
	<u>\$ 142,680,338</u>	<u>\$ 186,409,365</u>	<u>\$(43,729,027)</u>	-23.46%

Results of Operations

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

Total Net Cost of Operations for the EAC was \$131.0 million for Fiscal Year 2010. This was an overall increase from FY 2009 of \$9.4 million. Net Cost of Operations in FY 2010 consists of general salaries and other expenses totaling \$12.8 million and grant and Requirements Payments of \$118.2 million. Net Cost of Operations for FY 2009 consisted of \$13.4 million in general salaries and expenses and \$108.2 million in grant and Requirements Payments.

Results of Operations by Program				
	<u>FY 2010</u>	<u>FY 2009</u>	<u>Difference</u>	<u>% Change</u>
Communications	\$ 1,797,916	\$ 1,994,125	\$ (196,209)	-9.84%
Fund and Oversee	122,834,439	113,042,449	9,791,990	8.66%
Research, Policy and Programs	2,845,652	2,972,123	(126,471)	-4.26%
Testing and Certification	3,531,576	3,578,173	(46,597)	-1.30%
	<u>\$ 131,009,583</u>	<u>\$ 121,586,870</u>	<u>\$ 9,422,713</u>	7.75%

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

The agency used controls that ensure that transactions are executed in accordance with budgetary and financial laws and other requirements, consistent with the purposes authorized, and are recorded in accordance with Federal accounting standards. EAC ensures that assets are properly acquired and used, safeguarded to deter theft, accidental loss or unauthorized disposition, and fraud. The agency still has work to do in collecting programmatic performance data and ensuring that it is adequately supported. To this end, EAC contracted for and received recommendations from an independent review of: 1) its strategic plan performance measures and systems to collect the data and 2) risk levels associated with providing inaccurate information for internal decision-making. During FY 2011, each manager will be familiar with internal control requirements and responsibilities and be able to sign statements of assurance that controls are in place and functioning.

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

Federal Manager’s Financial Integrity Act

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

During FY 2008, the EAC evaluation was limited to identifying weaknesses disclosed in reports issued by the General Accountability Office and by the EAC Office of the Inspector General, including the weaknesses identified through the year’s financial statement audit. In FYs 2009 and 2010, EAC also used the results of self-assessments of financial management internal controls.

A material weakness was identified by management in FYs 2008 and 2009 concerning EAC’s lack of effective written policies and procedures in the areas of property, personnel, records management, mail management, physical security, travel, information technology, research, and communications. Travel, information technology, and research handbooks were finalized in FY 2010. The remaining handbooks are in draft, some are undergoing legal review and all are planned to be finalized in FY 2011. The following chart shows FYs 2009 and 2010 planned corrective actions compared to actual completion dates.

Corrective Actions	Target Completion Date	Actual Completion Date
Develop an EAC Manual containing all necessary administrative and program procedures.	1/31/09	Pending
Implement the applicable requirements of Office of Management and Budget Circular A-123, <i>Management’s Responsibility for Internal Controls</i> .	09/30/09	09/30/09

Table 1 presents the material weaknesses identified by management for FY 2010 as beginning balances. Ending balances reflect status after resolution of findings as of September 30, 2010.

TABLE 1

EFFECTIVENESS OF INTERNAL CONTROL OVER OPERATIONS (FMFIA § 2)						
	Statement of Assurance	Unqualified				
No.	Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
1	Lack of Policies & Procedures	1	0	0	0	1
	TOTAL WEAKNESSES	1	0	0	0	1

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

In December 2009 and April 2010, EAC conducted agency-wide internal control training, emphasizing identification of risks to accomplishment of the agency's mission and program results. Each director will be responsible for risk assessment for their assessable unit, and for remediation activities for identified risks, in conjunction with CFO staff. As mentioned earlier, performance measurement systems were independently assessed. The assessment revealed that existing performance measures are good indicators as to whether programs and operations achieve intended results. Recommendations from the assessment, including control activities needed to achieve program objectives and control activities that will improve accuracy of performance data, will be implemented in FY 2011 so that EAC's performance metric reports are reliable.

The CFO Department was able to provide regular financial reports at the office location level to fund holders in FY 2010.

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.

Table 2 identifies the significant deficiencies identified in the FY 2009 audit of the Entity-Wide Security Program. The ending balances provide status of the deficiencies as of September 30, 2010:

TABLE 2

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

During FY 2010, EAC conducted an inventory of information technology systems and applications, received Certification and Accreditation of general support systems from the General Services Administration, and monitored the EAC website and GSA-provided IT services as part of the annual FISMA audit. EAC is committed to establishing and maintaining an agency-wide program to provide security for information and information systems that support the operations and assets of the agency, including those systems managed by another agency or contractor. As part of this effort, EAC hired a Chief Information Officer (CIO) in FY 2010 and developed, documented, and implemented its agency-wide Information Security Program. As a result, EAC management made significant progress in resolving the FY 2009 Federal Information Security Management Act (FISMA) audit findings.

The FY 2010 FISMA evaluation report found that EAC has taken actions to address the majority of the serious problems noted in the FY 2009 FISMA evaluation report. Table 3 below summarizes EAC's level of compliance in each FISMA control area in the FY 2010 FISMA evaluation. SC means substantial compliance, PC represents partial compliance, and NSC means not in substantial compliance.

TABLE 3

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

The FY 2010 report indicates that four areas that had been found in FY 2009 to be in Partial Compliance are resolved. Compliance in two areas has been partially resolved. The first area deals with the agency’s contingency planning and testing. The second area involves the agency’s compliance with Personal Identification Information (PII) and Privacy Act requirements. The FY 2010 FISMA evaluation report includes specific recommendations for ensuring substantial compliance in these two control areas. These recommendations and other key information security tasks are included in EAC’s high-level FY2010 FISMA Plan of Action & Milestones (POA&M). Once the remaining items in the POA&M are implemented in early FY 2011, EAC will be substantially compliant in every FISMA control area. Since EAC is in substantial compliance in every FISMA control area, the FY 2010 financial audit will report EAC’s FISMA program as being in significant compliance with the requirements of the Act.

EAC has taken action to address the issues identified in FY 2009 with EAC’s agency-wide IT security program. The review indicated that EAC has corrected most of the significant issues but needs to implement corrective actions in two major areas.

OMB Circular A-127 Financial Management Systems Requirements:

Table 4 presents the results of management analysis of financial management systems requirements. The beginning balance reflects the results for FY 2009. The ending balance reflects the status of the non-conformance as of September 30, 2010.

TABLE 4

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

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

EAC uses information provided by recipients of HAVA funds on Standard Form (SF) 425 *Federal Financial Report* and advance accounting methodology. Based on the information reported on the SF-425, EAC periodically adjusts the advance accounts and records grant expenditures by submitting adjusting entries to GSA for entry into Pegasys. The result is a record of actual grant activity and balances at the grantee level and information for periodic monitoring of grantee financial activity.

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

Audit Follow-Up

EAC's Office of Inspector General (OIG) conducts audits and reviews of the agency's operations. The Office of the Chief Financial Officer (OCFO) works closely with EAC management and the OIG to complete actions necessary to respond to audit findings. OCFO tracks the completion of the audit recommendations in a Monthly Audit Recommendation Tracking Report. The report is carefully reviewed by EAC and is submitted each month to Congressional Oversight staff. Of the 82 recommendations, as of September 30, 2010, EAC closed 71, consolidated seven as being repetitive, and has four open findings to resolve. EAC made improvements in all Agency management challenges. Financial internal control has substantially improved since FY 2009 through the remediation of audit recommendations made by the independent auditor in the annual financial statement audit. EAC also considers and responds to recommendations from audits and reviews conducted by the Government Accountability Office.

