



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

FINAL REPORT:

**ADMINISTRATION OF PAYMENTS
RECEIVED UNDER THE HELP AMERICA
VOTE ACT BY THE
IDAHO SECRETARY OF STATE**

APRIL 10, 2003 THROUGH SEPTEMBER 30, 2013

**Report No.
E-HP-ID-04-14
March 2015**



U.S. ELECTION ASSISTANCE COMMISSION
OFFICE OF INSPECTOR GENERAL
1335 East West Highway - Suite 4300
Silver Spring, MD 20910

Memorandum

March 12, 2015

To: Alice Miller
Acting Executive Director

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

Subject: Final Performance Audit Report - Administration of Payments Received
Under the Help America Vote Act by the Idaho Secretary of State
(Assignment Number E-HP-ID-04-14)

We contracted with the independent certified public accounting firm of McBride, Lock & Associates, LLC to audit the administration of payments received under the Help America Vote Act (HAVA) by the Idaho Secretary of State's office (Office).

In its audit, McBride, Lock & Associates, LLC concluded that the Office generally accounted for and expended the HAVA funds in accordance with applicable requirements for the period from April 10, 2003 through September 30, 2013. However the following exceptions were identified:

1. The Office did not have established policies and procedures addressing financial management activities including purchasing, payment, payroll, equipment management, sub-recipient monitoring, Federal financial reporting and Federal grant oversight and award administration.
2. The Office did not adequately support all salaries and wages charged to the grant award.
3. The Office's equipment management was inadequate in regards to the documentation of a physical observation of inventory.
4. The Office submitted financial reports that were not supported by underlying accounting records.
5. The Office did not retain documentation of a competitive bidding process for the procurement of goods and services.
6. The Office did not adequately monitor subawardees.
7. The Office was unable to provide support for the baseline maintenance of expenditure calculation. Additionally, the Office did not exceed the maintenance of expenditure during fiscal year 2007.

In the report, McBride, Lock & Associates, LLC summarized the Office's response to the recommendations, as well as their comments on the responses after the recommendations. The Office generally agreed with the findings and recommendations. The EAC indicated that it would work with the Office to resolve the issues in the report. The Office's complete response is included as Appendix A-1 and the EAC's complete response is included as Appendix A-2.

We would appreciate being kept informed of the actions taken on our recommendations as we will track the status of their implementation. Please respond in writing to the findings and recommendation included in this report by May 12, 2015. Your response should include information on actions taken or planned, targeted completion dates, and titles of officials responsible for implementation.

To fulfill our responsibilities under Government Auditing Standards, the Office of Inspector General:

- Reviewed McBride, Lock & Associates, LLC's approach and planning of the audit;
- Evaluated the qualifications and independence of the auditors;
- Monitored the progress of the audit at key points;
- Reviewed the audit report, prepared by McBride, Lock & Associates, LLC to ensure compliance with Government Auditing Standards; and
- Coordinated issuance of the audit report.

McBride, Lock & Associates, LLC is responsible for the attached auditor's report and the conclusions expressed in the report. We do not express any opinion on the conclusions presented in McBride, Lock & Associates, LLC's audit report.

The legislation creating the Office of Inspector General requires that we report to Congress semiannually on all audit reports issued, actions taken to implement our recommendations, and recommendations that have not been implemented.

If you have any questions regarding this report, please call me at (301) 734-3104.

Attachment

cc: Director of Grants and Payments

Performance Audit Report

**Administration of Payments Received Under the Help America Vote Act by
the Idaho Secretary of State**

Prepared for

**The United States Election Assistance Commission (EAC)
Office of Inspector General**

By

McBride, Lock & Associates, LLC

January 2015

McBRIDE, LOCK & ASSOCIATES, LLC

CERTIFIED PUBLIC ACCOUNTANTS
KANSAS CITY

**Performance Audit Report
Administration of Payments Received Under the Help America Vote Act by
the Idaho Secretary of State**

TABLE OF CONTENTS

	<u>Page</u>
EXECUTIVE SUMMARY	1
BACKGROUND	2
AUDIT OBJECTIVES	4
SCOPE AND METHODOLOGY	5
AUDIT RESULTS	5
APPENDICES:	
Appendix A-1: Response of the Idaho Secretary of State to the Draft Report	
Appendix A-2: Response of the U.S. Election Assistance Commission to the Draft Report	
Appendix B: Audit Methodology	
Appendix C: Monetary Impact as of September 30, 2013	

