



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

FINAL REPORT:

**Administration of Payments Received
Under the Help America Vote Act by the
Oregon Secretary of State's Election
Division**

MAY 1, 2003 THROUGH AUGUST 1, 2008

**Report No.
E-HP-OR-07-08
June 2009**



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

June 22, 2009

Memorandum

To: Thomas Wilkey
Executive Director

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

Subject: Final Audit Report - Administration of Payments Received Under the Help America Vote Act by the Oregon Secretary of State's Election Division
(Assignment Number E-HP-OR-07-08)

We contracted with the independent certified public accounting firm of Clifton Gunderson LLP (Clifton Gunderson) to audit the administration of payments received under the Help America Vote Act (HAVA) by the Oregon Secretary of State's Election Division (SOS-ED). The contract required that the audit be done in accordance with U.S. generally accepted government auditing standards. Clifton Gunderson is responsible for the attached auditor's report and the conclusions expressed therein.

In its audit of the SOS-ED, Clifton Gunderson concluded that, except for the maintenance of comprehensive equipment inventories, our audit concluded that the SOS-ED generally accounted for and expended HAVA funds in accordance with the HAVA requirements and complied with the financial management requirements established by the U.S. Election Assistance Commission. The SOS-ED also complied with section 251 requirements.

In its March 10, 2009 response to the draft report (Appendix A), the SOS-ED agreed with the report's finding and recommendations, and provided corrective action.

Please provide us with your written response to the recommendation included in this report by August 26, 2009. Your response should contain information on actions taken or planned, including target dates and titles of EAC officials responsible for implementing the recommendation.

The legislation, as amended, creating the Office of Inspector General (5 U.S.C. § App.3) requires semiannual reporting to Congress on all audit reports issued, actions taken to implement audit recommendations, and recommendations that have not been implemented. Therefore, this report will be included in our next semiannual report to Congress.

If you have any questions regarding this report, please call me at (202) 566-3125.

PERFORMANCE AUDIT REPORT
ADMINISTRATION OF PAYMENTS RECEIVED
UNDER THE
HELP AMERICA VOTE ACT
BY THE
STATE OF OREGON

May 1, 2003 Through August 31, 2008

UNITED STATES ELECTION
ASSISTANCE COMMISSION

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**U.S. Election Assistance Commission
Performance Audit of the Administration of Payments Received Under the
Help America Vote Act by the State of Oregon**

EXECUTIVE SUMMARY

Clifton Gunderson LLP was engaged by the U.S. Election Assistance Commission (EAC or the Commission) Office of Inspector General to conduct a performance audit of the Oregon Secretary of State (SOS) for the period May 1, 2003 through August 31, 2008 to determine whether the SOS used payments authorized by Sections 101, 102, and 251 of the Help America Vote Act of 2002 (HAVA or the Act) in accordance with HAVA and applicable requirements; accurately and properly accounted for property purchased with HAVA payments and for program income, and met HAVA requirements for Section 251 funds for an election fund and for a matching contribution. We did not include a determination of whether the SOS and its subgrantees met the requirements for maintenance of a base level of state outlays because the Commission is reviewing its guidance on the applicability of the maintenance of a base level of state outlays to the SOS's subgrantees.

In addition, the Commission requires states to comply with certain financial management requirements, specifically:

- Comply with the *Uniform Administrative Requirements For Grants And Cooperative Agreements With State And Local Governments* (also known as the "Common Rule") as published in the Code of Federal Regulations 41 CFR 105-71.
- Expend payments in accordance with cost principles for establishing the allowance or disallowance of certain items of cost for federal participation issued by the Office of Management and Budget (OMB) in Circular A-87.
- Submit detailed annual financial reports on the use of Title I and Title II payments.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objectives. Because of inherent limitations, a study and evaluation made for the limited purposes of our review would not necessarily disclose all weaknesses in administering HAVA payments.

Except for the maintenance of comprehensive equipment inventories, our audit concluded that SOS generally accounted for and expended HAVA funds in accordance with the requirements mentioned above for the period from May 1, 2003 through August 31, 2008. The exception needing SOS's management attention is as follows:

- The state needs to improve its controls over equipment purchased with HAVA funds to ensure that all equipment is listed in the inventory records at both the state and county level, and the listed equipment has the correct identifying information.