Federal Financial Management Improvement Act

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

Accountability of Tax Dollars Act of 2002

The Fiscal Year 2010 financial statement audit report identified one area of noncompliance which was corrected on September 29, 2010.

Federal Information Security Management Act

EAC was in compliance with the Federal Information Security Management Act by the end of the fiscal year.

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 2010, EAC resolved audit reports issued by the IG for Illinois, Michigan, New Mexico, North Carolina, Oregon, South Carolina, Tennessee, and Wyoming. In FY 2010, EAC also resolved Single Audit Act findings for the States of California, Illinois, Iowa, and Nebraska.



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

Annual Assurance Statement on Internal Control

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

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 2010, EAC worked to resolve one material weakness in the effectiveness of its internal control over operations: lack of effective written policies and procedures. EAC will work in FY 2011 to finalize the effective policies and procedures listed above. On October 13, 2009, the Inspector General submitted to the GAO for review a potential anti-deficiency violation. In its report, the GAO found that EAC had violated the purpose statute for fiscal year 2004. As a result, the auditors in the FY 2010 audit identified one instance of material non-compliance with the Anti-Deficiency Act. The agency reported the violation to the President, Congress, and Comptroller General in letters dated September 29, 2010, closing the finding.

Except for the material weakness described above, the Commission provides a qualified statement of assurance that the internal control and financial management systems meet the objectives of the Federal Managers' Financial Integrity Act.

A handwritten signature in cursive script that reads "Donetta Davidson".

Donetta Davidson
Chair
November 15, 2010

SECTION II

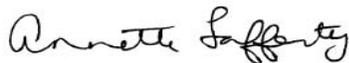
Financial Section

II.A. MESSAGE FROM THE CHIEF FINANCIAL OFFICER

I am pleased to present EAC's financial statements for FY 2010. Our financial statements are an integral component of the Agency Financial Report (AFR). This is the third year in its seven year operational existence that EAC has prepared financial statements and submitted them for audit. EAC has worked diligently toward unqualified opinions on the last two financial statements.

This is the second year EAC is participating in the pilot performance reporting project as described in OMB Circular A-136 *Financial Reporting Requirements*, presenting an Agency Financial Report in place of the Performance and Accountability Report. EAC presents summarized performance data in this report, and will provide detailed data in February 2011 in conjunction with the Fiscal Year (FY) 2012 Congressional Justification.

During FY 2010, to address issues in the FY's 2009 financial statement audit, EAC worked on written policies and procedures, addressed a report from GAO on an area of noncompliance with laws and regulations, and resolved the majority of Federal Information Security Management Act findings by the end of the fiscal year.



Annette Lafferty
Chief Financial Officer
November 15, 2010

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 10, 2010

To: The Commission

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

Subject: Independent Auditor's Reports on the U.S. Election Assistance
Commission's Financial Statements for Fiscal Year 2010 and 2009

This memorandum transmits Leon Snead & Co.'s financial statement audit report of the U.S. Election Assistance Commission (EAC) for the Fiscal Years 2010 and 2009.

Results of Independent Audit

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

Leon Snead & Co. P.C. issued an unqualified opinion on EAC's financial statements. In its report on test of compliance with laws and regulations, Leon Snead & Co. P.C., reported one instance of material noncompliance with laws and regulations that is required to be reported under *Government Auditing Standards* and OMB Bulletin 07-04 (as amended). The audit did not identify any deficiencies in internal control that may be considered material weaknesses, as defined by auditing standards generally accepted in the United States of America.

EAC's management response, dated November 5, 2010, follows Leon Snead & Co. P.C.'s report.

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 to ensure compliance with Government Auditing Standards and Office of Management and Budget Bulletin No. 07-04, as amended; and
- Coordinated issuance of the audit report.

Leon Snead & Co. P.C. is responsible for the attached auditor's report dated November 9, 2010, 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, compliance with laws and regulations.

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 has any questions, please contact me at (202) 566-3125.

Report Distribution

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

Attachment

Cc: Executive Director

II.C. INDEPENDENT AUDITORS' REPORT

U. S. ELECTION ASSISTANCE COMMISSION

Audit of Financial Statements

**As of and for the Years Ended
September 30, 2010 and 2009**

Submitted By

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

TABLE OF CONTENTS

	<i>Page</i>
Independent Auditor's Report	1
Attachment 1, Status of Prior Year Findings	7
Attachment 2, Agency Response to Draft Report.....	9



LEON SNEAD
& COMPANY, P.C.

Certified Public Accountants
& Management Consultants

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leonsnead.companypc@erols.com

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

Independent Auditor's Report

We have audited the accompanying balance sheets of the U.S. Election Assistance Commission (EAC), as of September 30, 2010, and 2009, and the related statements of net cost, changes in net position, and budgetary resources (financial statements) for the years then ended. The objective of our audits was to express an opinion on the fair presentation of those financial statements. In connection with our audit, we also considered the EAC's internal control over financial reporting and tested the EAC's compliance with certain provisions of applicable laws and regulations that could have a direct and material effect on its financial statements.

SUMMARY

As stated in our opinion on the financial statements, we found that the EAC's financial statements as of and for the years ended September 30, 2010 and 2009, 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 no material weaknesses in financial reporting.

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

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

OPINION ON THE FINANCIAL STATEMENTS

We have audited the accompanying balance sheets of the EAC as of September 30, 2010 and 2009, and the related statements of net cost, changes in net position, and budgetary resources for the years then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position, net cost, changes in net position, and budgetary resources of the EAC as of and for the years ended September 30, 2010 and 2009, in conformity with accounting principles generally accepted in the United States of America.

The information in the Management's Discussion and Analysis section is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America or OMB Circular A-136, *Financial Reporting Requirements*. We have applied certain limited procedures, which consisted principally of inquiries of EAC management regarding the methods of measurement and presentation of the supplementary information and analysis of the information for consistency with the financial statements. However, we did not audit the information and express no opinion on it. The Annual Financial Report, except for Management's Discussion and Analysis, is presented for the purposes of additional analysis and is not a required part 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 express no opinion on it.

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements of the EAC as of and for the years ended September 30, 2010 and 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the EAC's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the EAC's internal control. Accordingly, we do not express an opinion on the effectiveness of the EAC's internal control.

Because of inherent limitations in internal controls, including the possibility of management override of controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected. A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of

performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or combination of significant 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 control deficiency, or combination of control deficiencies, that is less severe than a material weakness, yet important enough to merit attention by those charged with governance of the EAC.

Our consideration of internal 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. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

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

We noted other control deficiencies over financial reporting and its operation that we have reported to the management of the EAC and those charged with governance in a separate letter dated November 9, 2010.

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 one instance of material noncompliance with laws and regulations, discussed in the following paragraphs, that is required to be reported under *Government Auditing Standards* and OMB Bulletin 07-04 (as amended).

During our 2009 financial statement audit, we became aware as part of our follow-up on prior year's findings and recommendations that EAC may have violated the purpose statute, 31 U.S.C. § 1301(a), when it obligated certain grant programs to its fiscal year 2004 requirements payments appropriation.