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

EXECUTIVE SUMMARY

McBride, Lock & Associates, LLC was engaged by the United States Election Assistance Commission (EAC) Office of the Inspector General to conduct a performance audit of the Idaho Secretary of State's Office (Office) from inception in April 10, 2003 through September 30, 2013 to determine whether the Office used payments authorized by Sections 101, 102, and 251 of the Help America Vote Act of 2002 (the HAVA) in accordance with HAVA and applicable requirements; accurately and properly accounted for property purchased with HAVA payments and for program income; maintained state expenditures at a level not less than the level maintained in the fiscal year ending prior to November 2000; and met HAVA requirements for Section 251 funds for an election fund and for a matching contribution.

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 Government*, 41 CFR 105-71, (originally Office of Management and Budget Circular A-102, also known as the "Common Rule").
- Expend payments in accordance with cost principles set forth in *Cost Principles for State and Local Governments*, 2 CFR 225, (originally Office of Management and Budget Circular A-87) for establishing the allowability or unallowability of certain items of cost for federal participation.
- Follow the requirements of the Federal Cash Management and Improvement Act.
- Submit detailed annual financial reports on the use of Title I and Title II payments.
- Comply with the provisions of *Audits of States, Local Governments and Non-Profit Organizations* (Office of Management and Budget Circular A-133).

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.

Based on the audit procedures performed, except for the matters discussed below, we concluded that the Office generally accounted for and expended the Grant funds in accordance with the

requirements mentioned above for the period from April 10, 2003 through September 30, 2013. The exceptions are as follows:

1. The Office does not have established policies and procedures addressing financial management activities including purchasing, payment, payroll, equipment management, sub-recipient monitoring, Federal financial reporting and Federal grant oversight and award administration.
2. The Office did not adequately support all salaries and wages charged to the grant award.
3. The Office's equipment management is inadequate in regards to the documentation of a physical observation of inventory.
4. The Office submitted financial reports that were not supported by underlying accounting records.
5. The Office did not retain documentation of a competitive bidding process for the procurement of goods and services.
6. The Office did not adequately monitor subawardees.
7. The Office was unable to provide support for the baseline maintenance of expenditure calculation. Additionally, the Office did not exceed the maintenance of expenditure during fiscal year 2007.

We have included in this report as Appendix A, the Secretary of State's written response to the draft report. Such response has not been subjected to the audit procedures and, accordingly, we do not provide any form of assurance on the appropriateness of the response or the effectiveness of the corrective actions described therein.

BACKGROUND

The Help America Vote Act of 2002 (HAVA) created the U.S. Election Assistance Commission (Commission) to assist States and insular areas (hereinafter referred to as States) with improving the administration of federal elections and to provide funds to States to help implement these improvements. The Commission administers payments to States authorized by HAVA under Titles I and II, as follows:

- Title I, Section 101 payments are for activities such as complying with HAVA requirements for uniform and nondiscriminatory election technology and administration requirements (Title III), improving the administration of elections for federal office, educating voters, training election officials and pool workers, and developing a State plan for requirements payments.
- Title I, Section 102 payments are available only for the replacement of punchcard and lever action voting systems.

- Title II, Section 251 requirements payments are for complying with Title III requirements for voting system equipment; and 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 five percent of the total amount to be spent for activities for which requirements payments are made.
- Maintain the expenditures of the State for activities funded by the requirements payment at a level that is not less than the expenditures maintained by the State for the fiscal year ending prior to November 2000.
- Establish an election fund for amounts appropriated by the State for carrying out activities for which requirements payments are made, for the Federal requirements payments received, for other amounts as may be appropriated under law and for interest earned on deposits of the fund.

The Awardee – The Idaho Secretary of State

The HAVA funds were awarded to the Idaho Secretary of State. The Secretary of State is the chief state election official, he administers the election laws, compiles and publishes the election laws and election calendar, certifies abstracts of votes from counties, and issues certificates of election.

Help America Vote Act State of Idaho State Plan

The State of Idaho's development committee consisted of 16 individuals representing a cross-section of election stakeholders. The committee was selected by the Secretary of State.

The main objectives of the project funded by HAVA, as set forth in the state plan, were to develop, administer and maintain a statewide voter registration system, provide every polling place with a voting device accessible to those with disabilities, educate and train voters, election officials and poll workers, and upgrade county voting systems.