We have included in this report the SOS managements' formal response to the draft audit report dated March 10, 2009. The SOS officials agreed with the recommendations and provided corrective action.

BACKGROUND

HAVA created the Commission to assist states and insular areas with the improvement of the administration of Federal elections and to provide funds to states to help implement these improvements. HAVA authorizes payments to states under Titles I and II, as follows:

- Title I, Section 101 payments are for activities such as complying with Title III of HAVA for uniform and nondiscriminatory election technology and administration requirements, improving the administration of elections for Federal office, educating voters, training election officials and poll workers, and developing a state plan for requirements payments.
- Title I, Section 102 payments are available only for the replacement of punch card and lever action voting systems.
- Title II, Section 251 requirements payments are for complying with Title III requirements for voting system equipment; and for addressing provisional voting, voting information, statewide voter registration lists, and voters who register by mail.

Title II also requires that states must:

- Have appropriated funds "equal to 5 percent of the total amount to be spent for such activities [activities for which requirements payments are made]." [Section 253(b)(5)].
- "Maintain the expenditures of the State for activities funded by the [requirements] payment at a level that is not less than the level of such expenditures maintained by the State for the fiscal year ending prior to November 2000." [Section 254 (a)(7)].
- Establish an election fund for amounts appropriated by the state "for carrying out the activities for which the requirements payment is made," for the Federal requirements payments received, for "such other amounts as may be appropriated under law," and for "interest earned on deposits of the fund." [Section 254)(b)(1)].

AUDIT OBJECTIVES

The objectives of our audit were to determine whether the Oregon Secretary of State:

1. Used payments authorized by Sections 101, 102, and 251 of HAVA in accordance with HAVA and applicable requirements;
2. Accurately and properly accounted for property purchased with HAVA payments and for program income;

3. Met HAVA requirements for Section 251 funds for an election fund and for a matching contribution. We did not determine whether the SOS met the requirement for maintenance of a base level of state outlays, because the Commission is reviewing its guidance on the applicability of the maintenance of a base level of state outlays to subgrantees of the SOS.

In addition, to accounting for HAVA payments, the Act requires states to maintain records that are consistent with sound accounting principles that fully disclose the amount and disposition of the payments, that identify the project costs financed with the payments and other sources, and that will facilitate an effective audit. The Commission requires states receiving HAVA funds to comply with certain financial management requirements, specifically:

1. Comply with the *Uniform Administrative Requirements For Grants And Cooperative Agreements With State and Local Governments* (also known as the “Common Rule”) as published in the Code of Federal Regulations at 41 CFR 105-71.
2. Expend payments in accordance with cost principles for establishing the allowance or disallowance of certain items of cost for federal participation issued by the OMB.
3. Submit detailed annual financial reports on the use of Title I and Title II payments.¹

SCOPE AND METHODOLOGY

We audited the HAVA funds received and disbursed by the SOS from May 1, 2003 through August 31, 2008.

Funds received and disbursed from May 1, 2003 (program initiation date) to August 31, 2008 (64-month period) are shown below:

TYPE OF PAYMENT	FUNDS RECEIVED					FUNDS DISBURSED	DATA AS OF
	EAC PAYMENT	PROGRAM INCOME	STATE MATCH	INTEREST EARNED	TOTAL AVAILABLE		
Section 101	\$ 4,203,776	\$ 0	\$ 0	\$ 59,198	\$4,262,974	\$4,262,974	8/31/2008
Section 102	1,822,758	0	0	42,128	1,864,886	1,711,406	8/31/2008
Section 251	27,837,407	30,000	970,000	2,986,207	31,823,614	13,963,586	8/31/2008
	<u>\$33,863,941</u>	<u>\$30,000</u>	<u>\$970,000</u>	<u>\$3,087,533</u>	<u>\$37,951,474</u>	<u>\$19,937,966</u>	8/31/2008

- Notes: 1) The total state matching requirement was \$1,465,127, and the state deposited \$970,000 into the election fund prior to receipt of requirements payments from the EAC. The difference of \$495,127 was covered by in-kind contributions through payments by the state and counties for salaries and benefits of employees working on HAVA qualifying programs. Also, included in the Sec. 251 interest earned is \$51,545 earned on the state matching funds deposits.
- 2) The Sec. 101 interest earned of \$59,198 is included in Sec. 101 funds disbursed, and has been deducted from the Sec. 251 funds disbursed in the above schedule, because the funds were transferred from Sec. 101 to Sec. 251 as all of the Sec. 101 monies were expended.