For fiscal year 2004, Congress made two appropriations to EAC. Consolidated Appropriations Act, 2004, PL 108-199, 118 Stat. 3 (Jan. 23, 2004). Congress provided \$1.2 million for salaries and expenses "to carry out the Help America Vote Act of 2002" and a total of \$1.5 billion "to carry out a program of requirements payments to States". In the accompanying conference report, the conferees stated: "The conferees agree to provide \$500,000,000 for Election Reform Programs...Within the amount provided; the conferees also agree to provide \$750,000 for the Help America Vote Foundation, \$750,000 for the Help America Vote College Program, and \$200,000 for the National Student/Parent Mock Election"

EAC apportioned and expended about \$825,000 for the three grant programs as set out in the conference report. When we discussed this matter with EAC officials, we were

advised that the agency followed the language in a conference report, and the apportionment made by the Office of Management and Budget (OMB).

To make a final determination as to whether the EAC violated the above referenced legislation, the EAC Inspector General (IG) requested a decision regarding EAC's obligation of certain grant payments made under the Help America Vote Act of 2002 (HAVA) from the Government Accountability Office (GAO). At issue was whether EAC's properly used its requirements payments appropriation for poll worker and mock election grants the agency made in 2004.

In a decision dated April 28, 2010, the GAO concluded that EAC violated the purpose statute and should have charged its obligations for poll worker and mock election grants to its salaries and expenses appropriation, which is available "for necessary expenses to carry out HAVA." GAO further noted that EAC should adjust its accounts accordingly, and if EAC, after adjusting its accounts, has insufficient funds available, EAC should report an Antideficiency Act violation under 31 U.S.C. § 1351 and recover the grant funds.

EAC has established controls to ensure that this situation does not recur, and has reported this violation in accordance with the Antideficiency Act. Therefore, we are making no recommendations.

Under OMB Bulletin 07-04, auditors are generally required to report whether the agency's financial management systems substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level specified in the Federal Financial Management Improvement Act (FFMIA). The Accountability of Tax Dollars Act, which requires the EAC to prepare and submit audited financial statements to Congress and the Director of OMB, did not extend to EAC the requirement to comply with FFMIA.

RESPONSIBILITIES

Management Responsibilities

Management of the EAC is responsible for: (1) preparing the financial statements in conformity with generally accepted accounting principles; (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of the 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

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

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

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

We inquired of EAC's management as to its methods for preparing Required Supplementary Stewardship Information (RSSI), and reviewed this information for consistency with the financial statements. The RSSI is not a required part of the basic

financial statements. However, our audit was not designed to express an opinion and, accordingly, we do not express an opinion on EAC's RSSI.

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

AGENCY COMMENTS

EAC officials advised in a memorandum, dated November 5, 2010, that the auditors did not report any material weaknesses or significant deficiencies in internal controls, and one material instance of noncompliance with laws and regulations. EAC officials noted that they had taken actions to report this deficiency prior to the end of the fiscal year.

DISTRIBUTION

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

Leon Snead & Company, P.C.
Leon Snead & Company, P.C.
November 9, 2010

Status of Prior Year Findings

Issue	Prior Year Condition	Status as of September 30, 2010
1.	Material Weakness: Accounting errors resulting from accounting processes that did not meet generally accepted accounting principles (GAAP) and material weaknesses in controls over financial reporting impacted EAC's 2008 financial statements and continued in the 2009 interim financial statements.	EAC had corrected these issues by the end of the 2009 audit. Closed.
2.	Material Weakness: EAC did not follow GAAP when accounting for advances made to grantees. EAC accounted for all funds disbursed to grantees as an expense in the year that the funds were disbursed. However, GAAP requires that cash outlays made by a federal entity to its employees, contractors, grantees, or others to cover a part or all of the recipients' anticipated expenses shall be recorded as an advance. These advances totaled approximately \$34 million as of the end of fiscal year 2009.	EAC had corrected these issues by the end of the 2009 audit. Closed.
3.	EAC's 2009 interim Statement of Net Cost (SNC) was neither presented in accordance with the requirements of OMB Circular A-136, nor met the cost accounting standards of SFFAS No. 4. As a result of these errors, the agency's interim SNC's were misstated.	EAC had corrected these issues by the end of the 2009 audit. Closed.
4.	Account receivables totaling approximately \$330,000, and representing amounts grantees owed EAC for grant funds that were not expended and should be returned to the Federal government were not recorded on EAC's financial records. EAC officials have corrected this problem and have recorded these amounts in its 2009 year-end financial statements.	EAC had corrected these issues by the end of the 2009 audit. Closed.
5.	Capital assets were not properly accounted for by EAC until the agency prepared its June 30, 2009 financial statements. EAC completed its review of prior year accounting records, and was able to record these assets in its 2009 year-end financial statements in accordance with GAAP.	Corrected by final statements No issues noted in 2010
6.	Journal vouchers processed by EAC's service provider to EAC's general ledger were not sufficiently supported. EAC officials had not established controls to ensure that financial management personnel reviewed and approved the journal vouchers proposed by EAC's service provider. As a result, there was reduced assurance that errors that may impact financial reports would be detected.	Corrected by final statements No issues noted in 2010

Election Assistance Commission

Attachment 1

7.	EAC has begun to take actions to address the IT security deficiencies that were reported in the 2008 FISMA report. While many corrective actions are underway or planned, EAC has not fully corrected all weaknesses that impact its IT security program. We attributed this condition, in part, to the absence of management officials with IT security program expertise. As a result, EAC is not in full compliance with the requirements of the Financial Information Systems Management Act (FISMA), which could impact EAC's financial management operations.	EAC had corrected these issues by the end of the 2009 audit. Resolved.
8.	EAC had not established a policy for determining an allowance for estimated uncollectible amounts for its accounts receivables. Although the footnotes disclosed that the EAC would use the direct write off method, this is not an acceptable method of accounting for losses due to uncollectible amounts. In addition, we identified an account totaling approximately \$15,000 that was shown in EAC records as a 2006 "loan" to an EAC employee.	EAC had corrected these issues by the end of the 2009 audit. Closed.
9.	Subsidiary records were not maintained by EAC for its capitalized property.	EAC had corrected these issues by the end of the 2009 audit. Closed.
10.	Material Noncompliance: EAC did not have adequate funds control to ensure compliance with Antideficiency Act and purpose statute.	EAC issued required notifications in 2010 to address Antideficiency Act reporting requirements.



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

November 5, 2010

Memorandum

To: Arnie Garza,
Assistance Inspector General for Audits

From: Donetta Davidson 
Chair, U.S. Election Assistance Commission

Subject: Election Assistance Commission Response to Independent Audit Report on the U.S. Election Assistance Commission's Financial Statements for Fiscal Year 2010 (Assignment No. I-PA-EAC-01-10)

During Fiscal Year 2010, the Election Assistance Commission (EAC) took action to address the problems that impacted its Fiscal Year 2009 financial management reports. This action included resolving all of its prior year findings, continuing sound financial management practices and obtaining an unqualified audit opinion on the Fiscal Year 2010 financial statements.

The Independent Auditors Report, submitted by Leon Snead & Company, Inc. did not identify any findings related to Internal Control Over Financial Reporting and one instance of material noncompliance with laws and regulations. However, since EAC had reported this issue in accordance with the Antideficiency Act prior to the close of the fiscal year, the auditors did not make any overall recommendations related to this item.

Overall, EAC agrees with the findings in the report.