The Secretary of State established and is maintaining a democracy fund for the exclusive purpose of carrying out activities of HAVA. The fund consists of all moneys appropriated by the legislature, federal moneys, county matching funds, and funds from any other source. The fund is non-lapsing and accrues interest earned. Additionally, the Office has managed all expenditures funded by HAVA and has not distributed any of the requirements payments to the local units of government.

AUDIT OBJECTIVES

The objectives of our audit were to determine whether the Office:

1. Used payments authorized by Sections 101, 102, and 251 of the Grant in accordance with Grant and applicable requirements;
2. Accurately and properly accounted for property purchased with Grant payments and for program income;
3. Met HAVA requirements for Section 251 funds for creation of an election fund, providing required matching contributions, and meeting the requirements for maintenance of a base level of state outlays, commonly referred to as Maintenance of Expenditures (MOE).

In addition to accounting for Grant payments, the Grant 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 Grant funds to comply with certain financial management requirements, specifically:

- Comply with the *Uniform Administrative Requirements for Grants and Cooperative Agreements with State and Local Government*, 41 CFR 105-71, (originally Office of Management and Budget Circular A-102, also known as the “Common Rule”).
- Expend payments in accordance with cost principles set forth in *Cost Principles for State and Local Governments*, 2 CFR 225, (originally Office of Management and Budget Circular A-87) for establishing the allowability or unallowability of certain items of cost for federal participation.
- Follow the requirements of the Federal Cash Management and Improvement Act.
- Submit detailed annual financial reports on the use of Title I and Title II payments.
- Comply with the provisions of *Audits of States, Local Governments and Non-Profit Organizations* (Office of Management and Budget Circular A-133).

SCOPE AND METHODOLOGY

We audited the Grant funds received and disbursed by the Office from April 10, 2003 through September 30, 2013 as shown in the following table:

Description	HAVA Section 101	HAVA Section 102	HAVA Section 251	Total
Funds Received from EAC	\$ 5,000,000	\$ -	\$ 13,021,803	\$ 18,021,803
State Matching Funds	-	-	1,742,191	1,742,191
Program Income	1,725,982	-	1,264,828	2,990,810
Total Funds	\$ 6,725,982	\$ -	\$ 16,028,822	\$ 22,754,804
Less Disbursements	(4,289,600)	-	(15,534,102)	(19,823,702)
Fund Balance	\$ 2,436,382	\$ -	\$ 494,720	\$ 2,931,102

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.

Based on the audit procedures performed, except for the matters discussed below, we concluded that the Office accounted for and expended the HAVA funds in accordance with the requirements mentioned above for the period from April 10, 2003 through September 30, 2013. The exceptions to applicable compliance requirements are described below.

Finding No. 1 – Documentation of Policies and Procedures

Key policies and procedures affecting financial management activities including purchasing, payment, payroll, equipment management, sub-recipient monitoring, Federal financial reporting and Federal grant oversight and award administration, have not been addressed in policy and procedure documentation. The Office relies heavily on electronic controls implemented in the accounting system. Due to the few personnel involved in award administration, accounting and financial reporting, policies and procedures have developed informally over the years.

Federal regulations, specifically 41 CFR 105-71.120 – *Standards for Financial Management Systems*, require that:

- (a) A State must expand and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds, and

- (b) Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets.

Idaho Code, Section 67-1001(4), assigns responsibility to the State Controller to establish internal controls. The State Controller requires through internal control checklists that the Office maintain written policies and procedures related to the financial management internal control structure and financial accounting systems internal control structure.

A key aspect of maintaining an effective system of internal controls is the documentation of related policies and procedures to ensure these criteria are current, approved, communicated, incorporated into training materials, and updated when appropriate.

Inadequate documented policies and procedures may result in a lack of awareness and compliance with management's directives, and could allow noncompliance with grant terms and conditions to occur and not be detected.

Recommendation:

We recommend that the EAC require the Office complete and document internal control procedures and other appropriate policies in written manuals and also provide training to personnel involved in the administration of Federal awards. Specifically, these policies and procedures should address financial management activities including purchasing, payment, payroll, equipment management, Federal financial reporting and Federal grant oversight and administration. Additionally, these procedures should be reviewed and updated on a regular basis.

Secretary of State Response:

The Secretary of State's office agrees that key policies and procedures affecting financial management activities are lacking and we are including in the policy and procedure manual for the office federal grant reporting and oversight procedures.