¹ EAC requires states to submit annual reports on the expenditure of HAVA Sections 101, 102, and 251 funds. For Sections 101 and 102, reports are due on February 28 for the activities of the previous calendar year. For Section 251, reports are due by March 30 for the activities of the previous fiscal year ending on September 30.

Our audit methodology is set forth in Appendix B.

AUDIT RESULTS

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objectives. Because of inherent limitations, a study and evaluation made for the limited purposes of our review would not necessarily disclose all weaknesses in administering HAVA payments.

Except for the maintenance of comprehensive property inventories, our audit concluded that SOS generally accounted for and expended HAVA funds in accordance with the requirements mentioned above. This includes compliance with section 251 requirements for an election fund. The SOS has taken action on or is working to resolve the exceptions described below as set forth in Appendix A:

Property Management

During our testing of the existence of HAVA purchased equipment to the inventory documentation provided by the Secretary of State staff, we noted that there were discrepancies at two state locations and at five of nine counties we visited. These discrepancies were comprised of the following:

- State owned equipment
 - 3 items were listed with the wrong serial number.
 - 3 items were not listed
 - 3 items that were on the inventory were identified as incompatible equipment and would not be used

- County owned equipment
 - 18 printers included in bulk purchases not listed on the inventories
 - 10 listed computers, acquired with HAVA funds, were transferred to a computer training facility and were replaced with computers purchased with county funds that were not included on the HAVA inventory listing
 - 2 printers not listed on inventories
 - 4 items listed on inventories were not located
 - 3 items listed on inventories, but not being used for HAVA purposes

In accordance with the *Uniform Administrative Requirements For Grants And Cooperative Agreements With State And Local Governments* 41 CFR § 105-71.132(b), a State will use, manage, and dispose of equipment acquired under a grant by the State in accordance with State laws and procedures. The Oregon SOS' Business Services Division Desk Manual contains extensive procedures for recording and tracking Fixed Assets, including the staff positions responsible for various aspects of the process, to ensure that all assets meeting the criteria set forth are properly managed and controlled. The policy sets the minimum amount for capitalization as \$5,000; however, items determined to be "walkable" are required to be inventoried if the cost exceeds \$500.

The counties must conform to federal rules, and the *Uniform Administrative Requirements For Grants And Cooperative Agreements With State And Local Governments* 41 CFR § 105-71.132 *Equipment* states that property records must be maintained that include a description of the property, serial number or other identification number, the source of property, who holds the title, the acquisition date, and costs of the property, percentage of Federal participation in the cost of the property, the locations, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.

Recommendations:

We recommend that the Secretary of State's Office:

- 1) Ensures that the property listings of HAVA funded equipment owned by the state reflect accurate information as prescribed by the state fixed asset guidelines.
- 2) Instruct the counties to ensure that the property listings of HAVA funded equipment in their possession reflect accurate information as prescribed by 41 CFR 105-71.132.
- 3) Make an assessment of all idle equipment acquired with HAVA funds at both the state and county level to determine appropriate disposition thereof.

SOS's Response:

The SOS' Elections Division Director stated that, in general, they agreed with the finding and recommendations and implemented the following actions:

- 1.) The Business Services Division had already taken steps to improve the information recorded.
- 2.) Copies of 41 CFR 105-71.132 were provided to all county election offices and the SOS' HAVA Manager conducted a training session on the subject matter at the February 2009, Oregon Association of County Clerks.
- 3.) The Business Services Division has completed the assessment and counties have been instructed on the proper disposition procedures for surplus equipment.

We provided a draft of our report to the appropriate individuals of the Oregon Secretary of State, and the United States Election Assistance Commission. We considered any comments received prior to finalizing this report.

CG performed its work between October 13, 2008 and October 24, 2008.