II.D. FINANCIAL STATEMENTS

The Balance Sheet presents information as of September 30, 2010, 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, 2010 and 2009 (In Dollars)		
Assets	2010	2009
Intragovernmental:		
Fund balance with Treasury (Note 2)	\$ 139,699,928	\$ 157,884,882
Advances and Prepayments (Note 4)	2,263,002	2,097,844
Total intragovernmental assets	141,962,930	159,982,726
With public:		
Accounts receivable, net (Note 3)	228,374	349,146
Advances and prepayments (Note 4)	1,112,686	34,692,298
Total assets with public	1,341,060	35,041,444
General property and equipment, net (Note 5)	1,172,955	269,120
Total assets	<u>\$ 144,476,945</u>	<u>\$ 195,293,290</u>
Liabilities		
Intragovernmental:		
Accounts payable (Note 6)	\$ 306,504	\$ 348,958
Employer contribution and payroll taxes payable (Note 6)	73,289	48,157
Total intragovernmental	379,793	397,115
With the public:		
Accounts payable (Note 6)	781,372	7,983,052
Accrued payroll and benefits (Note 6)	307,639	241,878
Unfunded leave (Note 6)	327,803	261,880
Total liabilities	<u>1,796,607</u>	<u>8,883,925</u>
Net position		
Unexpended appropriations	141,834,143	186,401,600
Cumulative results of operations	846,195	7,765
Total net position	<u>142,680,338</u>	<u>186,409,365</u>
Total liabilities and net position	<u>\$ 144,476,945</u>	<u>\$ 195,293,290</u>

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

ELECTION ASSISTANCE COMMISSION

STATEMENT OF NET COST

For The Years Ended September 30, 2010 and 2009 (In Dollars)

	<u>2010</u>	<u>2009</u>
Program Costs:		
Communications	\$ 1,797,916	\$ 1,994,125
Fund and Oversee	122,834,439	113,042,449
Research, Policy and Programs	2,845,652	2,972,123
Testing and Certification	<u>3,531,576</u>	<u>3,578,173</u>
Net cost of operations (Note 8)	<u><u>\$ 131,009,583</u></u>	<u><u>\$121,586,870</u></u>

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

Election Assistance Commission

**ELECTION ASSISTANCE COMMISSION
STATEMENT OF CHANGES IN NET POSITION
For The Years Ended September 30, 2010 and 2009 (In Dollars)**

	2010	2009
Cumulative results of operations:		
Beginning balance	\$ 7,765	\$ 292,760
Beginning balance, as adjusted	7,765	292,760
Budgetary financing sources:		
Appropriations used	131,610,830	121,087,642
Other financing sources (non-exchange):		
Imputed financing from costs absorbed from others	237,183	214,233
Total financing sources:	131,848,013	121,301,875
Net cost of operations	(131,009,583)	(121,586,870)
Net change	838,430	(284,995)
Cumulative results of operations:	846,195	7,765
Unexpended appropriations:		
Beginning balance	186,401,600	187,595,489
Beginning balance, as adjusted	186,401,600	187,595,489
Budgetary financing sources:		
Appropriations received	92,959,000	123,959,000
Appropriations transferred in/out (+/-)	(3,500,000)	(4,000,000)
Other adjustments	(2,415,627)	(65,247)
Appropriations used	(131,610,830)	(121,087,642)
Total budgetary financing sources	(44,567,457)	(1,193,889)
Total unexpended appropriations	141,834,143	186,401,600
Net position	\$ 142,680,338	\$ 186,409,365

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

**ELECTION ASSISTANCE COMMISSION
STATEMENT OF BUDGETARY RESOURCES
For The Years Ended September 30, 2010 and 2009 (In Dollars)**

	2010	2009
Budgetary resources:		
Unobligated balance, brought forward (Note 11)	\$ 13,998,900	\$ 7,561,952
Recoveries of prior year obligations (Note 11)	1,181,062	662,985
Budget authority:		
Appropriations received	92,959,000	123,959,000
Spending authority from offsetting collections:		
Collected (Note 11)	1,374,204	837,849
Nonexpenditure transfers, net, anticipated and actual	(3,500,000)	(4,000,000)
Permanently not available	(2,415,627)	(65,247)
Total budgetary resources (Note 9)	\$ 103,597,539	\$ 128,956,539
 Status of budgetary resources:		
Obligations incurred: (Note 9 & Note 11)	\$ 86,303,814	\$ 114,957,639
 Unobligated balance - apportioned	12,046,897	7,452,047
 Unobligated balance not available (Note 11)	5,246,828	6,546,853
Total status of budgetary resources (Note 9)	\$ 103,597,539	\$ 128,956,539
 Change in obligated balance:		
Obligated balance, net		
Unpaid obligations, brought forward (Note 11)	\$ 143,885,983	\$ 125,904,580
Obligations incurred, net	86,303,814	114,957,639
Less: gross outlays (Note 11)	(106,602,531)	(96,313,253)
Less: recoveries of prior year unpaid obligations, actual	(1,181,062)	(662,985)
Total, unpaid obligated balance, end of period forward (Note 12)	\$ 122,406,204	\$ 143,885,981
 Net outlays:		
Gross outlays	\$ 106,602,531	\$ 96,313,253
Less: offsetting collections	(1,374,204)	(837,849)
Net outlays (Note 9)	\$ 105,228,327	\$ 95,475,404

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

II.E NOTES TO FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies

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 voting system 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.

Basis of Accounting and Presentation

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

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

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

Assets

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

Fund Balance with Treasury

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

Accounts Receivable

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

Advances and Prepayments

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. 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, 2010 and 2009 were \$1,112,686 and \$34,692,298, respectively. These include primarily HAVA Section 102 disbursements unspent by the States as of September 30, 2010 and 2009. The prepayments and advances to governmental entities were \$2,263,002 and \$2,097,844 as of September 30, 2010 and 2009. These included deposit accounts with the U.S. Department of Interior Acquisition Services Directorate to provide acquisition support services to EAC.

General Property and Equipment

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

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

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

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

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

Currently, EAC has no internal use software. In future years, any internal use software development and acquisition costs of \$25,000 will be capitalized as software development in progress until the development stage is completed and the software is successfully tested. At acceptance, software development-in-progress costs will be reclassified as internal use software costs and amortized using the straight-line method over an estimated useful life of five years. Purchased commercial software that does not meet the capitalization criteria will be expensed. Enhancements which do not add significant new capability or functionality will be expensed.

Liabilities

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

Accounts Payable

Accounts payable consists of liabilities to commercial vendors and contractors and other Federal agencies for amounts owed for goods, services, and other expenses received but

not yet paid at the end of the fiscal year. Accounts payable also consists of disbursements in transit recorded by EAC but not paid by the U.S. Treasury.

Accrued Payroll and Benefits

Accrued payroll and benefits represent salaries, wages and benefits earned by employees, but not disbursed as of September 30, 2010 and 2009. Accrued payroll and benefits are payable to employees and are therefore not classified as intragovernmental.

Annual, Sick and Other Leave

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

Federal Employee Benefits

A liability is recorded for estimated and actual future payments to be made for worker's compensation pursuant to the Federal Employees Compensation Act (FECA). EAC had a FECA liability at the end of the reporting period for claims filed for the period July 1, 2009 through June 30, 2010. Accordingly, EAC recorded a liability for estimated payments to be made for workers' compensation pursuant to the Act.

Employee Retirement Plans

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

For employees covered by CSRS, EAC withheld 7.0 percent of base pay earnings. EAC matches this withholding, and the sum of the withholding and the matching funds is transferred to the Civil Service Retirement System.

For FERS covered employees, EAC made contributions of 12.3 percent of base pay. Employees participating in FERS are covered under the *Federal Insurance Contribution Act (FICA)* for which EAC contributes a matching amount to the Social Security Administration. FERS contributions made by employer agencies and covered employees are comparable to the U.S. Government's estimated service costs.

Thrift Savings Plan (TSP)

The Thrift Savings Plan (TSP) is a retirement savings and investment plan for employees covered by either CSRS or FERS. TSP is administered by the Federal Retirement Thrift Investment Board on behalf of Federal agencies. For employees belonging to FERS, EAC automatically contributes one percent of base pay to their account and matches contributions

up to an additional four percent. For employees belonging to CSRS, there is no governmental matching contribution.