Auditor's Response:

The corrective action is responsive to the concerns. The EAC should consider the updated policies and procedures in resolving the finding.

Finding No. 2 – Inadequate Payroll Documentation

The Office did not adequately support all salaries and wages charged to the grant award.

Office of Management and Budget Circulars and Guidance, Cost Principles for State, Local, and Indian Tribal Governments 2 CFR § 225, Appendix B.8.h.(3) states that “Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least

semi-annually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee.”

Appendix B.8.h.(5), states that “Personnel activity reports or equivalent documentation must meet the following standards: (a) They must reflect an after the fact distribution of the actual activity of each employee, (b) They must account for the total activity for which each employee is compensated, (c) They must be prepared at least monthly and must coincide with one or more pay periods, (d) They must be signed by the employee, and (e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but maybe used for interim accounting purposes.”

The sample selection of seventeen payroll transactions found that in all instances the employee did not have an A-87 compliant work effort certification. In all of the instances, the employee worked on a single Federal award. The Office uses timesheets to document effort which do not separately identify work effort by federal award. The effort is tracked as regular hours or administrative hours.

Of the \$34,125 of salary costs reviewed \$34,125 (100%) was determined to be unsupported. The accounting records provide a total of \$734,060 in payroll costs charged to the HAVA award. Based on the lack of A-87 compliant certifications all payroll costs are considered unsupported.

Recommendation:

We recommend that EAC address and resolve the following recommendations that the Idaho Secretary of State’s Office:

- (a) Transfer into the election fund \$734,060 for the questioned payroll charges as cited above.
- (b) Implement written policies and provide training to ensure that employees who expend efforts on Federal activities accurately record their time in the Office’s timekeeping system.

Secretary of State Response:

The Secretary of State's office agrees that there is a lack of supporting documentation for payroll related to the HAVA award. We have been following the State of Idaho's procedures and see that more is needed. We have since changed our procedures to provide the required documentation. It is our belief that the recommendation of the auditors, to transfer the entire amount of payroll charges from the State general fund to the HAVA programs is rather harsh. The time spent was, in fact, spent on HAVA activities and we are willing to certify to that.

Auditor’s Response:

The Office's updated procedures should be reviewed by the EAC in resolving this finding.

Finding No. 3– Inadequate Equipment Management

The Office’s equipment management is inadequate in regards to the documentation of a physical observation of inventory.

Idaho State Statute 67-5746 states, "Each state agency director shall be accountable for the maintenance, security, and efficient economic use, as well as the verification of physical location and condition of all personal property belonging to that agency.

The agency director shall be responsible for conducting an annual inventory of all personal property by no later than the first day of March of each fiscal year. Further, each agency director shall make a written report to the director of the department of administration that the inventory has been completed by the end of the first week of March of each year on a form developed by and under such guidelines as are issued by the department of administration."

The Office does not have documented policies regarding the maintenance of the equipment listing and the conduct of a physical inventory. Per the Office, an annual physical observation is performed on all assets held by the department, but it is not formally documented.

Recommendation:

We recommend that the EAC require the Office to implement procedures to ensure a physical inventory is conducted on an annual basis and such inventory be adequately documented.

Secretary of State Response:

Although The Secretary of State's office does maintain an inventory of all federally (and state) purchased equipment, we have not documented that we have physically observed the inventory. We now have in our procedures a requirement to verify the location and condition of all personal property of the Secretary of State, including HAVA related equipment.

Auditor’s Response:

The corrective action is responsive to the concerns. The EAC should consider the updated procedure in resolving the finding.

Finding No. 4 – Financial Reporting

The Office submitted financial reports for Section 101 and Section 251 funds that were not supported by underlying accounting records.

The terms and conditions of the HAVA awards require the submission of accurate and complete Federal Forms 269 (Financial Status Report) and 425 (Federal Financial Report) which reflect the uses of award funds and the interest and program income generated from those funds. HAVA Title IX, Section 902. AUDITS AND REPAYMENT OF FUNDS, Part (a) – Recordkeeping

Requirement states, “Each recipient of a grant or other payment made under this Act shall keep such records with respect to the payment as are consistent with sound accounting principles, including records which fully disclose the amount and disposition by such recipient of funds, the total cost of the project or undertaking for which such funds are used, and the amount of that portion of the cost of the project or undertaking supplied by other sources, and such other records as will facilitate an effective audit.”