Calverton, Maryland
May 4, 2009

KATE BROWN
SECRETARY OF STATE



JOHN LINDBACK
DIRECTOR

255 CAPITOL ST NE, SUITE 501
SALEM, OREGON 97310

ELECTIONS—(503) 986-1518
FAX—(503) 373-7414

March 10, 2009

Mr. Curtis W. Crider

Office of the Inspector General
U.S. Election Assistance Commission
1225 New York Ave. NW - Suite 1100
Washington, DC 20005

Dear Mr. Crider:

This letter is in response to the Notice of Findings and Recommendation resulting from the recent Help America Vote Act audit activities in Oregon.

As indicted in the January 5, 2009 letter from our HAVA Manager, we agree in general with the finding and recommendations. Following are our responses to the specific recommendations:

1. Ensure that the property listings of HAVA funded equipment owned by the state reflect accurate information as prescribed by the state fixed asset guidelines.

Response: We agree, and our Business Services Division has already taken steps to improve the information recorded.

2. Instruct the counties to ensure that the property listings of HAVA funded equipment in their possession reflect accurate information as prescribed in 41 CFR 105-71.132.

Response: We agree. Copies of 41 CFR 105-71.132 have been provided to all county election offices and our HAVA Manager provided a training session on the subject at the February, 2009, conference of the Oregon Association of County Clerks.

3. Make an assessment of all idle equipment acquired with HAVA funds at both the state and county level to determine disposition thereof.

Response: We agree, and our Business Services Division has already completed the assessment and counties have been instructed on the proper disposition procedures for surplus equipment.

In Appendix C of the report there is a note relating to the anticipated monetary impact of the sale of unused equipment. All counties have been instructed in the proper procedures relating to the sale of unused or surplus equipment and understand that funds earned are to revert to the HAVA Election fund.

On a final note, we would like to thank the Office of the Inspector General for expediting the Oregon audit so that it would occur prior to Secretary Bradbury's departure from office. We would also like to thank the auditors assigned to Oregon, Ray Raines and Joe Ansnick of

Clifton Gunderson, for their patience and professionalism. Their questions and comments will benefit us in the ongoing management of Oregon's HAVA program.

Please call on this office if you have any further questions.

Sincerely,

A handwritten signature in cursive script that reads "John Lindback".

John Lindback
Elections Division Director

cc: Secretary of State Kate Brown

AUDIT METHODOLOGY

Our audit methodology included:

- Assessing audit risk and significance within the context of the audit objectives.
- Obtaining an understanding of internal control that is significant to the administration of the HAVA funds.
- Understanding relevant information systems controls as applicable.
- Identifying sources of evidence and the amount and type of evidence required.
- Determining whether other auditors have conducted, or are conducting, audits of the program that could be relevant to the audit objectives.

To implement our audit methodology, below are some of the audit procedures we performed:

- Interviewed appropriate SOS employees about the organization and operations of the HAVA program.
- Reviewed prior single audit report and other reviews related to the state's financial management systems and the HAVA program for the last 2 years.
- Reviewed policies, procedures and regulations for the SOS's management and accounting systems as they relate to the administration of HAVA programs.
- Analyzed the inventory lists of equipment purchased with HAVA funds.
- Tested major purchases and supporting documentation.
- Tested randomly sampled payments made with the HAVA funds.
- Verified support for reimbursements to local governments (counties, cities, and municipalities).
- Reviewed certain state laws that impacted the election fund.
- Examined appropriations and expenditure reports for state funds used to maintain the level of expenses for elections at least equal to the amount expended in fiscal year 2000 and to meet the five percent matching requirement for section 251 requirements payments.
- Evaluated compliance with the requirements for accumulating financial information reported to the Commission on the Financial Status Reports, Form SF-269, accounting for property, purchasing HAVA related goods and services, and accounting for salaries.
- Verified the establishment and maintenance of an election fund.

- Conducted site visits of selected counties to perform the following:
 - Observe equipment purchased with HAVA funds for proper accounting and safeguarding
 - Test disbursement of HAVA funds for allowability and compliance
 - Test cash receipts from SOS to ensure proper cash management
 - Test procurement of voting equipment for competitive bid process
 - Ensure compliance with HAVA Act.

MONETARY IMPACT AS OF AUGUST 31, 2008

<i>Description</i>	<i>Questioned Costs</i>	<i>Additional Funds for Program</i>
	\$0	\$0
Totals	<u>\$0</u>	<u>\$0</u>

Note: The only monetary impact anticipated would be the potential recovery of funds through the sale of unused equipment, which cannot be determined at this time.

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