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

Commitments and Contingencies

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

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

Revenues and Other Financing Sources

Annual Appropriation

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

Imputed Financing Sources

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

Statement of Net Cost

Net cost of operations is the difference between EAC's expenses and its earned revenue. For Fiscal Years 2009 and 2010, EAC has four programs: Communications, Fund and Oversee, Research, Policy and Programs, and Testing & Certification. The cost for each program is the sum of the direct costs of the program and an allocation of the agency's other overhead costs such as rent, telecommunications, and administrative and financial

support staff. All grants and requirements payments are included in the Fund and Overseer program.

Grants

EAC administers and oversees the grant-making process in connection with Federal Requirements Payments and grants made to recipient organizations under HAVA. As Requirements Payments and grants are awarded, they are recorded as obligations and represent uses of budgetary resources. Payments made under the grant awards for expenditures already incurred by the recipients are fully expended and are included in the Statement of Net Cost. Grant awards made to grantees in advance of expenditures are recorded as advances and are included in the balance sheet.

Net Position

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

Use of Estimates

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

Note 2 – Fund Balance with Treasury

Fund balances with Treasury are contained within six annual funds (FY2005 through FY2010) and two no-year funds. The total of fund balances with Treasury consisted of the following at September 30, 2010 and September 30, 2009:

	FY 2010	FY 2009
Fund Balance with Treasury		
Appropriated Funds	\$ 139,699,928	\$157,884,882
Status of Fund Balance with Treasury:		
Unobligated Balance		
Available	12,046,895	7,452,047
Unavailable	5,246,828	6,546,853
Obligated Balance not yet Disbursed	122,406,205	143,885,982
Total	\$ 139,699,928	\$ 157,884,882

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

Note 3 – Accounts Receivable, Net

Accounts Receivable, Net is comprised of claims from associates and consists of the following as of September 30, 2010 and September 30, 2009:

	FY 2010	FY 2009
Accounts Receivable, Net		
Claims from Associates	\$ 2,067	\$ 18,449
Due from States	226,307	330,697
	\$ 228,374	\$ 349,146

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

Note 4 – Advances and Prepayments

Advances and prepayments with non-governmental and governmental entities consist of the following as of September 30, 2010 and September 30, 2009:

	FY 2010	FY 2009
Advances and Prepayments		
With Governmental Entities	\$ 2,263,002	\$ 2,097,844
With Non-governmental Entities	1,112,686	34,692,298
Total	\$ 3,375,688	\$ 36,790,142

Note 5 – General Property and Equipment, Net

The general components of capitalized property and equipment, net of accumulated depreciation, consist of the following as of September 30, 2010 and September 30, 2009:

Asset Class	Service Life (years)	2010		
		Acquisition Value	Accumulated Depreciation	Net Book Value
Office Equipment	5	\$ 128,264	\$ 61,208	\$ 67,056
Furniture	5	726,933	211,411	515,522
Leasehold Improvements	4	681,915	91,538	590,377
Total		\$1,537,112	\$ 364,157	\$1,172,955

Asset Class	Service Life (years)	2009		
		Acquisition Value	Accumulated Depreciation	Net Book value
Office Equipment	5	\$ 113,943	\$ 61,256	\$ 52,687
Furniture	5	303,613	125,851	177,762
Leasehold Improvements	7	551,387	512,716	38,671
Total		\$ 968,943	\$ 699,823	\$ 269,120

Depreciation expense was \$262,236 for the period ending September 30, 2010 and \$237,912 for the period ending September 30, 2009.

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

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

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

Note 6 – Liabilities

Liabilities Not Covered by Budgetary Resources

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

Liabilities Not Covered by Budgetary Resources consisted of the following as of September 30, 2010 and September 30, 2009:

	<u>FY 2010</u>	<u>FY 2009</u>
With the Public		
Unfunded Annual Leave	\$ 327,803	\$ 261,880
Intragovernmental		
FECA Liability	1,023	441
	<u>\$ 328,826</u>	<u>\$ 262,321</u>

Liabilities Covered by Budgetary Resources

Liabilities covered by budgetary resources consist of the following as of September 30, 2010 and September 30, 2009:

	<u>FY 2010</u>	<u>FY 2009</u>
Intragovernmental		
Accounts payable	\$ 306,504	\$ 348,958
Employer contributions and payroll taxes payable	72,266	47,716
Total intragovernmental	378,770	396,674
With the public		
Accounts payable	781,372	7,983,052
Accrued payroll and benefits	307,639	241,878
Total with the public	<u>1,089,011</u>	<u>8,224,930</u>
Total liabilities covered by budgetary resources	<u>\$ 1,467,781</u>	<u>\$ 8,621,604</u>

Note 7 – Leases

EAC has no capital leases. EAC has a current operating lease for the headquarters office space located at 1201 New York Avenue, NW, Suite 300 Washington DC which runs through March 31, 2014. EAC took occupancy of this space on March 19, 2010.

EAC also has an operating lease for additional space located at 1440 New York Avenue, NW, Washington, DC, which commenced August 5, 2008 with an original completion date of December 5, 2008. This lease has been extended through March 17, 2010 to coincide with the occupation of the new space at 1201 New York Avenue, N.W. Washington, DC. EAC continues to occupy past March 17, 2010 a portion of the previous space at 1440 New York Avenue. GSA is currently working on either negotiating for the continued use of this space or for space at a different location.

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

Future Operating Lease Payments Fiscal Year	FY 2010 Lease Payment
2011	\$ 921,702
2012	929,627
2013	937,790
2014	477,588
2015	0
2016 and thereafter	0
Total future lease payments	\$ 3,266,707

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

Note 8 – Statement of Net Cost

For Fiscal Years 2009 and 2010, EAC has four programs: Communications, Fund and Oversee, Research, Policy and Programs, and Testing and Certification. The cost for each program is a sum of the direct costs of the program and an allocation of the agency’s other overhead costs such as rent, telecommunications, and administrative and financial support staff. All grants and Requirement Payments are included in the Fund and Oversee program. The total cost of operations for the periods ended September 30, 2010 and September 30, 2009 is as follows:

<u>Programs</u>	Fiscal Year 2010		
	Intragovernmental	With the Public	Total
Communications	\$ 521,265	\$ 1,276,651	\$ 1,797,916
Fund & Oversee	1,329,791	121,504,648	122,834,439
Research, Policy & Program	825,032	2,020,620	2,845,652
Testing and Certification	1,023,899	2,507,677	3,531,576
Total	\$ 3,699,987	\$127,309,596	\$ 131,009,583

<u>Programs</u>	Fiscal Year 2009		
	Intragovernmental	With the Public	Total
Communications	\$ 268,849	\$ 1,725,276	\$ 1,994,125
Fund & Oversee	658,522	112,383,927	113,042,449
Research, Policy & Program	400,703	2,571,420	2,972,123
Testing and Certification	482,411	3,095,762	3,578,173
Total	\$ 1,810,485	\$119,776,385	\$ 121,685,870

In accordance with OMB Circular A-136, costs incurred for goods and services provided by other Federal entities are reported in the full costs of EAC’s programs and for Fiscal year 2010 employer benefits for payroll, excluding TSP were included. They are identified as “intragovernmental.” All other costs are identified as “with the public.”

Note 9 – Statement of Budgetary Resources

The Statement of Budgetary Resources (SBR) compares budgetary resources with the status of those resources. As of September 30, 2010, budgetary resources were \$103,597,539 and net outlays were \$105,228,327. As of September 30, 2009, budgetary resources were \$128,956,539 and net outlays were \$95,475,404.