Section 101

Federal Expenditures - The Office's latest Federal Financial Report (FFR) submission of the Section 101 funds was done for the period ending September 30, 2013. The amount of federal expenditures, did not agree to the accounting records. The discrepancies noted are as follows:

	<u>FFR Reported</u>	<u>Accounting Records</u>	<u>Variance</u>
Total Federal funds authorized	\$ 5,000,000	\$ 5,000,000	\$ -
Federal share of expenditures	<u>3,774,402</u>	<u>3,188,828</u>	<u>585,574</u>
Unobligated balance of Federal funds	<u>\$ 1,225,598</u>	<u>\$ 1,811,172</u>	<u>\$ (585,574)</u>

Program Income - The amount of program income earned and amount expended reported on the FFR did not agree to the accounting records. The discrepancies noted are as follows:

	<u>FFR Reported</u>	<u>Accounting Records</u>	<u>Variance</u>
Total Federal program income earned	\$ 1,825,987	\$ 1,725,982	\$ 100,005
Program Income expended	<u>77,346</u>	<u>1,100,772</u>	<u>(1,023,426)</u>
Unexpended program income	<u>\$ 1,748,641</u>	<u>\$ 625,210</u>	<u>\$ 1,123,431</u>

Section 251

Federal Expenditures - The Office's latest Federal Financial Report (FFR) submission of the Section 251 funds was done for the period ending September 30, 2013. The amount of federal expenditures, did not agree to the accounting records. The discrepancies noted are as follows:

	<u>FFR Reported</u>	<u>Accounting Records</u>	<u>Variance</u>
Total Federal funds authorized	\$ 13,021,803	\$ 13,021,803	\$ -
Federal share of expenditures	<u>12,999,688</u>	<u>12,969,513</u>	<u>30,175</u>
Unobligated balance of Federal funds	<u>\$ 22,115</u>	<u>\$ 52,290</u>	<u>\$ (30,175)</u>

Recipient Share - The amount of recipient share required and recipient share expended reported on the FFR did not agree to the accounting records. The discrepancies noted are as follows:

	FFR Reported	Accounting Records	Variance
Total recipient share required	\$ 835,112	\$ 1,742,191	\$ (907,079)
Recipient share of expenditures	833,153	1,304,472	(471,319)
Remaining recipient share to be provided	<u>\$ 1,959</u>	<u>\$ 437,719</u>	<u>\$ (435,760)</u>

Program Income - The amount of program income earned and amount expended reported on the FFR did not agree to the accounting records. The discrepancies noted are as follows:

	FFR Reported	Accounting Records	Variance
Total Federal program income earned	\$ 968,236	\$ 1,264,828	\$ (296,592)
Program Income expended	947,094	1,260,117	(313,023)
Unexpended program income	<u>\$ 21,142</u>	<u>\$ 4,711</u>	<u>\$ 16,431</u>

The Office has performed the above reconciliation and is prepared to submit revised financial reports.

Recommendation:

We recommend that the EAC review and resolve the following recommendation that the Idaho Secretary of State:

- (a) Perform a reconciliation of the grant activity for the Section 101 and Section 251 funds and ensure that all expenditures, matching contributions and program income earned are fully disclosed.
- (b) Prepare and submit revised financial reports to the EAC for Section 101 and Section 251 activities as of September 30, 2013.

Secretary of State Response:

The Secretary of State's office agrees that there has been problems with the financial reports for Section 101 and 251 funds. Thanks to the help of the auditors, the discrepancies have been identified, reconciled and amended reports have been submitted to the EAC.

Auditor's Response:

The corrective action is responsive to the concerns.

Finding No. 5 – Procurement Procedures

The Office does not have formal policies and procedures relating to the procurement of goods and services.

The *Uniform Administrative Requirements for Grants and Cooperative Agreements with State and Local Governments* 41 CFR § 105-71.136 (a) (the “Common Rule”) states that, “When procuring property and services under a grant, a State will allow the same policies and procedures it uses for procurements from its non-Federal funds.”

IDAPA 38, Title 05, Chapter 01, Section 011, Paragraph 03 provides a definition of the agencies required to follow IDAPA procurement policies. The statute provides an exclusion for the Secretary of State's Office. Accordingly, the Office is not required and does not follow the State's procurement policies.

Although the Office is exempt, the Office should have documented policies related to the procurement of goods and services. IDAPA provides general guidelines for state agencies.

IDAPA 38.05.01.041 states, "Except as otherwise provided, the acquisition of property exceeding one hundred thousand dollars (\$100,000) (the sealed procedure limit) shall be by the formal sealed procedure."

For purchases or procurements expected to cost one hundred thousand dollars (\$100,000) or less IDAPA 38.05.01.044.03 states, "Unless impractical or impossible and documented in the file, these small purchase procedures require the acquisition to be publicly posted. Except as otherwise provided in this rule, no less than three (3) vendors having a significant Idaho presence as defined by Section 67-2349, Idaho Code, shall be solicited to submit quotations. Award shall be made to the responsible and responsive bidder offering the lowest acceptable quotation. The purchasing file will be fully documented for unacceptable quotations. Should it be impractical or impossible to solicit three (3) vendors, the file shall be fully documented and every effort should still be made to obtain the most favorable terms, conditions and price possible."

IDAPA 38.05.01.044.07 states, "Professional, consultant, and information technology services acquired under this rule, where the services are reasonably expected to cost one hundred thousand dollars (\$100,000) or less through a fixed price/not to exceed price contract for a non-renewable term not to exceed one (1) year, may be acquired as each agency sees fit, in accordance with good business practice and in the best interest of the state, and if the service is not available under an open contract."

IDAPA 38.05.01.044.08 states, "If the property to be acquired is expected to cost less than ten thousand dollars (\$10,000), it may be acquired as each agency sees fit, in accordance with good

business practice and in the best interest of the state, and if the property is not available under an open contract."

The Office does not document the manner in which it ensures the full and open competition for the purchases of goods and services. The audit sampled forty-five transactions. Of the forty-five transactions the audit found that twenty-six of the transactions should have had documentation of full and open competition based on Idaho procurement policies. Twenty-two of the transactions did not have documentation of a competitive bidding process. These transactions represent \$1,299,819 of expenditures.

Per discussion with the Office, multiple bids were obtained for most large purchases. However, these bids were not kept with the expenditure documentation.

Procuring all contractual services and goods through full and open competition helps prevent misuse of federal funds and responsible bidders are selected for goods and services needed for HAVA purposes.

Recommendation:

We recommend that the Office implement and document written policies and procedures which ensure that services and equipment purchased with Federal funds are solicited through fair and open bidding. Documentation should be maintained to support that interested bidders and multiple quotations were evaluated and that the best value is achieved with Federal funds.

Secretary of State Response:

The Secretary of State's office agrees that the Secretary of State does not have formal written policies and procedures for the procurement of goods and services. The office has followed the requirements of the State of Idaho which are generally spelled out in the statutes and general purchasing rules for the state. We are, however updating our policy and procedure manual to include not only the procedures to be followed in making purchases, but the documentation of those practices.

Auditor's Response:

The corrective action is responsive to the concerns. The EAC should consider the updated policy and procedure manual in resolving the finding.

Finding No. 6 – Inadequate Subawardee Monitoring

The Office's does not have adequate procedures in place to ensure subawardees are being properly monitored.

The *Uniform Administrative Requirements for Grants and Cooperative Agreements with State and Local Governments* 41 CFR § 105-71.140 (a) (the "Common Rule") states that, "Grantees

are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity.”

The *Uniform Administrative Requirements for Grants and Cooperative Agreements with State and Local Governments* 41 CFR § 105-71.132 (d) (The “Common Rule”) section states that, (1) “Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds the title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property and (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.”

The Office initiated subgrant agreements with the counties. The basis of the subgrant agreement was the reimbursement request of the counties for election equipment and supplies. The county would submit a detail of items purchased with county funds and request reimbursement from the Office. The Office reviewed the reimbursement request along with the invoices provided and verified the mathematical accuracy of the items to be reimbursed. The amount reimbursed was then used as a basis for the amount to be provided in the subgrant agreement. The subgrant agreement with the counties did provide the necessary provisions as required by the Federal regulations. However, there was no monitoring performed by the Office subsequent to the review of the reimbursement request. County reimbursements provided by the Office totaled \$3,157,061.

The audit sampled five counties to physically observe the inventory purchased under the subgrant agreements and to determine the accuracy of the inventory listings of those counties. The observations indicated that assets purchased with HAVA funds were adequately safeguarded. However, the inventory listings maintained by the counties were not sufficient to be compliant with 41 CFR § 105-71.132. Additionally, one of the counties had two more automark voting machines than what the inventory listing indicated. The counties often transfer voting machines to and from another county and the inventory listings are not adequately updated.