Apportionment Categories of Obligations Received

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

For the periods ended September 30, 2010 and September 30, 2009, direct obligations incurred amounted to \$86,303,814 and \$114,957,639.

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

SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, requires an explanation of material differences between budgetary resources available, the status of those resources and outlays as presented in the Statement of Budgetary Resources to the related actual balances published in the *Budget of the United States Government (Budget)*. The *Budget* that will include FY 2010 actual budgetary execution information is scheduled for publication in February 2011, which will be available through OMB’s website at

<http://www.whitehouse.gov/omb>. Accordingly, information required for such disclosure for FY 2010 is not available at the time of publication of these financial statements.

The Budget that includes the FY 2009 actual budgetary execution information was published February 1, 2010.

FY 2009	Budgetary Resources	Obligations Incurred	Net Outlays
Statement of Budgetary Resources	\$128,956,539	\$114,957,639	\$ 96,313,253
Section 102 Advances	50,723,357	50,723,357	50,723,357
Unobligated Balances Not Available	(6,546,853)	0	0
Non-Expenditure Transfer	0	0	4,000,000
Total Adjusted Balance	\$173,133,043	\$165,680,996	\$151,036,610
<i>Budget of the U.S. Government</i>	<i>172,000,000</i>	<i>164,000,000</i>	<i>150,000,000</i>
Difference	\$ 1,133,043	\$ 1,680,996	\$ 1,036,610

The difference between the Statement of Budgetary Resources and the Budget of the U.S. Government is largely related to timing differences for the HAVA Section 102 Advances given to States that have not yet been spent by the States. These advances were recorded in Fiscal Year 2009 for the President’s Budget and the SF-133 forms. However, for financial statement reporting purposes these transactions were recorded in the fiscal year ended September 30, 2008. Other minor differences include expired unobligated balances included on the Statement of Budgetary Resources but not available for the President’s Budget, and a Non-expenditure transfer to the National Institute of Standards and Technology (NIST). Remaining differences are due to rounding.

Note 11 - Unpaid Obligated Balance, Net

Unpaid obligated balance, net consists of undelivered orders and accounts payable. Undelivered orders represent obligations for which goods and services have not yet been received. Accounts payable includes goods and services which have been received but not yet paid for. The total unpaid obligated balance, net as of September 30, 2010 and September 30, 2009 was as follows:

	<u>FY 2010</u>	<u>FY 2009</u>
Undelivered Orders	\$120,938,416	\$135,264,377
Accounts Payable	1,467,788	8,621,604
Unpaid obligated balance, net	<u>\$122,406,204</u>	<u>\$143,885,981</u>

Note 12: Reconciliation of Net Cost of Operations to Budget

The purpose of this note is to detail the differences between budgetary and financial (proprietary) accounting. This is accomplished by means of a reconciliation of budgetary obligations and non-budgetary resources available to the reporting entity with its net cost of operations.

<i>Resources Used to Finance Activities</i>	<u>FY 2010</u>	<u>FY 2009</u>
Budgetary Resources Obligated		
Obligations Incurred	\$86,303,814	\$114,957,639
Less: Spending authority from offsetting collections and recoveries	<u>(2,555,266)</u>	<u>(1,500,835)</u>
Net Obligations	<u>83,748,548</u>	<u>113,456,804</u>
 Other Resources		
Imputed financing from costs absorbed by others	<u>237,183</u>	<u>214,233</u>
Net other resources used to finance activities	<u>237,183</u>	<u>214,233</u>
Total Resources Used to Finance Activities	<u>83,985,731</u>	<u>113,671,037</u>
 Resources Used to Finance Items Not Part of the Net Cost of Operations		
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided	47,740,411	7,633,082
Resources that finance the acquisition of assets	<u>(1,174,413)</u>	<u>(29,397)</u>
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	<u>46,565,998</u>	<u>7,603,685</u>
Total Resources Used to Finance the Net Cost of Operations	<u>130,551,729</u>	<u>121,274,722</u>
 Components of Net Cost of Operations that Will Not Require or Generate Resources in the Current Period		
Components Requiring or Generating Resources in Future Periods:		
Increases in annual leave liability	<u>66,505</u>	<u>76,432</u>
Total Components of Net Cost of Operations that Will Require or Generate Resources in Future Periods	<u>66,505</u>	<u>76,432</u>
Components Not Requiring or Generating Resources:		
Depreciation and amortization	262,236	237,913
Other	<u>129,113</u>	<u>(2,197)</u>
Total Components of Net Cost of Operations that Will Not Require or Generate Resources	<u>391,349</u>	<u>235,716</u>
Total Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period	<u>457,854</u>	<u>312,148</u>
Net Cost of Operations	<u>\$131,009,583</u>	<u>\$121,586,870</u>

The "Other" amount of \$129,113 and \$(2,197) shown in "Components Not Requiring or Generating Resources" in Fiscal Year 2010 and Fiscal Year 2009 represents the net change in accounts receivable from employees and a reduction in accounts receivable for the Section 102 funds for the year.

Note 13 Requirements Payments and Grant Programs

The EAC Requirements Payments and grant programs are funded through annual appropriations. The largest of the grant programs is the Title III of the Help America Vote Act

Election Assistance Commission

(HAVA) Section 251 Requirements Payments for States to help them meet HAVA requirements. EAC periodically receives additional grant money to fund grant programs such as Voting Technology Improvement Research Grants, and College Poll Worker and Mock Election grants. Reflected in the Statement of Net Costs for the periods ending September 30, 2010 and September 30, 2009, are the following requirements and grant program payments. For presentation purposes, EAC has separated Section 102 Advances Spent by States from Section 251 Requirement Payments for FY 2009 and FY 2010.

	<u>FY 2010</u>	<u>FY 2009</u>
FY 2008 Section 251 Requirement Payments	\$21,978,026	\$56,958,220
FY 2009 Section 251 Requirement Payments	30,457,959	27,972,461
FY 2010 Section 251 Requirement Payments	29,671,329	0
Section 102 Advances Spent by States	33,713,042	16,031,058
FY 2008 Data Collection Grants	1,745,231	6,592,164
College Poll Worker Grants	429,841	490,952
Mock Election Grants	252,371	113,157
	<u>\$118,247,799</u>	<u>\$108,158,012</u>

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 2007	Fiscal Year 2008	Fiscal Year 2009
Section 102 Funds	\$ 15,533,405	\$ 2,103,632	\$ 19,905,709
Section 251 Funds	181,694,563	358,536,246	262,018,224
Data Collection Grants	0	0	447,650
Total	\$197,227,968	\$360,639,878	\$282,371,583

Section 102 Funds. A total of \$300.3 million has been disbursed to States under Section 102. States report, as of September 30, 2009, having spent approximately 91.1% of Section 102 funds for a total of \$273.7 million. 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.

Section 251 Funds. A total of \$2,400.6 million has been distributed to States under Section 251. States report, as of September 30, 2009, having spent approximately 81.0% of Section 251 Funds for a total of \$1,945.0 million. 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

Election Assistance Commission

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.

SECTION III

Other Accompanying Information

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



**U. S. ELECTION ASSISTANCE COMMISSION
OFFICE OF INSPECTOR GENERAL**

U.S. ELECTION ASSISTANCE COMMISSION MANAGEMENT AND PERFORMANCE CHALLENGES FISCAL YEAR 2010

Introduction

The Reports Consolidation Act of 2000 requires the Office of Inspector General (OIG) to report annually on what it considers to be the most serious management and performance challenges facing the U.S. Election Assistance Commission (EAC). Management challenges are derived from cross-cutting issues that arise during our regular audit, evaluation and investigatory work. They are also influenced by our general knowledge of the agency's operations and the works of other evaluative bodies such as the Government Accountability Office (GAO).