Monitoring subawardee's procurement of contractual services and goods helps ensure that purchases are made through full and open competition and helps mitigate the potential misuse of federal funds.

The Office did not have policies in place to ensure that county reimbursements were made only for costs that were allocable, allowable and reasonable. Additionally, the Office did not ensure that each county maintained a fixed asset listing that complied with federal regulations.

Recommendation:

We recommend EAC require the office to document and implement monitoring policies and procedures to assure subawardee compliance with applicable Federal requirements and that performance goals are being achieved.

Secretary of State Response:

Although The Secretary of State's office follows up with the counties on purchases made with HAVA funds, we agree that we need to do more. Procedures are being put in place to provide better monitoring, including a physical review of HAVA related purchases made by the counties.

Auditor's Response:

The corrective action is responsive to the concerns. The EAC should consider the updated procedures in resolving the finding.

Finding No. 7 – Maintenance of Expenditure

The Office was unable to provide support for the baseline maintenance of expenditure calculation. Additionally, the Office did not exceed the maintenance of expenditure during State fiscal year 2007.

HAVA Section 254(a)(7) requires the State Plan to describe “How the State, in using the requirements payment, will maintain the expenditures of the State for activities funded by the 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.”

The State Plan indicated that the State of Idaho will continue to fund the election system at or above the level required by HAVA. The Office established the maintenance of expenditure as \$144,000. Per the State Plan, this amount represented the amount expended by the state for election administration activities during fiscal year 2000. However, the Office was not able to provide support for this amount. Additionally, the Office was unable to provide records in sufficient detail to test the maintenance of expenditure prior to State fiscal year 2005.

The maintenance of expenditure baseline was exceeded every year from fiscal year 2005 to fiscal year 2013 with the exception of fiscal year 2007. The Office only expended \$119,796 during fiscal year 2007. This was \$24,204 less than the required level of expenditure of State funds.

Recommendation:

We recommend the EAC require the Office to evaluate the baseline established for the maintenance of expenditure to ensure that those expenditures included in the baseline are consistent with the maintenance of expenditure policy established by the EAC in June 2010. Additionally, the Office should implement procedures to ensure that the maintenance of expenditure is exceeded each year.

Secretary of State Response:

With the audit covering a period of 10 years, the State Controller does not have the detailed backup documentation to provide to the auditors to verify our baseline maintenance of expenditures calculation of \$144,000. We are more closely monitoring our annual expenditures to ensure that the required expenditures are exceeded.

Auditor's Response:

EAC should work with the Office to evaluate the adequacy of the baseline being used by the Office. EAC should also evaluate the new procedures being used by the Office to monitor annual expenditures.

We provided a draft of our report to the appropriate individuals of the Office of the Idaho Secretary of State. We considered any comments received prior to finalizing this report.

The Office responded on February 26, 2015 and generally agreed with the report's findings and recommendations. The EAC responded on February 26, 2015 and stated that it generally agrees with the findings and will work with the SOS to ensure appropriate corrective action. The Office's complete response is included as Appendix A-1 and the EAC's complete response as Appendix A-2.

McBride, Lock & Associates, LLC performed the related audit procedures between June 4, 2014 and January 14, 2015.

(Original Signed by McBride, Lock & Associates, LLC)

McBride, Lock & Associates, LLC
January 14, 2015

APPENDIX A-1



STATE OF IDAHO
OFFICE OF THE SECRETARY OF STATE
LAWERENCE DENNEY

February 26, 2015

Curtis W. Crider
Inspector General
U.S. Elections Assistance Commission
1335 East West Highway – Suite 4300
Silver Springs, MD 20910

Re: Audit Report

Dear Mr. Crider,

We have received a copy of the draft performance audit report prepared for the Election Assistance Commission by McBride, Lock and Associates, LLC. The auditors from McBride, Lock and Associates were very professional in conducting the audit and were helpful in our conversations about improving our accounting and management practices.

We generally agree with the findings of the audit and for the most part. Below is the Secretary of State's response to the findings and recommendations.

Finding No. 1 – Documentation of Policies and Procedures

We agree that key policies and procedures affecting financial management activities are *lacking* and we are including in the policy and procedure manual for the office federal grant reporting and oversight procedures.