For fiscal year (FY) 2010, the OIG is reporting on five management and performance challenges facing the EAC. Four of these management challenges have been reported in prior years:

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

One challenge is reported in FY 2010 for the first time. That management and performance challenge is the EAC's lack of an established and implemented records management system.

The OIG has assessed the EAC's progress with regard to the four previously issued challenges. Based upon reports provided by the EAC, the OIG deems that remedial measures have been taken to resolve one of the four management challenges, specifically the challenge involving financial management and performance. In addition, the EAC has taken substantial steps toward improving its information technology management and security. However, the EAC has several critical steps to fully resolve the management challenge. The OIG will continue to review and monitor the challenges involving information technology management and security, performance management and



**U.S. ELECTION ASSISTANCE COMMISSION
MANAGEMENT AND PERFORMANCE CHALLENGES
FISCAL YEAR 2010**

accountability, as well as human capital management to determine whether steps have been taken to improve the agency's operations in these areas.

CHALLENGE 1: PERFORMANCE MANAGEMENT AND ACCOUNTABILITY

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

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

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

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

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

Performance management and accountability continues to be a challenge for EAC in fiscal year 2009 and beyond, as EAC has not adopted and implemented the needed policies and procedures to define the performance plans and measurements for the various EAC programs, identify the reporting relationships beyond the executive director and commissioners, and establish effective internal controls. The EAC has completed draft policies and procedures for some of its programs, but has not adopted or implemented them. In the current environment of increased transparency and



**U.S. ELECTION ASSISTANCE COMMISSION
MANAGEMENT AND PERFORMANCE CHALLENGES
FISCAL YEAR 2010**

accountability, it is critical that EAC have these goals, measures, policies and procedures in place. EAC is accountable to the American public as to whether its programs and activities mirror its goals and objectives, as well as whether the programs and activities are ultimately successful in comparison to the established goals and measures.

EAC's Progress

EAC has made some progress toward the development of a strategic direction for the agency as well as the implementing policies and procedures that flow from the strategic plan. The following is a listing of the activities that EAC has completed:¹

- Adopted an agency-wide strategic plan in March 2009
- Adopted a roles and responsibilities document that delineates responsibilities between the commissioners and the executive director in September 2008
- Finalized a grants manual in September 2009
- Finalized a travel handbook in Quarter 4, FY 2010
- Finalized an administrative manual that provides a broad overview of the statutes, regulations, policies, procedures, and other requirements Commissioners and staff follow when conducting the work of the Commission

The EAC has not completed policy and procedure handbooks for several of its divisions or programs. The EAC anticipated having this work completed on or before June 30, 2009. The EAC currently sets the completion timeframe as Quarter 1, FY 2011.

CHALLENGE 2: FINANCIAL MANAGEMENT AND PERFORMANCE

In fiscal year 2008, the OIG completed and issued its assessment of the EAC's operations and conducted the first financial statement audit of the EAC. Based upon the findings in those two reports, the OIG issued the following management challenge:

EAC lacks the ability to effectively manage its financial operations. In fiscal year 2007, poor control over its budget and expenditures resulted in the organization returning about \$2.4 million to the U.S. Treasury despite the need for additional staff and systems to deliver services and complete statutory tasks. In fiscal year 2008, problems persisted. EAC did not set up an operating budget for its divisions or a

¹ The EAC provided information regarding which of the policies and procedures have been finalized. The OIG has not conducted a follow up review to determine the adequacy or sufficiency of these documents.



**U.S. ELECTION ASSISTANCE COMMISSION
MANAGEMENT AND PERFORMANCE CHALLENGES
FISCAL YEAR 2010**

sufficient system to determine the status of its appropriations. Furthermore, it was not until a contractor was brought on in July 2008 that the EAC determined how much operating money it had spent and how much it had left.

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

ACTIONS NEEDED

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

EAC's Progress - RESOLVED

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

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



**U.S. ELECTION ASSISTANCE COMMISSION
MANAGEMENT AND PERFORMANCE CHALLENGES
FISCAL YEAR 2010**

EAC's FY 2009 Financial Statement Audit revealed that the EAC had made significant progress in implementing sound financial practices. The EAC received an unqualified opinion on its FY 2009 financial statements. Similarly, the FY 2009 Financial Statement audit discovered limited issues with the EAC's internal control environment related to financial management. The EAC identified resolutions to those issues and has begun and/or completed the implementation of those resolutions.

At this time, the OIG deems this management challenge to be resolved.

**CHALLENGE 3: INFORMATION TECHNOLOGY
MANAGEMENT AND SECURITY**

In FY 2009, the OIG issue the following management challenge to the EAC:

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

EAC has made significant progress in addressing this challenge, but still has deficiencies in two major areas: contingency planning and compliance with personally identifiable information (PII) and Privacy Act requirements. A recent review of the EAC's information technology systems and practices revealed that the EAC has not tested its contingency plan and that the EAC is not in compliance with the following OMB requirements related to PII and the Privacy Act:

- Develop and publish "routine use" policy dealing with breach of security relating to PII data, including actions taken for individuals affected by the breach (OMB Memorandum M-07-16, May 22, 2007);
- Publish and review biennially each system of records notice to ensure that it accurately describes the system of records (OMB Circular A-130);
- Review every four years the routine use disclosures associated with each system of records in order to ensure that the recipient's use of such records continues to



**U.S. ELECTION ASSISTANCE COMMISSION
MANAGEMENT AND PERFORMANCE CHALLENGES
FISCAL YEAR 2010**

be compatible with the purpose for which the disclosing agency collected the information (OMB Circular A-130); and

- Conduct privacy impact assessments for electronic information systems and collections and, in general, make them publicly available (OMB Memorandum 03-22)

EAC's Progress

The most recent FISMA review (FY 2010) found that the EAC is in substantial compliance with FISMA requirements but still has some work to do in order to comply with the PII and Privacy Act requirements. The following is an assessment of the EAC's progress on the FY 2009 findings related to FISMA, PII, and the Privacy Act:

No.	FY 2009 Finding	Current Status
1	IT Security Program Improved but Additional Controls are Necessary.	EAC officials took action to correct this problem.
2	An agency-wide information security program in compliance with FISMA has not been developed. A security management structure with adequate independence, authority, and expertise which is assigned in writing has not been implemented.	EAC officials took action to correct this problem.
3	Policies or procedures for information security or privacy management have not been developed. Per the terms of the MOU, the GSA procedures will prevail where there are not guiding policies provided by the user organization.	EAC officials took action to correct this problem.
4	A Continuity of Operations Plan, Disaster Recovery Plan, or Business Impact Assessment has not been developed.	EAC has completed a contingency plan, but has not yet tested the plan.
5	FDCC requirements were not met.	EAC officials took action to correct this problem.
6	Access Controls and Remote Access Need Strengthening	EAC officials took action to correct this problem.
7	Security Risk Assessments Need to be Finalized and Used to Develop Controls	EAC officials took action to correct this problem.



**U.S. ELECTION ASSISTANCE COMMISSION
MANAGEMENT AND PERFORMANCE CHALLENGES
FISCAL YEAR 2010**

No.	FY 2009 Finding	Current Status
8	EAC is not fully compliant with several Privacy Act Requirements including: <ul style="list-style-type: none"> • A Chief Privacy Officer with the responsibility for monitoring and enforcing privacy related policies and procedures have not been designated. • EAC has not identified systems housing personally identifiable information or conducted related Privacy Impact Assessments required by OMB Memorandum 06-16. • EAC has not developed formal policies that address the information protection needs associated with personally identifiable information that is accessed remotely or physically removed. 	EAC officials took action to correct some but not all of these problems. Issue remains open.
9	Establish Controls to Ensure Audit Accountability	EAC officials took action to correct this problem.

The OIG will consider this management challenge resolved when the EAC completes testing its contingency plan and implements appropriate remedial measures to protect PII.

CHALLENGE 4: 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-



**U.S. ELECTION ASSISTANCE COMMISSION
MANAGEMENT AND PERFORMANCE CHALLENGES
FISCAL YEAR 2010**

friendly work place; and empowering and motivating employees while ensuring accountability and fairness in the workplace.

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

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

The OIG completed an investigation into allegations of retaliation and a hostile working environment at the EAC in FY 2010. The investigation concluded that there were no incidents of retaliation and that the EAC did not have a hostile working environment as defined by federal statutes. However, the investigation did reveal that the EAC continues to experience problems related to its human capital management, particularly:



**U.S. ELECTION ASSISTANCE COMMISSION
MANAGEMENT AND PERFORMANCE CHALLENGES
FISCAL YEAR 2010**

- Employees expressed fear of retaliation or retribution.
- Employees have an apparent lack of confidence in reporting complaints to HR/EEO.
- EAC's implementation of a performance management system.
- Communications failures
- Dissatisfaction or distrust of supervisors or co-workers
- Perception of an us/them environment

These concerns were echoed by the results of the EAC's 2009 Annual Employee Survey. That survey showed that less than half of the EAC employees feel that:

- Promotions in their work units are based on merit (34%)
- Steps are taken to deal with poor performers (38%)
- Pay raises depend on how employees perform their jobs (28%)
- Leaders generate high levels of motivation and commitment in the workforce (42%)
- Managers communicate the goals and priorities of the organization (45%)
- Employees have a feeling of personal empowerment with respect to work processes (34%)

Based upon this information, human capital management continues to be a challenge for the EAC.

EAC's Progress

In May 2010, the OIG requested an update on actions taken to remedy this management challenge, particularly as related to the additional concerns raised by the OIG's investigation and the employee survey. The EAC responded in June 2010 citing the following activities as having been conducted to remedy the existing management challenge:

- EEO training was conducted in May/June 2010
- Teambuilding efforts conducted by Hines and Associates
- Management supervisory training for EAC managers
- Leadership training and development courses attended by the Chief Operating Officer, Chief Financial Officer and Executive Director
- Internal control training, email etiquette guidance and emotional intelligence training have been offered to all EAC staff
- Three decision-based forgiveness sessions have been conducted to deal with interpersonal issues



**U.S. ELECTION ASSISTANCE COMMISSION
MANAGEMENT AND PERFORMANCE CHALLENGES
FISCAL YEAR 2010**

EAC further recited existing policies and/or practices that were in place prior to the investigation or employee survey.

CHALLENGE 5: RECORDS MANAGEMENT

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.

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 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, and train its staff on the proper retention of federal government records.



**U.S. ELECTION ASSISTANCE COMMISSION
MANAGEMENT AND PERFORMANCE CHALLENGES
FISCAL YEAR 2010**

EAC's Progress

The EAC has reported that it met and is working with a representative of the National Archives and Records Administration on the coordination of a records management policy.

**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 Ave. NW – Suite 300
Washington, DC 20005

November 5, 2010

Memorandum

To: Curtis W. Crider
Inspector General

From: Donetta Davidson
Chair, U.S. Election Assistance Commission *Donetta Davidson*

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

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

Performance Management and Accountability

As recognized by the summary report, EAC has made progress in this area by developing, finalizing and implementing policies and procedures that flow from the strategic plan that was adopted in March 2009. In addition to the adoption of the Roles and Responsibilities between the commissioners and the executive director, the development and completed manual for grants, EAC has finalized the travel handbook and the administrative manual. As indicated, these documents provide a broad overview of the statutes, regulations, policies and procedures as well as other requirements Commissioners and staff follow when conducting the work of EAC.

EAC is working on the completion of policy and procedure handbooks as follows:

1. Personnel/Human Resources; this handbook has been completed and is currently under review with the Office of the General Counsel.
2. Communications/Clearinghouse; This handbook, which contains policy that is needed for approval by the Commissioners is scheduled to be presented for tally vote. It will subsequently be released for public comments.
3. Property Management and Mail Management handbooks are presently under development. Target date for completion of these handbooks is within the next 90 days.
4. The Occupant Emergency Handbook, which also contains process and procedures for Physical Security, was completed in July 2010 and has been made available to EAC Staff.

Information Technology Management and Security

With respect to Information Technology, subsequent to hiring an experienced Chief Information Officer in mid-May of this calendar year, EAC has made significant progress and has reached substantial compliance in the areas of:

- Access Control
- Awareness and Training
- Audit and Accountability
- Certification, Accreditation, and Security Assessments
- Configuration Management
- Identification and Authentication
- Incident Response
- Maintenance
- Media Protection
- Physical and Environmental Protection
- Planning
- Risk Assessment
- System and Services Acquisition
- System and Communication Protection
- System and Information Integrity

EAC has begun testing its Contingency Plan working in coordination with GSA. The EAC has developed various scenarios for testing. EAC anticipates it will complete all testing requirements within the next 90 days.

EAC has identified a Chief Privacy Officer. Further, policies are in place for the PII Agreement. PII information is housed at EAC 's offices in fire retardant file cabinets which are maintained by the PII Officer in locked offices. In addition, Personal Impact Assessments have begun. EAC anticipates it will publish its Plan in the Federal Register within the next 90 days.

Human Capital Management

EAC was pleased with the outcome of the independent investigation conducted by the Inspector General through the Department of Interior (DOI) (IG) which concluded that there was not any evidence of retaliation or a hostile work environment at the EAC. EAC continues to seek ways to maintain Human Capital Management. 80 % of EAC Managers have successfully completed Supervisory Training and the HR Director is seeking resources for managers to participate with ongoing training through e-learning methods.

Currently, EAC is conducting its annual employee survey, and on November 19th, the Executive Director has scheduled a workshop entitled "Four Generations: One Workplace" for EAC personnel. A facilitator will explore the communication gap created by multiple generations in the workplace. Although not mandatory, EAC employees are strongly encouraged to attend.

Records Management

Through NARA, a member of the EAC staff has completed the required training to be certified as a records manager. Subsequent to successfully completing the tests required for certification within the next ten days, this individual will be charged with the responsibility to work with managers to bring the EAC in full compliance with OMB Circular A-130.

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 2010, EAC does not believe that it has any programs where the erroneous payments could exceed 2.5 percent of program payments or \$10.0 million threshold (set in OMB Guidance) to trigger further agency action.

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

SUMMARY OF FISCAL YEAR 2010 FINANCIAL STATEMENT AUDIT						
Audit Opinion		Unqualified				
Restatement		None				
Material Weaknesses		Beginning Balance	New	Resolved	Consolidated	Ending Balance
Financial Accounting & Reporting		1	0	1	0	0
TOTAL WEAKNESSES		1	0	1	0	0
SUMMARY OF MANAGEMENT ASSURANCES						
Statement of Assurance (FMFIA § 2)		Qualified				
Financial Management System Assurance (FMFIA § 4)		Systems conform to financial management system requirements				
No.	Summary	Beginning Balance	New	Resolved	Consolidated	Ending Balance
1	Material Weaknesses (FMFIA § 2)	2	0	1	0	1
TOTAL		2	0	1	0	1