Finding No. 2 – Inadequate Payroll Documentation

We agree that there is a lack of supporting documentation for payroll related to the HAVA award. We have been following the State of Idaho's procedures and see that more is needed. We have since changed our procedures to provide the required documentation. It is our belief that the recommendation of the auditors, to transfer the entire amount of payroll charges from the State general fund to the HAVA programs is rather harsh. The time spent was, in fact, spent on HAVA activities and we are willing to certify to that.

Finding No. 3 – Inadequate Equipment Management

Although we do maintain an inventory of all federally (and state) purchased equipment, we have not documented that we have physically observed the inventory. We now have in our procedures a requirement for not verify the location and condition of all personal property of the Secretary of State, including HAVA related equipment.

Finding No. 4 – Financial Reporting

We agree that there has been problems with the financial reports for Section 101 and 251 funds. Thanks to the help of the auditors, the discrepancies have been identified, reconciled and amended reports have been submitted to the EAC.

Finding No. 5 – Procurement Procedures

We agree that the Secretary of State does not have formal written policies and procedures for the procurement of goods and services. The office has followed the requirements of the State of Idaho which are generally spelled out in the statutes and general purchasing rules for the state. We are, however updating our policy and procedure manual to include not only the procedures to be followed in making purchases, but the documentation of those practices.

Finding No. 6 – Inadequate Subawardee Monitoring

Although we follow up with the counties on purchases made with HAVA funds, we agree that we need to do more. Procedures are being put in place to provide better monitoring, including a physical review of HAVA related purchases made by the counties.

Finding No. 7 – Maintenance of Expenditures

With the audit covering a period of 10 years, the State Controller does not have the detailed backup documentation to provide to the auditors to verify our baseline maintenance of expenditures calculation of \$144,000. We are more closely monitoring our annual expenditures to ensure that the required expenditures are exceeded.

Again, we appreciate the work the auditors did and the manner by which it was performed. We also appreciate the opportunity to comment on the draft report.

Sincerely,



TIMOTHY A. HURST
Chief Deputy Secretary of State

APPENDIX A-2



EAC RESPONSE TO THE DRAFT AUDIT:

OIG Performance Audit Report on the Administration of Payments Received Under the Help America Vote Act by the Idaho Secretary of State for the Period April 10, 2003 through September 30, 2013.

February 26, 2015

MEMORANDUM

To: Curtis Crider
Inspector General


From: Alice P. Miller, Chief Operating Officer &
Acting Executive Director

Subject: Draft Performance Audit Report – "Administration of Payments Received under the Help America Vote Act by Idaho Secretary of State"

Thank you for this opportunity to review and respond to the draft audit report for the Idaho Secretary of State (SOS).

The Election Assistance Commission (EAC) generally agrees with the findings in the draft audit report and will work with the SOS to ensure appropriate corrective action.

APPENDIX B

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 and of 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 Office employees about the organization and operations of the HAVA program.
- Reviewed prior single audit reports and other reviews related to the State's financial management systems and the HAVA program for the period under review.
- Reviewed policies, procedures and regulations for the Office management and accounting systems as they relate to the administration of the HAVA program.
- Analyzed the inventory lists of equipment purchased with HAVA funds.
- Tested major purchases and the supporting documentation.
- Tested randomly sampled payments made with HAVA funds.
- Tested randomly sampled subawardee costs charged to the award.
- Evaluated compliance with the requirements for accumulating financial information reported to the Commission on the financial status reports and progress reports, accounting for property, purchasing HAVA related goods and services, and accounting for salaries.
- Verified subawardees were adequately monitored.
- Verified the establishment and maintenance of an election fund.
- Verified the State expenditures met the Maintenance of Expenditures requirement
- Conducted site visits of selected counties to observe physical security/safeguard of equipment purchased with HAVA funds and ensure compliance with federal regulation.
- Verified that the matching requirement was timely met and matching expenditures met the prescribed criteria and allowability requirements of HAVA.
- Verified program income was properly accounted for and not remitted to the State's general fund.

APPENDIX C

Appendix C

MONETARY IMPACT AS OF SEPTEMBER 30, 2013

<u>Description</u>	<u>Questioned Costs</u>	<u>Additional Funds for Program</u>
Unsupported Payroll Costs	<u>734,060</u>	<u>-</u>
Total	<u>\$ 734,060</u>	<u>\$ -</u>

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